

CHINA POLICY STUDY GROUP
BROADSHEET

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CHINA REORGANIZES FOR 4TH DECADE

The PRC is beginning the thirty-second year of its existence. It is still a poor country, but now not one in the same sense as in 1949. It is still a Third World country, threatened by the superpowers; but one whose people determine its affairs, a truly independent country. Though it is not a socialist utopia (if there can be such a thing) it is, as seen from the West, in the front line of human development—a land in which enormous and unprecedented problems of socialist development are being faced realistically and tackled. We do not have to ignore the things which make some observers worried and anxious in order to join with the Chinese people in celebrating their anniversary of the Liberation.

China is no longer the economically backward country it used to be. Its people have transformed it; they have created, and own, some 350,000 industrial enterprises. Of the total output value of industry and agriculture in that vast country, in 1978, industry contributed nearly 75 per cent, as compared with 30 per cent in 1949. It takes 11 or 12 days now to produce the total industrial output value of 1949, and there is incomparably greater variety and diversification. Indeed, such rapid industrialisation encouraged a euphoric faith in heavy industry, and agriculture was neglected. The properly balanced relationship among agriculture, light industry and heavy industry, to which Mao drew attention in the 1950s, is now being realised.

The Third Session of the Fifth National People's Congress (NPC) ended on 10 September. In his closing speech, Ye Jianying, the Chairman of its Standing Committee, spoke with satisfaction of the careful supervision which the people's deputies had been exercising over the government. That they should do this well has been one of his main preoccupations, as he made clear during the First Session. The People's Congress is an important means of the people's mastery of state affairs, and of control over planning and administration of the economy, legislation, policy-making, etc. It is taking the Chinese (as it would take us) time and effort to learn how to exercise effective supervision over those who are appointed to carry out the planning, day-to-day administration and accounting necessary for socialist development. There has evidently been much progress. Mass-line methods, which Hua commended in his reports, led to the much-revised 1976-85 Plan being replaced by a new long-term programme (for the 1980s). The 'basic purpose' of this is 'to improve the people's living standards'. 'The fundamental aim of the country's modernisation programme is to satisfy the material and cultural life of the people.' (Hua). That is, the socialist principle has been affirmed as policy.

Neither supervision by the people, nor the people's

needs have this importance in the capitalist regimes on whose behalf hostile foreign China-watchers concoct their propaganda. The British government's economic policies, the current Party Conferences, the US Presidential campaign, are reminders, if we need them, of how little the people count. The expensive political 'commercials', the demagogy, falsification of the truth, intrigue, and policy choices show that the struggle for office and power goes on far above the people's heads. The influence and power of Chinese workers in town and countryside, the assertion of their interests, through so-called 'rubber-stamp' worker's congresses and people's congresses are obviously too harsh a reality for the bourgeoisie. But, as Ye has repeatedly pointed out, without this development socialist modernisation, and the long-term goal of abolishing classes, cannot be attained.

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The danger in China is from bureaucracy as well as demagogy. Both 'left' and 'right' deviations from the correct socialist road will lead China backwards. Hua brought to the NPC's attention the dangers at present of both bureaucracy and leftism, and outlined measures, for coping with these obstacles to progress. He modestly shouldered a heavy burden when he consented, at a time of anarchy and danger, to being both Premier and Chairman of the CPC. As he hands over the premier's responsibilities to Zhao Ziyang, it is clear that factionalism and the backlash against the excesses of the Cultural Revolution have been brought under control; socialist modernisation is more realistically conceived than it first was, and mistakes are freely and quickly admitted and the first moves made to correct them.

Cai Chang, Chen Yun, Deng Xiaoping, Nie Rongzhen, Liu Bocheng, Li Xiannian have been among those who led the Chinese Revolution from the 1920s, and did so much to establish the PRC. They have relinquished their posts in the NPC Standing Committee and the State Council. No doubt the much-loved Ye will do so, when the CPC and NPC find a worthy replacement for him. These revolutionaries are known and honoured not only in China.

IS CHINA PUTTING HERSELF IN PAWN TO THE WEST?

It is inadvisable to launch into discussions of China nowadays with a mind full of preconceived ideas. Things have changed, not only in China itself but amongst the onlookers. Those who were enthusiastic about Chinese pronouncements have become sour and some who before were conspicuously reserved now show increasing respect. *The China Quarterly* finds 'a more sober and realistic assessment of the country's problems' and gives prominence to an appraisal of the release of comprehensive statistics in the last two years, judging them to be generally reliable, to 'confirm that industrial growth has been impressive' and to offer a truer picture of China's external commerce, than that previously available from non-Chinese sources. It concludes that 'the share of foreign contributions to China's gross national product has increased, and as plans stand at present, this trend is likely to continue. *This will hardly tie China politically to the non-communist world.*'

It is well to pause on this point because many erstwhile China enthusiasts who are now heard mourning the passing of earlier policies are especially bitter about foreign trade. They see the rot starting there. Not all of them, of course, go the whole hog with the Nottingham Communist Group, whose pamphlet *Is China Still Socialist?* answers the question with a firm negative, citing the import of 'vast quantities of advanced technology' along with 'professionalism and expertise in command', the 'insistence on making enterprise profitable' and, surprisingly, payment 'according to work done'. A more measured estimate, voicing its misgivings in tones of anxiety for those gone astray rather than outright dismissal, is found in a recent issue of *China Now*.

This comes down to the kernel of the argument about foreign trade. It says that whatever may have been the importance attached to high-technology imports in the past by Mao, or by the trading corporations in their two great waves of foreign buying in 1963/65 and 1972/74, there is a much bigger push on now. Buying has shot ahead of selling and China is faced with an adverse balance of payments which is likely to last for many years. The country is substantially in debt to foreign financiers and this is bound to have some effect on policy.

Balance of payments

The question of debt can be dealt with quite simply by looking at the figures. Before 1978 there was a favourable balance of visible trade, with a turnover of the order of \$15 billion a year. In 1978 imports increased by over 40 per cent to a total of \$12 billion; while exports went up only 20 per cent to \$10.74 billion. China made up for the shortfall by running a surplus of \$1.35 billion on external non-trading account, i.e. keeping expenditure incurred abroad that much below the total of emigrant remittances and other invisibles.

In 1979 imports rose again to just under \$16.1 billion while exports were more than \$14.1 billion. The \$2 billion gap between the totals could in fact be attributed almost entirely to the first half-year's shipments, which showed a shortfall of \$1.5 billion. The 1979 deficit was only half of what had been budgeted for, and within manageable proportions.

This year's returns to date are further testimony to Chinese foreign trade management. By mid-year imports had reached only 7.8 per cent more in value terms than in the first half of 1979 while exports had risen 35.5 per cent, to give a trade surplus of \$133 million.

It turns out therefore that China does not have a payments deficit, and though she may make use of the foreign credit lines, as she certainly is doing on a modest scale in the case of the British bankers' \$1.2 billion facility, she continues to confound the mourners by coming out with a balance on the right side.

Wait a moment, say the mourners, that is all very fine, but what about the budget deficit in 1979 and the forecast in Wang Bingqian's report to the National People's Congress of deficits in 1980 and 1981 as well?

A budget deficit there certainly was in 1979. State revenue fell short of the budgeted total of Yuan 112 billion, reaching only Yuan 110.3 billion. State expenditure on the other hand exceeded the budgeted figure (the same as that for revenue), reaching almost Yuan 27.4 billion. Is this the start of runaway deficit financing?, it is asked. Who knows whether the 1979 deficit of Yuan 17 billion will fall to Yuan 8 billion in 1980, and Yuan 5 billion in 1981, as the Finance Minister says it will? This is no way for a socialist government to carry on!

Budget as an instrument for change

The alarm is not too well founded. The Chinese Government are at their most professional when it comes to money, and skilfully handled deficit budgeting probably is the way a socialist government should cope with the switch they have to make at the present moment.

What switch? Those who talk of China abandoning Mao sometimes forget that of all Mao's teachings the one he was most intimately identified with was that agriculture, for China, must have first priority, light industry second, and heavy industry follow in their wake, funded from the surplus they yield as they gather momentum. A year and a half ago the official channels began pointing out that no more than lip-service had been paid to these priorities in the past (10 per cent of national expenditure allotted to agriculture and scarcely more than 2 per cent of the capital construction budget to light industry). This was still the situation. Not only former leaders but the existing leaders and officials therefore had to share the blame. Such an indictment had to be followed either by a massive cover-up and glossing over of evidence or by a sharp and even painful switch.

The timing of the statements in the press and the speeches was not an accident. The switch began in 1979.

There are several ways of channelling support to agriculture and they all take their toll of exchequer revenues. All of them were adopted last year. Agricultural tax was reduced; a bigger proportion of the grain produced was left in the hands of the peasants, for consumption and livestock rearing, instead of being purchased by the state; a higher price was paid for the grain that was purchased (a larger tonnage than in 1978, though taking in only between a quarter and a third of the additional production), and for other major farm products as well (22 per cent more); finally, the highest sum ever went into budget expenditure on agricultural development.

Aside from measures of assistance to agriculture on which the government might have cut back during the year to reduce the threatened deficit, increased payments for farm and side-line products exceeded the budgeted figure of Yuan 6,500 million by Yuan 1,300 million, and rural tax reductions exceeded the budgeted figure of Yuan 1,700 million by Yuan 300 million. Direct aid to

rural People's Communes and agricultural undertakings in various parts of the country exceeded the budgeted figure of Yuan 7,050 million by Yuan 1,960 million.

All this made up the first element in the switch from accumulation to consumption, the improvement in the purchasing power of the rural population and stimulation of rural development. Peasant incomes rose by Yuan 10,800 million (\$7,200 million) and on top of that there was a tax reduction of Yuan 2,000 million (\$1,333 million). By the end of the year the value of agricultural output was up by 8.6 per cent compared with 1978.

The second element was the earmarking of Yuan 2,300 million for capital construction in the textile and light industries and a supplementary outlay of Yuan 1,500 million to improve and modernise their existing plant. The increase in light industrial output, by value, was 9.6 per cent, while retail sales rose by 14.7 per cent.

State expenditure on the provision of over 9 million new jobs in the cities and towns and on pay rises and cost-of-living supplement for 40 per cent of the workers came to Yuan 2,500 million more than the budgeted figure. The spending powers of local authorities and enterprises were increased by Yuan 6,000 million, or Yuan 2,000 million more than the budgeted figure. Expenditure on defence needs and on compensation and additional help to workers and officials rehabilitated after being wrongfully penalised also came to several thousand Yuan more than provided in the budget.

Most of the budget deficit is directly attributable to the switch in priorities to favour agriculture and light industry. Moreover, since the impact of the higher prices paid by the state for farm and sideline products and of the wage increases and the newly-created jobs will continue to be felt throughout the current year, the anticipated 1980 deficit of Yuan 8,000 million is also a consequence of the switch. The reduction in the deficit is due to various expenditure cuts, notably another reduction of Yuan 14,100 million in capital construction and a reduction of Yuan 2,940 million in the defence budget.

Buyer's credits

One item which is not a reduction but an addition is Yuan 2,170 million for principal and interest payments on foreign loans.

While the external payments account is in balance the trading account taken alone is not. It should be recalled that though China herself is a substantial lender (to developing countries) she is not drawing any appreciable repayment revenue. Now she has become a medium-term borrower by availing herself of buyer's credits for purchases of capital goods and knowhow. No-one expects the Chinese authorities to allow their liabilities to run far ahead of their visible means of repayment, i.e. their flow of exports.

It is not an altogether novel situation for China to run a deficit on visible trade. In 1974 the deficit was \$1,000 million in a turnover of \$13,000 million. The turnover is now more than \$30,000 million. This year instead of a deficit on current trade there is a repayment liability of around £1,400 million.

It would be little more than speculation to estimate the rate at which further foreign credit will be taken up. Any forecast of the eventual amount—even from sources in China—is unreliable as it will depend on progress in rebalancing the economy, in absorbing the technology already acquired, and in increasing exports, as much as on the judgement of the new leadership. All that can be said is that in the meantime some further credit will be taken up very much as a series of individual business transactions.

Foreign trade is even more a matter of calculation in a socialist economy than in a capitalist one, and the

framing of budgets certainly no less so. It is worth noting that the 1979 budget deficit of Yuan 17 billion was met by drawing on the accumulated surplus of past years to the amount of Yuan 8 billion and taking out an overdraft of Yuan 9 billion from the People's Bank of China. The overdraft was balanced—apart from the big increases in production—by an increase of nearly Yuan 10 billion in national savings during the year. The position is further secured in practice by the conversion of part of the state outlays into reserve funds by various local authorities and enterprises, the unspent portion of which in turn becomes bank deposits. An increase in deposits during 1979 of more than Yuan 6,700 million helps to reduce the adverse effects of the exchequer deficit (though there is apparently no attempt to belittle these or shirk responsibility for restoring the balance).

The statements made to the National People's Congress on the economy and the State budget are explicit and remarkably precise. They provide ample background for evaluating the effect of various schemes now on trial for making use of foreign capital and managerial experience in particular sectors.

It does not do to pick up versions of what is going to happen in China from the press—even in some cases from the Chinese press—and accept them as firm evidence. Many things are being mooted, and in some cases tried out in pilot schemes. Some joint ventures have been started in specially designated areas along the seaboard, with part of their equity owned by foreign companies. At present they are experimental, but suppose their number increased tenfold and a good proportion of them showed signs of succeeding. What would that lead to? It would mean that for ten years—the period of the contract—Chinese labour would be employed on Chinese soil under Chinese law, producing goods for export by a company that was only half Chinese. Let us assume further that the device spread beyond the export industries, also that some units did so well that they were offered a contract for a second ten years. At this stage the prospect might arise of a few score to a few hundred enterprises with foreign participation becoming established on the periphery of the Chinese economy. On present showing it seems feasible that in time they might account for 1 per cent by value of China's overall production. It is a development to be watched, with critical interest and a good deal of patience. Business opinion is still divided on whether those schemes which do not get buried in frustration have a chance of taking root as anything more than a stop-gap. Smaller in scale (if not in political overtones) is a further trade variant which takes the form of hiring contract labour to developers in Third World countries instead of simply supplying materials and plant. This device should be watched too. But like the joint ventures it is not a factor in assessing China's overall economy.

WHEN TO SPEAK OUT

A reader in China, who writes appreciatively of the article on the Cultural Revolution in our May issue, remarks:

I would have made the list of nefarious practices (of the Gang of Four) longer. I have frequently been told that 'they made us a nation of hypocrites. No one spoke what he really thought. To survive, you shut up and thought your own thoughts'.

The point made by our correspondent is not always so frankly expressed, but anyone who has talked to friends in China in the last 3½ years can confirm it. Today, whatever their value, thoughts could hardly be expressed more freely. Mao's hundred flowers bloom more luxuriantly than ever before.

BOOK REVIEW

THE MIDDLE EAST IN CHINA'S FOREIGN POLICY 1949-1977 by Y. Shichor. Cambridge University Press, 1979, £12.00.

The following review is reprinted, by permission, from Middle East International, 18 Jan. 1980.

HERE is by far the most lucid, coherent, objective—and readable—account yet published on the evolution of the policy of the People's Republic of China towards the countries of the Middle East, including the State of Israel, and towards the Palestinians and their rights. Meticulously documented, it will evoke relief and pleasure among students of Chinese foreign policy because of its concise account and plain exposition of what they have been telling a sceptical West since Owen Lattimore's pioneer efforts in the 1940s. It will bring sharp illumination to those (including Western 'experts' and even some Arabs) who share the 'popular' impression of China over the past three decades as a 'disruptive, subversive, dangerous and irresponsible' force in Middle Eastern affairs.

The author makes clear that the Communist Party of China had already thought out the theoretical bases of its Middle East policy long before it seized power, while it was beleaguered in the caves of Yenan in the early '40s. That long term approach has remained remarkable for its continuity and consistency for close on forty years, notwithstanding the flexibility which has been applied from time to time during that period.

This policy stems from the general view of world affairs held by the Chinese, and from their judgements about the directions which those affairs are most likely to take. Few people indeed, in either the West or the Communist bloc, foresaw in the '40s the inevitability of the Sino-Russian split of 1960, let alone the Sino-US rapprochement of 1972, arising as they did from differing Russian and Chinese analyses of the world situation. The differences, and their consequences as far as the Middle East is concerned, are succinctly stated in this book. In sum, the Russians viewed the fundamental 'contradiction' as between themselves and their socialist bloc allies, on the one hand, and the USA and its allies and clients, on the other. The Chinese, while conceding the importance of this 'contradiction', held that the 'intermediate zone' in Africa and Asia and, above all, the Middle East, would prove the decisive area in the socialist-imperialist struggle. In addition, the Chinese perceived, long before the Russians, that the 'imperialist bloc' was anything but homogeneous—that its internal stresses were at least as considerable and open to exploitation as those within the socialist bloc (which the USA failed to discern even in the 1960s).

The author makes the point, time and time again, that the Arab world and the West have had difficulty in understanding Chinese aims in the Middle East, because they simply could not grasp the basic principles of Chinese policy. Unlike other nations—France and England, former dominant colonial powers; the USA and Russia, both of which are *de facto* colonial powers; West Germany and other countries which have sought economic expansion in the area—the Chinese have tried to acquire no territories, bases, spheres of influence or economic benefits for themselves. Their sole purpose has been to urge—and, if possible, to assist—the governments of the Middle East to resist Western, and later Russian attempts at domination.

Three early Chinese exercises in support of communist revolutionary movements are cited, and followed by an explanation of the reasons which led the Chinese to abandon these Marxist groups and to support established Middle East regimes irrespective of their socio-political

complexion. Chinese support of the PLO has been consistent from the outset. It has also been tempered with sound practical advice against the use of terrorism which the Chinese believed would prove counter-productive. There are some fascinating comments on the reaction of Egypt to China's encouragement of the PLO. Initial Chinese reaction to the State of Israel was favourable, but it gradually changed as it became clear that Israel was a client state of the USA; the final straw was the revelation of Israeli intentions in the occupied territories after 1967. Coupled with Chinese disapproval of Israeli policy cited in this book are examples of impatience with some Arab states—Egypt in particular—for their failure to adopt and implement a workable joint policy on the Palestine problem.

The author concludes that any evaluation of China's approach to the Middle East, in terms of traditional power politics, would judge it a failure. Few would disagree. The Chinese, happily, do not judge by these criteria: they seek neither military nor economic advantages in the area. They want simply to see a stable Middle East, free from all outside influence, exhibiting sufficient cohesiveness to resist interference in its affairs from the north or across the Atlantic. To the extent that most accept this Chinese view, Mr Shichor suggests, Chinese policy in the Middle East has achieved an initial success.

This book was completed in 1978. A sequel covering recent events in Afghanistan would make fascinating reading. Yitzhak Shichor lectures in the East Asian Studies Department of the Hebrew University of Jerusalem. The book is one of the series published by the Cambridge University Press for the Centre for International Studies of the London School of Economics.

FRANCIS JAMES

WHICH CATEGORY ARE YOU IN ?

The following is extracted from a reader's letter.

These days, I think, those particularly interested in China fall into four categories—apart from the specialists, food, art, etc.

- (1) The 'Defenders'. Whichever way events move, their first instinct is to support, publicly and privately, whatever attitudes, policies, theories, developments the leadership espouse; sometimes with minor and limited reservations, sometimes with none.
- (2) The 'Haters'. Looking for every negative feature, blowing up, rumour-mongering, turning up stones, distortions, lies.
- (3) The 'Worried'. Great devotion to the ethic of New China—concerned with alleged tendencies of a revisionist or unethical nature; confused, anxious but subjectively hope it will all come right eventually.
- (4) The 'Wait and See' Brigade. Believe there are many retrograde tendencies, uncertain about the future, recognise the past contains many dubious features—but lack any coherent view about how the future should be shaped.

I suppose I belong to the last category. I lack confidence in my own judgements because these are based on very partial experiences—and may be interlaced with both scepticism and undue optimism.

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UK. ISSN 0067-2052

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