



# **CHINA'S ECONOMY**

**A Basic Guide**

**CHRISTOPHER HOWE**

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For my wife

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# Preface

As recently as ten years ago the Chinese economy was a subject of very limited interest. Remote in every way, seemingly irrelevant, its study engaged only a handful of specialists. Today, demand for economic information about China is considerable. Several developments explain this transformation. One is that China's industry has now achieved a size and (on a limited scale) a sophistication that make it a significant force in world politics. In 1949 industry employed one four-hundredth of the population and consisted of 15,000 miles of railway, six million cotton spindles, an annual output of one million tons of steel, and an assortment of other plant. In relation to China's possession of a quarter of the world's population, this industry was microscopic. Twenty-seven years on, China is the world's third largest producer of coal, cotton textiles and radio receivers; the fifth producer of steel; and the tenth producer of oil. The Chinese manufacture computers, electron microscopes, nuclear missiles, and an enormous variety of machinery. They are now acquiring a petrochemical industry, have options on the Concorde supersonic airliner, and within a few years will be able to manufacture advanced aeronautic equipment of their own. In terms of China's National Product, continued growth at current rates would give China a Product as large as that of the United States by the early part of the next century. This growth has been accompanied by fitful, but at times rapid, expansion of trade, and this is a second reason for interest in China's economy. China's trade is less than 1 per cent of the world's total; but as an importer of steel, chemicals, and equipment from Japan, of grain from Canada and Australia, and of a variety of goods from Europe and America, China has increasing weight. Indeed, uncomfortable as it is for all parties, the interdependence between China and the rest of the world is such that China's harvests can change the price of our bread.

Concern about China's economy has also been stimulated by visiting intellectuals and politicians, many of whom have been very impressed by China's achievements. For example, China has been described as the society where things 'work' (J. K. Galbraith); where there is 'no competition' (Mrs Jacob Javits); where there is 'total freedom from inflation and material and moral pollution' (Mr Denis Healey); and where the people are 'less anxious and ill-tempered than we are' (Mrs Joan Robinson).<sup>1</sup> The impact of these reports has spread like ripples on



a pool, touching the curiosity of a wide audience, of whom few are likely to have the opportunity of visiting China, or of verifying these claims for themselves. In addition to visitors there are scholars whose study of the non-Chinese world has led them to think that the Chinese experience may have wider application, and who suggest that China may have found remedies for the dehumanization of industrial work, for the evils of inequality, for excessive urbanization, and for the wider problem of creating a viable civilization on a basis of finite resources.<sup>2</sup>

Finally, there is the interest of those who believe that China's progress is a matter of global concern, even when this is defined in the narrowest way. This approach can be understood only if we take account of the reverse side to the industrial successes sketched above. In the past twenty years, for example, population growth has kept the proportion of the population living in the countryside unchanged and has absorbed nearly all the gains that might have accrued in the form of higher living standards. (Consumption of grain and cotton cloth have increased slightly, if at all, since 1957.) Another indication of China's present backwardness (familiar to visitors) is provided by the long processions of men and women that move in and out of the cities pulling heavy, laden carts. Starting in the dark before dawn, often in freezing atmospheres, the inward carts carry food, the outward ones nightsoil. This intense physical effort remains a commonplace in an economy that, in some respects, is close behind the most advanced contemporary technology. It can be argued that overcoming this backwardness, even keeping abreast of the demands of population growth, will be extraordinarily difficult, and that if China's vast experiments fail it would be folly to imagine that the consequences will be contained within China. Many would add that to ignore such failure would be immoral, even if the consequences could be contained. In this view the future of China's population seems materially and morally inseparable from our own.

In response to these pressures and interests, university and government research has expanded. A list of all the important books on the Chinese economy given to me in 1963 contained six authors. A comparable list today would contain sixty. The result of all this effort, however, has all too often been studies that are specialist and extremely lengthy. For example, the latest excellent compilation prepared for the Joint Economic Committee of US Congress (1975) is half a million words long, of variable technical difficulty, and contains contributions that contradict each other.<sup>3</sup>

It must be added that since 1972 much official research has not been published at all. In some cases this reflects the unwillingness of governments and international organizations to act in ways that they believe will offend the Chinese (e.g. by publishing estimates that

contradict Chinese claims). In other cases the Chinese have requested that reports containing material on China — however flattering — be shelved. In this way we have recently lost reports on China's population, agriculture, and education.

The purpose of this book, therefore, is to reduce our present knowledge of the Chinese economy to manageable proportions. The result will not answer many of the deep questions raised above. It will, I hope, provide a starting point and a minimal factual framework from which enquirers can proceed to better things. This factual framework is organized around three questions. How large is the Chinese economy? How is it organized? In which direction is it moving? The latter is a particularly important question. I at first attempted to limit the book to the 1970s but this proved impossible. The Chinese economy is a dynamic phenomenon whose properties have been shaped by history. As the text stands, lack of historical content — pre- and post-1949 — remains a weakness, but materials on the 1950s and 1960s are now included. Also, each chapter is prefaced with quotations that illustrate that in many respects an enquirer into twentieth-century China finds much that was reported by enquirers two and three hundred years ago.

In writing each chapter I have asked myself the question: 'What is the minimum information that a professional or serious student would need to know about this topic—assuming no previous knowledge of China?' I was helped in defining the answer to this by talking to businessmen, diplomats, journalists, civil servants, students, teachers, and to others who were just interested. I did find, however, that following this approach raised two difficulties. One was that addressing a varied audience required that the interests of one group had often to be set against those of another. The result is a compromise, and the reader who feels that I have fallen short in detail or depth, or have taken a topic too far, should bear this in mind. The other problem was that in writing about China there is a natural tendency to choose subjects for which materials are available: in this way a smooth and consistent result can often be produced. But if one's starting point is a series of basic, *a priori* questions, then the answers are necessarily very variable in quality. Thus it is relatively easy to write about the steel industry, but hard to say much about the standard of living. There is no solution to this.

### *Sources and notes*

The sources used fall into four categories:

(1) Original (mainly Chinese language) books, newspapers, journals, and documents of various kinds. Also translations of monitored Chinese radio broadcasts (British and American).

- (2) English language materials published in China. (Journals, magazines, and books.)
- (3) Secondary sources (mainly in English) published outside China. These include books, journals, Western and Asian newspapers.
- (4) Interviews (and transcripts of interviews) with Chinese informants. Conversations with many of the numerous businessmen, scholars, students, politicians, and others who have visited China (particularly during the past five years). This type of material was used in conjunction with impressions formed on my own visits.

The policy followed in writing the notes is as follows. For each chapter I have indicated the main English language sources available for the study of the topics covered. For statistics and quotations, citations are almost always provided. Other notes provide information that I felt would be out of place in the main text, as well as the sources of relatively unknown pieces of information. The notes are thus primarily designed to help the general reader; not to provide an academic defence of the text for eavesdropping specialists familiar with Chinese sources.

### *The problem of statistics*

Between 1949 and 1960, and since 1971, the Chinese have published economic statistics. Those published for the earlier period are particularly abundant. With their aid it is possible to study local and national developments, and to analyse individual sectors and industries in detail.<sup>4</sup> Statistics published since 1971 are far less detailed and there has been no resumption of publication of statistical and economic journals of the kind that disappeared in 1960. The interpretation of the available figures, and the construction of estimates to fill in the eleven-year gap, has exercised several very clever analysts. In particular, Dr R.M. Field and his team in the Office of Economic Research at the Central Intelligence Agency, Dr J.S. Aird and Mr J.P. Emerson at the US Department of Commerce, and Professor Nicholas Lardy, now at Yale University, have made available a collection of statistics that are landmarks in the history of Chinese economic studies. These are the most widely used and generally reliable series we have, and I have drawn on them extensively. Nonetheless, there are three points about these statistics that I have to make. First, I believe that Field's index of industrial production includes figures for 1960 that may be a little too high. The data for that year include claims of a 'Great Leap' variety; they often refer to outputs that were of low, even unusable quality. If these factors are inadequately discounted, the contrast between the rapid growth of the 1950s and the slow growth thereafter appears too sharp. Thus, although I have used the CIA series, this qualification

should be borne in mind—particularly in the chapter on industry.

Secondly, in the case of agricultural data, I have been unable to accept many of the CIA or US Department of Agriculture grain estimates.<sup>5</sup> The essential reason for the confusion that has arisen in these is that the American analysts have tried too hard to reconcile their first estimates for the 1960s and early 1970s with an evolving view of the official Chinese claims for the 1970s. Where necessary, I have therefore made use of grain estimates supplied to me by Professor K.R. Walker, whose own research on this topic is being prepared for publication.

Population statistics are the third problem. Chinese statements are few and questionable, and the only consistent data we have are a series of estimates prepared over many years by Dr J.S. Aird. In autumn 1976 Dr Aird produced an important new series that incorporated his latest thinking on this subject.<sup>6</sup> I have accepted these, subject to a minor qualification explained in the text. I am aware of the weaknesses of this solution, but see no alternative at present.

### *Acknowledgements*

The preparation of this book would have been impossible without the generous, unstinting assistance of many people. Much of this assistance has taken the form of conversations, but I have also received a flow of documents, articles, and materials of various kinds. In particular, I should like to thank Professor K.R. Walker, who has provided me with complete access to his encyclopedic materials on Chinese agriculture as well as with many other useful ideas and pieces of information. I have also received invaluable help from Mr Dick Wilson, Editor of *The China Quarterly*; Professor Dwight Perkins, Harvard University; Professor Ezra Vogel, Harvard University; Professor Michel Oksenberg, University of Ann Arbor; Professor Nicholas Lardy, Yale University; Mr John Dolfin, Universities Service Centre, Hong Kong; Professor Bruce Reynolds, Union College; Mr David Goodman, Mr Peter Nolan and Mr Lars Ragvald, former Fellows of the Contemporary China Institute; Mr Nick Ludlow and Mr Howell Jackson, National Council for US:China Trade, Washington; Mr J.P. Emerson and Dr J.S. Aird, Bureau of Economic Analysis, US Department of Commerce; Mr C. Liu, US Department of Agriculture; Dr Robert Michael Field, Office of Economic Research, Central Intelligence Agency; the Editor, *Current Scene*; Mr Kayser Sung, Editor of *Textile Asia*; Dr Hans Heymann Jr, The Rand Corporation; Mr Roderick MacFarquhar, MP; Mrs Caroline Oakman; Mr Peter Marshall, the Sino-British Trade Council; Mr Shigeru Aoki, Asian Affairs Research Council, Tokyo; Mr Tatsu Kambara, The Japan



Petroleum Development Corporation, Tokyo; and Mr Tatsuo Mizuno. For information on textiles, I am grateful to Mr Bob Rutley, on chemicals to Dr Sydney Dorling, and for materials on oil to Professor Edith Penrose.

I must emphasize, even more than is usual, that none of the above have any responsibility for the text. I have read and taken advice as widely as possible, but I have drawn my own conclusions, some of which might be rejected by those who have helped me.

On practical matters, I wish to express thanks to Colonel W. Baynes, Assistant Secretary responsible for the administration of the Contemporary China Institute, and to Sir Cyril Philips, who was until recently the Director of the School of Oriental and African Studies. Few institutions in the world provide their staff with the resources and stimulation necessary to undertake work of this kind; under Sir Cyril, the School became one of them.

I am indebted to my typists. Miss Avril Norton and Mrs Rosemary Allen typed all the early drafts. The final draft was typed by Mrs Patricia Pettitt—truly a professional's professional. Finally, I should like to acknowledge the encouragement and assistance of Mr Antony Wood of the firm of Paul Elek.

C.H.

# Introduction

‘To give the Reader a general Idea of this charming country, we cannot do better than quote the Words of a late Author, who, in his Account of China, writes as followeth:

“China is justly reckoned the finest Country in the World. It is exceeding fruitful; the Mountains themselves being cultivated to the Top. It produces, in many Parts, two Crops of Rice, and other Grain, with Variety of uncommon Trees, Fruit, Plants, and Birds. It abounds with Cattle, Sheep, Horses and Game. It is full of large navigable Rivers, and Lakes, stored with Fish. Its Mountains yield Mines of Gold, Silver, Copper, brown and white, etc. with Plenty of Coals everywhere. Pe-che-li, Kyang-nan, and Shangtung, are mostly plain, and cut into infinite Canals, like Holland. Being of great Extent in Latitude, the Northern Provinces are cold, the Southern hot; but the Air generally good. In short, China far exceeds all other countries for Number of People, Cities, and Towns; the Morality, Civility, and Industry of its Inhabitants; the Excellency of its Laws and Government.” ’

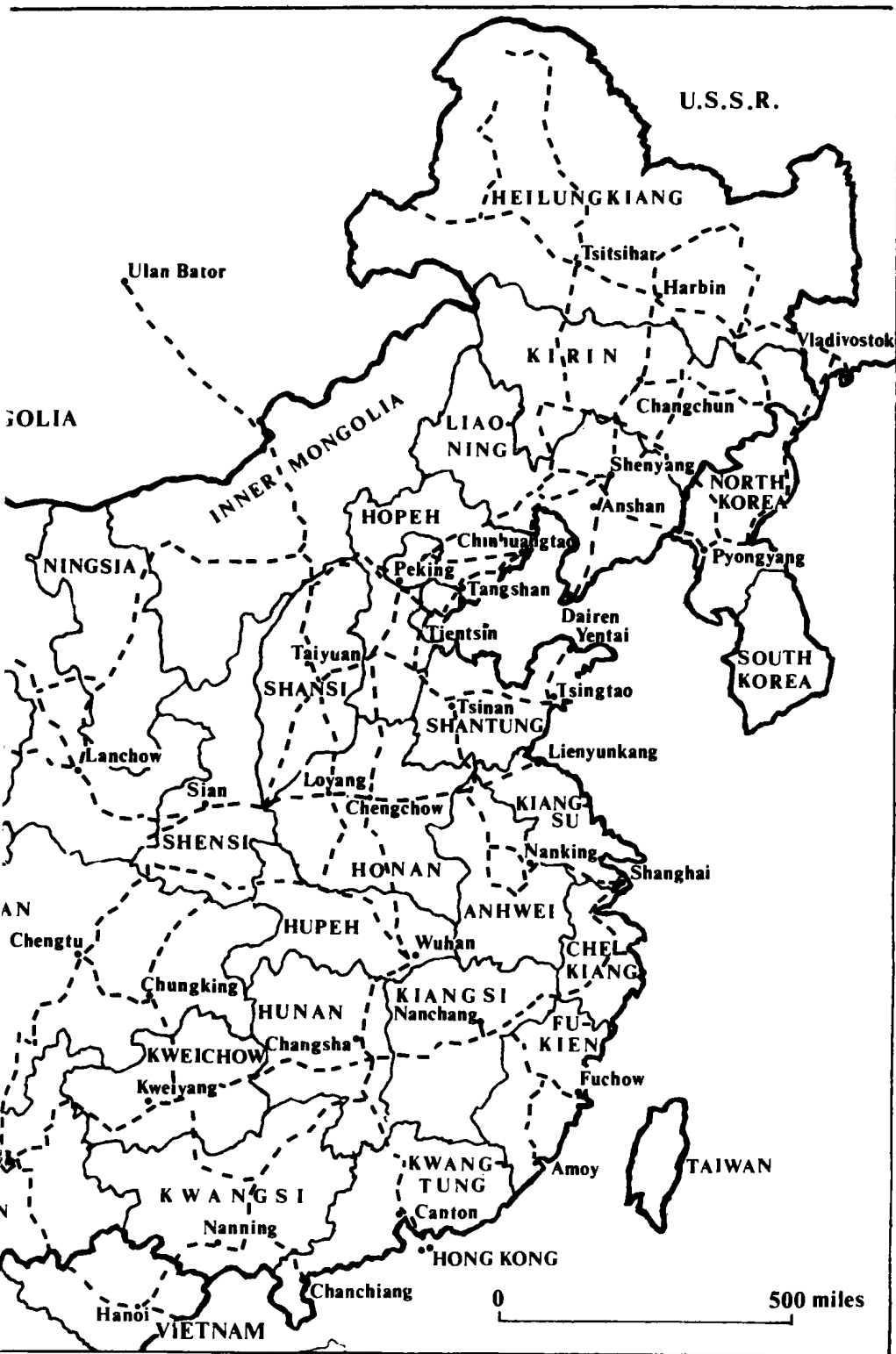
*A Short way to know the World*, quoted in Thomas Astley,  
*A New General Collection of Voyages and Travels*  
(London, 1747)

In the past two hundred years economic life in a substantial part of the world has been transformed by industrialization. In Europe, America, the Soviet Union, and a number of other countries, industrialization has accelerated economic growth at unprecedented rates and changed irreversibly the ways in which people live, work, and relate to each other. Industrialization has also increased the world's trade and thereby posed new problems of mutual dependence and conflict to which no solutions have been found.

Since 1945 these processes have begun to spread to the rest of the world. The stimulus for this has come from many sources: from nationalism and the decolonization of Africa and Asia; from the



The Provinces and principal rail routes of China



spread of Communism and reactions to it; and from the technological requirements of modern war and diplomacy. These new industrializations, however, are taking place under conditions that differ from those of the 'early' industrial revolutions. Some of these conditions are more favourable to progress, others are less so. On the positive side, contemporary industrializing nations can draw cheaply and without risk from a vast stock of knowledge available in advanced economies. On the negative side, they have to combine industrialization with provision of employment and acceptable living standards for politically aroused populations whose initial living standards have been lower, and whose rates of growth have been higher, than those of the populations of the early industrializing nations. Typical incomes in the poorer developing countries are about half those found in Western Europe on the eve of its industrialization, while rates of growth of population are 2-3 per cent compared to about 1 per cent or less in the early industrializing nations. As a result, even in the relatively favourably endowed developing economies, employment and personal incomes rise only slowly; in the poorest, the nightmare of populations rioting in the streets for food has become reality.

The strains associated with contemporary industrialization have led almost everywhere to the creation of new economic institutions that, by expanding the State's control of the economy, attempt to improve on the slow incremental advance expected of *laissez-faire* systems. These institutions, however, have their own problems. For while they provide a means of sharply increasing an economy's rate of saving and investment, while they afford the planners direct control of the nature of the economy, they also deaden the willingness to work, to innovate, and to make sacrifices; and they create bureaucracies that are expensive and socially divisive. State control carries the additional risk that when the masters of the bureaucracies are ignorant, they make errors on a scale impossible in economies organized by less centralized and interventionist means.

China's economic progress and problems during the past twenty-seven years fit reasonably well into the patterns suggested above. It is true that China differs from many underdeveloped countries in having a long history of cultural, governmental, and economic achievement. Nonetheless, the Chinese leaders are uncompromising industrializers; they have had to struggle continuously with problems of food and population; and, as Communists, they are natural interventionists and planners and have experienced all the problems that this entails. At the international level too, China now shares with other developing countries a growing preoccupation with raw material prices, with the working of international economic institutions, and with general problems of world economic order.

THE ECONOMY BEFORE 1949

The Chinese economy in 1949 reflected two fundamental developments: a crisis in the long-term relationship between the growth of population and the growth of the food supply, and the beginnings of an industrialization that started during the First World War, and continued thereafter in Manchuria and in a few major Treaty Port cities such as Shanghai and Tientsin. Incomes throughout the economy were extremely low and, according to the rudimentary estimates it has been possible to make, it appears that investment in the period from the 1920s to the 1940s was becoming increasingly insufficient to cover even the wear and tear of the depreciation of the nation's stock of capital.<sup>1</sup>

Much of this dislocation and lack of investment was due to war. From 1927 the Chinese were fighting a civil war; from 1937 they were fighting Japan. The effects were particularly important in agriculture where the elaborate labour-intensive cycle of operations necessary to maintain output at maximum levels was interrupted both by conscription and by massive population movements from the countryside to the greater security of the city. As a result of these developments, agricultural output by 1949 had fallen to about two-thirds of the highest previous level recorded.

China's agrarian problems were not, however, just a by-product of war. In the perspective of centuries, we find that whereas from the fifteenth to the nineteenth century agricultural improvements—both the opening of new land *and* the achievement of higher yields—had kept pace with population growth, from the early nineteenth century onwards this was ceasing to be true.<sup>2</sup>

In the 1920s and 1930s much was written about China's agrarian economy by Chinese and by interested Westerners. The picture was uneven in that problems differed and were more severe in some parts than in others. Nonetheless, most commentators noted that the major causes of rural poverty were fragmentation of land holdings, ignorance of modern agronomic techniques, and lack of Government investment in large-scale transport, water control, and land reclamation.

Many suggestions were made to improve this situation; and indeed the best of the pre-war analysts (such as T.H. Shen) set out with remarkable foresight the *technical* reforms that would be needed (i.e. development of water control, improved seeds and varieties etc.). There was, however, little agreement on the best *institutional* framework for China's agriculture. Some advocated a land reform that eliminated tenancy, others wanted locally organized cooperatives, others looked to the example of the Soviet Union and advocated large-scale, mechanized collectivization.



Although industry was also adversely affected by war in the late 1940s, the progress of this sector from 1914 to the mid-1940s had been quite impressive. From 1912/14 to 1941/43 industry grew at between 7 per cent and 8 per cent per annum.<sup>3</sup> Light industry developed in coastal Treaty Port cities such as Shanghai, Tsingtao, and Tientsin; while, particularly after their seizure of Manchuria in 1931, the Japanese built up a network of mining, metallurgical, and power industries which was to become the foundation for the Communist industrialization drive in the 1950s. In spite of this start, it could not be said that China had experienced (except in limited parts of the North-East) an 'industrial revolution'. This point is most vividly illustrated by the statistic that out of a population of five hundred million, employment in industry was at most two million.

China's pre-1949 economic situation did not reflect any peculiar characteristics of Chinese culture or of the Chinese people. It was the result of the intrinsic difficulties of initiating growth over a vast and varied geographical area: an area whose traditional form of government was in a state of decay and collapse, and which lacked the means by which radical change could be transmitted from Central Government to villages and households.

The other major obstacle to economic improvement was that the time of China's first efforts at planned industrialization in the 1930s unluckily coincided with unfavourable international developments: in particular, with a world-wide depression that made it difficult for China to expand foreign trade effectively, and with a crisis in Japan's economic development which led Japan to attempt to capture the Chinese economy for Japanese ends.

#### DEVELOPMENT SINCE 1949

China's development since 1949 has been uneven. The first phase, which lasted from 1949 to 1952, was a minor one. This was a phase of recovery and rehabilitation during which the Party took control of the monetary, fiscal, and trade systems, and implemented a Land Reform. The Land Reform was a traumatic event which eliminated the political and economic power of the landlords and distributed land and other assets to the rural population. It did little to remedy the underlying reasons for agriculture's failure to grow adequately, although the resumption of peace, and, possibly, the incentives now offered to the individual peasants, led to a rapid recovery in agricultural output to the best pre-1949 levels.

In industry the Party was more conservative. Drastic nationalization was avoided and a fairly positive approach was taken towards existing

private industrial firms. By 1952 most industries were back to, or approaching, full capacity, and at this point it was necessary for the Party to decide upon its long-term strategy for improving China's economic performance. The four phases of development since 1952 I label as follows:

- (1) The Period of Fastest Growth (1952-59).
- (2) The Great Depression (1959-61).
- (3) Readjustment and the Cultural Revolution (1961-70).
- (4) The Revival of Growth with Trade (1970-77).

Table 1: *Rates of growth of key economic indicators, selected periods, 1952-75 (per cent per annum)*

	<i>I</i> 1952-59	<i>II</i> 1959-61	<i>IIIA</i> 1961-75	<i>IIIB</i> 1965-70	<i>IV</i> 1970-75	1952-75
Industrial output	20.52	-21.6	16.32	9.5	8.79	10.51
Grain output	4.44	-14.44	5.92	3.56	2.51	2.01- 2.37
Total trade	13.62	-16.61	5.49	-.19	12.1	5.57
State Budget Revenue	17.46	-16.45	5.76	4.39	4.58	6.71
Gross National Product	6.69	-12.4	13.28	6.08	6.43	5.79
Gross investment	24.37	-16.25	9.3	7.16	10.72	10.93
Population						1.9-2.15

*Notes:*

1. The periodization of grain data is 1952-1958-1960-1965-1970-1975. The trend 2.01 per cent is a statistical measure (see Table 20), whereas 2.37 per cent is the rate of growth between the two years 1952 and 1975. The lower figure is the better measure of growth; the higher figure is the best possible interpretation that can be given to the official data and comments.
2. For trade, the 1974 data are the last available. For gross investment, 1973 is the final year.
3. Total trade data are at constant prices.
4. Variations of growth of State Budget Revenue *within* the period 1959-70 are estimated.

*Sources:* Industry and Gross National Product, CIA, *Handbook of Economic Indicators* (1976), p.3. Trade, JEC (1975), p. 645, and price data for 1974 from Japanese sources. Grain, Table 19. State Budget Revenue, data for 1952 and 1959, N.R. Chen, *Chinese Economic Statistics*, p. 441; for 1970, *Basic Knowledge in Political Economy* (Shanghai, 1974), Vol. II, p. 195; for 1975, New China News Agency, quoted in *Survey of World Broadcasts*, September 17, 1975, FE/W/844/A/2. Gross investment is Gross Domestic Fixed Capital Formation from a set of provisional estimates by R.M. Field, *Real Capital Formation in the People's Republic of China 1952-1973* (Washington, 1976). Population, Table 2.

### *The Period of Fastest Growth (1952-59)*

This includes the First Five Year Plan (1952-57) and the Great Leap Forward (1958-59). As Table 1 shows, output of industry and grain grew nearly twice as rapidly as their respective long-term trends during this period, while trade and the State Budget Revenue grew nearly three times as fast. This exceptional performance reflected many factors. In industry most of the growth during the Plan was the result of more

Figure 1: *Major Economic Trends, 1952-75*  
(1952=100)

