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From the Berlin Wall to the Great Wall: Payment Transactions and Financing of Business between West Germany and Communist China, 1949 to 1972

Von der Berliner Mauer zur Großen Mauer: Zahlungsverkehr und Finanzierung von Geschäften zwischen der Bundesrepublik Deutschland und der Volksrepublik China 1949 bis 1972

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Abstract: Over two decades from 1949 until the resumption of the diplomatic relations between these two countries in 1972, West German companies never gave up on the Chinese market despite substantial difficulties caused by Cold War frictions. This paper exams the payment transactions and terms of credits for financing industrial projects between the PRC and West German companies.

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1 Introduction

The People’s Republic of China (PRC) was Germany’s biggest trading partner in 2021.\(^1\) Since the end of the Second World War, however, trading relations between these two nations – more specifically, the PRC and the Federal Republic of Germany (West Germany) – have not always been on such good terms. The PRC was of little importance for the West German economy for much of the Cold War.

There are several explanations for why there was so little trade between the PRC and West Germany. For starters, the two countries found themselves on opposing sides of the Iron Curtain. As such, the potential for economic and political relations was limited, in no small part due to the influence of the United States (USA) on West German affairs and, consequently, the country’s trading policies. Moreover, since the late 1950s, the PRC pursued a hostile foreign policy towards the Soviet Union, which compelled Moscow to hinder the development of political and economic relations between the PRC and West Germany. This was because the Soviet Union did not want to encourage any country to be potential strategic partners of the PRC. In fact, until 1972, no official diplomatic relations existed between the two countries. Furthermore, under the Chinese leader Mao Zedong, domestic policies that encouraged instability, such as the \textit{Great Leap Forward} and the Cultural Revolution, made trade between West Germany and the PRC highly unstable.

Compared with the commercial environment nowadays, trade with the PRC during the Cold War was much riskier. But despite these risks, several large West German companies re-established their relations with the Chinese market from 1949, the year in which both states were founded, onwards. The business connections were never entirely cut off. West Germany amounted to the second biggest trading partner of the PRC for several years during the 1960s.\(^2\)

Which specific difficulties and risks did the political environment during the Cold War cause to West German companies trading with the PRC? How did large West German companies consistently conduct trade with the PRC despite these difficulties, especially in the years before the re-establishment of diplomatic relations between the two states? What strategies did they apply to reduce the risks? Have West German companies played an influential role with regard to political relations between the two lands? And why were these companies will-

ing to trade with the PRC, knowing all too well how unstable and risky such business could be?

This paper will answer these questions by examining the payment transactions and terms of credits for financing industrial projects between the PRC and West German companies from 1949 until the resumption of the diplomatic relations between these two countries in 1972. Admittedly, an analysis of the term of payments and credits does not cover the entire picture. But it should provide valuable insights, given that no international trade can take place without payment transactions and financing. The cases used in the paper were chosen according to the structure of Sino-German trade at the time. Chemical products, such as industrial colours and fertilizers, and capital goods like finished steel, formed the bulk of West German exports to China. As such, the case studies chosen are trade deals and investments conducted by Bayer (representing chemical industry) and Krupp (standing for the steel industry). Both companies were titans of West German industry. With these two case studies, then, we may have a stronger insight into the trading structures between these two countries, allowing us to answer the questions outlined. Archival files of Deutsche Bank are also analysed so as to provide a perspective on how the banking sector adapted to international trade across the Iron Curtain.

2 Beginnings

The histories of both states after the Second World War began in 1949. The Second World War significantly damaged the infrastructures of both countries, making it difficult for the resumption of Sino-German trade. West Germany was still occupied by the Allied powers. In this regard, the USA could exert significant influence on West German policy because the state’s reconstruction was dependent on the help of the Marshall Plan. Instead of rebuilding the country, the Chinese Communist Party and the Chinese Nationalist Party began a four-year civil war after the Second World War, which continued to destroy the Chinese economy. Furthermore, the Soviet Union used its privilege in Manchuria to exploit important resources in China. The PRC, then, began its life in a very poor economic condi-

3 Newspaper article: Trade with China is coming, 24.11.1965, Historisches Archiv (HA) Krupp, WA51/5463.
tion. The decision of Mao to embark on the "Leaning to One Side" policy⁶ – that is, an alliance with the Soviet Union – meant that West Germany and PRC stood in opposing ideological camps for much of the early Cold War years. As such, the two states did not have the best political environment to resume and develop their trading relations. Nevertheless, several large West German corporations were not willing to give up their long tradition of trade with China: Some of them had over a hundred years of experience doing business with the country. The PRC, with its large land area and population, was seen as the "market of the future".⁷ Chinese companies, for their part, as well as the PRC government, were also eager to benefit from the business with West German companies, since the West German goods were already renowned for their excellent quality.

Already prior to the Korean War, Bayer for example started to negotiate a contract with a Chinese private trading company in 1949.⁸ Indeed, negotiations started shortly before the PRC officially claimed to be an independent country. At that time, however, the victory of the Communist Party of China was already assured,⁹ and negotiations surrounding the contract extended into October after the official declaration of founding of the PRC.

Since China did not have sufficient foreign currency reserves back then, and the Chinese currency was not convertible with the West German currency, trade had to be conducted in a form of compensation deal that omitted a currency transaction.¹⁰ Bayer sought to trade $550,000 worth of aniline dye for 5,000 tons of soybeans.¹¹ The price of the soybeans was neither higher than the world market price, nor the American export price for that matter. The price of the aniline dye was also representative of the international price.¹² It is assumed that the soy-

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⁸ Correspondence from Farben Fabriken Bayer to Schnabel, Gaumer & Co., 08.08.1949, Unternehmensarchiv Bayer Leverkusen (BAL), 370-018.
¹⁰ Correspondence from Farben Fabriken Bayer to Schnabel, Gaumer & Co., 08.08.1949, BAL, 370-018.
¹¹ Correspondence of Schnabel, Gaumer & Co., Sub.: Gegenseitigkeitsgeschäft, 09.08.1949, BAL, 370-018.
¹² Correspondence from Administration for Food, Agriculture and Forestry to the Bipartite Control Office Food, Agriculture and Forestry Group, 04.08.1949, BAL, 370-018.
beans that were to be traded for the dye were partially for Bayer’s industrial production. The remainder was to be exported to foreign countries through Bayer’s partner trading companies such as Schnabel Gaumer & Co.\textsuperscript{13} Approvals from the Joint Export Import Agency (JEIA) in Düsseldorf and the State Department in Washington were required to sign and carry out the contract.\textsuperscript{14} JEIA was an agency, run by the occupying powers in Germany, which was in charge of controlling German foreign trade.\textsuperscript{15}

The risks in this business lay mainly in the direct goods exchange, since the delivery itself did not ensure the punctual countervailing deliveries. In light of extremely unstable political and economic conditions, the chance of delaying and cancelling the countervailing deliveries was extraordinarily high. Furthermore, there was no trading agreement regulating the courts of arbitration to solve the disputes. A state supported export guarantee was not available for both sides.

Therefore, despite the fact that a monetary transaction was omitted from this deal, banks still had to be involved in the process for the security of the trade. Two Letters of Credit of the same value were to be opened: one by Bayer for the soybeans and the other by the Chinese company for the aniline dye. Each trading partner’s Letter of Credit could only be valid if the countervailing credit was opened as well. The Letters of Credit were to be denominated in American dollars.\textsuperscript{16} Bayer had to assure the Bank deutscher Länder (BdL), West Germany’s first central bank, that this business with China would not use the West German reserves of American currency,\textsuperscript{17} since the country was suffering from the post-war dollar gap.\textsuperscript{18} It was decided that the opening of the Letters of Credit was to be operated and controlled by American banks which means it could only be operated by a New York-based bank,\textsuperscript{19} or the branches of Banque Belge por l’ Etranger

\textsuperscript{13} Transcript of meeting in Hamburg, 16-18.07.1949, BAL, 370-018.
\textsuperscript{14} Correspondence of Schnabel, Gaumer & Co., Sub.: Gegenseitigkeitsgeschäft, 09.08.1949, BAL, 370-018.
\textsuperscript{15} L. Herbst/W. Bührer/H. Sowade, Vom Marshallplan zur EWG: die Eingliederung der Bundesrepublik Deutschland in die westliche Welt, Oldenburg 1990, pp. 91 f.
\textsuperscript{16} Correspondence from Schnabel, Gaumer & Co. to the Bank Deutscher Länder, Sub.: Gegenseitigkeitsgeschäft, 05.08.1949, BAL, 370-018.
\textsuperscript{17} Correspondence from Administration for Food, Agriculture and Forestry to the Bipartite Control Office Food, Agriculture and Forestry Group, 04.08.1949, BAL, 370-018.
\textsuperscript{18} B. Alecke, Deutsche Geldpolitik in der Ära Bretton Woods, Münster 1999, p. 43.
\textsuperscript{19} Correspondence from Schnabel, Gaumer & Co. to the Bank Deutscher Länder, Sub.: Gegenseitigkeitsgeschäft, 05.08.1949, BAL, 370-018.
and Banque de l’Indochina in Tientsin, a coastal trading centre south of Beijing. In the latter two cases, their head offices in New York had to be involved.\(^\text{20}\)

There are two points to be taken from this case study. First, the lack of foreign currencies in the PRC made a monetary transaction impossible. West German foreign currency reserves were not stable. As a result, bartering became the crucial form of business with the PRC at the beginning of the resumption of the trading relations, which caused risks of unpredictable waiting time for the countervailing deliveries. In order to reduce the risks from the barter trade, Letters of Credit were opened to ensure the interests of the both sides. The American government and US banks were heavily involved in the trading process, in that they controlled the contract and execution of the Letters of Credit. The West German government was not able to help Bayer to simplify the trading process, since it was under strict influence of the USA. The case of Bayer is a good example to illustrate the strong US involvement and intervention in Sino-German trade. Such interventions were to become much more pronounced in the years to come.

### 3 The 1950s: Under the Shadow of the US-Embargo against the PRC

The year 1950 saw deterioration in Sino-German trade. After China entered the Korean War, the US strengthened the trading embargo against the PRC,\(^\text{21}\) which caused more difficulties for Sino-German trade. As a recipient of the Marshall Plan, West Germany had to follow the US-embargo in a strict manner, since it was a key clause of the Marshall Plan.\(^\text{22}\) The embargo did not only affect the trading volume between the PRC and the West Germany by means of severely controlling the goods traffic and freezing the Chinese assets and accounts in the USA, a move which caused China to have even less foreign currency for trade, it also restricted payment transactions. All dollar transactions related to business with the PRC were blocked. Except for the cases authorized by the US Treasury Department, all direct or indirect USD transactions with any native or legal person

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20 Correspondence from Schnabel, Gaumer & Co. to the Bank Deutscher Länder, Sub.: Gegenseitigkeitsgeschäft, 05.08.1949, BAL, 370-018.


of the PRC were forbidden. The embargo also prohibited USD transitions of “any person involve[d with] any property in Communist China”. This was a tremendous obstacle. In response, the PRC restricted the trading form of almost all of the goods traffic with Western Europe to barter deal so as to avoid further possible losses with foreign currencies. Nevertheless, however, trade continued – albeit on a much smaller scale. Unfortunately, there are no official statistics concerning the trade volume recorded for the year 1950, but according to Zhang several companies shipped their goods to the PRC despite the US embargo. As shown in table 1 in the appendix, the trading volume between the PRC and West Germany in the year 1951 was quite low: the German export volume was only 16.9 Mio. DM. Yet there was still a flow of goods between the two countries.

Since the PRC had just started its first five-year economic plan during this period, the demand for high technologies and capital goods was enormous. And though the PRC had the support from the Soviet Union, such help was in no way sufficient. This would become an important reason for the disintegration of Sino-Soviet relations in the late 1950s. In order to develop its domestic industry, trading with the western hemisphere was necessary for the PRC. West German industry, with its expertise in capital goods, became understandably a very attractive trading partner for the PRC. The interest of the big West German companies to benefit from the Chinese market, then, also became the interest of German federal government. In 1953, the year of the second parliamentary elections, a quasi-governmental negotiation between Ostausschuss der deutschen Wirtschaft and China Council for the Promotion of International Trade (CCPIT) about a trading agreement began.

In 1952, one year before the negotiation started, actions had already been taken on the companies' level. Several West German trading companies and manufacturers met a delegation from the Chinese stated-owned trading company,
the China National Import and Export Corporation (CNIEC), having been granted the approval of the Federal Ministry of Economics, in the Hotel Johanneshof in East Berlin. The purpose of the meeting was to discuss trading possibilities between the two countries in the future. According to the instructions from the Federal Ministry of Economics, every West German company that participated in the meeting would be allowed to gain business with the value of at least five million DM. The list of goods that could be imported was given to the West German delegation by the German federal government, and the export good list that had been submitted to the federal government by the West German companies was also approved. Details about how to execute the barter were discussed during the meeting.\textsuperscript{29}

No currency transaction was to be involved. The deliveries were to be paid by countervailing deliveries. As in 1949, in order to avoid risks such as the delay of deliveries, Letters of Credit as guarantees were demanded by both sides. The currency that acted as the clearing unit was the Swiss Franc, since transactions in American dollars were not possible due to the US embargo, and other currencies were not convertible or stable enough for both the PRC and West Germany. A clearing account had to be opened. It did not matter if the Letters of Credit were opened at the same bank or two different banks. The value of the deliveries from both sides was to be booked on the clearing account. The outstanding balance after the termination of the contracts, or indeed the deadlines of the delivery schedules, had to be compensated in Swiss Franc.\textsuperscript{30}

Another issue being discussed at the meeting was the question of which bank (or indeed banks) should execute this agreement between the PRC and the West German companies. The PRC had wished to run the business through \textit{Banque Commerciale pour l’Europe du Nord}, a Paris-based bank that facilitated payments across communist countries. But the West German delegation found it too risky to cooperate with a politically partisan bank. As such, the West German side rejected the suggestion from the Chinese delegation. The idea of co-operating with a French bank in general was not welcomed by the West German delegation, moreover, because the trade information and details between West Germany and the PRC would have been completely exposed to France.\textsuperscript{31} The suggestion of executing the deal through a British bank was also rejected by West Germany on the grounds that Great Britain was also not politically neutral, and that the British

\textsuperscript{29} Abstract of the exposé about the questions about the financial transaction of barter trade with the PRC by Heinz Beutler, 1952, BAL, 335/1.
\textsuperscript{30} Ibid.
\textsuperscript{31} Ibid.
Sterling was not stable enough after the Sterling disaster in 1947. The ideal solution for West Germany was to execute the trade deal through large Swiss banks. The problem was, however, that the big Swiss banks might not be willing to be directly involved in the projects with the PRC during the Korean War. The concern of the Swiss banks was that such an action might ruin their business relations with the USA due to political reasons.

An alternative option was to implement the trade deal with a swing guarantee, which is a kind of short-term guarantee bounded to the project, from both countries. In this scenario, the West German companies were to first open a Letter of Credit through a West German trading bank in favour of the CNIEC at a Swiss bank. The BdL would claim a swing guarantee to cover 50 percent of the trading value. The CNIEC was also to open its Letter of Credit through a third bank, such as Banque Commerciale pour l’Europe du Nord, at a Swiss bank. Like the BdL, the Bank of China was to provide a swing guarantee to cover the same value. In that case, the Swiss banks would be not involved in the business directly, but with other banks. An additional clause was to be included in the Letters of Credit. A payoff could only happen if the arranged countervailing deliveries had not arrived three months after the deadline. But the payoff was to be in the form of a credit note, not as cash.

After the Korean War had ended, the prohibition of the USD transactions with the PRC was cancelled. The embargo list was relaxed – albeit slightly. As a result, conditions for Sino-German trade improved. Sino-Soviet tensions began to appear at the same time, however. So the PRC needed alternative trading and economic partners rather than the Soviet Union, and West Germany was one of the most attractive candidates. Compared to the year 1952, trading volume between the PRC and West Germany doubled in 1953. But the situation for Sino-German trade remained quite difficult because of the continued US-embargo

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32 Correspondence of Gerhold from Industrie- und Handelskammer zu Solingen to Farben Fabriken Bayer A.G., 07.11.1952, BAL, 335/1.
33 Alecke, Deutsche Geldpolitik, p. 43.
34 Abstract of the exposé about the questions about the financial transaction of barter trade with the PRC by Heinz Beutler, 1952, BAL, 335/1.
35 Ibid.
36 Report about the development of the German-Chinese economic relations of the Federal Ministry of Economics, 03.11.1976, Bundesarchiv B102/240579.
38 Statistische Jahrbücher für die Bundesrepublik Deutschland 1950-1976.
and poor Chinese foreign currency reserves. As such, the form of trading and the terms of payment transactions were persistently complex.

The pursuit of exporting steel products to the PRC in the 1950s was especially difficult for West German companies. This was because the products might be used for the military purposes. However, the PRC was particularly interested in importing steel goods, since its own production was not enough for covering the demand for continued industrial development. A new restriction in the US trading embargo arrived in 1954.39 But West German steel industry kept trading with the PRC, since the profit from such business was very tempting.

For example, Krupp, one of the most important companies in the West German steel industry, negotiated a project worth $5 million with the PRC in 1955. In order to cover its footprints from the USA, the trade had to be pursued as a transit business through Hungary. The approval of the federal government for the export was required. Hungary was the go-between between the two countries, allowing them to exchange their import and export good lists. Hungary also covered the risks for the transport. Hungry was chosen for the business because of two reasons: From the Chinese perspective, the PRC and Hungary had negotiated a trading agreement with each other in the same year. During the negotiation a consensus has been reached, that the PRC would run most of its transit business with Western Europe through Hungary.40 For Krupp, running trade through Hungary meant reducing business risk, because West Germany and Hungary had signed a trading agreement. This meant that the transition between West Germany and Hungary could be regulated. According to the trade agreement, for example, the court of arbitration would be in London instead of in Beijing, as was normally the requirement of the PRC. Hungary was allowed to include a certain amount of Hungarian goods in the deliveries to the PRC and West Germany, so that Hungary could profit from the trade deal too. The delivery plans were to be negotiated directly between Krupp and the PRC. The payment transaction for Krupp would be conducted through a West German-Hungarian transit special account, according to the trade agreement between West Germany and Hungary.41 The transit business through Hungary though would raise the costs for Krupp, but it reduced the risks of being caught by the USA. The German-Hungarian trading agreement would also reduce the further business risks.

39 Report about the development of the German-Chinese economic relations of the Federal Ministry of Economics, 03.11.1976, Bundesarchiv B102/240579.
41 Ibid.
By the mid-1950s, West German companies that were selling non-politically sensitive goods had started to get paid by cash in British Sterling or Swiss Franc.\(^\text{42}\) This was because the PRC had enlarged its foreign currency reserves by exporting to Hong Kong, Japan and other developing countries. For these businesses, the PRC always opened a Letter of Guarantee instead of Letter of Credit as the assurance for her deliveries.\(^\text{43}\) These terms did not change until the end of the decade.\(^\text{44}\) Compared to the Letter of Credit, a Letter of Guarantee is less bounded. The PRC sought to be cautious as possible when trading with American allies after its experiences in the early 1950s.\(^\text{45}\)

It was almost impossible to trade with the PRC under the shadow of the Korean War and the US embargo in both goods traffic and payment transactions. But as illustrated by Zhang and the statistics of the trading volume in table 1 in the appendix, Sino-German trade persisted. Since 1952, trade between these two countries had continued to grow. Both the PRC and West German companies showed strong interest in trading with each other, which pushed the West German government taking actions to support the trading relations between the PRC and FRG. Besides the unofficial meeting in Hotel Johanneshof, under the pressure of the West German industry, the German federal government also started negotiating an official trade agreement with the PRC in this period.\(^\text{46}\) Though an official trading agreement could not be reached because of the \textit{Hallstein Doctrine}\(^\text{47}\), which hindered all kinds of official German China-policies, an unofficial trading agreement was signed between the \textit{Ostausschuss} and CCPIT in 1957, the year of the parliamentary election. After signing the agreement, the trading volume tripled in 1958. Though this might not be the only reason, the agreement did bring a big improvement of the trading volumes between the PRC and West Germany.

As illustrated in the cases above, the trading process was complicated. Payment transactions were quite restricted because of the US embargo in the early 1950s. Due to the US embargo and lack of foreign currencies, the PRC felt compelled to restrict its international trading structures to just barter deals. Also, as

\(^{42}\) Memorandum of Kühn, Sub.: China business, 23.05.1956, HA Krupp, WA51/5461.
\(^{43}\) Newsletter Nr.14/55 of Ostaisatischer Verein about the PRC, 07.03.1955, BAL, 370-017.
\(^{44}\) Memorandum of Kühn, Sub.: China business, 23.05.1956, HA Krupp, WA51/5461.
\(^{45}\) Newsletter Nr.14/55 of Ostaisatischer Verein about the PRC, 07.03.1955, BAL, 370-017.
shown by the case of Krupp, bartering combined with transit business was a form of trade between the PRC and West Germany, especially for militarily sensitive goods. Under the pressure of the German industry, the quasi-official institute Ostausschuss signed the first unofficial trading agreement with the PRC. These business achievements of West German companies with the PRC in the early and mid-1950s were only a step to a bigger profit in the 1960s.

4 The 1960s: The Business of Industrial Plants

The Chinese industrial economic experiment of the Great Leap Forward brought German-Sino trading volume to a high peak from 1958 to 1960, since the PRC imported many capital goods for its industrial plan. But trade relations between the two countries suffered because of the famine caused by this disastrous economic experiment. Trading volume in 1961 was almost half that of the year before. The PRC readjusted its policy, and it took three years before the country’s economy began to recover. During this period, China was not able to import many industrial goods, which were the main products that the FRG exported to the PRC. The reason was that most of the foreign reserves were spent buying grain to alleviate the effects of the famine. But German-Sino trading volume began to rise directly after the Chinese economy started to grow again. The PRC started to negotiate with some West German companies to import industrial constructions for China’s new industrial plan, the Third Front strategy, which was embarked upon to build a new industrial base in the hinterland.

49 Statistische Jahrbücher für die Bundesrepublik Deutschland 1950-1976.
Krupp could not miss this chance. In 1964, the steel firm started negotiations concerning two steel plants to be established in the PRC.\(^5^2\) Both sides could not agree on the terms of payment transaction and the financing of the project. In order to export expensive industrial plants, long-term credits and the support of the German federal government were necessary for Krupp. The terms of payment transaction required by the PRC was the following: 10 percent for the down payment, 15 percent against documents, 10 percent after acceptance, 10 percent after expiration of the guarantee, and the rest would be paid in the next five years at 5.5 percent interest.\(^5^3\) This meant the PRC demanded a supplier’s credit. In that case, the PRC would not be in direct debt to a foreign bank. However, Krupp was prepared to grant a supplier credit. But the federal government prohibited the granting of credit for this project.\(^5^4\)

While it remains unclear, the reason for the West German government’s refusal may be attributed to the political tensions between the Western and Eastern Blocs caused by the Vietnam War. In the same year, the attempt at signing an official trading agreement between the two countries, which was strongly demanded by West German industry, also failed because of the US intervention.\(^5^5\) Even if the credit had been granted by the West German government, the risk for Krupp was too high. This was because the FRG did not allow the export guarantee for the PRC in 1964.\(^5^6\) This export Hermes Guarantee was issued to encourage West German exports after the Second World War. If foreign purchasers were not able to pay for West German productions and deliveries, part of the loss would be covered by the German federal government.\(^5^7\) Therefore Krupp could not agree to the supplier’s loan. The term of payment wished by Krupp was 10 percent for the down payment, 70 percent against documents, 10 percent after acceptance and 10 percent after expiration of the guarantee. These terms were not accepted by the PRC. The reason claimed by the PRC was not that the China could not afford to pay in cash. The supplier’s credit was, according to the claim of the Chi-

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\(^{52}\) Abstract from East-West Trade News by Comtel Reuter, 20.08.1965, HA Krupp, WA51/5465.

\(^{53}\) Memorandum about the negotiation about the LD-steelplant, 14.12.1964, HA Krupp, WA51/5465.

\(^{54}\) Memorandum, Sub.: The PR: Conversation with Mr. Legationsrat Tafel from the German foreign office, 14.02.1964, HA Krupp, WA51/5463.


\(^{56}\) Summary of business meeting, 27.11.1964, HA Krupp, WA51/5465.

nese negotiation delegation, quite common in international trade. As an example, the PRC mentioned its business with Japanese partners, who offered a supplier's credit for five years at 6 percent interest. As a result, the PRC saw the West German rejection to a supplier's loan as political discrimination. The PRC wanted the German federal government to officially approve the project. But it was refused. Krupp hence lost the contract to an Austrian competitor.

One year later the political environment became more, if only slightly, relaxed, so the FRG improved conditions for trade with the PRC as well. Another reason for the improvement of trading condition was also the pressure of the German industry. The Hermes Guarantee was granted to the PRC in 1965, which again was a year of Bundestag election, as a result. The new request of a supplier's loan by Krupp for exporting another steel plant to the PRC was also granted. Under these profitable circumstances, the machinery and plant manufacturer DEMAG gained the contract to export a complete rolling plant to the PRC. The project was worth over 730 million DM. The Hermes Guarantee was granted to cover the eventual risks for 300 million DM. A five-year supplier's loan was also granted. This rolling plant project was, back then at least, the most valuable exchange of business between the FRG and the PRC since the Second World War.

For the projects, for which a loan was not necessary, such as the case of the steel company Rheinstahl exporting a steel-degassing installation to the PRC with the value of 1,252,000 million DM, the federal ministry for economic affairs approved the following term of payment transaction:

“The buyers shall, in 30 days after signing the contract, open an irrevocable Letter of Credit with the Bank of China, Peking in favor of the sellers, for an amount equivalent to the total value of the shipment. The credit shall be payable against the presentation of draft

58 Memorandum about the negotiation about the LD-steel plant, 14.12.1964, HA Krupp, WA51/5465.
59 Memorandum of the negotiation about the LD-steel plants, 01.06.1965, HA Krupp, WA51/5465.
60 Summary of the business meeting, 27.11.1964, HA Krupp, WA51/5465.
61 Memorandum, 07.01.1965, HA Krupp, WA51/5465.
62 Neßhöver, Die Chinapolitik, pp. 38 f.
63 Correspondence from Dr. Lück of Krupp office in Bonn to Fried. Krupp Industriebau, 03.09.1965, HA Krupp, WA51/5463.
64 Telefax, 03.05.1966, HA Krupp, WA51/5464.
66 Stahnke, The politicial Context, pp. 147 f.
67 Contract between Machimpex and Rheinstahl, 21.06.1965, ThyssenKrupp Konzernarchiv (TKA), RSW/6331.
These terms of payment were one of the most common international terms of payment in the 1960s.

The economic disaster caused by the “Great Leap Forward” pulled the trading relations between the PRC and West Germany back for several years. The German companies could not change the situation. But after the economy started to grow again in the years following the Great Leap Forward, the PRC faced sizeable demand for its new industrial policy in the 1960s. The PRC started to import expensive industrial plants from Western Europe, benefitting from a greater set of foreign currency reserves. This included West German companies. In order to finance these projects, credits were normally needed. The terms for the loan were restricted by the foreign policy of the PRC and the intervention of the USA. Without the support of the German federal government, German companies were not able to improve trade with the PRC due to the Chinese demand and the high risks caused by the complicated international political environment. Conditions for the West German exporters had become better in the mid-1960s, because the German federal government had relaxed some of the restrictions. With the Hermes Guarantee, projects for industrial plants with great value could be conducted, given that West German companies could reduce the risks through the guarantee. After the experiences of the US-embargo and irrational Chinese economic plans, the Hermes Guarantee was a necessary institution to secure the business with the PRC. As shown in table 1 in the appendix, the trading volume between these two countries kept rising from 1964 and eightfold in 1967 compared to 1964. But it did not last long.

5 The 1970s: Regulations after the Setback

The Cultural Revolution had surprisingly little influence on the Sino-German trade relations. This was because the Cultural Revolution was a political upheaval that had little bearing on actual trade policy. The trading volume between the two countries continued to grow in 1966 and 1967, years in which the

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68 Ibid.
69 Statistische Jahrbücher für die Bundesrepublik Deutschland 1950-1976.
PRC was in an almost anarchic condition.\textsuperscript{71} The damage of the chaos and the influence of the autarchy policy, which was emphasized in the Cultural Revolution, started to become evident in 1968 after the Chinese People’s Liberation Army took power from the Red Guards,\textsuperscript{72} who had mainly caused the anarchist situation in the PRC in the Cultural Revolution.\textsuperscript{73} Trade volume between the FRG and the PRC started to fall.\textsuperscript{74} Since the beginning of so-called Ostpolitik in 1969, Sino-German relations fell to a new low point. The Ostpolitik was a policy carried out by the government of Willy Brandt for the political rapprochement of the FRG to the Eastern Bloc, especially to the Soviet Union.\textsuperscript{75}

In the same year, the Sino-Soviet conflict escalated into military confrontation because of a territory issue of an island in the river Ussuri, which is the border of the two countries.\textsuperscript{76} The political approaches of the two countries with regard to the Soviet Union clashed, and put the relations between the FRG and the PRC in a difficult situation. Furthermore, the FRG still refused to establish diplomatic relations with the PRC, though several Western European countries such as France, Great Britain and Netherland had already recognised the Chinese state.\textsuperscript{77} As such, trade relations between the two countries became quite strained. Trading volume fell consistently after 1968.\textsuperscript{78} The political issues between the FRG and the PRC were often mentioned during business negotiations between the PRC and West German companies in 1970 and 1971.\textsuperscript{79} The PRC also refused to make its economic plans public to West Germany. At the same time, other Western European countries entered the Chinese market on a large scale, as since the rapprochement between the USA and the PRC, the US had ended its trade sanc-

\begin{itemize}
\item \textsuperscript{71} Statistische Jahrbücher für die Bundesrepublik Deutschland 1950-1976.
\item \textsuperscript{72} The Red Guards were mobilised by Mao’s “big-character poster” and Maoist-left extremist (Liu/Wu, Chinas sozialistische Wirtschaft, p. 357). They were primarily young people from five “pure” classes: the soldiers, the workers, the peasants, the Maoist party member and the so-called revolutionary martyrs (J.T. Dreyer, China’s Political System. Modernization and Tradition, Boston 2008, p. 98).
\item \textsuperscript{73} Liu/Wu, Chinas sozialistische Wirtschaft, p. 360.
\item \textsuperscript{74} Statistische Jahrbücher für die Bundesrepublik Deutschland 1950-1976.
\item \textsuperscript{77} Report about the policies and economy in the PRC, 06.08.1971, HA Krupp, WA 51/5469.
\item \textsuperscript{78} Statistische Jahrbücher für die Bundesrepublik Deutschland 1950-1976.
\item \textsuperscript{79} Report from Hongkong to the Federal Foreign Office, 07.05.1971, Bundesarchiv, B102/100082.
\end{itemize}
tions and embargo against China.\textsuperscript{80} West German companies were about to lose their battle for the Chinese market to their competitors. In addition to the political problem, the Chinese trade deficit was another reason that complicated Sino-German trade relations.\textsuperscript{81} This was partially caused by the lack of regulation pertaining to credits and terms of payment transactions. Sino-German trade needed the establishment of the diplomatic relations to be regulated.

Partially because of the demand of West German industry, the communiqué claiming the establishment of diplomatic relations between the FRG and the PRC was signed by the West German foreign minister, Walter Scheel, in Beijing in 1972.\textsuperscript{82} It brought Sino-German trade into a new era: the political barriers were eliminated. The PRC could again treat the FRG economically as equally as the other western countries. More important is that several regulations had been finally set. These regulations did not only allow the trading process between the two countries more efficiently, but also reduced the risks by trading with the PRC tremendously, which triggered more interest of the West German companies to trade with the PRC. As a result, as the statistics in table 1 in the appendix show, in 1974, for the first time since the Second World War, the trading volume between the PRC and the FRG was over a thousand million DM, and it kept growing in the years that followed.

The payment transaction and terms of exchange between DM and RMB were important parts among these regulations. First of all, the forward exchange deal was again legalised, having been banned for the West German companies by the PRC since May 1971.\textsuperscript{83} Between that month and 1973, West German companies could only exchange RMB with Swiss Franc and the British Sterling. Exchange between RMB and DM was not allowed,\textsuperscript{84} which raised the risks of the loss caused by exchange, since they had to exchange the currencies at least twice, not directly. Since 1973, West German companies were allowed again to purchase RMB before the trading contracts were paid. The forward exchange deal was extremely important for the trading companies, as it allowed them to reduce the risks caused by exchange rate fluctuations. The forward exchange deal was only allowed when it was linked to a trading contract. In 1970 the West German companies could only make the deal a maximum six months before the payment.

\begin{itemize}
\item \textsuperscript{80} Dreyer, China’s Political System, p. 318.
\item \textsuperscript{81} Correspondence from Dr. Thiemeim to the head of department V. in Federal Ministry for Economic Affairs. Sub.: Goods traffic with the PRC, 22.04.1971, Bundesarchiv, B102/100082.
\item \textsuperscript{82} Runge, Schritt in die Weltpolitik, p. 57; Trampedach, Bonn und Peking, p. 131.
\item \textsuperscript{83} Correspondence from Hufnagel to Dr. E. W. Mommsen, 20.11.1972, Bundesarchiv, B102/100083.
\item \textsuperscript{84} Memorandum, Sub.: Development of the trade relation with the PRC, 03.08.1971, Bundesarchiv, B102/100082.
\end{itemize}
Since 1973, the terms of the forward exchange deal did not change, but the fee for the deal at the Bank of China sank in April 1973 compared to before.85

The forward exchange deal, though, could reduce the risks related to the exchange rate for West German companies. But the terms were still very restrictive. For the sustainable development of the trading relations, cash payment transactions had to be regulated. As such, the regulation of the payment transaction was a clause of the first official trading agreement between the FRG and the PRC. The PRC wanted to have the clause the same as in its recent agreement with Italy. In the Sino-Italian trading agreement, the exchange rate for the payment transactions in RMB or Lire had to be agreed by the PRC and Italy only. No third currency was to be involved. The FRG insisted on the currency regulation with also the calculation through a third currency, so that the PRC could not change the exchange rate against DM freely, since the exchange rate between RMB and the third currency was also involved. In that case, even if the PRC suddenly changed its friendly economic policies towards the FRG, it could not change the exchange rates if it wanted to harm the benefits of the West German companies. Finally, in the trading agreement the requirement of the FRG was considered: A third convertible currency was to be engaged in the regulation of exchange rate for the payment transactions between DM and RMB.86

The regulation of payment transactions benefited mainly those trading companies that dealt with the PRC on a cash-basis. For the big industrial corporations, especially for the ones that exported industrial plants to the PRC, not only the payment transaction but also the terms for the credits had to be regulated. After the establishment of diplomatic relations, the condition of giving loans for trade with PRC was liberalized by the German federal government: West German banks were allowed to give mid- to long-term loans to the PRC, and the terms for supplier’s credit under the new phrase deferred payment was officially regulated. Since the principle of autarchy was emphasised in the propaganda of the Cultural Revolution, the terms credit and loan were not accepted by the PRC.87 As such, the phrase deferred payment was introduced. There were two kinds of deferred payment to finance the West German exports: one was to finance the West German exporter; and the other was to finance the foreign buyer.

The reasons that the PRC refused to take any kind of direct national credit from foreign financial institutes were not only the conflict with its ideological

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85 Ibid.
86 Correspondence from Hufnagel to Dr. E. W. Mommsen, 20.11.1972, Bundesarchiv, B102/100083.
propaganda, but also the difficult experience with the Soviet Union demanding all of the loans back with a short notice at the end of the 1950s. Two special financial institutes were to operate the deferred payment: the Ausfuhrkredit-Gesellschaft GmbH (AKA) and the Kreditanstalt für Wiederaufbau (KfW). The AKA was built by a syndicate of more than fifty West German banks under the leadership of Deutsche Bank AG; the KfW was a corporation established under public law to support the West German exports. The KfW only took important projects, for example the infrastructure programmes such as water reservoirs, power stations and so on. Both institutions demanded the Hermes Guarantee as the precondition to reduce the risks of operating the deferred payment.88 With the deferred payment, over ten big projects of industrial plants were financed in the 1970s.89 The security of both the financial institutes and West German companies was secured by the Hermes Guarantee.

Sino-German trade fell from the end of the 1960s to the beginning of the 1970s, due to the change of West German foreign policies and the Sino-Soviet relations, but this did not discourage West German companies with regard to their ambitions for the Chinese market – after the darkest hour comes the dawn. Along with the establishment of diplomatic relations between the PRC and the FRG, trade relations between the two countries finally became regulated, and so too were the terms of payment transactions and credit as well. Since the conditions for Sino-German trade improved and the risks of trading with the PRC sank markedly, trading volume between the two countries doubled in the two years after 1972 and kept growing for several years after. The year 1972 was an essential milestone for the development of Sino-German trade.

6 Conclusion

Over two decades, West German companies never gave up on the Chinese market despite substantial difficulties caused by Cold War frictions. Already from 1949 onwards, trade relations between the two countries had been resumed at the company level. Given the difficulties surrounding payment transactions, it was not easy to trade with the PRC until 1973, when economic relations began to be regulated. From 1949 until the mid-1950s, trade between the two countries was

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88 Memorandum, Sub.: Financing of German Exports on Deferred Payment Basis, 03.01.1973, Historisches Archiv der Deutschen Bank (HADB), V30/156.
89 Memorandum of the meeting with Rohwedder about the visit of the BDI delegation to the PRC by Dr. Hans Dichgans, 10.05.1976, TKA, A/30287.
almost restricted to bartering. In order to reduce the risks of cancelation or delay of the countervailing deliveries, Letters of Credit were opened at banks, though no cash transaction was to be involved. Some trade had to be conducted in the form of transit business through a third country, to avoid the risks of being found by the USA. By conducting trade through a third country, the risks caused by the lack of official regulation of the trading relations between the two countries could be reduced too. Since the mid-1950s, cash-based payment transactions were slowly used more and more often in Sino-German business, but in British Sterling or Swiss Franc to reduce the risks, because the exchange rate between DM and RMB was not regulated. In the 1960s, the PRC started to import expensive industrial plants from the FRG. However, new problems appeared in the early 1960s with the financing of projects, because the supplier’s loan and the Hermes Guarantee were banned when it came to conducting business with the PRC. Without the Hermes Guarantee, the risks for a West German company to trade with the PRC were too high. Once the German federal government relaxed trading conditions, as well as the terms of the credit, with the PRC, the trading volume quickly grew from the mid-1960s. However, this positive development lasted only two years. After a three-year setback, the establishment of diplomatic relations between the PRC and the FRG brought a renaissance to trading volumes between the two countries. This can be primarily attributed to a series of trading regulations: The payment transactions, the exchange rate between DM and RMB, the terms for the credits, as well as the so-called deferred payment were officially brought above the board and regulated from there on. The early- to mid-1970s were years in which the first sizeable degree of progress in Sino-German trade occurred.

From the case studies in this paper, we can see that West German companies could always find a way to do business with the PRC: When currency transaction was not possible, they were willing to exchange goods directly; When the political pressure was too high, they would also transport the goods through a third country despite the high costs; When the PRC was not willing to be in debt to any financial institutions, West German companies could take credit to finance the projects instead. They also had their ways of reducing the risks in dealing with the PRC: opening Letters of Credit at banks by barter deals; regulating transit business by a trading agreement with a third country; pushing the German federal government to grant the Hermes Guarantee. The German export-oriented industry was not able to strongly influence the governmental decision-making against the PRC, since the Sino-German trading volume was not big enough for the West German government to risk their foreign policies and the strategies for the German reunification for it. However, it was not a coincidence
that the German federal government adjusted their trading policies towards the PRC almost every time before the German federal election.

West German entrepreneurs were right: the success of such trade after 1972 proved the view that the PRC was indeed the "market of the future". It was the right decision to rebuild the trading tradition. Without their efforts during the difficult years after the Second World War until 1972, West German companies would not have been able to compete with the other West European companies, which had been active in the Chinese market since 1950. Krupp would go on to finally win a contract for industrial plant in 1975.\footnote{Report of StA Foreign Sales about the PRC, 19.11.1976, HA Krupp WA51/5497.} Seen in the long-term perspective, the quick increase of trade between the PRC and West Germany after 1978 was also partially due to the good business connections in the decades before.

Trading with the PRC nowadays seems much more smooth than during the Cold War. With reliable economic regulations and the strategic partnership between China and Germany, for German companies trading with the PRC has become indeed easier. But China is facing an economic transition. The country's model of export-led economic development has slowly reached its limit in light of sagging world demand. Chinese real GDP growth has sunk in the last few years.\footnote{The World Bank, Economy and region specific forecasts and data. URL: http://www.worldbank.org/en/publication/global-economic-prospects/data?region=EAP, 14.09.2015.} This economic transition may well affect its foreign policies. Professor Heilmann, director of Mercator Institute for China Studies in Berlin, expressed his opinion about the future development in China: China is building a new personality cult with regard to Xi Jinping, just as it did during Mao's era, and may well put an end to its cautious foreign policies.\footnote{S. Heilmann, Schubumkehr in China. Die Volksrepublik hat ihre Öffnungspolitik beendet. Das Land verhärtet sich ideologisch und setzt auf strenge Regulierung, in: Süddeutsche Zeitung Nr. 51, 2015, p. 2.} The transition, or indeed evolution, of the Chinese market means new chances, but also new risks for German companies. Heilmann has warned German companies of the possible difficulties when it comes to trading with China in the near future.\footnote{Ibid.} The questions are: Are there any possibilities that the same old obstacles – such as changing international political environments and Chinese economic policies – could bring the same old risks to trading with China as during the Cold War? If the answer is yes, which experiences could German companies use from the past as a framework in which to react to the present challenges? The findings outlined in this article hope to provide at least some clues to these pressing questions.
7 Appendix


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Ressource: Statistische Jahrbücher für die Bundesrepublik Deutschland 1950-1980.

Bionote

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