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THE ECONOMY OF COMMUNIST CHINA

MAINLAND CHINA is today passing through a socio-economic revolution of unprecedented scope, depth, and importance. For the first time in its four-thousand-year history, this huge land peopled by 700 million peasants has totally mobilized its vast human and natural resources in a single-minded drive for economic construction. In spite of natural calamities and gross human errors, the revolution has not collapsed, nor is it likely to. Its progress is perhaps the most significant single phenomenon of contemporary history, one that can be ignored only at the risk of belated surprise and at the price of hasty patchwork policy-making.

Until 1958 (the year which marked the formal beginning of the Second Chinese Five-Year Plan) the Chinese strategy of social transformation and economic development broadly conformed to the Stalinist prescription for rapid socialist growth through the nationalization of the means of production, lopsided industrialization, and the exploitation of agriculture. In fact, the fundamentalist Communist Party of China went one better than Stalin in its stress on heavy industry and in its high rates of capital formation. Whereas in the last year of their Second Five-Year Plan (1937) the Soviets invested 19 per cent of their gross national product, the Chinese investment rate in 1957 (the last year of the First Five-Year Plan) was 20 per cent. In the period 1952-1958, the Chinese directed 51 per cent of their total capital investment into industry and only about 9 per cent into agriculture. The Soviet Union in 1937 devoted 49 per cent of its total investment to industry and 19 per cent to agriculture. Of total industrial investment in both countries during comparable periods, heavy industry was by far the most important beneficiary. The First Chinese Five-Year Plan (1953-57) was thus essentially Stalinist in nature, inspiration, and execution. It differed from its Soviet prototype only in rather minor local adaptations.¹ The result in both the Soviet and the Chinese economies was rapid growth of industrial production (about 15 per cent per annum in China from 1953 through 1958) and stagnation in agriculture aggravated in China by an average

annual rate of population growth of about 2.2 per cent. The pressure of population on China's arable land resources was far more acute than anything ever experienced by the Soviet Union. By 1958 Soviet credits, never over-generous, were nearing exhaustion, and the prospect of further Soviet aid was dimmed by political frictions arising from Khrushchev's de-Stalinization and peaceful co-existence drives and from China's reluctance to toe the Soviet line.

The strains generated by serious disproportions in the growth rate of the different sectors of the economy and the mounting tension in Sino-Soviet relations led the Chinese leaders to search for new solutions to the problem of economic growth and development. The idea, as the Chinese—ever ready to indulge in the numbers game—put it, was to “walk on two legs”. This meant the development by the state of a modern, large-scale, capital-intensive heavy-industry sector, and the local development of a small-scale, labour-intensive industrial sector which would produce agricultural tools and simple equipment. The labour-intensive sector was to be set up through the total mobilization of labour throughout rural China. This quasi-military call up of all able-bodied men and women, old and young, was also to help in the carrying out of water reclamation and irrigation projects and was to fuel the drive to increase unit yields in the fields by facilitating labour-intensive field tasks. The most notorious features of this new strategy were the rural communes and the backyard smelting ovens. The “Great Leap Forward”, as the first two years of the Second Five-Year Plan (1958-1962) came to be known, fizzled out in the latter part of 1959 under the impact of famine and industrial crisis. At the same time, help from the Soviet Union came to a virtual standstill. In a fit of exasperation the Russians pulled out their technical and scientific advisers from China, thus making China's plight more acute and the prospect of an open rupture between the two socialist powers imminent. The Second Five-Year Plan was declared fulfilled three years ahead of schedule, which was probably the best face-saving way of dealing with a monumental miscalculation.

The combined ravages of famine and the “Great Leap” and the disappearance of Russia from Chinese economic calculations threatened China with economic isolation and an indefinite postponement of her industrial ambitions. Beginning in 1960, the problem was tackled by a Chinese version of the NEP *minus* private initiative. The new programme was given the rather cumbersome name of a “Policy of Readjustment, Consolidation, Filling-Out, and Raising Standards”.² It reflected the leaders' determination to pursue industrialization by means that fitted the new constellation of circumstances better than either the Stalinist formula of the First Five-Year Plan, or the more specifically Chinese Great-Leap storming of 1958-59. The

new program emphasized the importance of agriculture and of industries that support agriculture. Specifically, it was pointed out that "the growth of the national economy must be based on agriculture. . . . Only when agriculture has been restored and developed, will it be possible to harmonize relations between industry and agriculture, gradually improve the people's livelihood and promote further industrial growth."² While total investments were to be trimmed, the proportion of investable funds going to agriculture and industries directly serving agriculture (chemical fertilizers, insecticides, agricultural machinery and farm implements) was to be substantially raised. At the same time, the participation of the raw-materials and fuels industries (especially petroleum and natural gas) in total investments was to be increased. In a sense, this is a Khrushchevian approach to investment planning, although the Chinese would be the first to deny it. Khrushchevian economics is, in one important respect, a function of internal strain, of the overcommitment of resources, and of over-concentration on a limited range of leading industrial sectors. It is essentially rectification or, as the Chinese prefer to put it, "readjustment." The Soviet readjustment of 1956-64 has taken place at a much higher level of gross national product than the Chinese readjustment of 1960-64, but there are strong similarities between the two.

The Chinese quasi-NEP, first propounded in 1960,⁴ envisaged not only a rapid increase in the output of chemical fertilizers, insecticides, agricultural machinery, farm implements, oil, coal, tin, mercury, and other key raw materials, but also a radical improvement in the quality and variety of industrial products. This was not alone a reaction against the poor quality that was a feature of the backyard production accelerated by the Great Leap, but a clear indication of China's refusal to be isolated economically. The stress on quality and variety is not a normal feature of closed economies in the take-off stage; it points to a desire to trade in world markets—in capitalist markets, to be precise. Capitalist imperialists, as the Chinese are privately fond of referring to their trading partners, tend to be finicky about quality; under the constant shelling of high-powered advertising they have become sophisticated, sceptical, and choosy. If advanced lathes and oil derricks are to be had from Britain, France, West Germany, and Canada, if chemicals and chemical plants are to be imported from the doomed capitalist world, if wheat is to be got from the Prairie Provinces, from Australia, France, and Argentina, Chinese export products must undergo drastic quality reforms and production within China must needs be highly responsive to rapid changes in capitalist demand. The Chinese insistence on improving the quality and variety of goods and their toleration of Hong Kong and Macao (China's chief foreign-currency earners) are, in effect, an implied

admission that in the absence of fraternal socialist aid, a Maoist version of Khrushchev's peaceful co-existence is an historical, an "objective" necessity for the construction of socialism in China. In view of all this, it is not surprising that the Chinese have their own "five principles of peaceful co-existence" which differ from the Soviet thesis only in that they were proclaimed by Chou En-lai rather than by Khrushchev.

The new policy, therefore, implies maximum self-reliance consistent with the aim of rapid industrialization. This is as much as to say that a great part of the internal effort is directed towards export industries and towards the building up of those economic sectors that save on foreign exchange. In order to cut down on wheat and barley imports in the long run, domestic production of these commodities must be increased. This means, first and foremost, that Chinese agriculture must receive huge injections of chemical fertilizer which, at present, are produced domestically in insufficient quantities. The decision, therefore, is to export rice, tea, egg products, and exotic foods in exchange for chemicals and complete chemical plants while at the same time pushing ahead with the expansion of the domestic petroleum and natural gas industries. By judiciously buying abroad the most advanced products of Western technical and scientific genius and applying these to agriculture and other export industries as well as to growth-promoting domestic industrial sectors, the Chinese hope to make come true their firm conviction that "those who start the last arrive the first." Without a well-developed economic base, China's world political ambitions are meaningless; agriculture and an active foreign trade with the non-Communist world are the keys that may open the door to China's participation in world councils. The new policy of internal readjustment and external co-existence appear to take full account of these considerations.

An interesting feature of China's present strategy of economic growth is the use of the army for agricultural work and industrial construction. The "People's Liberation Army" is an army of peasants; it is a huge commune, the only successful one so far. Its farms supply a significant portion of the grain, meat, and vegetables procured by the State. In 1963, in addition to their military duties, educational tasks (the fight against illiteracy), road, rail, bridge, and canal construction, the army put in about 8 million work days on the collective farms and communes.⁵ The air force, grounded by Soviet refusal since 1962 to sell to China sufficient quantities of gasoline and jet fuel, has managed to muster enough planes to spray pesticides and seed rain-bearing clouds over some farm land. Economically the army represents a highly mobile, trained, and flexible work force whose consumption is strictly rationed. Psychologically it exemplifies the "Nanniwan spirit" and the "Yenan style of work", both linked to the revolutionary tradition dating back to the early 1940's when the

Communist Eighth Route Army led a production campaign at Nanniwan near Yen-an under the slogan: "Do not take even a needle or thread; consider the people as your family; all that you have borrowed, you must return."⁶ The Chinese army is the spearhead of Communist China's puritan economic revolution. It is also employed as a weapon of foreign aid: it has been used to help in carrying out Chinese-financed road and industrial construction projects in North Korea and North Vietnam, and its technicians, mechanics, engineers, and veterinarians have been sent to Yemen and to African countries.⁷

The foreign trade component of the new strategy is being pushed vigorously. While China's exports to other Communist countries were just about halved between 1960 and 1963 and her imports of the indispensable prerequisites of industrialization fell by more than two-thirds, trade with the free world was maintained at a steady turnover figure of about 1.4 billion dollars, and in the last year (1963) has shown clear signs of a break-through to higher levels. At the present time Communist China maintains economic relations (trade and aid) with more than one hundred countries, including such ideologically unlikely partners as South Africa and Portugal. Chinese imports consist mainly of chemicals, fertilizer, chemical plants, plastics, synthetic fibres, iron, steel, machinery and machine tools, electrical and control equipment, refinery installations, optical goods and scientific instruments, transportation and telecommunications equipment, petroleum products, wheat, rubber, wool, and cotton. They are, in short, products of advanced industry and have to be bought in the West and paid for in convertible currencies. China's major exports fall into five general categories: metals (especially tin, antimony, mercury, and silver); raw materials such as coal, cement, and pulp; crude animal and vegetable products (especially oil and oil-seeds, bristles, hides, furs, feathers); food in various stages of processing (eggs and egg products, fruit, vegetables, fish, rice, tea, and sugar); and rather simple manufactured goods (textiles, clothing, sewing machines, bicycles, tyres, stationery). Exports of *objets d'art* are on the increase. The Chinese foreign exchange situation is not desperate. With Hong Kong, Macao, and Malaysia, and more recently also with Ceylon, the Chinese have a regular and substantial surplus on both commodity and services accounts. Economically, Hong Kong and Macao are totally dependent on China for everything from food and water to movies. The Chinese have been quick to seize control of the large Hong Kong trade in food parcels to China and of the overseas Chinese remittances to relatives on the mainland. They have also been careful to maintain a small overall positive balance in their trade with Western Europe. Moreover, most Western countries (as well as Japan) have in recent months taken steps to extend medium-term loans to China

so as to help sustain what they consider to be a most promising trade with a market hungry for the very goods they have available for sale. This is particularly true of the financing of Japanese and Western European exports of chemical plants, aircraft, and ships to China. Although in all Communist countries precise data on foreign-exchange reserves are still treated as a military secret, scattered evidence seems to indicate that the Chinese foreign-exchange situation may, in fact, be better than that of the U.S.S.R. Now the average daily *per capita* calorie intake has been raised to about 2,580 calories (1,940 in 1933)⁸, consumption pressures on resources are likely to be successfully kept in check, all the more since the régime does appear to have built up an effective control machinery for keeping consumption levels down to officially prescribed "needs". The prospects for greater trade with the West are, therefore, favourable.

Since 1949 all the techniques of the modern totalitarian state have been harnessed for the task of economic construction. Without Soviet help before 1960 and active Western co-operation after that date, the job would have taken longer. As it is, Communist China is well on the way to becoming a factor in the world power balance. It is a prospect fraught with uncertainties, dangers, and hopes. For the present Chinese leadership, peaceful co-existence with the non-Communist world is frankly a matter of tactics indispensable for the construction of Communism; it does not exclude fanning local conflicts and teasing the "paper tigers" of the West beyond the point that the Russians consider safe or proper. In regarding themselves as the revolutionary proletariat of the world, the Chinese are not altogether weaving Confucian dreams with threads of Marxist dogma, and the Russians, preoccupied as they are these days with goulash, have taken time out to contest this view. Whether, as the Chinese would have it, "the East wind will prevail over the West wind", is a matter for speculation. What is certain is that Communist China is no longer a negligible quantity in decisions concerning peace and the future of mankind and that her role will, within a short time, become more important.

NOTES

1. Alexander Eckstein, "The Strategy of Economic Development in Communist China," *American Economic Review*, Papers and Proceedings, May 1961; Cheng Chu-yuan, *Communist China's Economy, 1949-1962*, Seton Hall University Press, 1963.
2. Fang Chung, "An Economic Policy that Wins: A Survey of the Policy of 'Readjustment, Consolidation, Filling-Out, and Raising Standards'", *Peking Review*, March 13, 1964.
3. Fang Chung, *supra*.

4. *Hung-ch'i*, No. 22, 1960.
5. "The Army in the Field," *Peking Review*, February 28, 1964.
6. See *China—Photographed by Henri Cartier-Bresson*, New York, Bantam Books, 1964.
7. See Jan S. Prybyla, "Soviet and Chinese Competition within the Communist World," *Soviet Studies*, April, 1964.
8. Ta-Chung Liu and Kung-Chia Yeh, "Preliminary Estimate of the National Income of the Chinese Mainland, 1952-59," *American Economic Review*, Papers and Proceedings, May, 1961.

MAY

John Cowles

Through last night's smoke and ashes,
The world creaking in a worn orbit,
My used mind poised
Watching the slow death of a body,
Worn from the slow circling
Of time and the potter's wheel,
Still canted to remembered soaring.

And from your myriad hand
And thin lip
The flame of return.
Yet
You are not the tooth of passion
Nor the wing of desire,
Nor does your smile become you
With the grace of gods
And laughter of nymphs.

Let it remain as it was spoken
Or as it seemed
When my worn body
Stretched the mountains between its length:
And all the blue above
Was in the rainwater of your eyes.