

# *Principled Pragmatism: The Eastern Committee of German Economy and West German–Chinese relations during the early Cold War, 1949–1958*

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## Abstract

This article focuses on the interplay between the political authorities and economic actors in the Federal Republic of Germany in the process of establishing relations with the People's Republic of China after 1949. Within this framework, the article will assess the role played by the Ost-Ausschuss der Deutschen Wirtschaft (Eastern Committee of German Economy), a semi-official organization recognized by the West German government. Both the ability of German economic actors and China's urgent need for economic contact with the West caused German–Chinese trade relations to circumvent the strict non-recognition policy followed by the West German government. The article also argues that, while economic relations heralded official recognition of the People's Republic of China by other Western European countries, in the case of the Federal Republic of Germany a division between the two spheres was finally accepted by the major actors involved, and ended only after the change of attitude imparted by the Nixon presidency in the United States during the early 1970s.

## Introduction

This article deals with relations between the Federal Republic of Germany and the People's Republic of China between 1949 and the end of the 1950s. It is commonly acknowledged that the epoch was characterized by Bonn's outright refusal to grant official recognition to the Communist regime of mainland China, despite repeated efforts by the Beijing leadership to enhance its international status. The evidence is consistent with the master narrative which depicts the

Federal Republic of Germany's approach to the early decades of East-West confrontation as hard-line and unimaginative. Furthermore, whenever Bonn's governmental authorities were either forced or chose deliberately to try new and constructive forms of Ostpolitik towards the Socialist bloc, their preference was to enter into direct dialogue with Moscow for reasons that will be analysed hereafter. As far as Socialist China was concerned, the West German government's allegiance to the United States' non-recognition policy prevented them from making diplomatic approaches towards such a distant and complicated country. The situation was further exacerbated by the fact that the regime was additionally compromised by Moscow's refusal to allow German reunification under free elections. This attitude would only change substantially after the Nixon administration took the lead in Western rapprochement with the People's Republic of China and the latter was admitted to the United Nations: as a consequence, official recognition between Bonn and Beijing followed in 1972.<sup>1</sup>

Although this paradigm still holds heuristic validity for West Germany's overall approach to the early decades of the Cold War, an appraisal of the long-term relations between the two countries and a closer look at the primary sources reveal a more complex picture. Thus the first part of the article will highlight some trends, established during the nineteenth and early twentieth centuries, which helped shape Sino-German relations after the Second World War, despite respective regime changes and reconfiguration of the international system. The longer term perspective will prove how the traditional dichotomy between the political and the economic spheres is inadequate when trying to explain the interplay between German public and private subjects in relations with China. Although the West German political-institutional system underwent a radical change after 1945, a sizeable part of the private sector, which had profited substantially from trade with China in the past, went ahead with reopening the earlier channels; in doing this, it was compelled to take upon itself certain political prerogatives that did not match its traditional mission. In this respect, analysis of the West German-Chinese case seems to have fulfilled the wish that the future of economic history 'would bridge the manifest gap between those who

<sup>1</sup> As an example, see: Yahuda, M. (2008). 'The Sino-European Encounter: Historical Influences on Contemporary Relations', in Shambaugh, D., Sandschneider, E. and Hong, Z. (eds). *China-Europe Relations: Perceptions, Policies and Prospects*, Routledge, New York, pp. 13–32.

deal with structural developments in history and social sciences [...] and those who wish to retain the category of agency as a perspective on socio-economic, political and cultural change'.<sup>2</sup>

The second part of this article will focus on certain peculiarities within the Federal Republic of Germany's relations with the Socialist bloc after its establishment in 1949. Although reunification of the country and anchoring it in the West remained the priorities of Bonn's foreign policy until after the early 1970s, recent studies have highlighted how West German non-state actors played a considerable role in pluralizing and articulating that international projection of the country, especially towards the Soviet Union and its satellites. By non-state actors, we mean organizations '[...] autonomous from central government funding and control [...], engaging in "transnational relations" [...] and acting in ways which affect political outcomes'.<sup>3</sup> The burgeoning of German civil society, encouraged by Western influence, to remove the debris of Nazi monolithism; the federalization and fragmentation of the Federal Republic of Germany's institutional landscape; the high degree of its international institutionalization: all these elements gave German non-state actors broader leeway than in any other European country. As the article will underscore, this was especially true in the case of economic actors, both individual and collective, who enjoyed considerable freedom in carrying out their business with the Soviet bloc, but also exerted a distinct influence over the agenda of the governmental authorities. The third part of the article will deal with the complex and often-conflicting relations between the central government in Bonn and the powerful Ost-Ausschuss der Deutschen Wirtschaft (Eastern Committee of German Economy; Eastern Committee from now on) regarding the implementation of economic exchanges and interaction with the People's Republic of China, despite the unfavourable political environment. The main result in this regard, which the article will discuss in detail, was achieved in 1957 with the signing of a framework trade agreement between the Eastern Committee and the China Committee for the Promotion of International Trade (hereafter the China Committee). Finally, some conclusions will be drawn as to the

<sup>2</sup> Berghahn, V.R. (1996). 'German Big Business and the Quest for a European Economic Empire in the Twentieth Century', in Berghahn, V.R. (ed.). *Quest for Economic Empire*, Berghahn Books, New York, p. viii.

<sup>3</sup> Le Gloannec, A.-M. (2007). 'Non-State Actors and "Their" State', in Le Gloannec, A.-M. (ed.). *Non-State Actors in International Relations. The Case of Germany*, Manchester University Press, Manchester, p. 2.

historical meaning of the agreement in order to reach a more balanced assessment of West German–Chinese relations during the early Cold War.

The article is based on the scant historiography available on the subject and on primary sources from the Politisches Archiv des Auswärtigen Amts (Archives of the German Foreign Ministry) in Berlin as well as from the Rheinisch Westfälisches Wirtschaftsarchiv (Archives of the Chamber of Commerce) in Cologne, which hold the documentation of the Ost-Ausschuss der Deutschen Wirtschaft.

### **A century of business: German–Chinese relations up to 1945**

Although German-speaking areas were not at the historical forefront of the modern European ‘discovery’ of China, trade relations between both the Habsburg empire and Prussia with China date back to the eighteenth century.<sup>4</sup> In the aftermath of the first Opium War, the first permanent representations of the Hanseatic towns were established and maritime routes were consolidated to and from the northern seaports: this proved to be a substantial step towards increasing bilateral relations since the cost and complications of overland routes through Russia had been a major obstacle in previous decades. The increasing interest of both public and private subjects was signalled by the signing in 1861 of the Treaty of Tientsin between the Qing empire and the Prussian kingdom (also representing the German Customs Union), establishing reciprocal recognition and granting a series of guarantees and protections for German economic activities in China.<sup>5</sup> Hence the last third of the century witnessed exponential growth in the number of German companies involved in direct business with China—from seven in 1855 to 122 in 1901, outnumbered only by British competitors. At the turn of the century, the Deutsch-Asiatische Bank was founded as the first foreign credit institution after its British counterparts, while the German trade companies based in the northern seaports coalesced to give birth to the Ostasiatischer Verein (Union for Eastern Asia), a centre for information and promotion of contacts. The trend towards penetration of China and, more

<sup>4</sup> Eberstein, B. (1988). *Hamburg—China. Geschichte einer Partnerschaft*, Christians Verlag, Hamburg, pp. 49–60.

<sup>5</sup> Kyle Crossley, P. (2010). *The Wobbling Pivot. China since 1800*, Wiley-Blackwell, Hoboken, p. 86.

generally, the Far East was a clear consequence of Germany's rise to the status of an international power and a protagonist of the second industrial revolution. However, cooperation between political power and economic actors was not always effective, as is proved by the consequences of Berlin's imperialistic desire to emulate other Western powers. Starting from 1895, the German government forced the Chinese imperial authorities to allow three concessions in Hankou, Jiaozhou, and Tianjin: although trade remained largely unaffected by this new condition, the Chinese authorities grew cold towards the presence of German industry, which they had previously welcomed, as it was supported now by a more imperialistic-territorial policy.<sup>6</sup> China's transition from empire to republic in 1912 worsened this perception, as the new ruling class was less tolerant towards the concessions system and the Western military presence; one of the main goals of involving China in the First World War was to regain control of at least some of the concessions made to foreign powers by the previous regime.<sup>7</sup>

In this respect, Germany's defeat and the consequent loss of its strongholds in China turned, surprisingly, to a competitive advantage in the aftermath of the war, when the Republican leadership was eager to deal with the West on a more equal footing. These expectations matched the interest of the new authorities of the Weimar Republic in increasing economic cooperation outside the iron cages imposed by the peace treaty, when political involvement abroad was not a viable option. Post-war German political authorities and economic actors were especially motivated by two prospects associated with China in the long term: affordable raw materials and the potentially huge market for industrial products. Backed by such discreet promotion by political authorities, a new wave of German industrial and commercial firms increased their presence in China well beyond pre-war levels, seeking new beginnings in Asia far from the ruins of domestic inflation.<sup>8</sup> The Guomindang's cooperative attitude seemed to stem from an even longer term and more ambitious perspective. Although defeated during the war, Germany had retained a great part of her industrial structure and military potential, and this formed a source

<sup>6</sup> Kirby, W.C. (1984). *Germany and Republican China*, Stanford University Press, Stanford, p. 12.

<sup>7</sup> Tanner, H.M. (2010). *China: A History. Vol. II: From the Great Qing Empire Through the People's Republic of China*, Hackett Publishing, Indianapolis, p. 133.

<sup>8</sup> Kirby, *Germany and Republican China*, p. 24.

of inspiration and emulation for the long-sought modernization of China. As a result, the intensification of bilateral exchanges came with the welcome dispatch of economic and military 'advisers' by both the private sector and the state.<sup>9</sup> The sudden rise of the Nazi regime did not interrupt such trends. On the contrary, the new German leadership was even more interested in importing strategic materials, which were essential to its plans for rearmament, and which could be obtained from China outside the radar of international control.<sup>10</sup> At the same time, several factions in the Guomindang nursed a peculiar interest in the ethical and organizational aspects of German fascism. Its mix of conservatism and modernization, in their opinion, might serve the cause of Republican China.<sup>11</sup> Once again, a discreet and self-restraining involvement by Berlin's state authorities in bilateral relations favoured the expansion of private economic cooperation, with German companies accounting for 17 per cent of Chinese trade, not far from the American leaders in the field. Meanwhile, during the mid-1930s China had risen to become Germany's third biggest trade partner and recipient of German direct investments abroad. In particular, major iron and steel companies were involved and profited from the need for armament production in both countries: following the example of trading companies at the turn of the century, they promoted a high degree of centralization in their business with China under the auspices of their government and the military hierarchy.<sup>12</sup> Over and above the figures, it was material and cultural-ideological exchanges, as well as an apparent absence of 'imperialistic' goals, that made Germany the most influential foreign country and the face of the West in China during the so-called Nanjing decade (1927–1937).

If political considerations propelled the 1930s Golden Age, they were also the reason for its abrupt end in 1937. At that time the Nazi regime was led by its own strategic priorities to side with its Japanese ally in that country's aggressive policy towards China, despite Chiang Kai-shek's appeals for German neutrality in the conflict. In 1938, one year after the beginning of the second Sino-Japanese War, the Berlin government ordered all German 'advisers' to leave China and called a halt to the export of arms to that country. Recognition of the Japanese

<sup>9</sup> Martin, B. (1981). *Die Deutsche Beraterschaft in China 1927–1938: Militär, Wirtschaft, Außenpolitik*, Droste, Düsseldorf.

<sup>10</sup> Leitz, C. (2004). *Nazi Foreign Policy, 1933–1941: The Road to Global War*, Routledge, London, pp. 128–129.

<sup>11</sup> Kirby, *Germany and Republican China*, p. 153.

<sup>12</sup> *Ibid.*, p. 20.

puppet regime in Nanjing in 1941 marked the point of no return; Chiang Kai-shek's government declared war on Germany, Italy, and Japan, taking the side of the United States after the Japanese attack on Pearl Harbour. The compliance of the German economic actors was neither immediate nor complete. A large majority of them made an attempt to resist directives from Berlin to move the focus of all their activities towards the Manzhouguo puppet state and to cease cooperating with the legitimate Chinese government. This attempt was based on mere economic assessment: the opinion shared by the most important industrial groups like Siemens, Otto Wolff, and IG Farben was that the potential of the Chinese market still exceeded by far the opportunities offered by exclusive cooperation with Japan.<sup>13</sup> Thus economic cooperation between the German private sector in the area and the Chinese Nationalist government was never interrupted, as far as was allowed by the course of the war and by the changing geopolitical conditions.

### **Worlds apart: two Germanies, two Chinas, one Cold War**

The end of the war in Europe as well as in the Pacific brought about deep and dramatic changes for both countries. Within a narrow five month period, the Federal Republic of Germany and the People's Republic of China made their appearance in the international arena in 1949. Both states emerged from the Second World War and from the turmoil of its aftermath carrying the signs of a dramatic rupture with their political, social, and economic past. The birth of a new state in the western part of the former Reich (and the subsequent proclamation of the first Socialist German state in the east) was the result of the failure of the Allied coalition members to reach a unanimous solution for Germany. As a result, the new Republic experienced a dramatic change in its status from the main culprit responsible for the outbreak of the war to a key and reliable ally in the heart of Cold War Europe. In China, the end of the war with Japan was followed by the resumption of the civil war between the Guomindang and the Communist Party. The ultimate victory of the latter led Mao Zedong to proclaim the birth of the People's Republic of China, while Chiang Kai-shek's Nationalist government retreated to Taiwan, with both authorities

<sup>13</sup> Leitz, *Nazi Foreign Policy*, p. 130.

claiming their right to represent all Chinese people. The break-up of the Allied's victorious coalition and the bipolarization of the Euro-Asiatic chessboard around the new superpowers—that is, the United States and the Soviet Union—had immediate consequences for both the Germans and the Chinese, apparently leaving no room for a revival of pre-war multi-level cooperation in the economic sphere. On the one hand, the ideological proximity of the new Beijing regime to the leadership in Moscow and integration of the country into the Soviet sphere of influence were made official with the signing of the Sino-Soviet Treaty of Friendship, Alliance and Mutual Assistance in early 1950.

On the other hand, the new conservative government of West Germany relied heavily on American assistance and protection to ensure the viability of the country. The already narrow room for manoeuvre by the West German authorities, which were subjected to strong limitations on their sovereignty in foreign affairs at least until 1955, was further reduced by the resolution to give full priority to irreversible integration of the country into the Western-Atlantic economic and military sphere. As a consequence, political exchanges with the Socialist bloc were strictly limited to official dialogue with Moscow, as established since 1955, and motivated by Soviet control over the eastern part of the country and the resident German population. As for China, it was relegated to the periphery of Bonn's geopolitical interests for several reasons. First, the well-known Hallstein Doctrine (self-imposed by Bonn's authorities) declared the government of West Germany to be the only legitimate representative of the whole German population. Any act of recognition of another German political authority (implicitly, the Soviet-imposed German Democratic Republic in the east) by a foreign government implied breaking off diplomatic relations with Bonn.<sup>14</sup> Although the Doctrine only became official in 1955, when the Federal Republic of Germany regained a certain degree of sovereignty over its foreign relations, the principle was at the core of Bonn's international projections, having been promoted by conservative-led governments after 1949 and continuing until its dismantling 20 years later. As the People's Republic of China acknowledged, Bonn's non-recognition simply complied with the PRC's own doctrine. Besides, further anomalies in the Chinese case prevented any later softening of the Federal

<sup>14</sup> Gray, W.G. (2003). *Germany's Cold War. The Global Campaign to Isolate East Germany 1949–1969*, University of North Carolina Press, Chapel Hill.



Republic of Germany's position, as in the political debate that sprang up in Bonn about the wisdom of introducing a so-called birthmark theory (that is, the possibility of establishing ties with countries that had never had any choice about their links with East Germany such as the Soviet European satellite states). In fact, although Bonn was the battlefield of a diplomatic campaign between the two Chinese governments during the 1950s, the Adenauer government declined both the advances of Beijing and pressure by Washington to recognize the Nationalist government in exile. Until 1972, the official policy of the West German government was to adamantly refuse to show a preference for either Beijing and Taipei. Neutrality on the Chinese question was mainly inspired by a desire to dispel any similarities with the German situation.<sup>15</sup> Although a two Chinas solution was never proposed by any Washington administration, West German diplomats feared that it could cast a long shadow on the political debate of the 1950s regarding whether to ease the tensions in the Far East and allow both Chinas to join the United Nations.<sup>16</sup> Any application of the same arguments to a two Germanies scenario would legitimate the German Democratic Republic's claim to international recognition, thus frustrating Bonn's desire to operate from a position of strength in its quest for reunification in the foreseeable future.<sup>17</sup> The case of the non-recognition of Taiwan highlighted an interesting convergence of opinions between the Adenauer government and the main German firms interested in reviving their old business with China: namely, that such a diplomatic initiative would be an unnecessary outrage to Beijing.<sup>18</sup> More often, however, economic relations with the Socialist bloc represented an area of conflict and misunderstanding between the political institutions and German big business. International economic relations were not exempt from the all-encompassing logic of bipolar

<sup>15</sup> Throughout the 1950s and 1960s, the West German Foreign Ministry sent detailed instructions to Bonn's representatives abroad containing legal and political arguments to use in denying any such comparison. As an example, see: Politisches Archiv des Auswärtigen Amtes [hereafter PA-AA], Bestand B 80, Band 353, Memorandum by Abteilung II, 'Unterschied zwischen der Deutschland-Frage und der China-Frage', 22 January 1964.

<sup>16</sup> PA-AA, Bestand AV, Band 7555, Memorandum from the West German Embassy in Washington, 'Amerikanische Stellungnahme zur Theorie zweiter chinesischer Staaten', 24 February 1958.

<sup>17</sup> Leutner, M. (ed.) (1995). *Bundesrepublik Deutschland und China 1949 bis 1995*, Akademie Verlag, Berlin, p. 42.

<sup>18</sup> Rudolph, K. (2004). *Wirtschaftsdiplomatie im Kalten Krieg. Die Ostpolitik der westdeutschen Großindustrie 1945–1991*, Campus Verlag, Frankfurt, p. 156.

confrontation, construed in terms of containment of the Soviet Union by the Truman administration. If alignment with Washington had a positive effect in terms of Marshall Plan aid, it also imposed limits on economic interchange between the so-called free world and countries under Communist leadership. As a first step, the Marshall Plan's legislative framework barred any country from receiving American aid if it exported any product 'to a non-participating European country which might contain a US-supplied commodity that would ordinarily be refused a US export licence in the interest of national security':<sup>19</sup> albeit implicitly, the provision was extended to mainland China after the birth of the People's Republic. The consequences were less important to the Americans, whose trade turnover with the Soviet Union and Eastern Europe had never reached significant levels; the same was not true for Western European countries which had expected to resume the traditional business routes with the east after the end of the Second World War. Nevertheless, the launching of the Marshall Plan was accompanied by an 'exhortation' by Washington to adhere to the embargo measures already in force in the United States. Although the request met with a cold reception and even a certain degree of resentment, it was substantially adopted by all the recipient countries in Western Europe. A new international body was created to monitor compliance with the list of strategic goods whose export to the Soviet bloc was forbidden: the Coordinating Committee for Multilateral Export Controls or Cocom.

The Federal Republic of Germany was most severely affected by the new embargo provisions. German exports to the Soviet Union and Eastern Europe had reached a remarkable 15 per cent of the total amount of its exports during the inter-war period, regardless of the changes to political regimes occurring at home and abroad. Although the German economic actors appreciated the opportunities that were unfolding as the country turned towards the West, most of them expected to revive their old acquaintance with their eastern counterparts and resume trading through the traditional channels as soon as possible.<sup>20</sup> However, the birth of the Federal Republic of Germany did not imply an immediate end to

<sup>19</sup> Cain, F. (2007). *Economic Statecraft During the Cold War. European Responses to the US Trade Embargo*, Routledge, London, p. 5.

<sup>20</sup> Spaulding, R.M. (1996). "Reconquering Our Old Position": West German Osthandel Strategies of the 1950s', in Berghahn (ed.). *The Quest for Economic Empire*, p. 115.

its status as an occupied country, which included substantial allied control over its foreign economic activities.<sup>21</sup> Besides, the desire of the Adenauer government to prove its loyalty to the Western cause translated into the strictest compliance with the embargo policy among Washington's European allies, despite the authoritative dissenting opinions occasionally expressed in the internal debate. The most notable example was Ludwig Erhard, minister for economics and later chancellor, who complained to Adenauer in 1950 that the combination of the government's orthodox stance with direct control by the American authorities had produced conditions of permanent discrimination against West German trade with the East, contrasting with the more permissive attitude of other foreign authorities.<sup>22</sup> Two years later, the Adenauer government and the allies signed conventions that put an end to the Federal Republic of Germany's status as an occupied country. At the same time, the Bundestag passed a resolution urged by the parliamentary opposition and by economic circles which advocated that:

... the remaining limits on German freedom of action in the control of merchandise trade and—so far as is legally possible—in the conclusion of trade treaties with East bloc countries must be eliminated as soon as possible.<sup>23</sup>

The engagement of the economic actors grew out of dissatisfaction with American intransigence. A number of German firms were blacklisted by the Allied High Commission in 1952: 87 suffered freezing of American aid after being investigated for violating the embargo policy. Adenauer's commitment to increasing internal control prevented this escalating into a major political crisis; nevertheless the new American secretary of state, John Foster Dulles, warned the chancellor that the persistence of violations on such a massive scale would bring to a halt all financial help to Germany, due to the sensitivity of both Congress and American public opinion over 'trade with the enemy'.<sup>24</sup> German economic groups interested in improving trade with the east came to the conclusion

<sup>21</sup> Braun, H.J. (1990). *The German Economy in the Twentieth Century. The German Reich and the Federal Republic*, Routledge, London, p. 109.

<sup>22</sup> PA-AA, Bestand B 130, Band 4656A, Minister Erhard to Chancellor Adenauer, 25 September 1950.

<sup>23</sup> Spaulding, "Reconquering Our Old Position", p. 132.

<sup>24</sup> Neebe, R. (1996). 'German Big Business and the Return of the World Market after World War II', in Berghahn (ed.). *The Quest for Economic Empire*, p. 117.

that an increase in organized pressure was necessary to influence the political institutions. Thus it was that, under the auspices of the Federation of German Industry (Bundesverband der Deutschen Industrie), representatives from the leading chemical, iron and steel groups, as well as from brokerage houses and banks established the Eastern Committee in 1952. Interestingly enough, they were inspired by their past experience of dealing with the state-owned Soviet economy, a model now extended to the whole Socialist bloc. The Russia-Committee of German Economy had been created in 1928 as a permanent forum to reduce competition among German firms and to redress the power imbalance in negotiations with the Soviet state monopoly, which had dramatically reduced Russian profit margins. The Committee had even extended its cooperation with the Nazi regime during the 1930s, and had achieved a satisfactory settlement of some technical issues concerning payments and delivery which had earlier bedevilled Soviet-German economic relations.<sup>25</sup> Traces of this lesson can be found in the ambitious mission undertaken by the Eastern Committee and by some of its eminent members to represent the interests of the German economy in ‘advising’ the government in Bonn, and to promote ‘useful, effective and increasing relations’ with the East. These initiatives were aimed at concluding legally binding agreements with state-owned national economies even in the absence of diplomatic recognition.<sup>26</sup> On the first front, the Committee fostered the cause of trade with the east through discreet lobbying activity with a number of subjects across the political spectrum, such as the liberal-nationalist elements ranked within the Christian Democratic Union and the smaller Liberal Party. In fact, there was even occasional cooperation with the Social Democrat opposition who took a critical view of the excessive costs imposed by the overtly pro-Western stance of the government. Although the narrative of the Eastern Committee’s founding fathers stressed the conflictual character of its relations with the government in Bonn right from the start,<sup>27</sup> a substantial endorsement came from the Ministry of the Economy, which officially recognized the Eastern Committee as ‘the sole representative of the German economy in trade with the East’, and

<sup>25</sup> Braun, *The German Economy*, pp. 127–129.

<sup>26</sup> Jüngerkes, S. (2012). *Diplomaten der Wirtschaft. Die Geschichte des Ost-Ausschusses der Deutschen Wirtschaft*, Fibre, Osnabrück, pp. 28 ss.; Spaulding, “Reconquering Our Old Position”, p. 131.

<sup>27</sup> As an example, see: Wolff von Amerongen, O. (1992). *Der Weg Nach Osten. Vierzig Jahre Brückenbau für die deutsche Wirtschaft*, Dromer Knauer, München.

wished for close cooperation and exchange of information about those countries which lacked official recognition from Bonn.<sup>28</sup> Among the latter, the turmoil of the post-war years and the birth of the People's Republic made China an excellent case in point: since the experience of centralization and cartelization had already shown encouraging results during the Nanjing decade, the progressive nationalization of the Chinese economy according to the Soviet model only added further reasons for its inclusion in the areas covered by the Committee. As a result, a China Working Group (Arbeitskreis China) was soon established to include most of the business groups already active in the country before the Second World War.

Another main reason for the creation of the Working Group may be found in the rapidly worsening Western perception of Beijing from the early 1950s on. The proclamation of the People's Republic in 1949 had unleashed a harsh reaction in the United States about the 'loss of China', which it saw as the first manifestation of the victorious trend of international communism. However, early debate within the Truman administration over extending the embargo reveals a surprisingly softer attitude than that displayed towards the rest of the Soviet bloc. On the assumption that China's military potential was low and non-threatening for American national security, the Department of State advocated only a moderate embargo against Beijing. It was believed that a harder stance would reverberate negatively on the economic recovery of the Federal Republic of Germany and Japan, both already hard hit by the embargo against the Soviet Union, with foreseeable consequences to 'our security program over the long period ahead'.<sup>29</sup> The government in Bonn endorsed the Americans' attitude and a window of opportunity opened for the German private sector to resume its business activities with China. The value of official bilateral trade increased by 1,000 per cent between 1949 and 1951 to reach a remarkable DM284 million. This was also a promising result for Beijing, whose exports often exceeded imports, and it proved how enduring German interest in Chinese goods was. Significantly, the American State Department forecasts proved right, as China rose to become Bonn's first trade partner within the Communist bloc (while the Federal Republic of Germany achieved the same position among Beijing's Western economic partners).

<sup>28</sup> Jüngerkes, *Diplomaten der Wirtschaft*, p. 42.

<sup>29</sup> Cain, F. (1995). The US-Led Trade Embargo on China: the Origins of CHINCOM, 1947–52, *The Journal of Strategic Studies*, 18:4, p. 42.

A shift in focus from the macro- to the microeconomic dynamics of the short-lived German success again reveals some interesting lines of continuity with the past. During the first half of the century Otto Wolff AG, the Cologne-based steelmaker, had been 'the most ambitious and the most successful' German firm in China.<sup>30</sup> In 1947 the Allied authorities gave the founder's son, Otto Wolff von Amerongen (briefly interned following the occupation of Germany), responsibility for re-establishing the company's export business. With regard to China, the task was immediately interpreted as an encouragement to restore the old contacts and trade orders interrupted only in 1941, despite the unfavourable attitude of the Nazi regime. Despite the 'unlucky interruption due to the conflict' and the raging civil war in China, the firm was able to get in touch with some of its old interlocutors, who had survived the proclamation of the People's Republic due to the initial tolerance of some private actors by the Communist authorities.<sup>31</sup> Otto Wolff AG, like other West German firms, seems to have operated under the illusion that the political transition both at home and in China would leave business relations unaffected, except for some cosmetic measures such as the recommendation to replace the title 'sir' with 'comrade' when dealing with the Chinese, and to leave unanswered requests about the eastern or western origin of the German firms.<sup>32</sup> The real cause for concern was the evolution of the international situation rather than the state of bilateral relations. As an example, observers in Manchuria noticed how the local authorities sought the technical advice of the Soviet 'counsellors' dispatched to the area instead of the Western representatives of the United Nations Relief and Rehabilitation Administration and the Economic Cooperation Administration.<sup>33</sup> More generally, the Soviet influence on the economic structure of the People's Republic was destined to increase primarily on a practical rather than ideological basis, as administrative centralization and economic planning seemed the most effective strategies to cope with the post-war and post-revolutionary

<sup>30</sup> Kirby, *Germany and Republican China*, p. 194.

<sup>31</sup> Rheinisch-Westfälisches Wirtschaftsarchiv [hereafter RWWA], Abt. 72, 389-1, Memorandum by Otto Wolff von Amerongen, 10 October 1949.

<sup>32</sup> RWWA, Abt. 72, 389-1, Report of travel to Manchuria by the members of the 'Fu Sze Company—Tientsin Branch' to Alexander Ruenges of the 'Otto Wolff', 2 March 1950.

<sup>33</sup> RWWA, Abt. 72, 389-1, David L.F. Sung, Managing Director of 'United Engineering Corporation Ltd.' Hong Kong to Otto Wolff von Amerongen, 25 March 1950.

need for a quick recovery, especially in those areas previously occupied by the Japanese. As a result, the progressive nationalization of all economic activities became a structural process and foreign firms had to start facing the prospect that future negotiations would have to be conducted exclusively with the Communist government in Beijing. According to the representatives of Otto Wolff AG in China, the conversion of the Sino-Soviet rapprochement into a political-ideological issue was mainly the result of mistaken American policy. Their persistent recognition of the Taiwan government as the sole representative of all of China, and the consequent application of Cocom restrictions, not only prevented free trade from promoting the evolution of the Communist regime in a liberal sense, but also increased Beijing's structural reliance on the Soviet Union in order to achieve the long-sought-after industrial development of the country. The escalation from economic cooperation to the conclusion of the Sino-Soviet Treaty of Friendship, Alliance and Mutual Assistance in 1950 was only the first poisoned fruit, and until such time as there was a radical change in the Americans' stance, the German economic actors estimated that their penetration of the Chinese market depended entirely on their ability to compete with Soviet exports in terms of quality and price, while all involvement in political affairs needed to be avoided at any cost.<sup>34</sup>

### **The watershed of the Korean War: doing business versus economic warfare**

The German economic actors were forced to abandon their business-as-usual attitude when a sudden change in international conditions brought the quick recovery of bilateral exchange with China to a halt. The eruption of the Korean War in June 1950 led the Truman administration to redefine its doctrine of containment in Asia in more rigid and military terms: the first consequence was the dispatch of 300,000 American soldiers under the aegis of the UN to support the South Korean regime and restore the status quo. Four months later, as South Korean and international troops crossed the 38<sup>th</sup> parallel which had formerly divided the country, the People's Republic of China entered the conflict in support of the Communist regime in

<sup>34</sup> Ibid.

the north. The immediate reaction of the authorities in Washington was to impose a complete embargo on trade with China, as well as to freeze all Chinese accounts in American banks.<sup>35</sup> As a result, the previously reached understanding about the German (and Japanese) 'special economic relation' with Beijing was overruled and all the allies were strongly exhorted to conform to the new restrictive trend. Despite initial complaints, all Western governments complied with Washington's desire. The new policy was sanctioned with the birth of Chincom in 1952, a Cocom section charged with scrutinizing the export of strategic goods to China on a case-by-case basis. It also administered the so-called 'China differential list', which included a wider range of embargoed goods than those prohibited by earlier Cocom deliberations and only applied to Beijing.<sup>36</sup> The armistice signed in 1953 by the United Nations Command, the Chinese People's Liberation Army, and the North Korea People's Army did not bring about any significant change, as the experience of direct confrontation had increased the sensitivity of the American Congress and public opinion.

The troubles experienced by Otto Wolff AG after the beginning of the crisis illustrate perfectly the conditions imposed on German-Chinese trade by the strict control of both the High Allied Commission in the Federal Republic of Germany and the Adenauer government. Since the early 1930s the Rhine steel industry had been involved in major projects for the development of the railways and roads system in China in close cooperation with the Republican government. Within this framework Otto Wolff AG signed a contract with the Chinese authorities for the delivery of 5,000 chassis to be used for urban and extra-urban transport. The agreement between the firm and the Chinese government entailed establishing a new company in Shanghai, and German technicians were dispatched to organize the assembly work.<sup>37</sup> Although the Second World War put a halt to this, contacts were resumed in 1947 with the Nationalist government, which confirmed its interest. New negotiations came to a quick conclusion, despite the ravages of civil war, and an agreement was reached for the delivery of 2,000 chassis. Surprisingly enough, the

<sup>35</sup> Cain, *The US-Led Trade Embargo on China*, p. 43.

<sup>36</sup> Mitcham, C. (2005). *China's Economic Relations with the West and Japan, 1949–1979. Grain, Trade and Diplomacy*, Routledge, London, p. 6.

<sup>37</sup> RWWA, Abt. 72, Memorandum of Otto Wolff von Amerongen, 16 February 1951.



new Communist leadership pledged its commitment to honour the deal; in late 1950 Otto Wolff AG was ready to fulfil one-fourth of the whole contract after gaining approval from the local and allied authorities. However, in January 1951 the Allied High Commission demanded the postponement of the shipment, after the escalation in Korea but well before the new set of rules under Chincom came into force. Although the German authorities had a different opinion and expressed resentment at such arbitrary conduct, they came eventually to the conclusion that no legal argument would deter the American administration from taking the most extreme measures, as long as the China issue was perceived as a major threat to national security.<sup>38</sup> Thus the birth of Chincom came as no surprise to the Bonn authorities, whose last resistance to compliance with the full embargo on exports of iron and steel products to the People's Republic was abandoned in 1953, thus leading to the cancellation of the chassis deal.<sup>39</sup> American insistence on the strict application of the embargo came with a warning that violation would cause political repercussions to the handover of sovereignty from the Allies to the West German government. As a result of the twofold control procedures, trade with China virtually stopped; Otto Wolff AG leaders admitted that even recourse to illegal measures such as re-exportation though neutral or other Socialist countries, tolerated by other governments, was ruled out since potential German export goods such as chassis were too big and recognizable to avoid sanctions from the authorities.<sup>40</sup> Even the earlier success of bilateral trade backfired in 1952, as the People's Republic interpreted the cancellation of already signed contracts as a deliberate act of discrimination, especially as exchanges between West German and other Socialist countries were improving. Before the end of the year an instruction letter was sent from Beijing to Chinese representatives abroad containing retaliatory measures, disguised in terms of a dramatic worsening of trade terms and conditions for West German exporters.<sup>41</sup> The episode led the Eastern Committee to conclude that tighter cooperation could not be delayed, if only to persuade the government in Bonn to embrace the cause of the Committee and to promote the cancellation of the Chinese

<sup>38</sup> PA-AA, Bestand 80, Band 27, Memorandum for Hirschfeld and Nostitz, *Zahlungen an Rot China*, 24 August 1951.

<sup>39</sup> RWWA, Abt. 72, 389-1, Otto Wolff to 'Fu Sze' in Tientsin, 23 February 1951.

<sup>40</sup> RWWA, Abt. 72, 389-1, Memorandum of Bilow to Otto Wolff, 18 June 1953.

<sup>41</sup> Jüngerkes, *Diplomaten der Wirtschaft*, p. 142.

differential. At the same time, the Eastern Committee engaged with Beijing in parallel diplomacy of its own to reduce the damage done by the instruction letter. Efforts focused on re-establishing a cooperative relationship with the China National Import–Export Corporation representative in East Berlin. However, West German firms reported a cold reaction to their frequent visits, as the Chinese interlocutors dismissed proposals for future cooperation while stating that the bulk of the import goods necessary for industrial development, such as steel products, would be purchased from China's 'big neighbour'.<sup>42</sup>

The Panmunjom Armistice in 1953 and mounting dissatisfaction in the West with the China differential brought about some signs of a softening in the Americans' attitude, which the German political authorities took advantage of. Some of the measures adopted beforehand were revoked; even more important was the cooperative stance of the Ministry of the Economy towards talks with representatives of the Eastern Committee over a set of simplifying and rationalizing procedures for the control of exports to the Chinese market.<sup>43</sup> Alongside this, the attitude of the China National Import–Export Corporation representatives had improved substantially, as they finally agreed to discuss the comprehensive regulation of future trade customs and procedures with the Committee. Both sides took some major steps during a plenary meeting in May 1953, from which the delegation of the Ost-Ausschuss drew the conclusion that the China National Import–Export Corporation had finally recognized it as the official counterpart for economic negotiations, despite their non-governmental status. As a result, the Chinese representatives proposed that the two institutions should work out a comprehensive, legally binding trade agreement that would resolve all the technical problems that had arisen in bilateral trade.<sup>44</sup> Although such a goal was explicitly inscribed in the statutory mission of the Eastern Committee, and suited the urgent needs of the West German economy, the political situation had not improved enough to bring the matter to the attention of the political authorities in Bonn and to obtain their imprimatur. However, the ambiguous status of the Committee and the lack of governmental endorsement did not prevent the parties from taking the

<sup>42</sup> RWWA, Abt. 72, 389-1, Voges to Otto Wolff on the meetings in East Berlin, 25 November 1952.

<sup>43</sup> RWWA, Abt. 72, 459-1, Record of the plenary session of the Arbeitskreis China (Ost-Ausschuss), 13 March 1953.

<sup>44</sup> Jüngerkes, *Diplomaten der Wirtschaft*, p. 143.

negotiations forward during the following year, when they eventually overlapped with the international conference taking place in Geneva and attended by the People's Republic of China alongside major world powers. The meeting was held to address the outstanding issues raised by the Korean War and by the French withdrawal from Indochina. Although the participation of the People's Republic of China did not imply it was officially recognized by the other participants such as the United States, Beijing sent a high-ranking delegation to Geneva, which also included top members from the Ministry of the Economy. Thus, during the conference, the Swiss city attracted a large number of European economic actors interested in making personal contacts with the Chinese representatives for foreign trade. Geneva was also the stage for a meeting which would gain an almost-mythical status in the future of German-Chinese business, due to its high symbolic value. While in Geneva to attend a meeting of the United Nations Economic Commission for Europe, Otto Wolff von Amerongen was invited to a private meeting with the director of the China National Import–Export Corporation and a high-ranking official from the Economic Ministry, Hsu Hsueh Han, who was also a member of the Chinese delegation to the international conference.<sup>45</sup> Although the protagonists stressed the Chinese origins of the initiative, the primary sources leave some room for doubt: Hsu's movements, and especially his attendance at the conference, had been monitored during previous weeks, and it seems likely that the possibility of a meeting was raised in advance.<sup>46</sup> However, the fact that the invitation came from the Chinese helped to overcome the resistance of the German Foreign Ministry, which finally gave consent to the meeting provided that Otto Wolff attended as a 'private citizen' and did not speak for his government. The surprisingly warm attitude of the Chinese representatives left no doubt of their interest in restoring China's economic partnership with the Germans. In his welcoming address Hsu stated that the new Communist regime had closely examined all the contracts signed between Otto Wolff AG and the 'criminal Guomindang regime' before the revolution and had found no sign of offence 'to the pride of the people of China'.<sup>47</sup> Therefore Beijing

<sup>45</sup> RWWA, Abt. 72, 389-1, Memorandum of Otto Wolff von Amerongen on the meetings held in Geneva, 6 May 1954.

<sup>46</sup> RWWA, Abt. 72, 389-1, Lange from East Berlin to Otto Wolff von Amerongen, 18 March 1954.

<sup>47</sup> Wolff von Amerongen, *Der Weg nach Osten*, p. 243.

was eager to consider any new business proposals that the German firm might submit in the near future. The conversation that followed highlighted the same problems that emerged during the negotiations between the Eastern Committee and the China National Import–Export Corporation in East Berlin, namely the need for clear and reliable conditions for shipping and payment. However, further details revealed that there were more political than technical implications, for example, the case of arbitration rules in cases of a dispute between the parties. The Chinese insistence on recommending East Berlin as the ‘neutral forum’ for discussing future controversies with West German firms was dismissed by Otto Wolff as unacceptable and no alternative solution emerged during the talks. Nevertheless, the leader of the Cologne steelmakers and future head of the Eastern Committee reported from the meeting his impression that Beijing’s new interest in trading with the West was due to more than just the quality of goods produced outside the so-called Iron and Bamboo curtains.<sup>48</sup> Otto Wolff von Amerongen was also persuaded that the People’s Republic of China was trying to avoid the monopolizing influence of the Soviet Union over its own development, despite the opposite view being expressed in public. Hence future Western negotiators needed to be aware of Beijing’s willingness both to reach satisfactory agreements soon and to present them in an increasingly political light.<sup>49</sup>

Apart from the results of the meetings in Geneva, the presence of the Chinese representative in the West during the conference had a positive outcome on the East Berlin negotiations, which also enjoyed the discreet but official endorsement of the West German Ministry of the Economy.<sup>50</sup> Preliminary documents produced by the Eastern Committee were accepted by the Chinese as a basis for discussion, and a last round of meetings in August ended in a draft agreement that was valid for one year. The preamble stated that ‘barter transactions’ were accepted as the general principle regulating bilateral transactions, which meant that the total amount of exchanges was fixed, that both sides should draw up a list of desired import and export goods, and that they would trade accordingly.<sup>51</sup> When the Eastern Committee brought

<sup>48</sup> Mitcham, *China’s Economic Relations with the West and Japan*, p. 15.

<sup>49</sup> RWWA, Abt. 72, 389-1, Memorandum of Otto Wolff von Amerongen on the meetings held in Geneva, 6 May 1954.

<sup>50</sup> RWWA, Abt 175, 4-3, Reinhardt of the Ministry of the Economy to the ‘Ost-Ausschuss’, 21 January 1954.

<sup>51</sup> Ching, C. (2006). ‘Trade Without Flag. West Germany and China 1949–1972’, PhD thesis, The University of Hong Kong Pokfulam, p. 205.

the results of the negotiations to the attention of the government, the experts of the Ministry of the Economy raised no objection regarding its technical aspects. However, one last condition from the China National Import–Export Corporation was destined to create strong opposition within the cabinet: a delegation of German businessmen was expected to visit Beijing and sign the agreement during an official ceremony. The Chancellery and the Foreign Ministry interpreted this request as the latest evidence of Beijing’s general strategy to enhance its international status, which had started with its participation in the Geneva Conference. The compliance of the China National Import–Export Corporation with the technical requests of the Ost-Ausschuss was seen as suspect; besides, the Chinese negotiators in East Berlin had also proposed concluding a warrant deal between the central banks concerning the financial aspects of the agreement, thus implying the participation of a public German institution and paving the way for a first act of official recognition. Under these conditions, the German government refused to endorse signing of the agreement, and especially to allow an Eastern Committee delegation to visit Beijing, which Communist propaganda would exploit as a first breach in Western (and especially West German-American) solidarity.<sup>52</sup> The harsh reaction of the Chinese authorities to the indefinite postponement of the signing ceremony seemed to nullify the progress made during the preceding two years and to push economic relations between the Federal Republic of Germany and the People’s Republic of China towards a major new crisis, as every attempt by the Committee to find a different solution was bluntly rejected.

Meanwhile, bilateral trade experienced steady growth, which led some German actors to the conclusion that signing the agreement was irrelevant. Instead, the real problem was the lasting embargo on some groups of products that represented a fundamental asset for the German economy, such as iron and steel. Although the figures achieved looked encouraging, bilateral trade still suffered from the same problems that had pushed the Eastern Committee to take the initiative, namely a lack of clear customs and procedures and, more generally, Beijing’s monopsony position to which the weaker German interlocutors could not provide a counterweight.<sup>53</sup> Even more important was the evidence that the economic performance of the Federal Republic of Germany was losing ground to other Western

<sup>52</sup> Jüngerkes, *Diplomaten der Wirtschaft*, p. 142.

<sup>53</sup> Ching, ‘Trade Without Flag’, p. 214.

competitors, as the easing of the embargo after the Panmunjom armistice marked the beginning of a generalized rush to China. In several cases, the respective political authorities endorsed the initiatives of the private sector through opening official channels with Beijing, although few of them reached the status of diplomatic recognition.<sup>54</sup> The Chinese authorities seemed to appreciate this and between 1953 and 1955 trade was intensified, especially with those countries that had sent official missions to the People's Republic.<sup>55</sup> The case of Britain was the most visible: London had recognized the new government in Beijing in 1950, with the result that official relations had never ceased, despite the Korean crisis and the country's reluctant adherence to the American-led embargo. The visit of the British governor of Hong Kong to mainland China in 1955 offered Premier Zhou Enlai an opportunity to praise the British government while blaming other Western European states for their 'poor insight' and their treatment of the Communist leaders as 'lepers'.<sup>56</sup> Moreover, the historic visit of Chancellor Adenauer to Moscow during the same year opened up official relations between the Federal Republic of Germany and the Soviet Union, and Mao Zedong's immediate approval of that historic event was followed by the hope that a similar process would also occur with the People's Republic of China. The lack of reaction from Bonn was magnified by the rapidly changing attitude of its main partner in Europe, as a first French delegation reached Beijing in early 1956. Although the emphasis was on the economic profile of the delegation, as attested to by the contracts signed during meetings, the appointment of Senator Henri Rochereau (then president of the Economic Commission of the Upper House) was a clear sign of the commitment of the French institutions.<sup>57</sup> The contacts between Otto Wolff von Amerongen and Senator Rochereau before and after the visit of the French delegation proved the former's interest and desire to imitate the successful experience of the French. Nevertheless,

<sup>54</sup> PA-AA, Bestand 80, Band 353, Memorandum from Brautigam to all German representatives abroad, *Anerkennung zur Volksrepublik China und ihre Beziehungen zu anderen Ländern*, 30 December 1955.

<sup>55</sup> Ibid., p. 212; RWWA, Abt. 175, 4-1, Letter from the President of the 'Arbeitskreis China', Heinrich Köhler, to the General Director of the 'Bundesverband der Deutschen Industrie', Hans-Wilhelm Beutler, 3 May 1955.

<sup>56</sup> PA-AA, Bestand 80, Band 353, Memorandum from the Foreign Ministry to all German representations abroad, *Frage der Anerkennung der Volksrepublik China und ihre Beziehungen zu anderen Ländern*, 30 December 1955.

<sup>57</sup> See Romano's article in this special issue.

the members of the Eastern Committee grew frustrated at Bonn's hesitations, as it failed to recognize the opportunities offered to German economic actors with a record of 'ninety years of successful business with China'.<sup>58</sup> While the Adenauer government persisted in refusing to allow the visit of a German delegation, 'outsiders' were travelling the road to Beijing at the expense of those who had devoted their energy and experience to the same goal for years.<sup>59</sup>

A further element of the resentment felt by the German economic actors was the selective removal of controls on trade with China. During 1955 Japan had requested and obtained some major exemptions from Chincom provisions on merely economic grounds, namely the importance of bilateral exchange for the economic recovery of the country.<sup>60</sup> Although the similarities between the two countries had made Japan a sensitive issue for the Federal Republic of Germany during the post-war years, Bonn issued no official protest, to the disappointment of the Eastern Committee. One year later, when other Western governments were questioning Washington's arbitrary behaviour, the German government seemed concerned only with political mediation in order to avoid any repercussions on cohesion within NATO, which the Suez crisis had already placed under stress.<sup>61</sup>

### **Paving the road to Beijing: the battle at home and the trade agreement of 1957**

Despite the political deadlock, the meetings between the Eastern Committee and the China National Import–Export Corporation were resumed in 1955. However, negotiations were reaching a paradoxical stage since consensus on the text of the agreement was complete and no further improvement could be expected. As the Chinese interlocutors grew irritated at what they perceived as deliberate delaying tactics, the German government turned down a new request

<sup>58</sup> RWWA, Abt. 175, 4-1, Letter from Beutler to van Scherpenberg of the Foreign Ministry, 24 May 1956.

<sup>59</sup> RWWA, Abt. 175, 4-1, Letter from Otto Wolff to Heinrick Köhler, 18 September 1956.

<sup>60</sup> RWWA, Abt. 72, 389-1, Letter from Drossel to Otto Wolff von Amerongen, 23 December 1955.

<sup>61</sup> PA-AA, Bestand 1, Band 66, Memorandum by van Scherpenberg of the Foreign Ministry, *Die Verhandlungen im China-Komitee über eine Ermässigung der Embargo-Massnahmen gegenüber der VR China im Frühjahr 1957*, 25 May 1957.

by the Committee to visit Beijing, as they did not want the opening up of diplomatic relations with Moscow to be influenced by other official moves towards the Socialist bloc.<sup>62</sup> Although the Foreign Ministry seemed to have abandoned its principled reservations about the trade agreement, its proposals for a compromise on the final steps were unacceptable and insulting for the Eastern Committee: the proposal was to invite the China National Import-Export Corporation to sign the agreement in a city in the Western hemisphere, and only in case of refusal might the Committee agree on meeting in Beijing. According to the most expert negotiators of the agreement, this meant that, having declined the first Chinese invitation, they would get no result except losing what remained of their credibility.<sup>63</sup> This last provocation occurred alongside further evidence that German economic relations with China were in decline and that increasing numbers of economic missions from other Western partners such as France and later Italy were rushing to China.<sup>64</sup>

As a consequence, in 1956 the conflict became public: leading members of the Eastern Committee (who in turn had been put under pressure by their colleagues for their lack of concrete results) seized every opportunity to restate how mistaken the interpretation of the agreement was in political terms. On the contrary, the Committee did not intend to serve as a representative of the government; its role was only to secure new paths, and clear and safe procedures for the German economic community in trading with such a promising market as mainland China.<sup>65</sup> The public campaign waged by the Eastern Committee focused less on the opportunities for improving political relations between the two countries, which depended exclusively on the evolution of the international environment, than on the waste of opportunities that undue interference by politicians was causing the German economy.<sup>66</sup> The crisis reached its acme at the end of the year, when two parliamentary questions on the subject were addressed to the government. While the second came from the small Liberal Party, which had traditional links to the business community, and provocatively demanded the opening of a German

<sup>62</sup> Jüngerkes, *Diplomaten der Wirtschaft*, p. 144.

<sup>63</sup> RWWA, Abt. 175, 4-1, Letter from Beutler to van Scherpenberg of the Foreign Ministry, 24 May 1956.

<sup>64</sup> On Italy, see Zanier's and Meneguzzi Rostagni's articles in this special issue.

<sup>65</sup> RWWA, Abt. 175, 4-1, Letter from Reuter to Köhler, 5 May 1955.

<sup>66</sup> RWWA, Abt 72, 381-2, Speech by Otto Wolff von Amerongen to the Cologne Chamber of Commerce, 17 May 1956.



trade representation in China, the first was raised by the Social Democrats, the main opposition force on the left, which asked the government plainly whether it was prepared to allow the signing of a trade agreement with China.<sup>67</sup> This timely and detailed question raised suspicions that some reserved information had been leaked to the opposition. Although difficult to gauge, this would not be inconsistent with the Eastern Committee's strategy, and especially with the more aggressive attitude it had towards the political world after the appointment of Otto Wolff von Amerongen as its president in 1955. Although the organization restated its traditional neutrality in politics, internal debates revealed the intention of some members to 'leave the road to the Parliament open [...] when no further gain could be obtained from the government'.<sup>68</sup> The pressure from the Bundestag forced the government to concede that, despite some still open questions, the time had come to take some significant steps towards a trade agreement. Meanwhile, parallel diplomatic operations were conducted in the same aggressive tones at the highest level of the German economy, especially by the president of the Confederation of German Industries, Fritz Berg, who, in a letter to Chancellor Adenauer in early 1957, hinted that an unjustified delay to the visit would play into the hands of 'our political opponents'.<sup>69</sup> Eventually the strategy of the Eastern Committee proved right, as the government reached the conclusion that further postponement of the visit to Beijing was not a viable option because 'it would lead to unpleasant public debates' shortly before the federal elections due in October.<sup>70</sup> Further encouragement for Bonn came from Washington, where the first steps taken by the second Eisenhower presidency seemed to herald a softening of the special economic treatment meted out to China.<sup>71</sup> The crucial evidence came from the decision of the French and British authorities to abandon the China differential in summer 1957: this did not result in any retaliation from the Americans and as

<sup>67</sup> Ching, 'Trade Without Flag', p. 216.

<sup>68</sup> RWWA, Abt. 175, 4-1, Record of the plenary session of the 'Arbeitskreis China' in Bremen, 12 October 1956.

<sup>69</sup> RWWA, Abt. 175, 4-3, Letter from Berg to Adenauer, 12 March 1957.

<sup>70</sup> PA-AA, Bestand 63, Band 139, Memorandum of van Scherpenberg of the Foreign Ministry, *Ein- und Ausfuhrvereinbarung zwischen den Ostausschuss der Deutschen Wirtschaft und dem China-Komitee for the Promotion of International Trade*, 26 July 1957.

<sup>71</sup> PA-AA, Bestand AV, Band 7555, Letter from Dittmann of the German Consulate in Hong Kong to Kessel in the Foreign Ministry, 14 March 1957.

a consequence, the West German government toed the same line as other West European partners.<sup>72</sup>

After a new invitation by the China National Import-Export Corporation, and charged with a recommendation by the German government not to get involved in any political initiatives, a delegation of eight members of the Ost-Ausschuss reached Beijing on 8 September 1957. A new interlocutor was waiting there for the last phase of the negotiations, namely the China Committee for the Promotion of International Trade, another emanation of the Chinese government whose status was regarded as more fitting for the task. Although signing of the agreement was expected within a week, it took 20 days of negotiations, which Otto Wolff von Amerongen (who was to negotiate all major agreements with the other Socialist countries) would dub immediately thereafter as 'the hardest'.<sup>73</sup> Although the document agreed on in East Berlin in 1953 formed the basis for negotiations, much remained to be settled, especially on two points. As forecast, the Chinese negotiators renewed their pressure to include an agreement between the two central banks, thus opening a first window to the official involvement of the German government. In that case, the West German institutional framework offered the German delegation an easy escape route: the then Bank Deutscher Länder (later Bundesbank) was autonomous from the government, while the Ministry of the Economy was charged with financial responsibility for trade (and was updated constantly about the course of the negotiations). The solution was an official letter from the Ministry to the Eastern Committee stating that it was committed to acknowledging the agreement and would do its utmost to ensure its fulfilment (the letter was eventually transmitted to the China Committee).<sup>74</sup> Likewise, the problems concerning arbitration were solved with a compromise that avoided the risk of a solution inconsistent with the Hallstein Doctrine. The suggestion of East Berlin as a forum was finally abandoned by the Chinese negotiators and Zurich was agreed on instead, barring a different agreement

<sup>72</sup> PA-AA, Bestand 63, Band 136, Memorandum from Zahn-Stranik of the Foreign Office, *Die Wirtschaftsbeziehungen der BRD zur VR China nach Aufhebung des China-Differentials*, 4 July 1957.

<sup>73</sup> RWWA, Abt. 72, 381-2, Letter from Otto Wolff to the Director of the 'Ostasiatischer Verein' Hans Stoltenberg-Lerche, 7 October 1957.

<sup>74</sup> RWWA, Abt. 175, 5-1, Proceedings of the first negotiating session, 10 September 1957.

being reached between the parties.<sup>75</sup> Finally, the German request to include West Berlin was again the subject of a separate letter signed by Otto Wolff von Amerongen and acknowledged by the Chinese delegation without objections. While all other attempts to involve the West German government in the agreement were rejected, the German negotiators estimated they had achieved a satisfying 80 per cent of their aims,<sup>76</sup> especially in terms of defining clear and agreed terms for trade and financial procedures, the uncertainty of which had dogged economic relations for so long, and in the preferential status accorded to the Deutsche Mark for payments.<sup>77</sup> The only point which the China Committee delegates baulked at was the registration of German trademarks in China, since their opinion was that only the two governments were entitled to discuss the matter.<sup>78</sup>

Although the agreement signed on 27 September was the result of a hard battle, the government in Bonn shared the same positive opinion of the Eastern Committee and acknowledged that the delegation had fully respected the limits of its mandate without implying any engagement of the political authorities.<sup>79</sup> A short follow-up to the agreement proved how the last point, namely an early symbolic step towards government recognition, had been Beijing's real goal, which had helped the Committee to get the upper hand during the negotiations on concrete trade issues. A final condition imposed by Beijing was that the agreement had to be published in the official communications of the German government. Transmission of the request to the Ministry of the Economy was initially turned down, since the authorities deemed the opening formula in the agreement, which referred to 'friendly negotiations', to be politically unacceptable.<sup>80</sup> A final round of talks led to the publication of an amended and more

<sup>75</sup> For the full text of the agreement, see Leutner (ed.), *Bundesrepublik Deutschland und China*, p. 73.

<sup>76</sup> RWWA, Abt. 72, 381-2, Letter from Otto Wolff to Hans Stoltenberg-Lerche, 7 October 1957.

<sup>77</sup> RWWA, Abt. 175, 5-1, Letter from Otto Wolff to the President of the CCPIT Nan Han-Cheng.

<sup>78</sup> RWWA, Abt. 175, 5-1, Proceedings of the fifth plenary session, 18 September 1957.

<sup>79</sup> PA-AA, Bestand 63, Band 139, Memorandum from the German Consulate in Hong Kong to the Foreign Ministry, *Direktgeschäft mit der Volksrepublik China; Ergebnis der Verhandlungen der Delegation des Ostausschusses der Deutschen Wirtschaft in Peking*, 17 October 1957.

<sup>80</sup> RWWA, Abt. 175, 5-1, Record of the meeting between the German delegation to Beijing and Reinhard of the Foreign Ministry, 11 November 1957.

politically neutral version of the text in the official bulletin of the Foreign Ministry, but this proves once again how tightly wedged the Eastern Committee had been between Beijing's claims and Bonn's uncompromising stance at the political level. As far as economic performance is concerned, the agreement proved an unconditional success. A total trade volume of DM230 million was forecast for each import and export: the result in 1958 was three times higher. To prove how right the Committee had been, the most powerful factor was the clear definition of trade customs and rules, which also helped dramatically to increase the share of direct trade between the countries from a mere 35 per cent in 1957 to 86 per cent when the agreement expired.<sup>81</sup> The value of the agreement for the normalization of bilateral trade relations was also attested to in the course of a short-lived crisis in 1958, when the Chinese authorities complained to the Eastern Committee about alleged discrimination towards German imports from China after the European Economic Community came into being. Mediation between the Committee and the Bonn authorities was again an effective substitute for direct diplomatic representation, and the crisis was defused after some minor technical adjustments.<sup>82</sup>

Nevertheless, the Chinese interlocutors manifested their dissatisfaction with the results of the agreement well before it expired, and declared that its renewal as such was not a priority. Once again, the reason lay in the lack of progress at the political level, as the German government consistently refused to get involved in negotiations. Surprisingly enough, the lack of a new agreement did not affect either trade praxis; on the contrary, it followed the prescription agreed with Beijing. Nor was the volume of exchange affected, as this maintained the same levels as in 1958. It is easy to conclude that the People's Republic of China itself estimated that bilateral economic relations had developed too favourably to be jeopardized by political considerations, especially in key sectors such as the chemical industry, iron, and steel. Besides, other international problems had resulted in economic repercussions, such as the incident in 1958 when an ultra-nationalist Japanese group insulted the Chinese national flag at a trade fair in Nagasaki. Although Japan was Beijing's first economic partner at the time, the so-called Nagasaki Incident forced the Communist leadership to bring bilateral trade to a complete halt

<sup>81</sup> Ching, 'Trade Without Flag', p. 218.

<sup>82</sup> Jüngerkes, *Diplomaten der Wirtschaft*, p. 151.

until 1962.<sup>83</sup> As a result, trade with Western Europe, and especially with the Federal Republic of Germany, increased dramatically since it proved the best substitute in terms of price and quality of imports. On the other hand, the downturn experienced by West German–Chinese trade at the turn of the decade was not due to the lack of a new bilateral agreement, but to the devastating consequences of the Great Leap Forward on Beijing’s economic performance both at home and abroad.

To conclude, the endeavours of the Eastern Committee to wrap up an economic agreement with the People’s Republic of China proved worthwhile, as bilateral trade was neither affected by the instability of East–West relations (or, later, by the rising Sino-Soviet split), nor was it influenced by the protracted lack of diplomatic recognition between Bonn and Beijing. On this last point, despite recurring recriminations by the Chinese and the failure of all attempts during the 1960s, both governments seemed to have acquiesced to a distinction between the profits of economic exchange and the limits imposed by the ideological confrontation at the core of the Cold War, until the changing international environment allowed official reciprocal recognition in 1972. As a result, the prestige of the Eastern Committee grew considerably, and a real parallel diplomacy was conducted in the following years through frequent contacts with the Chinese representatives abroad (mainly in Bern) and reciprocal invitations to economic fairs in both countries. Thus the efforts of the Eastern Committee to remove economic exchange from the gyrations of politics brought about positive results which lasted well beyond the limited case of the agreement signed in Beijing in 1957.

<sup>83</sup> Hsiao, G.T. (1977). *The Foreign Trade of China. Policy, Law and Practice*, University of California Press, Berkeley, pp. 41–50.