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Recent Economic Developments in Red China

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Robert F. Emery

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Data on general economic trends in mainland China in recent years remain almost completely a Western guess. This is because no official government figures of a comprehensive nature have been released since 1960. This is not as unfortunate as it might appear, however, since those data which were released in earlier years, including subsequent revisions, were clearly exaggerated and misleading.

This article is an endeavor to put together such data and guesses as are available on major trends in agriculture, industry and trade. These data would appear to constitute the most generally accepted estimates of trends in the Chinese economy. In the case of foodgrain production an attempt has been made to test the estimates for consistency with subjective observations of the status of food supplies and estimates of demand trends.

The Agricultural Factor

Agricultural output of all major crops except potatoes fell sharply during 1959-61. (See Table 1). This was due mainly to the tremendous disorganization of the rural economy, the blunting of producer incentives as a result of the ill-fated communalization of the agricultural sector, and the excessive concentration of resources in uneconomic industrialization and construction. Faced with an agricultural disaster, the regime quickly backtracked on both fronts. With a relaxation in the commune program and a greater emphasis on agriculture, foodgrain and potato output rose 7 per cent in 1962 over the previous year, but increased only 0.4 per cent in 1963. It is estimated that 1964 foodgrain production registered an increase of 2.0 per cent.

Table 1. Agricultural Output of Major Foodgrains and Potatoes
(In thousands of metric tons)

	1953/57 Average	1957	1958	1959	1960	1961	1962	1963	1964
Rice	77,900	86,800 ^{2/}	90,000	80,200	77,500	80,000	80,600	78,400	82,000 ^{3/}
Wheat	22,600	23,650 ^{2/}	24,000	24,300	22,200	16,500	20,000	21,800	23,000 ^{3/}
Misc. Grains	52,200	52,650 ^{2/}	50,200	41,600	38,200	45,400	54,100	54,600	55,100 ^{3/}
Potatoes ^{1/}	19,300	21,900 ^{2/}	29,300	21,600	21,600	24,600	23,600	24,300	22,500 ^{3/}
Total Grain	172,000	185,000 ^{2/}	193,500	167,700	159,500	166,500	178,300	179,100	182,700 ^{3/}

^{1/} Converted grain equivalent at a ratio of 4 to 1.

^{2/} Red Chinese official data.

^{3/} Preliminary estimate.

SOURCE: Reports of the U. S. Agricultural Officer, American Consulate General's Office, Hong Kong.

Estimates of the production of other agricultural products indicate that output has still not recovered to the average levels of 1953-57. The data in Table 2 below indicate that output of economic crops totaled 13.5 million metric tons in 1963 as against an annual average of 17.7 million tons during 1953-57. The estimated output of 15.6 million tons for 1964 is also still below the 1953-57 average, even though the increases for individual items in 1964 over 1963 range as high as from 10 to 29 per cent.

Table 2. Agricultural Output of Economic (Commercial) Crops
(In thousands of metric tons)

	1953/57 Average	1957	1958	1959	1960	1961	1962	1963	1964 ^{1/}
Cotton	1,400	1,600	1,900	1,800	1,400	900	900	1,000	1,300 ^{1/}
Soybeans	9,700	9,000	9,800	9,500	8,200	7,900	7,700	7,800	8,600 ^{1/}
Peanuts	2,700	2,500	2,700	2,300	1,900	1,700	1,600	1,900	2,300 ^{1/}
Cottonseed	2,700	3,900	4,300	4,100	2,700	1,800	1,800	2,000	2,500 ^{1/}
Rapeseed	900	900	1,100	900	1,000	600	500	500	700 ^{1/}
Sesame	400	300	400	400	300	300	300	200	300 ^{1/}
Total	17,700	18,300	20,200	19,000	15,500	13,200	12,900	13,500	15,600 ^{1/}

^{1/} Preliminary estimate.

SOURCE: Reports of the U. S. Agricultural Officer, American Consulate General's Office, Hong Kong. Data may not total exactly due to rounding.

According to various reports, the output of major oilseeds has followed a trend similar to that of foodgrains, with a sharp decline during the disorganized period of 1959-61 and some recovery subsequently.

Total agricultural output is expected to grow only moderately in the next few years. In part, this is because of limited fertilizer availabilities. It has been estimated that China is meeting only about one-fourth of its fertilizer needs of approximately 20 million tons per year. Three to four million tons are produced domestically and approximately one million tons are imported. While more fertilizer is becoming available each year, the rate of increase has been relatively moderate.

One problem that arises from the above figures on foodgrain output and population is the sharply decreased food availabilities implied in the figures for recent years. The official Chinese figure on foodgrain output in 1957 is 185 million metric tons. This figure has in general also been accepted by most Western observers. This means, however, that if 1964 production is 183 million tons, as estimated, China will actually have 1.2 per cent less food available in 1964 than it had seven years earlier. Even if the lower estimate made by some observers of 180 million tons for 1957 is used, the increase in availabilities over the seven years amounts to only 1.5 per cent. Yet, population has been growing during these years--the only point in doubt being, at what rate.

Assuming a somewhat conservative 2 per cent rate of growth, population, it is estimated, has increased from 646 million in 1957 to an estimated 743 million in 1964.^{1/} Thus China has approximately 100 million more mouths to feed with very little, if any additional food to feed them. This implies a sharp drop in per capita food availability since 1957. Since recent visitors to China have not seen the degree of deterioration in nutritional standards that this would suggest, it is possible that there is an error in the statistics.

Chinese official data on foodgrain production between 1949 and 1957 indicate a rise in output from 108 to 185 million tons.^{2/} This represents an average annual increase of 7.1 per cent. While this rate of increase would not be too unusual for the industrial sector, it is a relatively high rate for agriculture.^{3/} Consequently, it may be that the official figures actually exaggerated real foodgrain output during the first eight years of the communist regime following their seizure of power in 1949, and the real level of foodgrain output by 1957 was substantially below the 185 million tons claimed. If output actually increased at the more moderate rate of, say, 5 per cent, then total output by 1957 would have been about 160 million tons, taking the 108 million figure for 1949 as fairly realistic. Then the average rate of growth in foodgrain output between 1957 and 1964 would have averaged 1.9 per cent, a rate more in line with the expanding population during this period. Exactly what the real figures were during these years is anyone's guess, but the official foodgrain figure for 1957 may be too high. Alternatively, it may be that the data on population and population growth are wide of the mark.

There are substantial grounds for questioning the output data that the Chinese Communists have made public in the past. With total foodgrain output of 185 million tons in 1957, the government claimed production increased phenomenally to 375 million tons in 1958. It soon became clear that this figure was absurd and it was revised downward to 250 million tons. However, the revision came very late and obviously could not have been based on any actually improved measurement of the size of the crop. It is generally believed to represent a gross exaggeration of the size of the crop, a belief that is confirmed by the subsequent performance of Chinese agriculture. However, the official admission that the crop was overstated by half is enough to demonstrate that official Chinese claims on production ought not to be regarded as being sacrosanct.

Some might argue that there is another possible way to reconcile the substantial increase in population between 1957 and 1964 with the

1/ Monthly Bulletin of Statistics, United Nations; and Economic Survey of Asia and the Far East, United Nations.

2/ Reports of U. S. Agricultural Officer, Hong Kong.

3/ The rate would probably be lower, possibly 6 per cent, if an average of 1948-50 were used since production in 1949 appears to have been somewhat lower than in 1948 and 1950. However, the data for 1948 and 1950 are very incomplete and thus the official 1949 data have been used.

ostensibly small rise in foodgrain output. This is the possibility that the Western estimates of foodgrain production might be far too low. But this seems unlikely, since China's Premier, Chou En-lai, indicated in an interview with Mr. Edgar Snow on January 23, 1964, that total foodgrain production in 1963 had not reached 190 million tons.^{1/} He did not say how far short of this output fell, but the Western estimate of 179 million tons for 1963 does not appear too unreasonable in the light of Chou's statement and his unwillingness to give a more precise figure.

As indicated earlier, the years 1959-61 were very bad years for foodgrain production. Beginning in late 1959, the Peking Government undertook to import relatively large amounts of foodgrains in order to prevent starvation for large segments of the population. For the past five years, beginning in 1960, China has imported approximately 5 million tons of foodgrains annually, largely wheat and barley. This has cost approximately \$300-500 million per year. Some imports in recent years have been financed by intermediate credits from the major suppliers. These foodgrain imports were undertaken in 1960 and 1961 because of the serious domestic foodgrain shortages. However, the Chinese continued to export rice even during these years. They recognized that they could turn a nice profit and still maintain the same level of nutrition by substituting imported wheat and barley for Chinese rice and soybeans. Grain imports may therefore continue as a permanent element in Chinese trade. Conceivably the volume of this trade could expand considerably if the Chinese pushed the substitution process aggressively. However, this has not been the case. In 1963, for example, the Chinese reportedly exported about 867,000 tons of rice, which was slightly higher than in 1962. Markets for Chinese rice may be a limiting factor. In the late 1950's, a large part of the rice exports went to the U. S. S. R., but this trade has contracted sharply since the Sino-Soviet split.

Most reports on China indicate that the people currently have enough food to subsist and that there is no severe hunger. Food supplies, on the other hand, are not plentiful. Rice, wheat, flour and edible oils are still rationed. Although the food situation is better than during 1959-61, China still is forced to husband its resources carefully.

The Industrial Sector

Recent developments in the industrial sector are almost completely guesswork. No official comprehensive data have been available since 1960. Westerners can only travel through the country and gain a general impression of developments.

One of these Western travelers reported in the spring of 1964 that the results in the industrial sector in 1963 were not brilliant, but that they were an improvement over 1961 and 1962.^{2/} This appears to

1/ For further detail, see "China's Fun with Food Figures," Asian Economic Developments, Federal Reserve Board, February 17, 1964.

2/ See Colina MacDougall, "Filling the Gap," Far Eastern Economic Review, April 16, 1964, Hong Kong, pp.159-61.

be the current general consensus. Although the official data for 1959 and 1960 in Table 3 do not confirm this, most Western observers agree that Red China's "Great Leap Forward" was disastrous for industry, with production levels plummeting in 1960. Since 1961-62, slow and unspectacular progress has been made in consolidating and recovering earlier levels of industrial production. But estimates made by Miss MacDougall in the article quoted indicate that the levels of output in three of four major industrial sectors in 1963 were still substantially below the claimed output four years earlier in 1959.

Table 3. Output of Major Industrial Products

	Pre-Communist Peak Year		1949	1956	1957	1958	1959	1960	1963
	Year	Output							
Coal: 1,000 Metric tons	1942	61.9	31.0	106	124	270	348	400	200
Steel: 1,000 Metric tons	1943	.923	.158	4.5	5.2	8.0	13.4	18.5	7.0
Power: bills. k.w.h.	1941	5.955	4.3	16.6	19.0	27.5	41.5	58.0	30.0
Crude oil production: 1,000 metric tons	1943	.320	.122	1.2	1.4	2.2	3.7	5.2	6.0

Source: For pre-Communist peak years and 1956, 1957 and 1958, T. J. Hughes and D. E. T. Luard, The Economic Development of Communist China, 1949-50, Oxford University Press, London, 1961, p. 217; for 1949, Current Background, American Consulate General, Hong Kong, November 26, 1956, p. 7; for 1959 and 1960, official data reported in the Yearbook (1961, 1962 and 1964) of the Far Eastern Economic Review, Hong Kong; and for 1963, Far Eastern Economic Review, August 13, 1964, p. 273.

As indicated in Table 3, coal output in 1963 is estimated at 200 million tons or 148 million tons below the claimed output of 400 million in 1960. Steel output is estimated at 7 million tons, substantially below the 18.5 million tons reported by the Government for 1960. Power production in 1963 is estimated at 30 billion k.w.h., compared to the Government's claimed output of 58.0 billion in 1960.

Only in one area, crude oil production, is the 1963 level of output evidently higher than in 1959. Miss MacDougall estimates that output in this sector in 1963 was 6 million tons compared to Government targets of 3.7 million in 1959 and 5.2 million in 1960.

Although these levels of output are higher than the peak years during the pre-Communist period, it is difficult to tell how much progress has been made in recent years. Some idea could be gained if the data during the 1950's were reliable, but there is no assurance of this. There is also no way to assess the quality of the Chinese production, and this can be an important factor as was evidenced in the ill-fated backyard furnaces producing pig iron several years ago.

In industry as in agriculture, the low levels of output estimated for 1963 lead one to wonder whether there was not a large element of exaggeration in the 1959-1960 estimates. Even so, if 1963 is an

improvement over 1961 and 1962, the industrial collapse was apparently of a degree that in the West it would be called a major depression. It forced the Chinese to realize that they could not expand industrial output without building a much more substantial agricultural base. There was a radical revision of the roles assigned to industry and agriculture as a result of the calamitous experience of 1959.

Foreign trade

As with all Chinese data, the figures on foreign trade also leave much to be desired. As usual, no official figures have been available for many years. The best that can be done is to aggregate the data of China's trading partners, but this still leaves such problems as correctly valuing in dollars the trade with the Communist bloc and filling in some gaps because of the long lag in obtaining data from all countries. As a result of the latter problem, some published estimates for recent periods tend to understate the actual trade.

The estimates listed below in Table 4 give a general idea of the magnitude and trend of trade in recent years. It is difficult to ascertain the precise trend of trade because of the relatively large margin of error involved in these estimates. Most estimates, however, indicate that trade reached a peak in 1959, then fell to lower levels, and then recovered moderately in 1962-64.

Table 4. Mainland China's Trade
(In millions of U. S. dollars)

	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>
Exports	1,536	1,910	2,094	1,889	1,316	1,575	1,580	1,700
Imports	1,242	1,765	1,865	1,764	1,141	1,130	1,250	1,300

Sources: For 1957-61, Direction of Trade: Annual 1958-62, IMF and IBRD, p. 335; for 1962-63, Far Eastern Economic Review, August 20, 1964, p. 309; and 1964 estimates are based on reports from the American Consulate General's Office in Hong Kong.

Estimates of trade with the free world and the Communist bloc vary so much that a breakdown has not been included in Table 4, but it is known that since 1959 the level of imports from the Soviet Union have fallen sharply. Exports to the Soviet Union have also fallen, although not as much.^{1/}

Exports to, and imports from, the free world showed signs of picking up in 1963 and this trend appears to have continued through 1964. In part, Western exports have been substituted for some of the imports formerly obtained from the Soviet Union. The major, non-Communist trading partners of Red China are currently Japan, Hong Kong, Australia, and Canada.

^{1/} Direction of Trade: 1960-1964, International Monetary Fund and the International Bank for Reconstruction and Development, Washington, D. C., 1965, pp. 166-7.

In retrospect, it is clear that the debacle of the Great Leap Forward and the split with the Soviet Union have seriously hurt Red China's trade. Estimated levels in 1964 were still 20 and 30 per cent below the peak levels in 1959 for exports and imports, respectively. The decline in trade continued over a two- to three-year period and the subsequent recovery has been relatively moderate. Trade with the free world will probably continue to expand at a moderate pace. But it would appear that the 1959 trade levels will not be regained for at least several years.

Conclusion

The available data, which comprise mainly educated Western guesses, indicate that the Chinese economy suffered severely in 1959-61 from the mistakes of the Great Leap Forward and since then has made only a modest recovery. Foreign trade levels are evidently still substantially below the 1959 peaks. Agricultural production is rising, but only at a moderate rate. Outside of the expansion of petroleum output, major industrial sectors also appear to have registered only moderate gains in recent years. Although the economy now appears capable of further progress, it would appear that much of the economic effort in the future will continue to be devoted to recovering earlier levels of trade and output, with the general prospect being one of only moderate economic gains in the years ahead.