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THE EISENHOWER ADMINISTRATION AND
CHANGES IN U.S. EMBARGO POLICY
TOWARD CHINA 1953-1958

By

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ABSTRACT

THE EISENHOWER ADMINISTRATION AND CHANGES IN U.S. EMBARGO POLICY TOWARD CHINA 1953-1958

By

Simei Qing

From 1953 to 1958, President Eisenhower wanted to open trading relationship with People's Republic of China. He considered a relaxation of U.S. embargo policy toward China as a means to strengthen the economies of U.S. allies and an instrument to wean China away from the Soviet Union. But he could not escape domestic pressures to the contrary or overcome the resistance of much of the rest of his administration. This thesis is to examine how President Eisenhower formed his ideas and why he could not carry out his plan.

This thesis is based mainly on archival materials. Most of them recently opened.

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Hearty thanks to my adviser Dr. Warren I. Cohen. The topic and basic ideas of this thesis belong to him. For the last two years, I benefited so much from his most valuable instructions on my study of Sino-American relations. I am grateful for his sophisticated analysis of American diplomacy, his sincere understanding of Chinese perceptions, and his intellectual integrity in seeking historical truth.

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INTRODUCTION

After the Korean War, particularly after the MacArthur hearings in 1951, the Truman Administration gave up any hope of coming to terms with the People's Republic of China. Instead, it took an uncompromising position with respect to future relations with the Chinese Communists. Nonetheless, the idea of reaching accommodation with Beijing reappeared in the Eisenhower White House.

In the 1950's, especially from 1954 to 1958, there were important changes in U.S. embargo policy toward China. During this period, step-by-step, the Eisenhower Administration accepted decisions by the allies to ease curbs on their trade with the PRC. In 1958, for the first time since the Korean War, the U.S. agreed that any of its allies could sell the Chinese everything they sold the Soviet Union. Also in 1958, for the first time since the Korean War, the U.S. made exceptions to its legal restrictions, under the Wartime Trading with the Enemy Act, for Canadian subsidiaries of American firms who accepted orders from the PRC.

How did these changes occur in this period? And why did these important changes not lead to the final breakdown of barriers to U.S. trade with China?

CHAPTER I

PRESIDENT EISENHOWER AND HIS CABINET'S VIEWS ON U.S. EMBARGO POLICY TOWARD CHINA

I. President Eisenhower's Views on U.S. Embargo Policy toward China.

President Eisenhower's ideas on U.S. embargo policy toward China were an integrated part of his overall conceptions of American national security.

Then, what was his concept of American national security? Was there any difference between his conception and that of Truman? What was the relationship between his ideas on U.S. embargo policy toward China and his perceptions of American national security?

1.

Under the Truman Administration, emphasis on national security policy was heavily directed towards building up the military strength of the U.S. and its allies at a rapid rate, "to a state of readiness on a specified D-day on the premise that at such time the West should be ready to meet the greatest threat of aggression by the Soviets."¹ Thus Truman's foreign economic policy was characterized in large part by huge amount of U.S. financial aid in a "give away" program to support the establishment of military strength in

Western countries. It was assumed that the U.S. had no choice but to build up Western military defenses around the Russian and Chinese land mass, to readiness at the earliest possible moment, whatever the cost financially to the U.S.

However, President Eisenhower's conception of national security recognized the necessity of preserving in the U.S. a sound, strong economy, and that further continuance of a high rate of Federal spending in excess of Federal income, at a time of heavy taxation, would weaken and eventually destroy that economy. For him, there was not only the external threat to American national security posed by the Soviets and Sino-Soviet alliance, but also the internal threat posed by the long continuance and magnitude of Federal spending. This concept recognized that while the U.S. must have adequate security, it could not obtain security if it continued draining its economy.

To reduce the drain of continuing grants-in-aid to its allies on its economy, the U.S. thus dropped emphasis on getting ready for a global war by some specified D-date; instead, it emphasized an ability to mobilize rapidly in Western countries before a "floating D-day",³ which encouraged the allies to develop "a self-supporting economy", "capable of providing their own military strength", with limited U.S. aid. According to

Eisenhower, in "a true collective system of defense", "it is very vital for us to do the things necessary to enable our allies to develop their own economies in a way that could support the military program we urged upon them."⁴ Hence American donation diplomacy must end, he argued:

If at the end of seven years after W.W.II, and 33 billion dollars of foreign aid, the central problem is as far from solution as it is today, I think something has been wrong in our thinking. Certainly we must find a substitute for the purely temporary business of bolstering the free nations through annual handouts. This gets neither permanent results nor real friends."⁵

The substitute, in Eisenhower's view, was mainly a liberalization of world trade, including a reduction of the U.S. tariff on its allies products, and reestablishment of East-West trade; plus a "foreign aid program" to meet the most urgent financial needs of U.S. allies. In this way, he said, he hoped "to get for America more security with fewer dollars."⁶

With this new concept of American national security, President Eisenhower did not consider the U.S. embargo policy toward China as beneficial to the West, economically and politically.

2.

According to President Eisenhower, to set up "a strong and self-supporting economic system" among U.S. allies, it was a necessity for some of them to trade with China.

First, trade patterns of certain U.S. allies such as Japan, were so long established that they had already developed into historic trade habits on which their economies were heavily dependent.⁷ In Japan's case, unlike Truman, who insisted to incorporate Japan's economy into the U.S. economic system, Eisenhower maintained that in part at least the solution of Japanese economic problems should lie in trade between Japan and China. The alternative, he feared, would be endless subsidization of the Japanese economy by the American taxpayer.⁸ He believed that "the effort to dam up permanently the natural currents of trade, particularly between such areas as Japan and the neighboring Asian mainland, would be defeated."⁹

Second, Eisenhower noted that some of U.S. allies in Western Europe were in great economic difficulty; with U.S. aid, they had weathered the first chaotic aftermath of W.W.II only to discover that the rebuilt industry and revived agriculture could not find more markets for their growing output. A part of their problem was, of course, still in the field of domestic economic policy, but, Eisenhower pointed out, the key to the solution of most of their difficulties lay in an expanding world market, including the market in China. He thus favored a general plan of moving most of the restrictions "on Western trade with the Reds." He said, "Many of the nations in the free world have to trade with Communists,

if they are to survive economically, and therefore the items on the strategic list should be held to an absolute minimum."¹⁰

With his new concept of American national security, Eisenhower asserted that since the maintenance of China trade control would damage certain U.S. allies' economies, and the forces and facilities they provided would be thus subtracted from the common defense, and since the U.S. would have to, either expand vastly its own military effort, or put many more U.S. dollars into these countries' economies, the continuance of China trade control would not be beneficial to American national security.

Generally, Eisenhower's position was that since commerce between the West and the Chinese Communists provided certain advantages for both, the U.S. should not keep its eye solely on that part of the trading that helped the Communists. Rather, he held that American policy should be guided by consideration of the net advantage. Where such trade in non-strategic goods brought a net advantage to the West, it should be allowed.¹¹

3.

Politically, Eisenhower considered a relaxation of U.S. embargo policy toward China as an effective instrument to deal with the external threat posed by Sino-Soviet alliance, a means to wean China away

from Russia. And a weakening of the Sino-Soviet alliance, for him, would basically change the structure of the balance of power in favor of the U.S.

"The greatest defeat. . . that the Western world has taken in this long contest" between West and East, Eisenhower asserted, "has been the communization of China."¹² He was therefore not convinced that the vital interests of the U.S. were best served by a hostile policy toward China. He had serious doubts as to whether Russia and China were natural allies. He speculated on whether Soviet interests lay primarily in Europe and the Middle East rather than in the Orient. Therefore, he asked, would it not be the best policy in the long run for the U.S. to try to pull China away from Russia rather than drive the Chinese ever deeper into an unnatural alliance unfriendly to the U.S.?¹³

How could the U.S. strain the Sino-Soviet alliance? By an embargo policy, by a naval blockade of China? No. He said at his first cabinet meeting in 1953,

"They say: 'blockade them'. And frequently all a blockade does is to drive them over to communism and they have got to stay there."¹⁴

It was naive, he told a meeting of the White House Staff, to suppose that Chinese Communists could be defeated simply by the blocking of this trade. Instead, greatly to the detriment of the free world, it would compel China to rely to a greater extent on Russia¹⁵ for the products it needed:

"The last thing you can do is to begin to do things that force all these Communists, . . . to depend on Moscow for the rest of their lives."¹⁶

He argued at a cabinet meeting:

"How are you going to keep them interested in you? If you trade with them, you have got something pulling their interest your way. . . . You are not going to keep them looking toward us and trying to get out from under that umbrella unless you give something in the way of inducement to come out. You just cannot preach abstraction to a man who has to turn for his daily living in some other direction."¹⁷

In short, President Eisenhower considered a relaxation of U.S. embargo policy toward China as a most useful instrument to strengthen the U.S. allies economically and to split the Sino-Soviet alliance politically. He did not yet form a new theory on U.S. trade policy toward China; but he did offer a new approach to this issue. Now the question is: Was his new approach shared by his cabinet?

II. The Cabinet's Views on U.S. Embargo Policy Toward China.

The cabinet shared the President's conceptions of American national security, but did not share his ideas on U.S. embargo policy toward China. Its approach to this issue was more intimately connected with the U.S. Far East policy, the major concern of which was "to cope with the emergence of a Communist China and its alliance with the Soviets."¹⁷ They maintained, with the Sino-Soviet alliance, "the total power structure in the Far

East" was "radically altered";¹⁸ "Russian influence, has been abruptly advanced southward to areas in which neither the Czars nor the Soviets have hitherto had more than passing influence--China south of the wall, China south of the Yangtze, and Southeast Asia."¹⁹ For the cabinet, "the only way by which a significant change in the present world balance of power would even theoretically be possible at this time would be through a split between the Soviet Union and Communist China."²⁰ But how to split the alliance? "Whether given pressures would tend to solidify the Sino-Soviet relationship or the reverse?"²¹ That was the question posed to the cabinet by the CIA. Most members of the cabinet did not believe that a relaxation of U.S. embargo policy toward China could reach the goal. On the contrary, they insisted, only with a maximum pressure, with a much stricter trade control imposed on China than on the U.S.S.R., could the U.S. split the alliance in the long run.

1.

Why did most members of the cabinet regard a stricter embargo policy toward China a weapon to split the Sino-Soviet alliance?

The multilateral trade controls of this disparate nature, they knew, could not prevent China from getting the Western goods she wanted in the Soviet market, which were transported either in Eastern European vessels or

overland via the Trans-Siberian Railroad. However, the cabinet pointed out that these stricter export controls, together with the U.S. import controls, "limited China's imports by increasing transport costs and procurement difficulties and by depriving China of its U.S. markets."²² These effects in the aggregate probably represented an annual loss to China of roughly \$200 million of which one half, or \$100 million, was due to the denial of the U.S. market to China through U.S. import controls. If this \$200 million were to become available, they said, "it would be sufficient to enable China to increase its imports of capital goods by as much as 50%, a considerable contribution to China's industrial growth."²³

With this loss to her industrialization, they were convinced, China had to turn to the Soviets for more help, thus becoming a heavier burden for the U.S.S.R. The Naval Intelligence Agency happily told the cabinet that strained relations had already begun to emerge between the Soviets and the PRC "due to differences arising directly from foreign trade difficulties."²⁴

"The U.S.S.R. has required Poland to provide certain shipping and related services to Communist China which have worked to the financial detriment of the Poles. For example, it was reported in July 1953 that China was 18 months in arrears to Poland for trade, shipping, and harbor fees, and offered payment only in low value Chinese goods which the Poles found difficult to market.

In this connection, it is reported China is pressing and increasing her demands on the U.S.S.R. for industrial help, and that even with aid from the satellites the U.S.S.R. has been unable to satisfy these demands."²⁵

That is why Walter Robertson, the Assistant Secretary of State, said:

"For us, removing obstacles to trade with mainland China, . . . would be folly. . . . We believe that. . . by refraining from coming forward with those things the U.S.S.R. cannot or will not supply, we may best contribute to a realization on Chinese Communists' part of what actually is entailed in the Soviet embrace."²⁶

And he further asserted:

"The policy of keeping Communist China under the feasible maximum of pressures would appear to be the best means of generating an internal crisis (which would be favorable to a Sino-Soviet rupture) by the frustration of her economic schemes. . . ."27

And the Commerce Department also claimed that "the probability that failure of the U.S.S.R. or of China to meet its current and future commitment to the other for goods or services could become a significant cause of Sino-Soviet friction."²⁸

As for the President's arguments that a relaxation might wean China away from the U.S.S.R., the CIA presented its estimate that

"The concessions of an economic and prestige nature involved in a relaxation of Western trade controls would not, at least for the next few years, have any significant effect upon China's internal political situation, its foreign policies, or its basic relationship to the U.S.S.R."²⁹

Moreover, the Bureau of Far Eastern Affairs of the State Department maintained that the relaxation could further strengthen the Sino-Soviet alliance:

"A policy of small, kindly concessions on the part of the West would tend not to produce, but to prevent a split," since in this way, the U.S. only "helped strengthen the CCP's negotiation position with respect to the U.S.S.R.," thus could enable it "to obtain more concessions from the U.S.S.R. and further to better its position." 30

Finally, many officials in the cabinet mentioned that the failure of Western efforts to come to terms with CCP in 1949, "when the Western powers, including the U.S., had obviously reconciled themselves to the defeat of the Nationalists and the supremacy of the Communists in China, and were making gestures of accommodation," afforded "evidence of the CCP's lack of desire for a political settlement with the U.S." 31

Therefore, the NSC agreed to a continuance of the stricter China trade controls:

"There is no evidence that lesser concessions of an economic and prestige nature would induce the Chinese Communists. . . to alter the deep ideological hostility to the U.S. or destroy the Sino-Soviet alliance." 32

Instead, the U.S. must

"through economic restrictions and through persuasion of its allies to exercise similar restrictions, impose difficulties and delays upon the CCP's efforts to achieve industrialization and oblige the U.S.S.R. to continue to carry the burden of assisting Communist China", thus finally splitting their alliance. 33

Even this policy of maximum pressures on the PRC, for the cabinet, appeared unlikely to bring about a break in the Sino-Soviet front in the foreseeable future.³⁴ For the NSC, the potential difficulties of the Sino-Soviet connection "will stem primarily from the internal workings of the partnership and only secondarily from the nature of external pressures."³⁵ And the internal workings of the partnership, according to Sec. Dulles, "might take 100 years to assort themselves."³⁶ Before the final split of this alliance, how could the U.S. rebuild the structure of the balance of power in the Far East in favor of the U.S.? This is "to maintain the off-shore defense positions (Japan, Ruykyus, Taiwan, the Phillipines, Australia and New Zealand)."³⁷ And in this connection, the U.S. embargo policy toward China was regarded by the cabinet as a psychological symbol to show the U.S. firmness in supporting the off-shore countries around the PRC.

"The Western rim of the Pacific was extremely vital to the U.S.", Secretary Dulles always said, "If we lost the chain of position in the Western Pacific, . . . it would be almost as bad as if we lost the Atlantic positions."³⁸ However, "many governments and peoples of this region are 'fence-sitters'," who, as the American Embassy in Taiwan warned, "watch carefully the firmness or softness of American policy toward Communist China."³⁹

"Their greatest fear," in the JCS' words, "is the possibility of a change in U.S. policy which indicates a lack of resolution"⁴⁰ in resisting the PRC. Thus any slight hint of U.S. accommodation with the PRC, not to mention a formal relaxation of U.S. embargo policy, "would gravely undermine anti-Communist morale and strength throughout the critical area."⁴¹ In this regard, Secretary Dulles asserted, "The psychological factors are more important than the commercial ones."⁴²

Specifically, in the off-shore defense program, the U.S. embargo policy toward China was a part of U.S. two China's policy:⁴³ On the one hand, the U.S. did not want Chiang Kai-shek to attack mainland China without U.S. concurrence; on the other hand, the U.S. wanted to make a "tough gesture" to mainland China, to prevent it from taking Taiwan:

"This might be merely a war of nerves," Secretary Dulles said, and "the Chinese Communists would continue to exert pressures until they found the point where we would have to react by shooting."⁴⁴

In short, within the cabinet, there was an agreement that a stricter U.S. embargo policy toward China must be maintained, both as an effective means to split the Sino-Soviet alliance in the long run, and before the final split, as a psychological symbol of the U.S. firmness in supporting the off-shore chains encircling the PRC, particularly Taiwan.

It is obvious that President Eisenhower's approach to the U.S. embargo policy toward China was quite different from that of his cabinet. With his team style of leadership, he did not impose his own ideas upon the cabinet. He accepted some of the cabinet members' arguments, compromised with them on the others, and formally approved all NSC decisions on this issue. But, it did not mean that he gave up all his approaches. And he was prepared to ease curbs on Western trade with China, when he had opportunities. Such opportunities arose when the major allies of the U.S. urged strongly to remove the restrictions on their trade with the People's Republic of China.

CHAPTER II

THE EISENHOWER ADMINISTRATION AND CHANGES IN U.S. EMBARGO POLICY TOWARD CHINA - IN THE CONTEXT OF U.S. ALLIES' PRESSURES

I. U.S. Embargo Policy, 1948-1953 - A Short Survey

As the Cold War intensified in 1948 and 49, the U.S. began to put its "economic equivalent of political containment" into effect. The basic purpose of the economic containment was to reinforce the overall containment policy by depriving the Soviet Union of military and strategic goods, which, it was believed, would keep the U.S.S.R. in a position of relative military and economic inferiority.

A mere American prohibition policy was obviously insufficient, so the Truman Administration began to take actions to obtain the cooperation of Western allies in the strategic embargo policy. A first step involved a series of negotiations with the other principal Western allies regarding a collective embargo of strategic exports to the East. Discussions in this regard culminated in November 1949 with the establishment of COCOM (Consultative Group Coordinating Committee). Each item on the COCOM list of embargoed exports to the Socialist countries had to be agreed to unanimously, and exceptions to the embargo likewise had to receive unanimous approval. A second step

was taken in connection with the pressure of the U.S. for the establishment of separate machinery within the COCOM framework to coordinate a more extensive embargo on trade with Asian Communist countries. As a result, an additional coordinating committee, "CHINCOM", was set up in September 1952. "CHINCOM" established a much broader export control list for China and North Korea that came to be known as the "China Differential." A third step was a U.S.-Japanese bilateral agreement, also in September 1952, which required that Japan should maintain export controls toward China at a level even higher than the "CHINCOM" levels.

The scope of the Western strategic embargo list was expanded significantly in the several years after the establishment of COCOM, primarily as a result of increased allied unity following the outbreak of Korean War. But as this conflict came to an end in 1953, allied pressure upon the U.S. to reduce the embargo's coverage became intense. The year 1953 not only marked the end of the war in Korea, but also was characterized by Russia's increased willingness to trade with the West. Furthermore, most of the industrialized world had been dragging through a recession, and evidence began to appear that the West's embargo policy was becoming increasingly costly to the cooperating nations. This undoubtedly became even more evident to the Western Europeans as many of the post-war domestic supply bottlenecks began to disappear, and these

economies became increasingly outward looking. Finally, Marshall Plan aid was terminated in 1953, and the sanctions incorporated in this program for forcing compliance with the U.S. embargo policy ended with it. All these led to negotiations in late 1953 and early 1959 between the U.S. and fourteen other nations, resulting in considerable relaxation of restrictions previously imposed on shipments of strategic goods to the U.S.S.R. However, this relaxation, the U.S. representatives in the COCOM insisted, should not apply to China.

But Japan and Great Britain particularly were not satisfied with this insistence, and began to press for relaxation on their trade with the People's Republic of China.

II. Japan's Pressure for Relaxation of China Trade Control and the Eisenhower Administration's Response

1.

For many decades before 1949, Japan's trade and industry were integrated with that of the Chinese mainland. Japan's prewar trade with Asiatic countries accounted for 65 percent of its total trade volume, over half of which was represented by trade with China.

However, because of the international embargo policy toward the PRC, Japan was obliged to purchase iron ore, coking coal, salt and other essential raw materials in the U.S. and South American markets, via the Panama

Canal and Pacific Ocean. The Japanese export capacity was thus greatly reduced, as the President of Japanese Federation of Economic Organizations bitterly complained, "no amount of industrial effort and reliance on low-cost labor could bring the price of manufactured products down to a competitive world market level."¹ And the high tariff of the U.S. further hindered the export of Japanese products. The Japanese were thus forced to turn to the markets of non-dollar areas for most of their products. Therefore, the new Japanese trade pattern--to import raw materials from far away dollar areas and to export most of manufactured goods to non-dollar areas--caused essential difficulties in balancing its dollar account. Although the year 1952 saw highest post-war record in the export trade for Japan, still the balance for the year was a deficit of \$800,000,000. Such a deficit was barely balanced by the dollar receipts from special U.S. procurement demand in Korea and those from the U.S. forces garrisoned in Japan. In 1953, the Japanese trade deficit continued soaring, to over almost a billion dollars; and its foreign exchange reserve was reduced by \$300 million. In other words, the Korean War was in fact the chief source of the fragile stability for the Japanese economy. And with the close of the Korean War, a real fear began to occur in Japan that a slump for Japan's economy might well follow. Ending it would oblige the Japanese to seek alternative outlets for the goods that

went to bolster the U.S. war efforts over the previous three years. The most natural source of such outlets was of course the Asian mainland, with the traditional Chinese market the most obvious and most desirable.

Hence the idea that "Japan must trade more with Communist China--it is natural, it is inevitable"² was affirmed by such figures as Hisaakira Kano, spokesman for Japan's most powerful industrial group. The Japan Machinery Industry Association and the Iron and Steel Association representing Japanese Machinery and Steel Industries, presented to the government demands, claiming that "It is an important mission" for the government "to take measures promptly to promote China trade," since "there is no way to tide over the present difficult situation unless measures are taken for resumption of full-scale trade with Red China in the export of iron and steel goods and machinery."³ Indeed, in the general industrial circles in Japan, "The call for China trade is desperate," "the demand for China trade contains a sort of hysteria,"⁴ a Japanese heavy industries newspaper noted. The business community asserted Japan should "object" to the "imposition" by the U.S. of "stricter embargoes for Japan against trade with Communist China than for Western Europe."⁵

But the government of Yoshida Shigeru was reluctant to facilitate the expansion of Japanese trade with the PRC despite pressures from business Community. And

the business community's demand for relaxation of China trade controls thus spilled over into the 1953 election campaign, and was intensified by the formation of a supra-partisan "Dietman's League for the Promotion of Sino-Japanese Trade," which became the largest organization in the Diet with its over 300 members, consisting of 70-odd conservative liberals, 40-odd progressives, and all members of the left-wing Socialist party, to press for the reopening of the China trade.⁶ The director of this League Mr. Zkada, who had headed the Liberal Party's Foreign Policy Study Group as well as its anti-Communist Action Group claimed:

"Because of Japan's long-standing economic ties with the Mainland, trade with Communist China is a necessity for the country, and it is the duty of Diet members to pressure the government into making the U.S. understand Japan's position."

The goal of the Diet's League, he declared, "is to do its utmost to expand this trade by exerting pressure on the government to relax existing controls at least to the CHINCOM levels."⁸

When the new Hatoyama Cabinet was set up, it immediately took the lead in encouraging China trade. Beyond purely economic considerations, enlarged trade with mainland China was desired by the new cabinet as an essential stepping stone toward a politically independent Japan. For the new Foreign Minister Shigemitsu, broader relations with China on the part of West were

inevitable, and Japan was particularly well-qualified to act as a "bridge"⁹. And a more cooperative relationship between the U.S. and the PRC with Japan as a mediator, "could possibly effect a change in Communist China's alignment with the U.S.S.R." In the process of mediating between the U.S. and China, Japan could "reassert her leadership in Asia."¹⁰ Certain Diet members who had intimate connections with the Cabinet, advocated on the floor of the Diet that Japan should remain aloof from the East-West struggle, and when the fighting was over, move and pick up the pieces. And the relaxation of China trade controls should be the first step in this direction.¹¹

With these economic and political considerations, the Hatoyama Cabinet began to push hard to ask for elimination of the bilateral U.S.-Japanese agreement.

2.

The State Department officials were very suspicious of the political orientation of the demand, considering the Japanese plan of serving as a go-between as detrimental to U.S. national interests in Asia. However, at the same time, they were deeply concerned with the economic situation in Japan. As Secretary of State Dulles said:

"The Japanese are now running an adverse trade balance of some 1,000 million dollars. They have survived only because due to the Korean War we have made heavy purchases in Japan. . . This could not go on for long without disaster." He said, he did want "to emphasize the extreme importance. . . of finding areas for Japanese trade."¹²

But trade with China? No. He urged the further opening of the American market for Japanese goods. He knew Japanese imports would "disrupt U.S. domestic markets," and that "there just are not any Japanese goods which we want." Still, the Secretary of State insisted:

"We might have to take goods which we did not want unless we want to put Japanese industry at the service of the U.S.S.R. and Communist China to assist them to bring up their military strength." 13

He asked that the tariff negotiations with Japan begin as soon as possible. He called for the support of all agencies in the Cabinet "to overcome the major difficulties" ¹⁴ -- the resistance to Japanese goods in the U.S. He maintained that the interests of individual industries which would be hurt by the importation of Japanese goods, "must be weighed against the overall national interests." ¹⁵

The Commerce Department however, was not enthusiastic about opening more domestic markets to Japanese products. It reported, according to its investigation, some domestic industries had already been hurt too much by the limited import of Japanese goods. For instance, in the cotton textile industry, because of the competition, "total employment has declined from 1,252,000 in 1947 to 982,000 in April 1954." And in hand-made glass industry, because of the competition, "employment has declined nearly 40% since 1947. Workers are on a reduced weekly-hour basis and the take-home pay of those in this industry has been greatly cut." The situation became more serious

since "in many instances entire communities are dependent upon the Handmade Glassware Industry."¹⁶ The Assistant Secretary of Commerce Loshair Teetor pointed out that all the damages the Japanese importation caused in the past were not based on fair competition: "One fact is predominant" in this competition, that is "the low wages paid in Japan" in comparison with the high wage levels enjoyed by American laborers."¹⁷ Indeed, the Commerce Department did not want to relax China trade controls, but it did not want to open more domestic markets either.

Secretary Dulles had to admit: "There is little future for Japanese products in the U.S."¹⁸ And he turned more and more to Southeast Asia.¹⁹ Why should the U.S. put 75 percent of its defense expenditure in that area? because, the Secretary stated, "One of the serious consequences of the loss of Southeast Asia would be its effect on Japan."²⁰ "If we could salvage a substantial part of Southeast Asia there would be the possibility of developing Japanese trade with that area."²¹ Unfortunately, Dulles said, this plan could not be carried out in a short time, since "the Japanese had left bad memories in Southeast Asia and would not be welcomed back easily."²²

The JCS, on the one hand, urged to find Japan "sufficient access to raw materials and markets to support an independent Japanese economy thus assuring the base for her rearmament."²³ On the other hand, they were resolutely opposed to the resumption of Sino-Japanese

trade, fearing that it "will produce a heightened sensitivity on the part of Japan to Communist pressure."²⁴

While the Cabinet was deciding, the Japanese economy continued deteriorating. In March 1954, the American Embassy in Tokyo warned that "A serious economic crisis may develop as early as this summer as a result of the continuing deterioration in Japan's foreign exchange position."²⁵ The Embassy warned about strong leftist and neutralist elements in Japan who were actively advocating accommodation with the U.S.S.R. and the PRC to further promote trade with the Communists.²⁶

The President advised his Cabinet to offer concessions to the Japanese. "No single action would solve the Japanese economic problem," he commented at a Cabinet meeting in August 1954, "but a variety of approaches must be made":

"It is an absolute fallacy to say that there should be no East-West trade. Instead, some Japanese trade with her Communist neighbors should be encouraged and would set up influences behind the iron curtain,"²⁷ which "would hurt Russia rather than help the Soviets because it would turn Peiping away from Moscow and create a friction between the Communist countries."²⁸

Being aware that Japan's economic situation was intimately tied to its political stability and its ability to stand firm in the off-shore chains, and unable to find alternatives quickly to the Chinese market, the Cabinet had to accept the President's proposal. They admitted:

"It would be reasonable to meet the Japanese requests because of Japan's need for enlarged export markets, because Communist China represents a nearby export market and source of raw materials, because availability of a Communist Chinese market might ease the pressure of Japanese exports on Free World markets," and because "U.S. expenditures in Japan are of a temporary nature."²⁹

In August 1954, the NSC decided:

"The NSC agreed to release Japan, gradually, as appropriate, from its obligation under the U.S.-Japanese bilateral agreement to maintain export controls at a higher level than the CHINCOM level."³⁰

III. British Pressures for Elimination of China Differential and the Eisenhower Administration's Response

1.

In Great Britain, both the Labor Party and Conservative Party considered relaxation of China trade controls as an integrated part of British national policy of accommodation with the PRC, although both parties' approach to accommodation was different.

For the Labor Party, the policy of accommodation was mainly based on their perceptions of the nature of the PRC and thus their confidence in Chinese Titoism.

To some of the Laborites, the PRC was a great improvement upon what had gone before for the Chinese people. Regardless of whether the PRC was hostile to the West, or represented an ideology alien to the British, they were willing to welcome it since, for them, it was a better alternative as far as the welfare of Chinese was concerned.³¹ To many other Laborites, Communism was

not considered a good thing for the Chinese at the time; but they thought, Communism in Asia might be "objectively a liberating force which may well provide the kind of authoritarian regime that in Western Europe was the immediate successor to feudalism and the necessary prelude to political democracy."³² There were still other Laborites who saw in the PRC two opposing tendencies:

"On the one hand, rational thought, good administration and respect for the common man; on the other hand, unreasoning faith in dogma, bureaucracy and contempt for the individual. . . The development of China is likely to take completely different paths according to which tendency predominates."³³

It was thus their conviction that the West should do its utmost to see that the former tendency in China prevailed. Generally speaking, for Laborites, the nature of the PRC was not that of Communist power versus Western power, but that of nationalism versus imperialism. In their view, the CCP were simply "agrarian-democrats."³⁴

Therefore, many Laborites, particularly the Labor leadership, believed that "China if properly handled could in the long run be separated from Moscow."³⁵ In Mr. Attlee's words, "There is a strong mixture of Chinese nationalism in their Communist attitude." So "there is a chance of Titoism". Was it wise, the Prime Minister asked in his talk with American officials in December 1950, "to follow a policy which without being effective against China leaves her with Russia as her

only friend?"³⁶ Mr. Bevin declared in May 1950 that "We all ought now to cooperate to give China a chance."³⁷ Even after the break of Korean War, he expressed to the House of Commons his conviction that Britain should seek to keep China in association with the other nations of the world so that she should not feel forced to align herself permanently with the Soviet Union.³⁸ A hostile attitude toward the PRC, particularly the multilateral China trade controls, in the opinion of the Labor leadership, only had the effect of driving the Chinese further and more irrevocably into the Soviet arms, and the trade weapon was not being put to its best possible use as a means "to tempt China into a more independent stance vis-a-vis Moscow."³⁹

In the heat of Korean War, although the Labor leadership agreed to adopt a hard-line policy against the PRC, including adopting the multilateral embargo policy, still they strongly desired that as soon as the Korean War ended, the British should go back to its accommodation policy and reopen its trade with China.

For the Conservatives, the international world was primarily a scene of power politics, and the nature of the PRC was never viewed in terms of nationalism versus imperialism, but in terms of Communist power politics. For them, that the CCP called themselves Communists was sufficient; the Conservatives assigned a great role

to Moscow, believing the CCP movement to be simply projections of Soviet influence. An assumption that a hostile government should be welcomed provided it bettered the lot of its own people or it represents a right direction in the historical process, forms no part of Tory heritage. With a few exceptions, the Conservatives had but little sympathy toward the rise of post-war Asian nationalism, and notably of the behavior of a proud and ancient people in violent reaction against the century-old dominance of the Western powers. In China they merely saw a vast shift in the world balance of power in favor of the Soviets. However, they could not bring themselves to support a hostile policy against the PRC. Like the Laborites, the Conservatives also advocated accommodation with China.

A hostile policy against China, to many Conservatives, meant a very unstable relationship between British and the PRC, and which might raise the nightmare possibility of Western involvement in a land war with China and of Soviet moves in Europe and the Middle East to take advantage of such involvement. Indeed Churchill declared that nothing could be more foolish than for Western armies to be swallowed up in the vast spaces of China. For Conservatives, British national priorities in international politics inevitably put Europe first, the Middle East second, and Southeast Asia and the Far East third,

particularly in view of the drastic decline of British military and economic strength after W.W.II. Therefore they considered stability in the Far East best suited British interests. A war with China would leave Europe and the Middle East vulnerable to Soviet pressure--a consideration which was also shared by the Labor leadership, but which weighed most heavily, although not exclusively, with the Conservatives.

And a true stable settlement with the PRC, to many Conservatives, was not one imposed and maintained by armed forces, or by an encirclement of the PRC, but by an equitable arrangement in which dissatisfaction on both sides should be reduced to a minimum, no matter how much Conservatives disliked the nature and ideology of the Chinese Communists. They claimed one of the Conservatives' beliefs in international order was that:

"Human society are likely to differ in their social structure and in their political outlook for as long ahead as the most far-sighted of us can foresee. Any idea that we can solve the problems of war and peace by trying to persuade them all to think alike--even if we believe that our own way of thinking is demonstrably correct--can only precipitate conflict and not avert it. The problem of peace is to discover a means whereby differently minded nations can avoid war, not to invent a formula to which all nations to prove their rightmindedness must necessarily subscribe."40

Thus many Conservatives were inclined to the view that in the resolving of the Far Eastern issues, the PRC also should be given adequate satisfaction or territorial guarantees.

Moreover, the Conservative leadership as well as many Conservative businessmen accepted the argument of the Labor leadership that the policy of accommodation with the PRC could generate a rift between the Sino-Soviet alliance. For instance, in 1954, the China Association--One of the most important organizations of the British firms engaging in China trade--reported that the consideration of splitting Sino-Soviet alliance was widely shared in British businessmen's thinking on China trade controls.⁴¹ In Eden-Eisenhower talks of 1956, Prime Minister Eden argued that with a policy of accommodation, particularly a relaxation of China trade controls, the West might draw a wedge into the Sino-Soviet alliance.⁴²

Therefore, it was the British Conservative government's belief that it would help keep the stabilization in the Far East and split the Sino-Soviet alliance to ease the curbs on strategic trade regulation, thus best serving the British national interests in international power politics. But, unlike the Labor leadership, the British Conservative government was more willing to keep in step with the United States in relaxing the multi-lateral embargo policy against China. The British government did not want to take any independent action on this issue until the pressures for relaxation from the British business community and Parliament became stronger and stronger.

Why were the British business community and Parliament so anxious to relax China trade controls?

Western Europe as a whole, was heavily dependent on foreign trade. In the 1950's, its imports or exports constituted about 10 percent of the national income, as against 4 percent in the case of the U.S. The dependency was the more critical since it was concentrated in basic foods and raw materials. Western Europe normally depended on imports for about 20 percent of its food supplies. The country most dependent on food imports was the United Kingdom, whose domestic agriculture produced only 42 percent of its food requirements; more than half of its food supply was imported from overseas. Most of these Western European countries were net exporters of machinery and textile products; this export trade was essential to keep their balanced economic development.

Since 1953, the economic situation in Britain had worsened. The previous sizable balance of payments surplus disappeared and dollar reserves dropped by \$900,000,000 to the low level of over \$2 billion in 1954. Balance of payments difficulties arose primarily from the failure of exports to match the massive increase in increase. In 1955, the balance of trade showed a further deterioration, and the Governor of the Bank of England warned that the dollar reserves were only just above what was thought the danger-mark -- \$2,000 million.⁴³

The British government thus set out a proposal: "Trade, not aid," asking the U.S. to liberalize its import policy. And the British business community was deeply disturbed when the report came that the U.S. Congress might tighten the import policy, requiring the President to accept tariff commission escape clause recommendations except when national security was involved. This would make it almost impossible in the future for the President of the United States to reject recommendations for duty increases on important U.K. manufactured products, since most such products had little national security significance. Such a result of course would hit a wide range of U.K. exporters to the U.S. This, American Ambassador Aldrich warned, "might change the whole direction of British commercial policy."⁴⁴ And it did.

"The British industrial and trading circles are casting more and more interested glances towards the markets of the East," "All eyes are now turned to Peking,"⁴⁵ a neutralist French newspaper reported at that time. And it was true. In 1953, compared with 1952, Britain's exports to China increased from \$1.8 million to \$8.7 million; Hong Kong's exports to China rose from \$29 million to \$63.7 million. Britain's imports from China rose from \$4.5 million to \$10.9 million and those of other British overseas territories increased from \$89.7 million to \$120.3 million.⁴⁶

Even with this increase, British trade with China was only a very small proportion of British world trade. But the British business community regarded this trade as "a very valuable contribution"⁴⁷ to United Kingdom economy. First, British imports from China were mainly tung oil and dried and tinned eggs, "both essential for the British food manufacturing industry and unobtainable from other non-dollar sources."⁴⁸ Moreover, some British industrialists were very optimistic about the potential of Chinese markets, believing that Chinese markets could provide annual contracts of between £ 50 million and £ 100 million for British industry.⁴⁹ Although many other British industrialists had only modest estimates of the potential of Chinese markets, they felt, as the Federation of British Industries pointed out, the opportunities in China, "if neglected by the United Kingdom, will be seized by our competitors."⁵⁰ And the competition in China among the Western suppliers was remarkable: "British, West German, French, Japanese,... feel triumph when they manage to conclude a contract with Communist China," a West German reporter described at the time, "and they feel jealous and worried, if somebody else manages to do the same."⁵¹ The British business community's pressure for entering Chinese market thus came to be motivated more and more by anxieties lest Britain be left behind in the race for the Chinese market. Finally, there was widespread concern for Hong Kong, which depended on

China for its main supplies of food. The Governor of Hong Kong declared in November, 1954 that it was of vital importance to the island that the embargo should be lifted or at least eased.⁵² The British businessmen told the government in Hong Kong that they felt about the strategic regulations "much as a man would feel if you were to give him a knife and tell him that it was in his interests to go and cut his own throat."⁵³ The Hong Kong and Shanghai Banking Corporation had been especially critical of the extension to the colony of the Korean War controls. It was argued that China trade controls had disrupted contracts already negotiated, produced a good deal of uncertainty and confusion, upset the industry of the colony by depriving it of raw materials, and jeopardized the livelihood of workers and the functions of the port.⁵⁴

Hence a strong current of disapproval of British government policy on China trade controls prevailed among the British industrialists. And the business community's desire for relaxation of strategic trade regulation showed most keenly at Westminster.

In the Parliamentary debates, the traditional, long-standing nature of Anglo-Chinese commerce was emphasized, as a Laborite peer claimed in the House of Lord:

This country has an old, traditional and valuable market in China which we hope one day to regain. . . I hope that Her Majesty's government will then be well prepared to knock off quickly these artificial restrictions and allow

our merchants and traders to get busy . . .
This is a great market, and we cannot afford
to neglect it in the future.⁵⁵

And the low level of Sino-British trade was linked with specific cases of decline or serious problems in British industry. For instance, Sir Harold Wilson, the former Socialist President of the Board of Trade, maintained:

There seems no reason at all, why. . . we should not be free to ship tinplate to China to help our depressed tinplate industry, or why there should be any further control on rubber shipments or why we should refuse penicillin and other healing drugs to the East.⁵⁶

Lord Seraboligi told the Parliament, his constituents in Hull strongly urged that,

In the constituency of Hull, in the past, . . . we brought in soya beans from Manchuria and crushed them into the most valuable edible oil. This country is short of edible oil, . . . and we cannot afford to buy the quantity of fats that we should like. . . in dollar market. If we could again bring in soya beans there would be more work for my old constituents in Hull. . .⁵⁷

Many members of Parliament pointed out that export licenses were refused for the export to China even of pumps for coal mines, stationary engines, electric coal drills, etc., making a total of £10 million worth of general industrial machinery. The licenses were denied because they were regarded as "strategic."⁵⁸ Both Conservatives and Laborites in Parliament were deeply worried that:

We have lost very heavily from these embargoes at a time when our economic situation is not bright," and "when our export trade is vital to the existence of this country." The China market would surely "help to maintain the not too certain chances of full employment in this country."⁵⁹

Therefore the members of Parliament from both parties strongly urged the government to break free from the commercial policy of Americans, as Sir Walter Fletcher, a resolute anti-Communist Conservative at Westminster, claimed:

So far the policy of the government has been one of willingness to listen too much to American requests for restriction and control and has engendered in our government suspicion of every move of the commercial community. In the issue of strategic trade controls, the policy must be that of Whitehall and not Washington.⁶⁰

The Conservative government had to take into consideration the possibility that if the British economic situation was deteriorating, while strategic trade controls still existed, the opposition party at Westminster could seriously threaten the government's power position.

The British government more and more resolutely pushed the Eisenhower administration to relax the multilateral embargo policy against China.

3.

While British pressures to relax China trade controls were building up, within the U.S. government, no agreement could be reached on whether the U.S. should take actions to force the British to maintain the "China Differential."

In Europe, the U.S. military and diplomatic representatives were almost unanimous in their opinion that no pressures should be exerted and that "The U.S. would have

to approve a sizable reduction in the Differential if multilateral controls are to be preserved."⁶⁰ Joe Walstrom, Director, Office of Security Trade Controls, U.S. Mission to NATO, told Washington,

"The great majority of CHINCOM members felt they could not make further concessions on 'China Differential', since they found it increasingly difficult to defend vis-a-vis public opinion in their own countries."

The pressures from business community in these countries were so strong that these governments simply did not know how to explain to their own Parliaments and exporters why the "China Differential" must be kept.⁶¹ Winthrop Brown, the American Minister for Economic Affairs in London, pointed out that for him, the wise course for the U.S. to take,

"is to agree to abandon the China Differential by stages and to confine the negotiations, not to the question of whether the Differential should or should not be preserved, but to the question of over how long a period and by what stages it should be dissolved. Only in this way, he said, might the U.S. keep at least a symbolic differential."⁶²

However, in Washington, the Defense Department and the JCS demanded that the U.S. bring as much pressure as possible to bear upon British to keep the China Differential. "From a strictly military point of view," the JCS maintained, any relaxation of "China Differential" would cause "the gravest probability that the Pacific off-shore island chain will fall under Communist domination," and the U.S. would suffer "a complete loss of the balance

of power in favor of Communists."⁶³ Therefore, the U.S. should not be afraid of the risk inherent in the strong pressures the U.S. would exert upon British, the U.S. should not always "defer to the counsel of the most cautious among our allies."⁶⁴ Otherwise, the U.S. could never protect its national security in the Far East.

The State Department's position was that "to ask a country to apply the China Differential was a political decision ." Secretary Dulles said the State Department was surely "not prepared to ask the allies for such a decision." Moreover, the State Department recognized that "many of the other free countries are much more dependent upon foreign trade than is the U.S.,"⁶⁵ hence, "our allies' budget problems are even more acute than ours and are no longer being relieved by such U.S. liberality as to put \$30 billion of economic aid into Europe during the six years 1946-51."⁶⁶ Therefore, "perhaps some minor adjustments are inevitable" on the issue of China Differential "in order to maintain the essentials."⁶⁷

As for the Commerce Department it was deeply concerned with the impact of a relaxation of China Differential on American business community. The Commerce Department agreed with the Defense Department and the JCS, calling for continued pressure upon the British because of "the discrimination against American businessmen which resulted from the fact that we maintained a complete

embargo against Communist China while other countries permit their businessmen to conduct trade within certain limits."⁶⁸ The Commerce Department pointed out this had already caused grave troubles for certain U.S. industries. For instance, the American Brush Manufacturers Association protested that while,

"the prohibition of trade with China keeps hogs bristle that is needed for the manufacture of the best brushes out of this country, brushes which are made of China hog bristles are imported into the U.S. from England. . ."⁶⁹

With the high quality and cheap China hog bristles, British brushes were easily "underselling the American brush market."⁷⁰ The Association complained bitterly, "We are now living under the specter of economic ruin."⁷¹

It is clear that although the government officials shared a common approach to U.S. embargo policy toward China, the specific consideration or perception of this issue in different executive branches, made it impossible for them to agree on how to react to the British demands.

3.

While the Cabinet members' opinions remained divided, President Eisenhower pushed ahead to ease curbs on the allies' trade with China.

The First Phase: September, 54 - January, 56

In September 1954, the U.K. Ambassador in Manila told the representative of the State Department that he would be instructed shortly, before the British Parliament

reconvened, to open discussions with the U.S. government on the question of relaxing China trade controls. And the NSC told the U.S. negotiators "No change in the hold-the-line course of action is to be expected from the NSC."⁷² In October 1955, before the Foreign Ministers' meeting, the British again proposed to discuss the "China Differential", but the NSC again refused to talk about this topic at the meeting.⁷³ In December 1955, Secretary Dulles told Eisenhower that no more concessions could be expected from the British on the China Differential: "The British now present us with the prospect of total disintegration of the multilateral control system."⁷⁴ The Cabinet had agreed to discuss it with the British at the forthcoming Eisenhower-Eden talks, but still maintained that "China Differential" should be kept. Concessions might be made only if necessary "to preserve the multilateral system." The U.S. would "offer to acquiesce only in a minimum adjustment whereby 19 items would be dropped from the multilateral China embargo list."⁷⁵

The President began to show openly that he was not in complete agreement with his Cabinet. At the Eisenhower-Eden talks (January 31 - February 1, '56) he told Eden that the 19 items, which his Cabinet had approved for decontrol, in his view, were surely not sufficient to negotiate with the British government. In the course of negotiations, when Under Secretary of State Mr. Prochnow

tried to persuade Eden, "the net gain" in a relaxation of the Differential "would be greater for the Chinese Communists," the President commented immediately that, "We are trying hard to help IndoChina, Burma and other countries in Southeast Asia," and a relaxation of trade control "might help them economically if they are able to sell to Communists various raw materials." When Secretary Dulles advised Eden, "it would be very important to avoid any indication that there has been a change in policy," the President remarked, "Surely we cannot say that we made a flat decision in 1952 that cannot be altered in any detail."⁷⁶ In the Eisenhower-Eden communique, instead of calling for a maintenance of the China trade controls, it was announced that "the restrictions on trade with Communist China are to be reviewed in the light of changing conditions"⁷⁷ by both governments.

The Second Phase: February 56 - January 57

At the request of the President, an interdepartmental agency Council of Foreign Economic Policy (CFEP) began to examine a list of items submitted by the British for decontrol and to review U.S. embargo policy toward China. But the CFEP members were so divided that no agreement could be reached. Although the State Department was a little more willing than others to give certain minor concessions, it was blocked from time to time by the Defense and the Commerce Departments. Moreover, some

officials of the State Department surely did not want to go all the way to meet the British demands. Walter Robertson, the Assistant Secretary of State said, he was "shocked" at Eden's position on trade with China: "A position without principle as illustrated by Eden's remark that 'nobody was ever hurt by trading and making a few dollars.'" ⁷⁸ Hence, for almost the whole year, the CFEP members debating, deciding, could not make a decision; and with the Presidential election coming nearer, they decided to put off making the final decision until after the election.

In December 1956, right after the election, Economic Defense Advisory Committee (EDAC) suggested to the CFEP that the U.S. should exert pressures to bring out an overall tightening of multilateral trade control against China, offering participation in an early CHINCOM Consultative Group meeting to achieve this objective. ⁷⁹

President Eisenhower was deeply disturbed. He made it clear to Mr. Randall, Chairman of CFEP, and to members of the NSC that he believed "controls over trade with the Communist China should be liberalized rather than tightened." ⁸⁰ He suggested the CFEP make changes in U.S. embargo policy toward China to meet British demands.

The CFEP then began to modify the U.S. embargo policy, admitting that "the compelling considerations that favored liberalization of multilateral China trade control included,

"The fact that the President's trade program as a whole contemplates gradual reduction of trade barriers everywhere;" And

"The likelihood that the entire control mechanism will disintegrate unless the U.S. makes a substantial concession to the wishes of its allies."⁸¹

The CFEP decided to provide for "a substantial reduction" in the CHINCOM list, while continuing the existing U.S. bilateral controls. The new policy would retain a "meaningful China Differential," but one much less than the existing China Differential.⁸²

In February 1957, the NSC approved the new U.S. embargo policy toward China. For the first time since it was established, the "China Differential" was eased.

The Third Phase: May 57 - August 58

However, the new policy, as London Economist pointed out, still fell far short of the desires and intentions of British, Japanese, French and others, and failed to meet their demand for complete abolition of China Differential.⁸³

On May 15, Secretary Dulles received a strong memorandum from Foreign Minister Selwyn Lloyd, pointing out that the British would "have to gain greater freedom in respect to China trade and do so quickly because of the Parliamentary situation." Lloyd told Dulles that, in Britain,

"There was rising criticism of the U.S. in areas where there was unemployment, which was ascribed rightly or wrongly, to U.S.

refusal to let them trade with China."⁸⁴

Secretary Dulles suggested that the President send a message to Prime Minister Harold Macmillan, to the effect that the U.S. could not go all the way to meet the British and that the British must go further to meet the U.S. Eisenhower indicated that "Basically, the CCP and the U.S.S.R. should be treated alike in this matter."⁸⁵ Still, he sent his message on May 16, protesting against the proposed move and asking Macmillan to reconsider this decision. Knowing that Eisenhower's apprehensions were "chiefly caused by the strong feeling in the U.S. Congress," Macmillan replied on May 21:

"This Chinese business has become almost as much an obsession with us as it appears to be with your Congress. . . You say that if we get what we want the Chinese will only switch their trade from one item to another. That may very likely prove true, but traders never think like that. Each individual firm and industry believes that it can increase its own sales, and of course, in our country, which only lives by exports, this is quite an important factor."⁸⁶

In another letter to Eisenhower, Macmillan asserted:

"The commercial interests of our two countries are not at all alike. We live by exports--and by exports alone. So I feel that we cannot any longer maintain the existing differential between Russia and Chinese trade and we shall be making a statement to this effect in Parliament tomorrow."⁸⁷

Eisenhower told Macmillan:

"As an individual I agree with you that there is very little of profit in the matter of China differential either for your country or for any other. . .

We understand your predicament and even though we may be compelled, in the final result, to differ sharply in our official positions."88

On May 29, 1957, the British government declared in Parliament that it had decided to abolish the differential controls on strategic exports to China.

The Defense Department and the JCS became furious at this decision. They urged Eisenhower to retaliate, including "the application of Battle Act, Export Control Act and Trading with the Enemy Act restrictions on trade with certain of our allies in response to their widened trade with Communist China."89

The Defense Department insisted, "limited sanction" against British was absolutely necessary:

"Limited sanctions, carefully selected for maximum effect with minimum disruption to mutual security program and political relations, are justified and would result in a net security advantage."90

But President Eisenhower firmly supported the British decision on abolition of China Differential. He held a news conference and declared,

"Now there is a very great division of opinion in America, about the value of trade with Communists.

There is one school of thought that thinks any trade with the Communist countries is bound to be to their benefit; whereas there is another school of thought that thinks that the Yankee, . . . is a very fine trader, and that we got to be a great country by trade, and they assert that trade in itself is the greatest weapon in the hands of a diplomat, and if skillfully used, it can be used as a very great instrument of governmental policy"

About the China Differential, he continued,

"The supporting argument is that it is foolish to say China cannot have something, since you ship it to Russia and can go on through. The opposing argument is that they have to use their transportation space to get it, that costs them some money.

Another supporting argument is that Japan, must make a living. She cannot trade all around the world because too many people have some kind of bars. Here in this country, there is constant agitation to set up bars against textiles and light machinery. . .

Where is she going to trade? Japan should be allowed to trade somewhere and therefore, we ought to liberalize the trade with China.

The other side say, if you let that happen, you are going to have Japan communized..."

The President concluded,

"Now, frankly, I am of the school that believes that trade, in the long run, cannot be stopped.

. . . Whether we should eliminate this Differential, frankly, I do not see as much advantage in maintaining the Differential as some people do. . ."91

Later, Macmillan wrote that,

"Largely due to the President's influence this Chinese affair, which had caused me much concern, was not elevated by the American government or press into a great issue."92

The technical experts of the two countries began to get together and talk over revision of the forbidden lists, with a view to bringing them closer together. The talk was followed by five months of negotiation in Paris within a fifteen-nation Consultative Group.

In June 1958, this group finally agreed on drastic relaxation of the COCOM and the CHINCOM lists of strategic items, and decided to merge the two lists into one. In other words, henceforth it would be alright with

the U.S. for any of its allies to sell China everything they sold to the U.S.S.R.

IV. Canada's Pressure to Relax Restriction on Trade with China and the Eisenhower Administration's Response

In June 1957, the Progressive Conservative Party regained power in Canada after 30 years. Since it failed to win a majority in the House of Commons, it was in a vulnerable position. The Conservatives were anxious to call a new election in the next spring, which might give them a working majority. And before the new election, the government was eager to enhance the Conservatives' popular appeal by making certain changes in U.S.-Canadian economic relations. Progress along this line would be very popular with the Canadians. There had already been lots of criticism in Canada of U.S. dominance in Canadian industry and U.S. high tariffs on Canadian products. The Conservative government was particularly concerned with the problem of unemployment, which was expected to be more serious than usual the coming winter. An increasing unemployment would surely kill Conservative Party chances in the next election, because the Conservatives were closely associated with the Depression in the 1930's.⁹³

In early 1958, when a recession hit the Canadian economy, Chinese trading agents made an inquiry to the American Ford Motor Company's subsidiary in Canada, about

buying 1,000 automobiles or trucks. Inhibited by the Trading-With-Enemy Act which was applied not only to American corporations but to subsidiaries in foreign countries as well, Ford of Canada refused to fill the order from the PRC. Since this coincided with layoffs in the Canadian automobile industry, the firm's refusal made the Canadian government very angry, and it was considered an example of American extraterritorial interference.

Secretary Dulles complained:

"This was picked up and used in Canada quite a little bit politically as indicating the U.S. was attempting to give extraterritorial effect to its policies to the damage of Canadian economy because. . . presumably it would have improved Canadian economy and reduced unemployment if such an order could have been accepted."

He warned the Canadian government that the Chinese Communists dangled an order before the Canadians only to damage the ordinarily excellent relations between the U.S. and its Northern neighbor. He said he seriously doubted if the Red Chinese could ever put cash on the barrelhead.⁹⁴

But many Canadians, including Gordon Churchill, Minister of Trade, and James Moir, President of the Royal Bank of Canada--the biggest and most conservative financial institution in Canada--thought otherwise. They were going all out to have the order filled and to further expand Canadian trade with China. Prime Minister John Diefenbaker chose to proclaim their grievances to the U.S., regarding loud proclamation as the only way of gaining attention

south of the border. The Conservative government thought the policy of the former Liberal government of speaking softly and privately to Washington was bankrupt.⁹⁵

Hence, when Eisenhower visited Canada in July 1958, Diefenbaker told him directly that Canada must not be treated as an extension of the U.S. market, and the case of the Ford Company's refusal to let its Canadian subsidiary consider the sale of 1,000 automobiles to Chinese was cited as an example. Donald Fleming, Minister of Finance, announced that it was Canada's intention that "Canadian law and Canadian law alone is to prevail over persons or corporations carrying on business in Canada."⁹⁶

President Eisenhower agreed to make an appropriate concession. His principal concession to Diefenbaker at his Ottawa talks was that the U.S. would make exceptions to its legal restrictions, under the Wartime Trading with the Enemy Act, for Canadian subsidiaries of American firms which got orders from the PRC.⁹⁷

V. Summary

In 1958, the Eisenhower administration finally accepted the allies' decision to relax substantially the multilateral China trade control system. How did the important changes in U.S. embargo policy toward China happen in this period?

First, the U.S. allies' domestic economics and politics set down certain forceful limitations on these

countries' concessions to the embargo policy, which their governments could not go beyond.

Second, the Cabinet in Washington had to give in to the allies' pressures, because when insisting on "China Differential," the Cabinet members could not offer effective alternatives to the China markets to solve the allies' economic problems; and when the allies' pressures increased, they could not remain unified on how to respond, due to the specific consideration in different department.

Third, most important, the President was highly responsive to the pressures of U.S. allies. According to his concept of national security, it was of vital importance for the U.S. to set up self-supporting economies in these countries; their economic difficulties which resulted partly from U.S. embargo policy, only proved what he thought about the whole trade control system; and the allies' pressures strengthened his position in the Cabinet, offering him opportunities to carry out his plans.

In the middle of 1958, the changes in U.S. embargo policy made the prospects for increased trade between China and West "take on their rosier hue since the onset of the Cold War ten years ago," the New York Times wrote; and another newspaper The Los Angeles Times said, "It can now be expected that the Eisenhower administration . . . decided to accept as inevitable the gradual breakdown of all barriers to free world trade with Communist China."

However, the Eisenhower administration held out on U.S. bilateral trade controls. Why did these major changes not bring a final breakdown of U.S. embargo policy toward China?

CHAPTER III

THE U.S. BILATERAL TRADE CONTROL WITH CHINA--THE EISENHOWER ADMINISTRATION AND CONGRESSIONAL PRESSURES

I. McCarthy Hearings and their Impact on U.S. Embargo Policy toward China 1953-1954

1.

Since early 1953, Senator McCarthy's Senate Permanent Subcommittee on Investigations began to charge the British and other U.S. allies of trading with China. The Subcommittee asked the Eisenhower administration to stop all Western trade with the PRC in any kind of goods, strategic or non-strategic. Subcommittee members even took actions, interfering in executive functions in violation of U.S. Constitution, to negotiate with Greek owners of 242 merchant ships, allegedly participating in Western trade with China, to get an agreement whereby these ship owners promised never to engage in China trade. And the McCarthy Subcommittee's attack against the British won further strength when Assistant Secretary of Defense Mr. Nash testified before the Subcommittee that his Department's position was in complete harmony with the Subcommittee's:

"Defense believes that goods now being shipped by sea to Communist China by British and others constitute direct or indirect aid to Communist Chinese forces in Korea. The cooperation of our allies is not what we would like it to be."

With respect to McCarthy's agreement with the Greek ship-owners, which offended certain Cabinet members and many allied governments, Nash said, if "it can be shown that agreement brought about a net advantage in cutting down allies' shipping to China, the Defense Department would applaud."¹

In the course of public hearings, McCarthy kept reminding American people that American soldiers were being killed with materials supplied by America's allies.² A hostile public opinion against British soon developed. This is shown clearly in a poll taken by Representative Thomas Martin among his constituents of Iowa: 92.61% of his constituents wanted to "apply more pressures on China through economic warfare"; 97.64% urged to "ask Britain to discontinue the delivery of rubber and other strategic materials to the Communist world"; and 89.69% asked to stop U.S. financial aid to the British if they continued their trade with China.³ Hence both parties were eager to take a tougher posture against the British to win more votes in the next election. Mr. Clarke, Chairman of the Richmond Republican Committee, Virginia, explained that any soft nod on British-China trade might make the Republicans "lose their majority in the next election in

both the House and the Senate" in view of "the grass roots sentiment as I see it here."⁴

Highly sensitive to the local political sentiment, Congressmen of both parties all demanded a reduction or even a cut off of U.S. aid to Britain. William Knowland claimed in the Senate, "The U.S. must cut off military and economic assistance unless the British do what we want."⁵

The British Manchester Guardian was worried that the McCarthy hearings might so arouse American public with the allegation that American boys were killed with British materials as to "force the administration into a retreat."⁶

2.

But President Eisenhower did not want to be forced into a retreat. He stressed the importance of "educating public opinion on the question of trade between the Free World and the Communist countries."⁷ He said that this question might become increasingly acute as regards U.S. allies and that when it did, "certain well known elements in Congress will open up with their preposterous and demagogic question "Isn't it awful for our allies to trade with our enemies?" He thought that,

"It would be a great pity not to anticipate this, rather than get caught unprepared and have to fight a rear guard action with denials which, however well written. . . would not be as effective as action taken in advance."⁸

Therefore the President asked Henry Lodge, Jr., Ambassador to the U.N., to communicate with the State Department to set up certain standards for the education of the public. The first standard was the U.S. allies' much heavier dependence on foreign trade than that of the U.S. The second standard was the idea of "net advantage" in the allies' trade with China.⁹

However, when Lodge's letter arrived in the State Department, the reception was certainly not friendly. The Bureau of Far East Affairs said this letter was "misleading and contrary to NSC policy. It could be taken by some Western nations as encouragement to broaden their trade with Communist China when we are anxious to continue maximum feasible pressure on the Chinese Communists. . . ." The Bureau of European Affairs said this letter "wasted the President's prestige because the case could be better and more carefully stated." The Office of Chinese Affairs complained that this letter would be interpreted by Senator McCarthy as an open invitation to our allies to expand trade in non-strategic goods with Communist China.¹⁰

As for Secretary Dulles, he made a non-committal nod to the letter, praising the President's idea, which he declared "absolutely right," but also told Lodge that the State Department had already prepared some monographs on this topic and issued to the public, etc.¹¹

Thus Ambassador Lodge's letter was buried in the files of the State Department.

3.

In fact, in 1954 the President had to retreat, because he had to have the Mutual Security Bill passed in Congress. If the Congress turned down the Bill, he was afraid that British and other allies would not get the most necessary U.S. dollars to support their fragile economies and defense programs. The whole collective defense system might be in great danger. That is the reason why Harold Stasson, the director for Mutual Security Administration, sympathetic to British trade with China, advised the British at the Dulles-Eden talks in 1954:

"The Mutual Security Bill in Congress was now at a crucial state, and the British must make concessions to U.S. embargo policy, so that it might help in getting us out of the jam we were in."¹²

And the NSC's decision in 1954 was as follows:

"The U.S. embargo policy toward Communist China has had wide public and congressional support in this country, . . . relaxation of controls might create such public dissatisfaction in the U.S. as to impede the government's participation in a sound international economic defense program."¹³

II. The McClellan Committee's Hearings and their Impact on the U.S. Embargo Policy toward China, 1956

1.

The announcement in the Eisenhower-Eden communique in February 1956, that the restrictions on trade with

China were to be reviewed provoked prompt expressions of opposition to any relaxation of China trade controls.

"Why beef up a known and remorseless enemy?"¹⁴ asked the New York News, the newspaper having the nation's largest circulation at the time. Representing the Hearst chain of newspapers, the New York Journal-American claimed that the administration's "seeming willingness" to relax China trade controls "needs reflection and debate."¹⁵ Other newspapers, scattered from New England to the Far West, expressed similar feelings.

A nation-wide poll, taken in early February 1956, by the National Opinion Research Center, showed that 61% "disapproved of changing U.S. policy to permit Americans to trade with Communist Chinese;" only 32% approved a policy of "letting American businessmen sell goods to Communist China now."¹⁶

Democrat Senator John McClellan's Government Operations Committee then began to hold hearings intermittently between February 15 and March 29, on East-West trade and China trade controls. Hearings were concerned with 1954 revision of the COCOM list. The McClellan's Committee admitted, however, that this was to be done with a view to turning off the green light to British efforts to relax China trade controls:

"The investigation now assumes particular significance, because of recent efforts by our allies to persuade us to agree to the relaxation of embargo on shipments to Communist China. . . ."¹⁷

The Committee stressed,

"In a recent visit of Prime Minister Eden to the U.S., Great Britain asked that controls over shipments to Communist China be relaxed and the President of the U.S. has indicated that this proposal will be studied. . .

It remains to be seen whether the Battle Act provisions will be invoked against this action."¹⁸

When the opposition party controlled the Committee investigating the Republican administration's activities on East-West trade and China trade controls, the Republicans in the Congress offered no challenge. The Republican Minority Leader in the Senate, William Knowland, openly supported the Committee's right to investigate. Knowland believed that the administration's foreign policy should be "not merely going to be containment, but ultimate liberation of Communist-held countries." He claimed that the Communists were using the plea for peaceful coexistence and trade with the West to gain time, so they could "take over country after country without risk. The Communists, he argued, would interpret every effort of West to trade with them as a sign of weakness--and to show weakness to the Communists inevitably invites further aggression."¹⁹ Not only Knowland, but also many other Republican Congressmen did not want to challenge the McClellan Committee's investigation. 1956 was an election year, both parties would not like to offend the public opinion. In fact, the major charge of the McClellan Committee was that the Republican administration, by

nodding its approval of British trade with China, was "soft toward Communism," and that it was trying, or at least having the effect of helping the Communists.²⁰ -- This is obviously a revenge on the Republicans since in 1952 campaign, the Republicans had charged that the Democrat administration was soft toward Communism!

And like the McCarthy Subcommittee, the McClellan Committee also tried to bring strong pressure to bear upon the administration by the threat of reducing the financial aid to the British. Senator McClellan and other Democrats served notice in the Senate that they would not vote for the \$4,900,000,000 asked by the administration, for aid to British and other allies "unless the whole matter was satisfactorily cleared up." They claimed,

"If we are providing these funds to our allies for the purpose of helping them to develop their military power and strength as a defense against Communism, then, how inconsistent is it for the same allies, for the sake of trade and profit, to place in the hands of the Communist Bloc, the machines, materials and other essentials of the war potential in a war effort?"²¹

The New York Herald Tribune noted at the time,

"Plainly the administration is in for trouble in the Senate on the whole foreign aid program because of what has been done. . . to satisfy allies' pressures for more trade with the enemy."²²

2.

President Eisenhower tried hard to resist this pressure from the Congress. He told the legislative leaders that he did not believe the 1954 embargo relaxation

was a mistake. He said that "this country could not absorb more European products at the end of Korean War and did not want to keep giving cash grants to sustain Europe." Trade including East-West trade became "particularly necessary" to the health of allied economies.²³ The President also warned that a publicized investigation of trade between the NATO governments and Russia and China could lead to serious problems for the allies:

"If the desperate economic straits of some of the Western countries became known, the Soviets and Chinese could take advantage of the situation by either refusing to trade or by exacting more vigorous terms."²⁴

3.

However, in 1956, once again the Eisenhower administration had to compromise.

Secretary Dulles mentioned to Eisenhower "the difficulties being placed in the way of the passage of the Mutual Security Act" because of the McClellan hearings. He specifically referred to "the danger of possible restrictive amendments which would prohibit aid to countries trading with the Communist Bloc."²⁵ Surely, the President was most afraid of this consequence. And his fear was shared by Mr. Dodge, Chairman of the CFEP. He said that in view of the McClellan hearings, any position the U.S. might take on the modification of China trade controls "must receive especially careful consideration," because,

"Too hasty or ill-considered action could be used to embarrass the government program of assistance to other nations, not yet approved by the Congress."²⁶

And he advised against discussing this issue with the allies until "every aspect of the U.S. position has been . . . considered in terms of the need for a complete and successful public and Congressional justification."²⁷

And the situation became more complicated than in 1953-54, due to the partisan politics of an election year, as Under-Secretary of State Mr. Hoover, Jr. pointed out,

"The desire of certain committee members to engage in partisan politics, made it inadvisable to engage in a formal high-level negotiation looking toward a lowering of controls on strategic items. . ."²⁸

Hence in 1956, when the allies' pressures became much stronger than ever before, the Cabinet faced a real dilemma:

"If we do not acquiesce in some substantial relaxation of the control system, we may jeopardize the entire multilateral control system;"

However,

"If we do acquiesce in any substantial relaxation, such action may give rise to opposition in this country, particularly in Congress, which could affect the trade control system and jeopardize other programs contributing to the mutual defense effort."²⁹

The Cabinet could not solve this dilemma until after the election of 1956, when the President instructed the CFEP to modify the U.S. embargo policy toward China.

III. The Eisenhower Administration Decided to Hold Back on U.S. Trade with China, 1958

1.

When the news appeared in the newspaper that the Eisenhower administration decided to ease curbs on the allies' trade with China, agreeing to the elimination of "China Differential," the Congress was disturbed again. In the Senate, William Knowland claimed that he felt "extremely disappointed"³⁰ at what the British had done, and he asked what the administration had in mind. Secretary Dulles told him that both the British Parliament and the government were "in a panic about their economy;"³¹ and Dulles assured him the U.S. would hold out on China trade, in spite of the concessions to the allies. In the House, Representative Mr. Lipscomb protested to the State Department and asked for a Congressional probe.³² In his speech delivered in the House of Representatives, July 1958, he declared,

"We should never for a moment forget that. Communist trade is dedicated to one thing--the strengthening of the Communist strangle-hold over all the people it can manage to trap in its ideological snare. Any economic gains that might accrue to countries of the free world through trade with the Communists are bound to be illusory and short-lived."³³

In November 1958, a House Subcommittee left for the Orient to investigate reports that "strategic goods shipped to U.S. allies in the Far East were being consigned to Communist China."

With the collapse of the "China Differential," one of the basic assumptions of U.S. embargo policy toward China--to bring maximum pressures to bear upon China to split the Sino-Soviet alliance--could not work any longer. The Cabinet was confronted with a question: Should the U.S. give up its bilateral China trade control? What advantage could accrue to the U.S. from such relaxation? The Cabinet discussed these questions again and again, taking into account the economic, political (domestic and foreign), military, and psychological factors involved, and their conclusion on U.S. trade with China was as follows:

First of all, the economic implications of resumption of Sino-U.S. trade would be insignificant.

According to the CFEP and the Commerce Department, American exports, after the relaxation, would probably range between \$40 million and \$70 million annually. Sales possibilities would exist mainly in iron and steel products, where however, American goods "would not be very competitive," "Japan having a clear advantage;" and also in fertilizers, which "salability was always high for many American products in other world markets." In other words, no American products desperately needed China markets, or were so competitive that they could receive much more profits there.³⁴

As for American imports from China, it would be a little more than the exports, mainly comprising tung oil, tea, silk, hog bristles, cashmere, and handicrafts, etc. According to the CFEP and Commerce Department, although consumer selection would be broadened for certain commodities, yet,

"sizable imports of Communist China's low-priced consumer goods could inspire or provide additional impetus to pressures for increased U.S. tariff or import restrictions.

The problem of low-priced consumer goods import competition with U.S. domestic production could become far more acute."³⁵

As for the potential of the China market, it was recognized that China "might well represent an important potential market for U.S. products;" however, the CFEP asserted, owing to the Sino-Soviet alliance, the U.S. could not fully tap the potential after the relaxation.³⁶

Therefore the Cabinet maintained that the comparatively low level of trade after the relaxation,

"would have no major impact on the American economy in terms of the balance of payments, providing employment, or supplying needed raw materials."³⁷

Secondly, the impact of a resumption of Sino-U.S. trade upon the Sino-U.S.S.R. alliance would be insignificant, also. Since China's gains from trading with the U.S. after the relaxation would be modest, the Cabinet was convinced that it would not constitute an impetus to expansion of China trade with the Western world, which would be so strong "as to materially affect China's dependence on the Soviet Union."³⁸

Thirdly, the military and psychological effect of this relaxation upon the off-shore island countries, particularly Taiwan, would be "very serious." The Defense Department and the JCS stressed that "It would damage the power, prestige and influence of the U.S. in the entire Far East area;" and the Cabinet claimed that it would cause so much defection among the off-shore island chains that the U.S. would have to impose "an important additional burden to provide adequate military defense of the area," since the "off-shore defense program" was "a pillar of total U.S. policy toward Communist China."³⁹

Fourthly, the impact of this resumption of Sino-U.S. trade upon the Congress would be "disastrous". It would be impossible for the administration to overcome the resistance of Congress to appropriate any money for mutual security costs or other administration programs.⁴⁰

In brief, the Cabinet decided to hold out on U.S. bilateral trade control with China.

3.

What did Secretary Dulles think about U.S. trade with China in 1958?

If under the strong pressures of the allies, Secretary Dulles' position on the allies' trade with China, became somehow closer to the President's, then in 1958, he became more and more tied to the Republican Right. In

word and deed, he seemed unable to articulate any purpose beyond preventing a further expansion of Communism. In part, his rigid posture seemed a response to the growing volume and vehemence of his critics: Since 1957, the attacks that beat down upon him from the Congress and the press were harsher and more relentless than ever before. Moderates and Liberals were demanding new approaches to China and the Third World, but the Conservatives and the Republican Right still pressed for clearcut victory in the Cold War, demanding the "unleashing Chiang Kai-shek" to attack the Mainland. Such diverse figures as Senator Hubert Humphrey and the columnist Joseph Alsop regularly called for his resignation. Caught in the crossfire, he seemed to conclude that relative safety was to be found with the Conservatives and the Right Wing. Accommodation of the Right thus was equated with personal survival. It also seemed consistent with his second fear--any relaxation of international tension would dangerously erode the already diminished sense of cohesion and resolve among Western allies. Therefore, he took a much tougher attitude toward China issue, insisting on bilateral embargo policy toward China.⁴¹

3.

What was the President's attitude in 1958?

In 1958, the President was particularly eager to have Reciprocal Trade Act and Mutual Security Bill passed

in the Congress. The Act and the Bill were two of the cornerstones in the President's overall concept of American national security. In 1958, he wanted to give the Act five years instead of one year provision which, as a major part of his plan to free world trade, especially the trade among Western countries, he believed, would give European allies' economies much more stability.⁴² And he also proposed to have \$700 million and \$800 million increase in mutual security program.⁴³ Even approval of all this amount by the Congress, would still be \$600 million short of his need. Therefore any cuts the Congress might make in the proposed increase in mutual security program, for the President, would have "most serious" effect upon U.S. national security.⁴⁴

However in 1958, the situation in the Congress was not favorable at all for the passage of the Act and the Bill. The majority of Democrats were not enthusiastic about these programs. Eisenhower thought the chances of success in these two programs were that "once Republicans in the Congress forced the issues on the important points, the Democrats would have to give some support."⁴⁵

"Unfortunately," the President complained, "political individualism had been developing among the Republican Congressmen," who in Eisenhower's words, "were eager to run for the Congress only on their own individual platform, repudiating completely such administration's programs as the Reciprocal Trade Act and the Mutual Security Bill."⁴⁶

Eisenhower maintained that "the most vitally important" programs "for the long term good of the U.S. will be weakened or defeated by the political individualism of Republican Congressmen."⁴⁷ In order to overcome this trend, Eisenhower turned to Knowland, Judd, Bridges, etc. for help.⁴⁸ Most of them belonged to the Republican Right, and were staunch supporters of Chiang Kai-shek.

Eisenhower knew only too well that any further move toward a major change in U.S. bilateral trade policy with China, after his important concessions to the allies, would undoubtedly precipitate furious rows in the Congress, and particularly among the Republican Right. Such an outcome, the President feared, would permanently damage other most important programs for the national security.

Consequently, in 1958, after making important changes on U.S. embargo policy toward China, President Eisenhower and his administration all refused to go further.

IV. Summary

Why did the Eisenhower Administration fail to breakdown barriers to U.S. trade with China?

First, the Eisenhower administration was working in a Cold War atmosphere and a hostile public opinion toward the PRC.

The President pointed out it was unfortunate that a climate had developed in the U.S., in which it was looked down upon as unAmerican to even debate the merits of recognition of the PRC, and that in this climate, the

U.S. had to adopt a "very rigid" policy toward the U.S. trade with China.

Secondly, in the United States, there was not a strong and unified voice of American business community for relaxation of U.S. trade with China.

Pressures for relaxation did exist among certain parts of American business community in the 1950's, particularly on the West Coast. The competition from Japanese shipping and export firms had a serious adverse effect on shipping and export interests on the Pacific Coast, and the latter felt that "formal resumption of trade with Communist China would help to alleviate the situation."⁴⁹ "Trade with the Far East means jobs, let's trade with China,"⁵⁰ such demand prevailed in some industries in this area.

But there was also strong opposition to the resumption of China trade in the U.S. business community. For instance, it was warned that "the domestic tung oil industry would be bankrupted by dumping of vast quantities of Chinese tung oil on our market for a prolonged period of time,"⁵¹ although it was admitted that such imports could benefit certain "tung oil consuming interests, the brokers, and the importers."⁵²

Compared with the allies' business community's voices for relaxation of embargo policy, the U.S. business circles were much weaker and more divergent, because the

U.S. as a whole was much less dependent on foreign trade, not living by exports. Therefore, the Cabinet remarked from time to time that,

"There has been increasing interest within the U.S. export-business community in the possibility of trade with Communist China. . ."

However,

"the interest evinced does not constitute a significant pressure on the U.S. government to lift the embargo."⁵³

Thirdly, the Eisenhower administration was under the Congressional pressures on stopping all trade with China.

The Congressional pressures were mainly reflections of local political sentiments. In President Eisenhower's words, Congressional reactions to the embargo policy "reflect. . . a far greater concern for local political sentiment than for the welfare of the U.S. Each of them thinks of himself as intensely patriotic; but it does not take the average member long to conclude that his first duty to his country is to get himself re-elected."⁵⁴

In fact, because of the local electoral politics, the Congressmen had "a large investment of emotional and political capital in their constituencies,"⁵⁵ and when there was apparent conflict between Presidential and local priorities, local priorities usually won out.

And the Congress could bring great pressures to bear upon the administration by its legislative right to

appropriate money for Mutual Security Bill and other administration programs.

Fourthly, the President and his Cabinet were all responsive to the Congressional pressures. For most members of the Cabinet, they won strength from the Congressional pressures when insisting on "China Differential"; for the President, he had to bow to the pressures, to keep the Mutual Security Program and other programs going, which in his view, were "extremely important for the U.S. national security."⁵⁶

In short, the Eisenhower administration decided to hold out on bilateral embargo policy toward China mainly because of the strong pressures from the Congress; and the Congressional pressures in turn, were heavily influenced by local sentiments, local electoral politics.

CONCLUSION

The following participants all contributed to the final formation of a new U.S. embargo policy toward China from 1953 to 1958:

The President: Eisenhower advocated a relaxation of U.S. embargo policy toward China, relating the relaxation to his overall conception of national security; regarding it as a means to strengthen the economies of allies and an instrument to wean China away from the Soviets. He asserted that U.S. would commit suicide by stubborn adherence to the purpose of achieving maximum immediate gain.

The Cabinet: Most officials of the Cabinet supported a stricter U.S. embargo policy toward China, relating it to U.S. Far East policy, the central concern of which was to cope with the altered power structure resulted from the Sino-Soviet alliance. The Cabinet considered "China Differential" as a weapon to split the Sino-Soviet alliance and a symbol to show U.S. firmness in the off-shore defense program around the PRC.

The U.S. Allies: The allies urged the Eisenhower administration to relax multilateral embargo policy toward China. The allies' pressures for relaxation were mainly

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from strong desires of business communities and Parliaments of these countries, and from their different national policies toward the PRC.

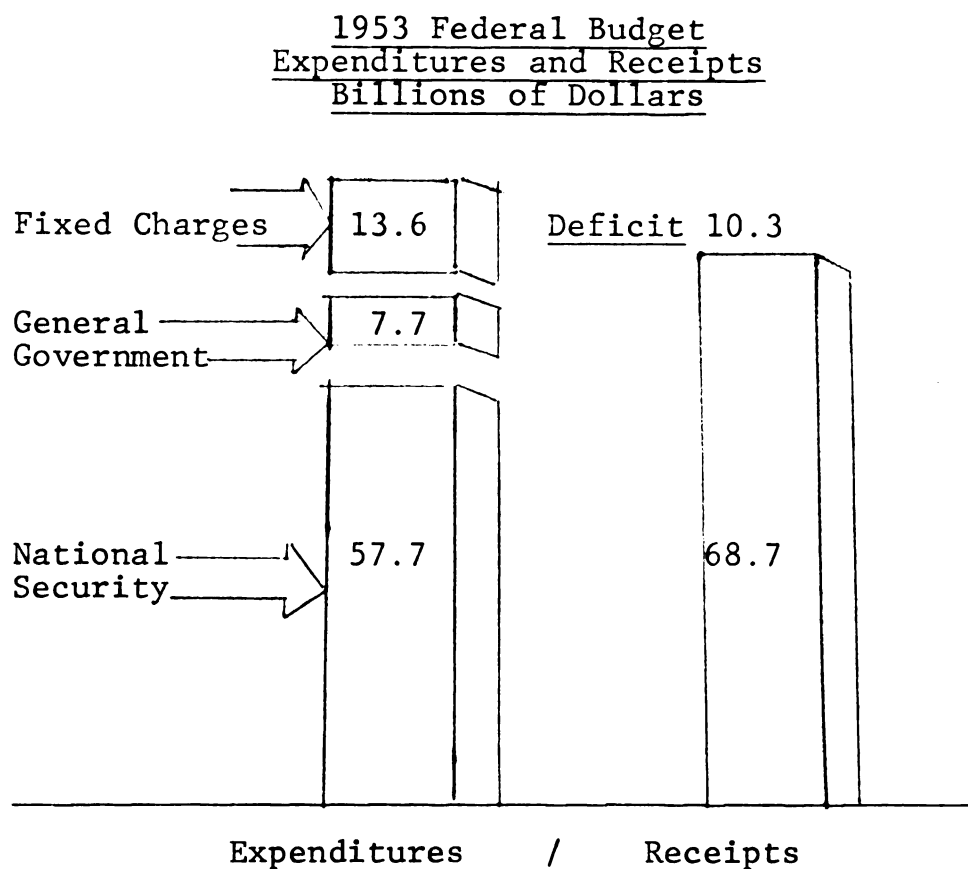
The U.S. Congress: The U.S. Congress asked the Eisenhower administration to stop all trade between West and China, threatening to cut off U.S. aid to the allies who traded with China. The pressures for a complete embargo against the PRC chiefly came from political sentiments of the constituencies, which in turn, was influenced by a hostile public opinion toward the PRC (as direct impact of Korean War) and a lack of strong and unified voice for relaxation among business community.

It is obvious that none of these participants could reach the original goal of their own, but each of them exerted its specific influence on the shaping and reshaping of a new U.S. embargo policy toward China. The final formation of this policy, was in fact a compromise of all the desires from all these different participants.

NOTES CHAPTER I

¹JFD papers, White House Memo Series, Box 8: DDE re U.S. basic foreign policy, 4/30/53.

²Ibid. To show the President's ideas more clearly, see:



It is clear that to get a balanced budget, the most important cut in the expenditures was the part of "National Security", including U.S. defense expenditures and foreign aid programs. It is therefore absolutely necessary to encourage allies' trade expansion in order to cut down U.S. foreign aid program.

³DDE Papers, Dulles Series, Box 1. DDE's letter to Dulles, 6/20/52.

⁴DDE Papers, international series, Box 33. DDE's memo re U.S. security policy, 9/8/53.

⁵DDE Papers, Dulles series, Box 5. DDE's letter to JFD, 8/5/54.

⁶DDE Papers, Diary series, Box 8. DDE diary, 2/5/53.

⁷DDE Papers, Diary series, Box 4, DDE's letter to Walter Judd, 3/6/55.

⁸Robert Donovan, Eisenhower, p. 131.

⁹DDE Papers, Dulles series, Box 8. DDE letter to Dulles, 9/7/54.

¹⁰DDE Papers, White House Memo series, Box 12. DDE's conversation with Randall, 10/2/56.

¹¹Robert Donovan, Eisenhower, p. 89.

¹²DDE Papers, Diary series, Box 9. DDE diary, 1/6/53.

¹³Donovan, p. 133.

¹⁴Ibid., p. 131.

¹⁵Ibid., p. 132.

¹⁶Minutes of Cabinet Meetings, 1/12/53.

¹⁷Ibid.

¹⁸Record of NSC, 11/18/53.

¹⁹Record of NSC, 2/8/54

²⁰State Department Decimal File, Box 2861, RG 59, 611.93/11-2750. Memo re Far East Policy.

²¹State Department Decimal File, Box 1651, RG 59, 56.87/35-1605. Memo by CIA re China Policy.

²²CFEP Records, Policy Papers Series, Box 12, CFEP 501/1. Memo re Economic Defense Policy and Program, 1/21/55.

²³Ibid.

²⁴State Department Decimal File, Box 3728, RG 59. 563.21/7107923. Naval Intelligence Agency Report re China trade controls.

²⁵Ibid.

²⁶State Department Decimal File, Box 1537, RG 59. 793.00/12-1354. Walter Robertson's memo re China policy 12/18/54.

²⁷State Department Decimal File, Box 2056, RG 59. 506.21/11-3756. FE Briefing Paper re Communist China--Policy and Problems 12/21/54.

²⁸Record of NSC, 2/6/54.

²⁹State Department Decimal File, Box 2066, 537.81/78-2068. CIA's memo re China trade control 9/13/54.

³⁰State Department Decimal File, Box 2057, 738.21/64-5914. FE memo re China policy, 2/5/53.

³¹Record of NSC 11/6/53. About CCP's attitude, see Nancy Tucker: Pattern in Dust, Columbia University Press.

³²Record of NSC 2/6/54.

³³Record of NSC 4/8/54.

³⁴State Department Decimal File, Box 3517, 637-28/12-8537. Memo re Far East Policy 12/19/54.

³⁵Record of NSC, 6/5/54.

³⁶JFD Papers, General correspondence and Memo series, Box 5. JFD letter to Starzel re China 9/6/56.

³⁷Record of NSC 4/8/53.

³⁸Dulles Papers, Memo series, Box 1. JFD memo of conversation with DDE re China 6/14/55.

³⁹State Department Decimal File, No. 400.93, Box 2537. Dispatch from American Embassy in Taiwan to State Department re Taiwan situation, 1/30/53. Taiwan's nervousness on U.S. China policy can be seen clearly in another dispatch of American Embassy in Taiwan, in which it was reported that "Among the most disturbing and unacceptable ideas to the leaders" of Taiwan, "is the suggestion that 'Titoism' might appear in Red China" or that, through some soft gesture, "the Communist regimes in Moscow and Peiping might cleave asunder." Therefore, "Secretary Dulles reported statement to the Congress that the unholy alliance between Communist Russia and Communist China could not be tolerated made the high officials in Taiwan greatly disturbed and discouraged," as a high official complained: ". . . I seemed to feel that the CCP regime would be tolerated once it broke with Soviet Russia. . . . An open declaration of this principle, would have grave effects here."

⁴⁰U.S. Joint Chiefs of Staff, Admiral Radford File (1953-57) 091 China (1956). Radford memo for the Secretary of Defense re China trade control 12/12/55.

⁴¹Defense-Executive Office, Central Decimal Files, 1953. G.R. 330, CD.091.31. Secretary of Defense' memo for JCS 5/13/53, re U.S. Far East policy.

⁴²JFD Papers, Memo series, Box 6. JFD memo of conversation with DDE, 2/8/55.

⁴³Cf. Warren I. Cohen, "United States and China Since 1945," quoted in New Frontiers in American-East Asian Relations, p. 151.

⁴⁴Minutes of Cabinet Meeting, 3/11/55 and 10/30/58.

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³State Department, Office of Intelligence Research, No. 6649, 4/15/55. OIR re recent development and future prospects of Japanese trade with Communist China.

⁴Jukogyo Shimbun (Heavy Industries Newspaper) 4/29/53. "New Cabinet must answer demand for trade with Red China."

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⁷Ibid. Ikeda belonged to the Hatoyama bolt in the Liberal Party, whose views on China trade, according to American Embassy, "reflect to a certain extent pressures from industrial interests in his constituency, Yamagata Prefecture."

⁸State Department Foreign Service Dispatch, American Embassy Tokyo, 493.94/3-253 re Minutes of Diet Committee Meeting regarding trade with Communist China 3/2/53.

⁹State Department OIS Report, No. 5231, 8/23/55 re Foreign Minister Shigemitsy visit, policy toward Red China including China trade.

¹⁰Ibid.

¹¹State Department Decimal File, No. 511.69, Box 1061, 611.93/6-954 CS/RA. Memo from CA to FE re Japanese scheme for mediating between the U.S. and China 6/9/54.

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³²Walter Z. Laqueur: Great Britain and the Rise of Chinese Communists, London, 1959, p. 162.

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³⁵House of Commons, Vol. 204, Column 25 (2/6/54).

³⁶Foreign Relations of the United States (FRUS), 1952-54, VII, p. 1039.

³⁷House of Commons, Vol. 180, 2/8/50. Column 72.

³⁸Ibid., Vol. 188, Column 32 (10/8/50).

³⁹Britain and China, p. 62.

⁴⁰Michael Johnson: The Conservative Ideas, London, 1947, p. 82.

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⁴²DDE Papers, International Series, Box 82, DDE-Eden Talks 1/3/56-2/1/56.

⁴³Harold Macmillan: Riding the Storm, pp. 91-120.

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⁴⁵Le Monde 11/5/53. "A Race for China Market."

⁴⁶State Department, Office Memo from CA to FE re UN Report on Non-Communist Trade with Communist China, 2/15/54.

⁴⁷Daily Telegraph 7/24/54. "America Misled About British Trade with China."

⁴⁸Ibid.

⁴⁹The Director 2/54. "The Business Road to Peking."

⁵⁰Ibid.

⁵¹Ibid.

⁵²South China Morning Daily, Hong Kong 11/20/54.

⁵³House of Lords, Hansard, Vol. 210, Column 72, 12/4/54.

⁵⁴South China Morning Daily, Hong Kong 4/6/53.

⁵⁵House of Lords, Hansard, Vol. 198, Column 32, 3/5/53.

⁵⁶The Times, 9/8/53.

⁵⁷House of Lords, Hansard, Vol. 201, Column 32, 9/9/54.

⁵⁸House of Commons, Vol. 200, Column 26-29, 2/54.

⁵⁹House of Lords, Vol. 218, Column 19, 6/3/56.

⁶⁰House of Commons, Vol. 200, Column 24, 3/8/54.

⁶¹CFEP Records (1954-61). Policy Papers Series, Box 12, Randall Report re Randall trip to Europe, 8/9/56.

⁶²Ibid.

⁶³State Department Foreign Service Dispatch, American Embassy, London 6/3/56, re China Differential.

⁶⁴OSD, Defense-Executive Office Central Decimal Files, G.R.330, Box 18 re China Differential, 8/23/55.

⁶⁵JCS, Chairman's File, RG 218, Box 15. Radford re China trade control 2/7/56.

⁶⁶JFD Papers, Correspondence series, Box 27. JFD letter to Radford, Chairman of JCS 4/ 8/56.

⁶⁷JFD Papers, General Correspondence series, Box 29. JFD policy paper re U.S. national security 9/5/55. It should be noted that Secretary Dulles' position on this issue represented in part a compromise of opposing views in his department.

On the one hand, Under-Secretary of State Mr. Bowie was "more sympathetic with CCP" (in Eisenhower's words), advocating to give more concessions to U.S. allies; on the other hand, however, CA and FE were anxious "to overcome the current trend within the administration of appeasing the CCP," and urge to take a tougher posture toward the PRC on China trade control issues.

⁶⁸Ibid.

⁶⁹Ibid.

⁷⁰Commerce Department, Central Decimal File. File No. 257.11, Box 89. Weeks' memo re China trade control 4/5/56.

⁷¹Commerce Department Decimal File. File No. 257.11, Box 28. Letter from the American Brush Manufacturers' Association to Weeks, 2/5/54.

⁷²Ibid.

⁷³Ibid.

⁷⁴White House Office, Office of the Special Assistant for National Security Affairs, NSC Series, Policy Papers Subseries, Box 12, NSC 5429/3, 9/29/54.

⁷⁵Ibid., Box 13, NSC 5429/4, 9/15/55.

⁷⁶JFD Papers, White House Memo Series. JFD memo of conversation with DDE, 12/8/55.

⁷⁷CFEP 54-61. Policy Papers series, Box 9 re U.S. position at DDE-Eden talks, 12/28/55.

⁷⁸DDE Papers, International series, Box 27. Memo re DDE-Eden talks 1/31/56-2/1/56.

⁷⁹The New York Times 2/3/56.

⁸⁰State Department Office Memo, Robertson to Dulles, re China trade controls 5/6/56.

⁸¹CFEP Records. Policy Paper series, Box 19. EDAC proposal re China Differential 12/25/56.

⁸²DDE Papers, Confidential File, Box 63. DDE re China trade controls 1/2/57.

⁸³CFEP records, 54-61. Policy Papers series, Box 8. Memo re modification of China trade control system 2/2/57.

⁸⁴Ibid.

⁸⁵Henry Varg: "U.S. new embargo policy" in London Economist 5/2/57.

⁸⁶JFD Papers, Correspondence series, Box 29. Letter from Lloyd to Dulles 5/15/57.

⁸⁷DDE Papers, Confidential File, Box 63. DDE re China trade control 5/16/57.

318. ⁸⁸Harold Macmillan, Riding the Storm, pp. 317-

⁸⁹Ibid.

⁹⁰DDE Papers, Confidential File, Box 67. DDE letter to Macmillan 5/57.

⁹¹OSD Defense-Executive Office Central Decimal Files, G.R. 335, Box 18. Defense memo re British decision 6/2/57.

⁹²JCS, Admiral Radford 981. China, Box 25. Radford memo re "limited sanction" 6/3/57.

⁹³DDE Papers, Memo series, Box 59. DDE speech re British elimination of China Differential, 6/5/57.

⁹⁴Cf. London, The Times, June 1957, Oct. 1957.

⁹⁵Dulles Papers, White House Memo series, memo of conversation with DDE 3/6/57.

⁹⁶The Los Angeles Times, 7/12/58.

⁹⁷DDE Papers (Ann Whitman File), International Series, Box 36, DDE Ottawa talks with Diefenbaker, 7/2/58.

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¹OSD Defense Executive Office, Central Decimal Files, 1953 G.R. 330, Box 52. McCarthy hearing 5/4/53.

²The New York Times, 3/12/53.

³Congressional Record. Debates of the 81st Congress, Second Session 248825-46092. "Results of Questionnaire Mailed to First Congressional District of Iowa." The occupations listed by those replying were as follows:

Farmer	1,039
Labor	1,149
Business.....	735
Professional.....	487
White Collar.....	733
Miscellaneous	777

In March 1955, Representative Walter Judd sent the President a letter about the result of a poll among his constituents in Minnesota:

"One very level-headed constituent sent me this poll with the following comment: The latest Minnesota poll will give pause to any administration people who are inclined to be fainthearted and overinfluenced by the Edens, . . . who are either blindly short-sighted or have axes of their own to grind."

⁴State Department Decimal File No. 511.67, Box 67. Calvitt Clarke's letter to JFD 12/8/53.

⁵Dulles Papers, White House Memo series, Box 1. Memo of dinner with Sir Winston Churchill 4/12/54. Churchill commented on Knowland's threat that: "This is certainly not a proper basis for a good relationship."

⁶Manchester Guardian 5/6/53.

⁷State Department Decimal File No. 511.67, Box 89, 493.009/2-1754, 2/17/54. Letter, Henry Cabot Lodge, Jr., to Dulles.

⁸Ibid.

⁹Ibid.

¹⁰State Department Decimal File No. 511.67, Box 89, FW 493.009/1-1954. Letter to R.V. Hennes to Smith 2/20/54.

¹¹Ibid., letter, Dulles to Lodge 2/27/54.

¹²State Department Decimal File No. 511.29, Box 31. Dulles-Eden talks 1954.

¹³Records of NSC, 6/3/54.

¹⁴The New York News 2/5/56.

¹⁵The New York Journal-American 2/7/56.

¹⁶State Department Decimal File No. 511.29, Box 87. "National Public Opinion re East-West Trade", February 1956.

¹⁷Congressional Record of 2/23/56, p. 2771. Senator McClellan speech re East-West trade and China trade controls.

¹⁸Ibid.

¹⁹DDE Papers, Legislative series, Box 6. DDE talks with legislative leaders, 4/18/56.

²⁰Ibid.

²¹Congressional Record of 4/5/56, p. 8291. Senator McClellan speech re mutual security program.

²²The New York Herald Tribune 3/5/56. "Easing of Red trade bans called peril to aid plans," by David Lawrence.

²³DDE Papers, Legislative series, Box 31. DDE talks with legislative leaders, 4/2/56.

²⁴Ibid., 2/28/56.

²⁵JFD Papers, White House Memo series, Box 19.
Memo of conversation with DDE 5/27/56.

²⁶CFEP Records, Policy Papers series, Box 10.
Letter, Dodge to Prochnow 2/29/56.

²⁷Ibid.

²⁸JFD Papers, White House Memo series, Box 19.
Memo of conversation with DDE 5/28/56.

²⁹CFEP Records, 53-61, Policy Papers series, Box
8, CFEP 501/11, 7/23/56.

³⁰The New York Times, 7/31/58.

³¹Dulles telephone talks with Knowland 8/2/58.

³²The Congressional Record - Appendix 7/23/58.
Lipscomb speech re China trade controls.

³³Ibid.

³⁴CFEP Records, 1953-61, Policy Papers series,
CFEP 557/1, 8/13/57. Memo re study of all aspects of
policy on U.S. trade with Communist China. Also, Commerce
Department re economic implications of resumption of U.S.-
Communist China trade 10/58.

³⁵Ibid.

³⁶Ibid.

³⁷Ibid.

³⁸CFEP 557/1, Tab B, 8/13/57.

³⁹Ibid.

⁴⁰Ibid.

⁴¹Cf. The New York Times, Aug. 1957-Dec. 1958, also
Townsend Hoppes: The Devil and John Foster Dulles, pp. 403-
404, and Leonard Mosley: Dulles, pp. 219-315.

⁴²DDE Papers, Legislative series, Box 12. DDE talks with legislative leaders 3/5/58.

⁴³Ibid., 6/5/58, Box 14.

⁴⁴Ibid.

⁴⁵DDE Papers, Diary series, Box 49. DDE Diary 7/12/58.

⁴⁶Ibid., DDE Diary 7/14/58.

⁴⁷Ibid.

⁴⁸Ibid., Diary 7/16/58.

⁴⁹State Department Decimal Files No. 511.67, Box 98 re "Reported support in the U.S. for resumption of U.S. trade with Communist China," 1/13/54. 411.9331/1-1354.

⁵⁰State Department Decimal Files No. 511.67, Box 82. Letter, International Longshoremen and Warehousemen's Union to Lodge, Jr., Ambassador to U.N., 9/16/53. 411.93/9-1653.

⁵¹Ibid., Box 49. Letter, American Tung Oil Association to Acheson 6/18/51

⁵²Ibid.

⁵³CFEP Records, 1953-61, Policy Papers series, Box 10 re "Summary of Trade Control Developments," 8/23/56. Also cf. Record of NSC 4/5/54 and CFEP 501/2 re China Trade 2/5/57.

⁵⁴DDE Papers, Diary series, Box 45. DDE Diary 2/18/56.

⁵⁵William J. Keefe: Congress and the American People, p. 57. New Jersey, 1984.

⁵⁶DDE Papers, Confidential File, Box 62. Letter, DDE to David Eisenhower 8/15/58.

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