

CHINA POLICY STUDY GROUP
BROADSHEET

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THE BATTLE OF THE 80's

The national liberation forces in countries of the Third World were described in BROADSHEET fifteen years ago as 'the principal aspect of the principal contradiction' in the post-war world. At that time (November, 1964) they were embattled against the imperialism of America, and in many places they still are. Today, however, their most dangerous foe is the imperialism of the USSR, which even while driving its tanks into their territory repeatedly assures them that it is their natural ally and can be trusted to defend their interests against foreign predators.

It must be admitted that this deception is made more plausible by the split between industrialised and developing countries in the Great Debate on trade and industrial development, highlighted again by the publication of the Brandt Report. If the capitalists in Europe and elsewhere think they are being judicious in not opening the door wider to manufactured goods from the emerging countries, and in keeping a tight rein on the industrial development of the Southern Hemisphere, they are making a classic blunder. The Soviet Union only has to point to the cheese-paring and mean-minded bargaining which so often show through even in the current UNIDO conference in order to recruit Third World voices for the chorus. However, China is now one of the parties to the dialogue, and has finally been included in the tariff and loan preference schemes operated for developing countries.

If 1980 sees battle joined between the Soviet

Union and the West in that arena there are still other fronts on which it is now gathering an ominous momentum. The events of January are forewarning of the greater confidence with which Russia will move to extend the boundaries of her control in the coming months. In the keynote speech launching this campaign the Kremlin spokesman, M. Suslov, told leaders of the East European parties assembled at the Polish Party Congress last month that they must unite more closely to resist a possible threat from the United States and China. The ultimate political apostasy was left to the Czech party spokesman, who drew a parallel between the Soviet invasion of Czechoslovakia in 1968 to overcome 'counter-revolutionary forces' and the latest intervention in Afghanistan.

Until now the invasion of Czechoslovakia has held precedence as the most naked practical expression of the Soviet doctrine of 'limited sovereignty'. With the 80's the same principle is extended to countries which reject the philosophy of the Soviet Union yet still have the misfortune to stand in its path and in its power.

By accepting the claim that the Soviet superpower is the reliable ally of developing countries (but China a threat) national liberation forces may be suborned, like Cuba and Vietnam, and temporarily change sides. Alternatively they can unite with China to form the 'principal aspect' within the progressive forces, of far greater strength, though faced by a more insidious foe, than ever in the 60's.

CHINA'S ECONOMIC READJUSTMENT

THE basic decision to 'readjust' the Chinese economy was taken by the Third Plenum of the Central Committee when, in December 1978, they made an appraisal of the true state of the economy, casting aside as imprudent and rash some of the measures adopted in the first flush of enthusiasm and optimism following the arrest of the Gang of Four. Although described as 'readjusting, restructuring, consolidating and improving', the decisions of the Third Plenum, which were spelled out in decisions of the National People's Congress in June 1979, represent a new direction for China's economy. They put into practice, not merely paid lip-service to, the principles of the *Ten Major Relationships*, Mao Zedong's summing

up in 1956 of reports on the work of thirty-four industrial, agricultural, financial, commercial and transport departments. 'A major readjustment of the economic relations between industry and agriculture, and between the State, the collective and individual' was how Yu Qiuli described the new situation.

Measured purely in terms of output, economic growth in 1977 and 1978 was dramatic and impressive. But this was recovery from a situation in 1976 when, in the words of Hua Guofeng, the economy was 'on the brink of collapse'. Apart from the semi-anarchical situation in many Chinese factories where 'production' and the 'productive forces' were regarded as politically objectionable, there

were certain objective economic conditions, the fruits of years of what the Chinese describe as 'semi-planning or no planning'. Thus, the precursor sectors, as they are called, upon which the rest of the economy relies for supplies and services (power, transport, building materials) lagged seriously behind, so that enterprises, even those unaffected by the propaganda of the Gang of Four, could only operate at best at about 80 per cent of capacity and at worst a good deal less, owing to inadequate power, water or raw materials. Serious disproportions had developed and the economy was gravely out of kilter.

The substantial increases in industrial production, which rose by 14.3 per cent in 1977 and a further 13.5 per cent in 1978, important as they are, cannot be taken as reliable indicators of the economic health of industry in isolation from other factors.

In China's present economic situation, the quality of manufactures, productivity, consumption of power, fuel and other raw materials, the operating profits and the return on investment of individual enterprises are vitally important. When Hua Guofeng reported in June 1979 to the National People's Congress, he explained that 43 per cent of major industrial producers had not reached the best quality levels previously achieved, 55 per cent had still to match the lowest past levels of consumption of raw and semi-finished products and 24 per cent of state industrial enterprises were running at varying degrees of loss. Substantial progress has been made to rectify this situation, for example, loss-making enterprises cut their deficits by 2,000 million yuan in 1977 and by a further 3,250 million yuan in 1978, but further improvements to overcome these deficiencies in industry are essential if all-round economic progress is to be achieved. To this end October 1979 was designated as 'quality month' and November as the month when in all enterprises attention was focussed on economising in the consumption of power, fuel and materials. The major iron and steel enterprises reduced their energy consumption by 7 per cent in 1979, saving about three million tons of coal.

The discussions at both the Third Plenum and the National People's Congress made it unmistakably clear that the directive 'take agriculture as the foundation' and the priorities '(1) agriculture, (2) light industry, (3) heavy industry' had been honoured more in the breach than in the observance. The burden on the peasants had been too heavy, to the point where production in the agricultural sector had flagged and the internal market, a major factor in maintaining the stability of China's economy, had developed all too slowly.

In the relations between light and heavy industry, figures recently published show that between 1966 and 1978 heavy industry absorbed 55 per cent of capital construction investment, agriculture a little more than ten per cent and light industry only five per cent. They also reveal that Mao Zedong's prescription in the *Ten Major Relationships* for the development of light industry in order to obtain relatively quick returns on investment and produce more consumer goods for the people, was not hitherto effectively carried through into practice. In fact, the proportion of industrial investment allocated to heavy in relation to light industry, became even more striking after Mao's speech (1956) than in the period of the First Five Year Plan which began in 1953. Thus:

	Ratios	
	Light industry	Heavy industry
First Five-Year Plan	1	8.0
Second Five-Year Plan	1	10.8
Adjustment period (1963-65)	1	12.8
Third Five-Year Plan (1966-70)	1	14.1
Fourth Five-Year Plan (1970-75)	1	10.2
Fifth Five-Year Plan (first 3 yrs.)	1	8.3

(Beijing Review, 21 December 1979, page 11)

Within heavy industry, a major share of investment was allocated to the metallurgical sector.

The directives 'in industry take steel as the key link and in agriculture take grain' were exaggerated, in the period of the Gang of Four, to the point of absurdity, causing significant disproportions to develop in both industry and agriculture. On Hainan Island, for example, rubber trees, which had taken twenty years to mature, were cut down to make way for grains.

The 'readjustment' decision also threw a douche of cold realism on some of the euphoria which followed the fall of the Gang when it seemed to be assumed that a main factor in the realisation of the Four Modernisations would be massive imports of complete plants from Japan, Europe and the United States backed up by equally massive foreign loans, whether from banks, governments or international agencies.

Although there are some in China who hanker after the Western way, the policy agreed at the National People's Congress calls for a Chinese road to modernisation and a reaffirmation of basic self-reliance. The fact is that, despite the setbacks, China has since the middle 50s built up considerable industrial capacity which can produce to its full potential once power, raw materials and transport catch up. Moreover, many of the 350,000 Chinese enterprises, or parts of them, can be modernised with relatively small investment using either Chinese or imported equipment and know-how.

Complete installations will certainly be imported but more selectively and with concern both for China's ability to absorb modern plant, given the present level of her technological infrastructure, and to provide the needed foreign currency without having to resort to excessive borrowing. The Chinese leaders have made it plain in recent pronouncements that the scale of imports will be *basically* determined by the country's ability to export, over time, although foreign loans of various types will be utilised provided the terms are reasonable.

Bankers, governments and international financial institutions all regard China as exceptionally creditworthy, so that there is no lack of funds should China wish to avail herself of them. So far she has moved very cautiously in her borrowing arrangements. The Morgan Guaranty Trust's estimates of syndicated bank loans to various countries show the following gross debts in billions of dollars:

South Korea	19.0
Poland	19.0
Soviet Union	18.0
East Germany	11.0
Taiwan	6.8
China	3.6

It is true that the \$3.6 billion was all borrowed by China in 1979 and that the figure will rise in the next two or three years, but it seems clear, from statements of her leaders, that China will not get herself into the situation of the Soviet Union, Poland and other Eastern European countries where the annual debt repayments impose a serious strain on balance of payments.

As a developing country China can have recourse to funds from international agencies and some countries on favourable terms. Japan, for example, agreed during the visit to Beijing of Premier Ohira, to grant China a loan of \$1.5 billion, probably part of an eventually larger loan, to help finance six major projects (railways, port installations, etc.) which directly or indirectly will support China's foreign trade with Japan. The loan will be drawn from the Japanese Overseas Economic Cooperation Fund, to assist developing countries and will carry an unusually low rate of interest of 3 or 3½ per cent with a ten years grace period and repayment spread over a period of thirty years.

The period of readjustment agreed by the National People's Congress covers a period of three years: 1979, 1980 and 1981.

In support of the priorities—agriculture, light industry, heavy industry—capital construction investment has

been modified to increase the proportion devoted to agriculture and reduce that of heavy industry.

	1978	1979
Agriculture	10.7%	14.0%
Light industry	5.4%	5.8%
Heavy industry	54.7%	46.8%

Support for agriculture

The overall income of commune members rose by 17.7 per cent in 1978, largely owing to a more balanced policy which encouraged sideline production, but the major boost to peasant incomes was the decision of the Third Plenum to raise prices paid for grains and other farm produce and to lower prices of consumer and other manufactured goods sold to the countryside. This resulted in a 24.8 per cent increase in 1979 in the State purchasing prices for grains, cotton, oilseeds, pigs, poultry and eggs, which enabled China's peasants to buy 13 per cent more consumer goods in the first eleven months of 1979 than in the same period of 1978.

Of investment funds going to agriculture in 1979, 700 million yuan were devoted to upgrading agriculture in the low-yield, poorer areas. It has been announced that investments in agriculture will be further increased in 1980.

The Agricultural Bank and the credit cooperatives advanced 16,500 million yuan in low-interest-bearing agricultural loans in the first eleven months of 1979.

Light industry

To speed up its development, light industry had been given priority in obtaining fuel, power, raw materials and transport. Foreign currency allocations for the import of raw and semi-finished materials for light industry, especially textiles, were stepped up by 17 per cent, an increase of 320 million yuan and the People's Bank advanced loans to this sector to the tune of 2,000 million yuan. Light industry will receive a higher proportion of State investment in 1980.

Heavy industry

The adjusted plan for heavy industry is aimed to speed up the growth of the laggard sectors, especially power, fuels, transport and construction materials and to iron out disproportions in some other industries. At first blush the limited growth planned for 1979 for raw steel and crude oil (up 1.9 per cent) might seem puzzling, but can be explained by the disbalance between the output of crude steel and the finished product and between the production of oil in relation to China's capacity to refine. The targets set for 1979 therefore placed priority on the growth of steel rolling capacity and improvement in the quality and variety of steel materials, important for the farm machinery and other engineering sectors. The earlier target of 60 million tons of raw steel by 1985 has clearly been abandoned. Of the 104 million tons of crude oil produced, China, at the beginning of 1979, could refine about 65 million tons. She exported about 15 million tons. Much of the rest has been burned in industrial boilers, a wasteful practice, especially given China's huge coal reserves. It makes sense therefore to leave the oil in the ground until more refining capacity is available and export markets are opened up.

Accumulation and consumption

The rate of accumulation has fluctuated widely since 1949, rising to nearly 35 per cent in 1958 and again in the mid-1970s. At the National People's Congress in June 1979 Zhang Jingfu, Minister of Finance, reported that the proportion of accumulation exceeded reasonable limits. With the raising of income of both peasants and workers and the allocation of funds to improve social amenities, the ratio between accumulation and consumption was modified in 1979 and will be further changed in 1980, with the rate of accumulation probably settling at about 25 per cent.

Capital construction

The scale of capital construction projects had also got

out of hand during the Cultural Revolution, stretching over too wide a spectrum and often out of balance with the availability of power, raw materials and transport. A process of weeding out the inefficient and, at this stage, inessential projects began in 1979, not without some resistance from certain localities which fought to retain them.

By December 1979, 330 projects not urgently needed had been postponed or cancelled and some 2,000 factories producing poor quality goods or inefficiently using energy and raw materials had been either closed down or switched to manufacturing other products.

1979 results

1979 was the first year of the three-year adjustment period. In fact, the new programme did not get into full swing until the middle of the year and industrial output of both light and heavy industry grew relatively slowly in the first six months. It picked up in the last five months of the year with output of light industry rising 15 per cent and that of heavy industry 10.1 per cent, compared with the same period of 1978.

Provisional figures of grain output show a rise of ten million tons, to 315 million. As happened in 1978, it is possible that on the final count the increase will be even greater. The target of 400 million tons by 1985 still stands.

Output of oil-bearing crops rose by 15 per cent to 6 million tons and silkworm cocoons reached a record of 216,099 tons.

Industrial production met the target of eight per cent growth, scaled down from the earlier over-ambitious figure of 14 per cent. Reflecting the new policy, light industrial output rose faster than that of heavy industry; 9 per cent against 7.4 per cent (Shanghai 8.4 per cent and 7.8 per cent respectively).

Within the light industrial sector, the priority given to textile manufacturers of all kinds, important both to meet rising consumer demand and to raise the value of exports, brought an increase of 14 per cent.

The laggard sectors began the long process of catching up, with electricity output increased by 9.7 per cent and substantial improvements in freight handling, port facilities and railway services. The most significant factor, however, was the economies in the use of energy, with a reported saving in consumption of some 11 million tons of coal for the year.

The general economic picture shows that the first of the three years of readjustment has achieved some streamlining and initial success both in agriculture and light industry and in remedying the disproportions in heavy industry. In many respects 1979 was a year of experimentation in methods of decentralisation, greater scope for self-management at the factory level, encouragement to the setting up of collectively-owned enterprises to supplement the output of the State sector and to provide employment. For the most part no hard and fast solutions have as yet been found and the method of trial and error will continue into 1980. One of the most positive aspects of development during the year was the uncovering of new key resources which will underpin the modernisation programme—three new large oilfields, a vast uranium deposit in south China, three coalfields in Inner Mongolia which will turn that province into a major source of energy for north-east China, a large reserve of pyrites in Guandong and the opening of several gold mines.

1979 was therefore a start along a path of economic realism, with the wider effects of the readjustment policy likely to show themselves more clearly in the year ahead. The process is one of steady, consistent and proportionate growth, so that by the end of 1981 a firm economic bridgehead will have been established from which China can go ahead with her Four Modernisations.

BOOK REVIEWS

CHINA'S ROAD TO DEVELOPMENT (2nd Enlarged Edition) Ed. Neville Maxwell, Pergamon Press. Price: £5.25 (paperback).

FRRIENDS and admirers of the People's Republic are often perplexed and distressed at the news nowadays coming out of China. Unfortunately, this book is not going to be much help to them. Owing to the slow pace of publications nowadays, very little has been added to the papers of the first edition, which were mainly completed before 1976, to attempt to explain what has happened since then.

One important change is that the new leadership has woken up to the fact that the population of China is already much higher than is convenient from a strategic, economic and political point of view and is still growing. Strategically, it is a weakness to have to import food. The more investment has to go into creating cultivable land, in the heroic manner of Dazhai or in large-scale river control schemes, the less is available for raising standards of consumption and reducing toil. 'Modernisation' more readily raises output per man, saving labour, than output per hectare, saving land. Politically, a conflict of interest between city and countryside is more immediate than class war in the usual sense. Theoretical Marxists (including Marx himself) contrive to turn a blind eye to the problems of demography, which are the most urgent and the most baffling of all in the world today. China is not exempt.

The Cultural Revolution was phrased in terms of the 'capitalist road' but it is now acknowledged that its most essential aim was to throw off the ancient bonds of Confucian teaching. Too much broke loose in the process and there was conflict, even with guns, in many places. In assessing its good and bad effects (which Mao is said to have put at 70:30) we must not forget the first phase which got the medical missions into the rural areas, instituted the system of barefoot doctors, raised health and hygiene to levels unknown in Asia and, incidentally, contributed a great deal, though not quite enough, to birth control. Two of the most interesting papers in this volume—those of J. C. Westoby and K. W. Kapp—tell the less well-known story of a parallel movement to save the health of the terrain by afforestation and conservation, carried out by the same means of mass mobilisation as the campaign for healthy humanity. 'Modernisation' carries many perils which we cannot expect to be wholly avoided but we may hope that in these two respects the moral and the habits of the Cultural Revolution will not be lost.

Against this must be set the dreadful story of obscurantist persecution of scientists, which destroyed much valuable work and ruined many valuable lives. There are one or two veiled allusions to those inexplicable horrors in these essays but no attempt to explain the psychology or to assess the damage that they caused.

Surely this kind of false delicacy from 'friends' is no longer appropriate when the Chinese themselves have declared the resolution to 'seek truth from facts'.

JOAN ROBINSON

HOLDING UP THE SKY by Barbara Mututantri. Third World Library. Price: £4.50.

THE author is a batik designer, farmer and writer of folk tales, born in Britain and married to a Sri Lankan lawyer. She settled in that country in 1953 and is therefore well qualified to write about Third World problems. She and her husband went to China in 1966 and taught English for three years in Guangzhou—the three initial and critical years of the Cultural Revolution. This in itself should alert us to expect something interesting. Contrary to what we are sometimes told now, Barbara Mututantri does not appear to have sensed any

anti-foreign feeling at that time; moreover, she and her husband went freely into the homes of their students and fellow-teachers, met and had off-the-cuff interviews with ordinary people in many walks of life during their frequent trips around the country. They returned to China in 1973 and taught for another three years at Xian, experiencing no less freedom.

Barbara Mututantri's book is a collection of these informal interviews with factory workers—men and women, soldiers, veterans of the Long March, students in the classroom but also on a pig farm, peasants who had organised commune schools and painted pictures as well as working in the fields, and many others. What comes out clearly is that China's millions are no longer the 'poor and blank' people Mao spoke of in 1958. Poor, perhaps, for the most part still, but becoming literate, critical and politically aware. In the same speech, Mao had said that on a blank sheet of paper 'the freshest and most beautiful pictures can be painted'. An attractive part of this book is the freshness and directness of the comments, set down with very little introduction or explanation by the author. For instance, from a peasant who had joined the Red Army in 1932:

We took some clothes and some food from the rich landlords. These landlords wore long gowns. We cut them in half. The top half we wore as a jacket and the bottom half we made into turbans and other things. If we caught a rich landlord his clothes were usually made of silk... In my home town the people could not even touch silk, let alone wear it. Before I got the silk clothes I always wore old cotton clothes covered with patches. The patches came from the palm tree. We were too poor to buy cloth. On my first day in the army after the rifles had been issued we went to a rich landlord's house and we each found something to wear. I didn't throw my old clothes away. I sent them home to my mother. Also at that landlord's house we killed a very fat pig (as fat as its master). Then we had a wonderful meal. We cooked the pork and boiled some rice and beans. It was the first good meal of my life. From the day I was born I had never had a meal like that.

These are perhaps the chief value of this book—the simple pictures painted on the blank sheets. Of course, some of the people interviewed speak in the familiar propaganda phrases—what they had learnt in their political study classes, not what comes from the heart. But the Chinese on the whole are not shy to express their feelings (contrary to the popular fable in the West of the 'inscrutable Oriental') and there is plenty of frank, unprompted comment here.

Examined critically, there is a good deal of material here that is already well known and much written about, such as the position of women in the old society, conditions on the Long March, and open-door education. And what is particularly surprising in a book appearing in 1979, there is no hint that anything had changed since 1976 or that any criticism could be levelled at the Cultural Revolution. Certainly this book, published in Sri Lanka, has much to say to Third World peoples. To us in the Second World, it has the refreshing optimism of a new society—a 'Heaven lies about us in our infancy' sort of feeling.

INNES HERDAN

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UK. ISSN 0067-2052

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