

## Current Support Brief

INVESTMENT IN COMMUNIST CHINA  
CUT BACK DRASTICALLY  
DURING 1961-62



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CENTRAL INTELLIGENCE AGENCY

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INVESTMENT IN COMMUNIST CHINA  
CUT BACK DRASTICALLY  
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Recent analysis of available economic information from Communist China suggests that investment expenditures were cut back drastically during 1961-62 to about 35 percent to 40 percent of the peak level of 1959. The estimated drop in investment spending, although derived independently, tends to support previous estimates that output from existing industrial facilities declined during the same period to roughly 50 percent of the "leap forward" level attained in 1959-60.

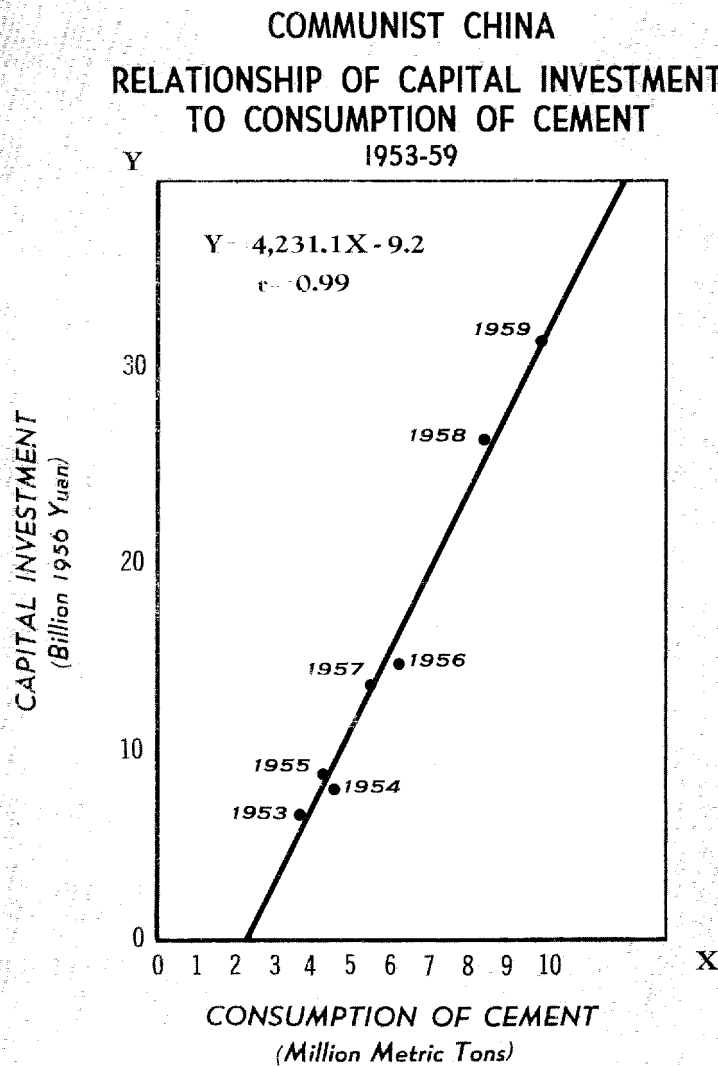
Some small increase in investment spending in 1963 above the low level in 1962 seems likely, however, in view of current prospects for at least a slight improvement in general economic performance and in the ability of Chinese technicians to construct, operate, and maintain complex capital equipment without Soviet assistance. After more than 2 years of "retrenchment on the capital construction front," the Peiping leadership apparently now feels that investment spending has been "appropriately readjusted" 1/ and that economic planning can again focus on the "prper expansion" rather than further curtailment of investment outlays. 2/ Expenditures for the expansion of industrial capacity in 1963 probably will be confined largely to a few priority industries, such as those producing chemical fertilizer and providing other direct support to agriculture as well as those producing mining products, timber, and national defense items.

Peiping's continued unwillingness to release statistics on economic performance and the scarcity of information from alternative sources preclude a precise measurement of the decline in investment spending since the collapse of the "leap forward" in mid-1960. Reasonable estimates for investment spending can be made, however, on the basis of statistical relationships that existed before 1960 between changes in investment expenditures and changes in the quantity of construction

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materials consumed by investment projects. For example, during 1953-59, there was a high statistical correlation between changes in capital investment and changes in the consumption of cement (see the accompanying chart), indicating that for every million-ton change in consumption of cement the value of capital investment changed by a constant amount.



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A comparison of the historical relationship between the consumption of cement and capital investment for 1953-59 with estimates of the consumption of cement for 1961-62 indicates that expenditures on capital investment may have been cut back as much as 60 percent in 1961 and from 50 to 75 percent in 1962, compared with the peak level of 1959 (see the table).

Table

Communist China: Estimated Capital Investment  
and Consumption of Cement  
1953-62

<u>Year</u>	<u>Capital Investment (Billion 1956 Yuan)</u>	<u>Consumption of Cement (Million Metric Tons)</u>
1953	6.8	3.5
1954	8.0	4.3
1955	8.7	4.2
1956	14.8	5.9
1957	13.8	5.5
1958	26.7	8.1
1959	31.7	9.8
1960	N.A.	N.A.
1961	12	5
1962	8 to 16	4 to 6

Several additional factors suggest that the actual figure for investment in 1962 may have been slightly below the midpoint of the range indicated by the statistical estimation -- perhaps 10 billion to 12 billion yuan. Such a range would be consistent with Premier Chou En-lai's statement early in 1962, when the general economic downturn seemed at its worst, that China should "further shorten the front of capital construction." <sup>3/</sup> An estimate of about 10 billion to 12 billion yuan is consistent also with observations from travelers and refugees that construction activity in 1962 was not higher than in 1961 and was probably

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a bit lower. In addition, it is quite probable that, because of shortages of timber at a time of excess capacity in the cement industry, the proportion of cement used in investment projects has been rising -- a turn of events strongly implied in a recent press article in which the Vice Minister of the Construction Industry reported that, in 1963 at least, cement was to be substituted wherever possible for timber in investment projects. 4/ A rise in the consumption of cement per unit of investment would tend to lower the level of investment in 1962 that was estimated on the basis of previous statistical relationships.

The correlation of investment spending with other investment inputs (such as finished steel, timber, window glass, and machinery and equipment) was equally high during 1953-59, but cement was used in the estimates for this report because of the availability of recent estimates of cement output. 5/ The quantity of cement consumed in investment projects was derived by subtracting estimates of net exports of cement from estimates of domestic output of cement.

The figures for capital investment spending during 1953-59 are official statistics, deflated for price changes. 6/ Because the only relevant price index released by the Chinese does not extend beyond 1956, 7/ it has been necessary to assume constant prices for the years 1956-59. The investment figures estimated here encompass investment inputs that are for the most part within the state-controlled sector of the economy, where prices are rigidly controlled, and it is unlikely that the prices of these investment inputs have been changed to a degree that would significantly affect the analysis.

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Analyst:



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Coord: None

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