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COMMUNIST CHINA:
BLEAK SHORT-RUN ECONOMIC PROSPECTS



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COMMUNIST CHINA:
BLEAK SHORT-RUN ECONOMIC PROSPECTS

A few years ago, Western observers concluded that Communist China was becoming a major industrial power with amazing rapidity and that within a decade the Chinese economy might rival the economies of the UK and Japan in crude aggregative production if not in the quality and the variety of output. Today, however, it is generally recognized that the Chinese economy is in very serious difficulty, and the question now is the extent to which China can resume its program for industrial development.

The contrast between present and past views of Chinese Communist strength comes partly from a reevaluation of evidence with the help of hindsight. In retrospect it now seems clear that the discounting of the claims of the regime by Western observers did not go far enough and that more attention should have been given earlier to the disruptive effect of forced-draft economic programs on such matters as the productivity of the soil, the strength and morale of the worker, the quality of technical education, and the effectiveness of the planning system.

Period of Economic Successes: 1949-57

The striking economic successes of the first few years (1949-57) of the Communist regime in China were based on a particular kind of momentum. By restoring law and order, by rehabilitating the transportation system, and by mobilizing investment resources on a national scale, the new Communist regime quickly opened a gap between national output and minimum national consumption requirements. This gap -- which represented the resources that could be allocated to growth -- would be closed by the familiar Malthusian pressures in a short period of time unless (1) national output could continue to be expanded rapidly and/or (2) population growth could be kept in check. The second alternative was ruled out when the death rate fell because of improved public health and a more even distribution of food and when (except for a brief period) birth control was not adopted as national policy. The first

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alternative, however, did apply during this initial period of Communist control. The greater the margin of national output over consumption, the easier it became to widen the gap still further, and the proportion of national output allocated to investment rose substantially. (The question of the allocation of resources to defense will be considered later.)

The momentum achieved in this manner was reinforced by the efficient use of the resources available for investment. The Chinese Communists, in allocating resources to investment, for the most part did not produce their own modern capital goods but instead traded food and raw materials to the USSR for complete factories. The gains from this international specialization of labor were tremendous, with China receiving large amounts of capital equipment that could have been produced domestically only at a very high cost or, in some cases, not at all.

The resulting pattern of economic growth was spectacular, but the maintenance of the pattern was a precarious matter for the following reasons. (1) Population was increasing rapidly (the short-lived birth control movement of 1956-57 had no practical results). (2) Agricultural surpluses essential to finance imports of capital goods were critically dependent on a continuation of reasonably good weather conditions. (3) The strong support of the USSR was required at least through 1967, when the last of the 291 scheduled factories were to be completed. The pressures to widen the gap between national output and growing consumption requirements had to be constantly maintained. China could not stand still.

The "Leap Forward" Debacle: 1958-60

Whereas, in the early years, Communist China was successfully increasing the amount of national output devoted to investment and was rapidly acquiring modern capital goods from the rest of the Sino-Soviet Bloc, the "leap forward" period (1958-60) ended in a debacle, with growth and technological progress halted and the population seriously undernourished. The all-important momentum described in the preceding section was lost.

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A number of developments during the "leap forward" can be tied to the loss of momentum, but the following four are of major importance. (1) The precarious nature of the holding operation in agriculture and consumption was minimized by the leaders because of their doctrinal blinders; the disruptive commune program and the useless backyard industry program led quickly to the ineffective utilization and exhaustion of the agricultural labor force, poor management fostered damaging land-use practices, and a series of agricultural failures arising largely from a period of generally unfavorable weather added to the slowdown. (2) Most of the gains from economic relations with the USSR were lost as a result of the political dispute with the USSR; the Soviet technicians were withdrawn by Moscow in mid-1960, and not only potential benefits from the Soviet-aid program but also gains from a part of past investment efforts were largely lost. (3) The planning and statistical systems were disrupted by doctrinaire political considerations -- for example, encouragement of statistical exaggeration and political pressure to establish uneconomic small enterprises. (4) Finally, political interference with the work of technical and management personnel and excessive use and improper maintenance of equipment resulted in products of poor quality, in high costs of production, and in ineffective use of capital plant.

The Present Situation

Each year that the foregoing conditions persist in Communist China, the more difficult will it be to launch a new program that can achieve an impressive rate of industrial growth. Each year brings added mouths to feed; each year adds to the apathy, disillusionment, and physical weakness of the rank-and-file worker, peasant, and Party member; and each year increases the amount of investment needed to move the economy forward.

The loss of fertility of the soil caused by "leap forward" methods and the increase in population have reduced the potential per capita yield of the land. The closing of many factories and the inability to maintain technical standards and obtain quickly replacement parts for Soviet-equipped plants have reduced the operative industrial plant per capita. The effectiveness of management is being reduced because of the failure

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to agree on economic plans and because of the decline in incentive and energy among managers at the lower level. Under these present economic circumstances, each of the Chinese, in effect, is working with less land, less capital, and less management.

The regime has responded to present economic difficulties by announcing policies of retrenchment and consolidation and a change in priorities to concentrate resources in agriculture and light industry at the expense of heavy industry. No detailed plans or statistical data have been released, and the degree of success of the retrenchment cannot be accurately gauged. Chinese Communist commentary toward the end of 1962 has begun to assume a more optimistic note, and it is possible that some slight improvement may already be in sight. The general seriousness of the situation, however, is reflected in the continued imports of large quantities of grain, the continued idleness of a large portion of industrial capacity, and the public admission of the need for the people to endure further hardships.

The Military Sector

A detailed examination of the allocation of output to defense in Communist China is outside the scope of this paper, but a few general comments on this subject are appropriate. In the first years of the regime, the industrial base was being created for what promised to be a large modern armament industry, especially by Asian standards, but the events of the "leap forward," notably the withdrawal of the Soviet technicians, resulted in a great reduction in the actual and potential supply of modern equipment to the armed forces.

Nevertheless, the present land forces of China are large and formidable, and maintenance of a Chinese army strong enough to represent a real threat to China's neighbors will not require a massive drain on the Chinese economy. At the same time, it is believed that the Chinese are using appreciable quantities of scarce high-quality resources to develop nuclear weapons. Unless there is a significant increase in the allocation of effort to this activity, however, it is unlikely to have an important retarding effect on economic recovery in the short run.

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Future Prospects

In early years of their regime the Chinese Communists scored impressive economic successes that were dependent on Soviet aid; favorable weather conditions for agriculture; and moderation in economic planning, including the program for agricultural collectivization. The "leap forward" period saw the end of this pattern of economic events -- that is, the end of the momentum and, for practical purposes, the closing of the margin between national output and minimum consumption needs. Because of population pressure and the deterioration of the physical strength and morale of the population, the situation today may be worse than available information, subject to considerable time lag, suggests.

On the other hand, a strong combination of the following events could generate a new and impressive surge of economic growth: (1) the restoration of large-scale technical and financial aid from the USSR or the receipt of like support from non-Bloc countries; (2) the occurrence of unusually favorable events in agriculture -- good weather, new quantities of fertilizer, and expansion of private plots and markets; (3) an effective program of population control, aided by the currently increasing mortality rate; and (4) the development of more moderate and flexible economic policies, including continued correction of "leap forward" excesses in the system of management and a reasonable tolerance of small-scale enterprise in agriculture and commerce. It is believed unlikely, however, that the foregoing conditions will develop to an extent sufficient to permit more than a moderate -- and generally unimpressive -- rate of industrial growth during the next few years.

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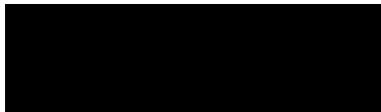
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