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## Current Support Brief

COMMUNIST CHINA:  
RECENT ECONOMIC PERFORMANCE AND PROSPECTS



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COMMUNIST CHINA:  
RECENT ECONOMIC PERFORMANCE AND PROSPECTS

Information on the economy of Communist China continues to be extremely fragmentary. Official claims, however, note advances in some areas of production; refugee, traveler, and diplomatic reports indicate slight improvements in the supply of some foods and other consumer goods; and weather data suggest slightly better growing conditions during the year for the country as a whole. These bits and pieces of information, including Peiping's more optimistic posture since last fall, indicate that a slight improvement in over-all economic activity occurred during 1962 and that most of the serious economic difficulties have been eased. Yet serious problems remain in every major sector of an economy that probably is no more productive today than it was in 1957.

The outlook for the immediate future (1963-64) is for the slow recovery of industrial output, on the order of 5 to 10 percent a year. Agricultural production, because it depends so heavily on weather, is most difficult to anticipate. Normal weather conditions and a continuation of peasant incentive programs should advance further the moderate agricultural recovery that began in 1962. It is believed, however, that food supplies will continue to remain stringent. Faced with overriding problems of overpopulation, backwardness in agriculture, and a low level of industrial technology, China's prospects for achieving status as a major world power in this decade have vanished.

1. Performance in 1962

For Communist China, 1962 was marked by a continuation of the serious economic difficulties that began in mid-1960 with the collapse of the "leap forward." For 3 consecutive years the Communist regime has been faced with a level of agricultural output insufficient to support continued industrialization and has been forced to continue its retreat from all-out emphasis on heavy industry in order to give first priority to agriculture. The policy of moderation and retrenchment decreed in 1960/61 was continued during 1962 with some success.

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The preliminary assessment of the agricultural situation in 1962 is for a slight increase in production of grain above the abnormally low levels of the previous 2 years and a substantial increase in production of subsidiary foods. (Principal agricultural areas are shown on the map, Figure 1.) Output of grain in 1962 is estimated to have been equal to the 185 million metric tons (mt) harvested in 1957, the last year before the "leap forward," when the population was 10 percent smaller. This estimate is based primarily on weather data, although the probability of a somewhat larger acreage of fall grain crops and a slightly increased supply of chemical fertilizer has been taken into account. Continued large-scale grain imports by China in the 1962/63 consumption year (July-June) are indicative both of the inadequacy of the harvest of 1962 and of the regime's concern over the food supply. Thus far, contracts have been signed for delivery of about 3.5 million mt of grain during the first 6 months of 1963 -- about the same quantity that was imported during the similar period of 1962. The estimated 5 million mt of grain being imported in the 1962/63 consumption year amounts to about 4 percent of total food grain supplies. (Gross output of grain of about 185 million mt is reduced to an equivalent of 115 million mt available for human consumption after allowing for milling losses, seed requirements, and other non-food requirements.) In 1957, China was a net exporter of grain.

The further decentralization of authority within the collective farm system in 1962 -- the production team of about 30 households is now the basic unit for carrying on agricultural activities -- probably had little effect on the output of rice, wheat, and miscellaneous grains. But toleration by the regime of private plots and trade in open markets resulted in a substantial increase in the supply of vegetables, fruits, and sweet potatoes in rural and urban areas.

The assessment of the harvest for 1962 implies that for the fourth consecutive year the food situation will be stringent. The average diet in the 1962/63 consumption year probably is improved slightly over that of the previous consumption year, largely as the result of increased production on private plots. The food situation probably will remain critical throughout the winter and spring of 1963, although increased availability of subsidiary foods may make undernourishment less serious than it was during the preceding 2 years.

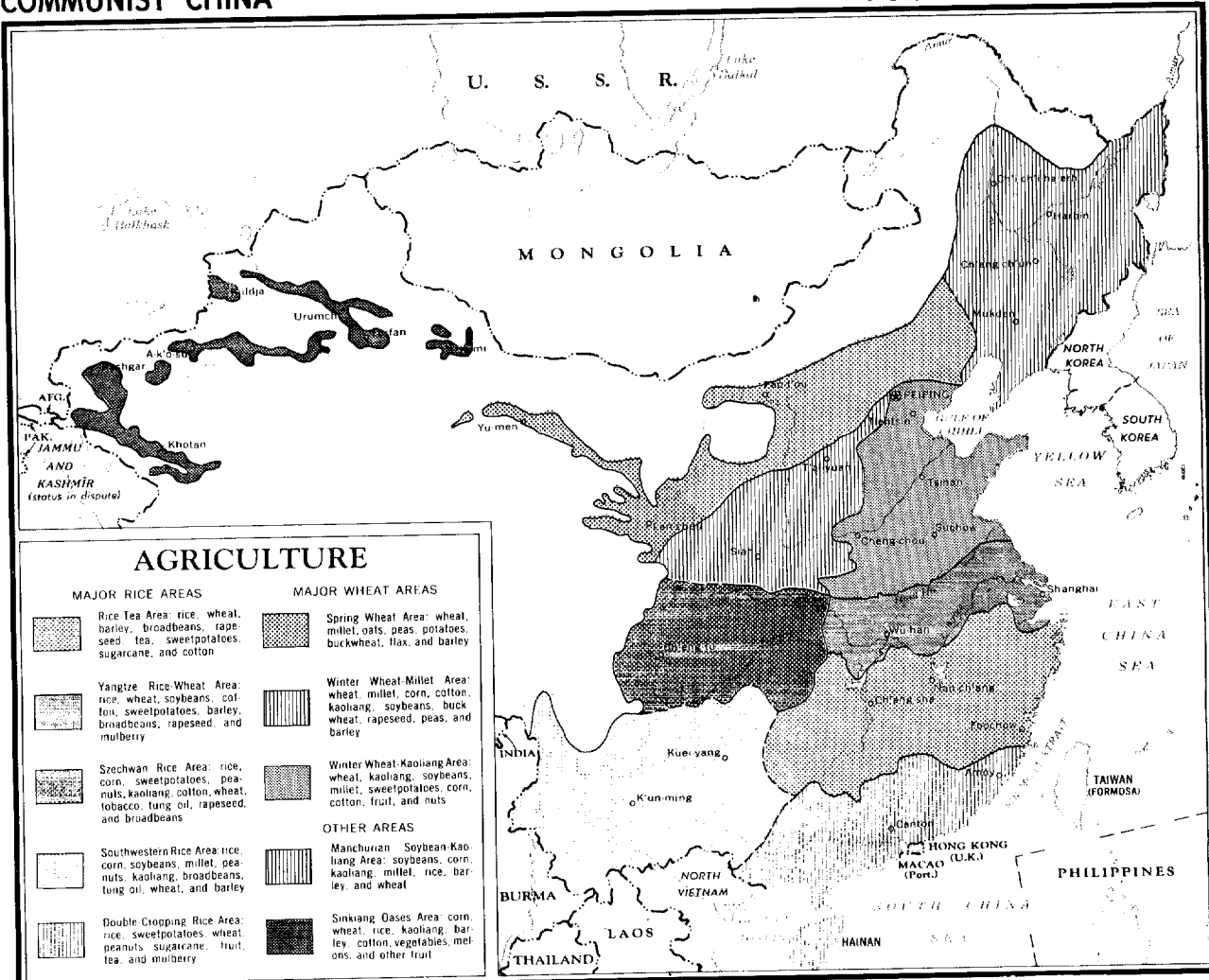
- 2 -

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Figure 1

COMMUNIST CHINA

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In 1962 the Chinese Communists seem to have achieved moderate success in carrying out their policy of reshaping industry. It is believed that there have been increases in output of priority goods such as chemical fertilizer, some farm implements, and many types of light industrial and handicraft products; that output per employed worker has increased somewhat (in large part, simply by laying off excess labor and thereby adding to the problem of unemployment); that technical and managerial personnel have been accorded greater prestige and responsibility; and that problems of quality, cost, and maintenance of equipment have been eased (but still persist as obstacles to industrial efforts).

The evidence suggests that the level of total industrial production in 1962 was about 50 percent of the 1959/60 peak, or approximately equal to that of 1957. Production of agricultural chemicals, some farm equipment and tools, and light industrial products made of industrial raw materials was considerably above the level of 1957, but production of the machine building, paper, and textile industries was below that in 1957. Production of steel and electric power may have been at roughly the level of 1958.

A major economic objective in 1962 was to raise the level of industrial technology in order to create a base capable of supporting the development of military industries and agricultural chemical industries. It is not known what technological progress was made in 1962 in the type of industries needed to support an advanced weapons program, but increases in output of chemical fertilizer and insecticides suggest improved technical ability to operate plants in the chemical industry. Nevertheless, it is believed that there are some heavy industrial plants -- for example, aircraft, truck, and chemical fertilizer plants -- that are producing below capacity because of difficulties in operating the plants or in obtaining components and materials elsewhere in the economy.

Aside from heavy industrial plants that are having technical and supply difficulties, unused capacity now exists in many major industries. The reason for this situation in light industry is clear -- it has been unable to obtain the necessary raw materials from agriculture. The reasons for idle capacity in heavy industry are more complex. An important factor

- 3 -

S-E-C-R-E-T

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seems to be that the process of retrenching and redirecting output of heavy industry has reduced the need for basic heavy industrial items such as steel, electric power, construction materials, and some types of machinery. In those industries that are supporting agriculture, however, especially chemicals, additions to plant capacity and to the managerial-technical force of the plants are sorely needed.

## II. Prospects

Although the Chinese Communists seem to have entered 1963 in a mood of cautious optimism, the outlook for the next year or two is for a slow upturn in industrial output, on the order of 5 to 10 percent a year. Further moderate agricultural recovery seems likely, but the depressed agricultural scene colors the entire economic outlook for the present and will continue to do so in the immediate future. (Comparative agricultural statistics for the US, China, and India, pointing up the basic nature of the Chinese problem, are shown in the chart, Figure 2.)

There can be no speedy solution to the problems confronting China's agriculture even if the reasonable elements in the leadership prevail during the next few years. Such measures as the decentralization of day-to-day decisions and the continued tolerance of private plots and peasant markets would spark some continued recovery. If increased supplies of chemical fertilizer and other inputs are to yield maximum results, they must be accompanied by responsive seed strains and improved farming methods. Research and extension services cannot be created overnight, nor can they be expected to bear fruit on any scale within less than a decade. Furthermore, it remains to be seen just how much effect the recent steps toward decentralization will have on the crucial question of peasant incentives. In the case of the private plots, the effect clearly has been to stimulate output.

Because the level of imports from the USSR has fallen so sharply and because China is running an annual export surplus of about \$200 million in its trade with the USSR to service Soviet loans, a complete Sino-Soviet break would have relatively little impact on Chinese growth. There would be some disruptive effects, for China imported about \$80 million of

- 4 -

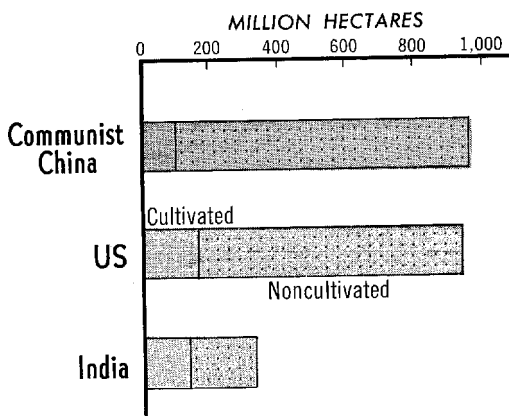
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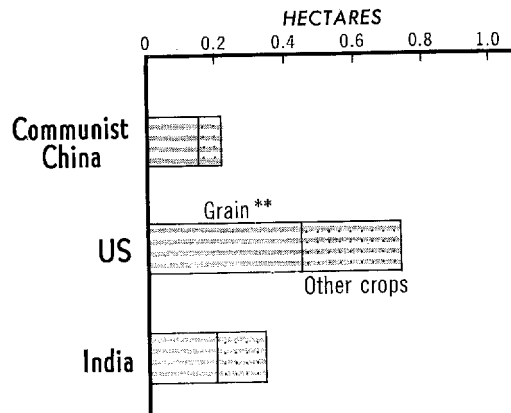
Figure 2

**COMMUNIST CHINA, US, AND INDIA: COMPARATIVE DATA\* ON LAND UTILIZATION  
AGRICULTURAL OUTPUT, AND POPULATION DISTRIBUTION**

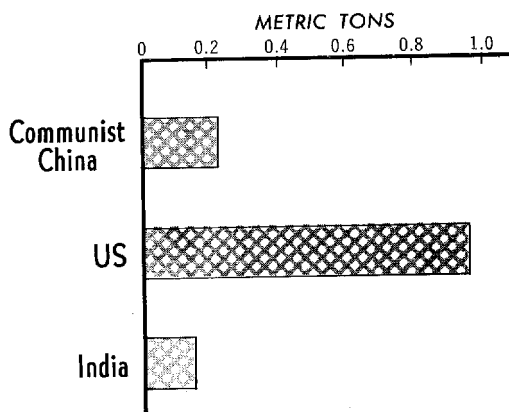
**LAND UTILIZATION**



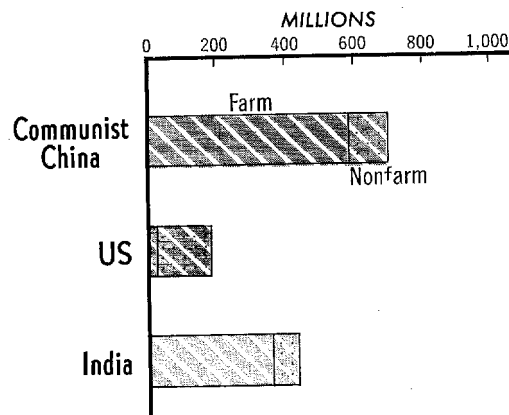
**SOWN AREA PER CAPITA**



**GRAIN PRODUCTION PER CAPITA\*\***



**POPULATION DISTRIBUTION**



\*All data are estimates as of 1961

\*\*Excluding tubers

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petroleum products from the USSR in 1962 and the USSR continues to furnish China with some industrial supplies. Within a few months, China could reorient enough of its present Soviet trade toward the West to generate the necessary foreign exchange needed to replace Soviet petroleum and industrial supplies.

For the prospects beyond 1963-64, should a level of agricultural recovery be achieved satisfactory to the leadership -- and this level might well be less than the per capita level attained before 1960 -- industrial production could be pushed rapidly for a year or two because idle capacity exists in many industries. After existing capacity is put to use, growth in industrial production would slow down if present goals for the long run -- which stress variety and quality rather than quantity -- are retained.

The Peiping regime still insists that it intends to create a Communist society and to build a militarily strong state, but it probably no longer believes that substantial progress toward these goals will be feasible during the next few years. The Malthusian dilemma is a real and present threat in China today. The rate of population growth averaged 2.4 percent from 1953 through 1958, and although it has slowed down to 1.5 to 2.0 percent in recent years, it probably will rise again as average diets improve and the death rate falls. There seems to be little that the regime can do to control effectively the birth rate over the next few years. Especially in rural areas, where social beliefs are hard to change and medical services are poor, family planning and birth control require generations to take hold.

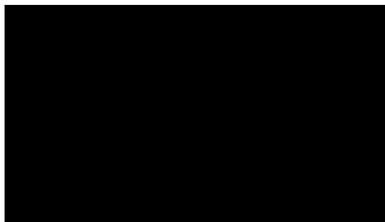
- 5 -

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- 6 -

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