

China scraps heavy industry bid, shifts to light industry exports

The shift in Chinese foreign policy signaled by the invasion of Vietnam, it is now clear, was accompanied by an even more radical realignment of China's strategy for domestic economic development. In launching its war against Vietnam on February 17, China committed itself to a permanent war mobilization on its southern border to try to bleed Vietnam to death, and a mobilization of its northern and western borders in preparation for possible Soviet countermeasures.

Internally, China has turned away from a long-term, heavy industry-oriented effort to foster real economic development to a short-term, get-rich-quick mobiliza-

tion for light industry for export to be able to import the military and related goods needed to sustain its war economy.

To carry out the shift, Deng Xiaoping, leader of the dominant faction within China's Communist Party leadership, was forced to abrogate a barely two-month old truce with the faction led by Wang Dongxing, the former bodyguard of Mao Zedong, reached last December, because Wang's group apparently opposed some or all of the new policies. While Deng appears to have won out for the moment, and may even have purged Wang and his followers from the Politburo, Deng's own course is sustained not by popular approval, but only by Deng's support from the U.S. and Great Britain for his role in heating up the eastern portion of Zbigniew Brzezinski's "arc of crisis" destabilizations stretching from Vietnam to Afghanistan. Economically and socially, Deng is sitting atop a powderkeg, and cannot satisfy the desires of the Chinese population for a rising standard of living, and will stir up rising opposition to himself by his economic policies.

While not understood by many analysts, the key to the Chinese situation is the integral connection between the new active war policy, and already existing economic problems and the solutions adopted to them. All of the key economic and factional shifts were announced or presaged within a week of the invasion of Vietnam, confirming that all are linked in one overall factional package forced through by the Deng faction.

The underlying economic fact of life for China is that only detente with both the U.S. and the Soviet Union, and moves for region-wide economic cooperation and development with all of China's neighbors, would create the context in which China's own mammoth problems would become solvable. By taking the opposite course, China's leaders have doomed the country to enact merely one or another non-viable attempted solution. China's latest shift represents a change from an incompetently planned domestically oriented crash develop-

Capital construction cutbacks

Following are excerpts from a March 24 People's Daily editorial on the need to make sharp cuts in China's capital construction program. The editorial was titled "Make Adjustment in the Course of Advance, Advance in the Course of Making Adjustment."

We must resolutely stop construction on all projects lacking adequate hydrogeological, geological, engineering and resource information; we must resolutely stop construction on projects lacking proper design and technology; ... on projects lacking construction materials, equipment, funds and manpower; ... for which the supply of fuel, raw and other materials, water and transportation are not guaranteed and completed; ... on projects with backward technology and high operation costs.... Admitted partially completed projects are a waste, but ... halting or postponing construction of a number of projects will yield much less waste (than continuing them now)."

ment effort, to a World Bank-style, outwardly oriented export and austerity approach.

The dimensions of the crisis

The official revelations of economic problems published in the latter half of March confirm in full the estimations made in these pages three weeks ago (*Executive Intelligence Review*, March 13-19) that drastic cutbacks were being made in China's development program because of the failure of unplanned and chaotic efforts to realize a new "great leap forward" in the economy. An article by a reporter for Xinhua, China's news service, published March 22, said that "we are confronting an extremely critical problem; our current capital construction front is too wide and overextended. There are too many projects under construction.... The situation on the capital construction front at present is clear: to advance faster we must step back.... The overextension of the capital construction front has seriously affected the normal growth of our national economy."

The same report was elaborated and given nationwide prominence two days later in the form of an editorial in the party paper *People's Daily* (see excerpts

Abandon state investment financing

Part of China's economic reorientation involves replacing state investment allocations with bank loans. A March 24 People's Daily editorial declared flatly: "Bank loans should be used in lieu of state allocations in making capital construction investments." A March 13 People's Daily article discussed the shift in greater detail:

There should be a change in China's present capital investment system from direct government appropriations to contracted loans under supervision by the Bank of Construction. When a new project is to be built, the government would appropriate funds for the Bank of Construction, which would sign loan agreements with the building unit covering such items as rates of interest and the date of repayment.... (Up to now) capital funds have simply been handed over to building departments, and the recipients have never been committed to any form of economic responsibility.... Under the proposed system loans would have to be repaid on schedule with interest.... Such measures would help insure that the recipient departments spent the minimum funds to produce the maximum economic results.

below). Here it was revealed that China had embarked on several tens of thousands of projects, including over 1,000 large and medium-sized ones, within the year since the February 1978 National People's Congress had adopted the present seven-year development plan. The editorial said that construction on a large number of these projects must be halted immediately to avoid national catastrophe.

The editorial specified that the number of projects listed in the capital and construction plan formulated early last year "was large enough" already, but that in the latter half of the year still more investments had been made even though the progress of the planned large and medium-sized projects was already unsatisfactory. "Too many projects, too thinly spread resources, chaotic management and waste are still the major problems of the capital construction front" the article said.

On March 26, the prestigious Peking journal *Guangming Daily* discussed the overall economic problems frankly and in some detail. It said that since the February 1978 NPC meeting, a series of major problem areas had developed: 1) imbalances had occurred in distribution of fuel, power and raw materials in the economy; 2) disequilibrium had arisen between light and heavy industries and lack of coordination between them; 3) construction projects were being pushed beyond the country's financial and material resources; 4) there was an imbalance between agriculture and industry; and 5) the nation's finances and total economic capacity were in frail shape. *Guangming Daily* stressed the need to boost the supply capacity of coal mining, oil refining, power generation, transportation, and construction materials, indicating that these were the key bottlenecks in the economy.

The foreign exchange problem

The revelations cited above, while they do not directly reference China's foreign capital import program or its problems, provide the clues required to solve most of the outstanding mysteries that have puzzled western observers of China's economic travails. It is obviously no coincidence that the real rash of foreign contracts signed by the Chinese with western firms—contracts whose aggregate value reached at least \$16 billion in 1978 (not all for delivery in 1978)—took place between August and the end of the year—the exact period when domestic capital construction took off in a manner and scope way beyond China's ability to sustain. Whatever led to the latter, which is not entirely clear yet, obviously inspired the former as well.

The question most insistently asked, how will China pay for it all, has recently been answered: it won't. Apart from the well-publicized suspension of over \$2 billion in initialed contracts with the Japanese announced in February, the Chinese have also suspended down payments on over \$2 billion of goods already delivered from British, French and German firms. There is no question

New export orientation

China is now talking about exports of light industry and labor in order to raise badly needed foreign exchange. On March 18, Xinhua, the official news agency, wrote on the need to expand textile output for export. On the previous day, the agency announced that China was advertising its construction services abroad. Excerpts follow:

Textiles

...The foreign exchange earned by exporting textile products accounts for a quite large proportion of the total foreign trade output of the state. Expansion of textile product exports so as to accumulate even more funds for the four modernizations is a glorious task assigned to textile industry departments by the state. We must adopt all kinds of effective measures to turn out textile products for export.

Construction

A Chinese construction company was set up recently in Beijing to contract for construction work in other countries. The company has already begun service. The company ... will contract to do the entire job of surveying, designing, constructing and assembling, or any part of these. Contracts will also be made for the workforce only.

that China's foreign exchange reserves are very strained and must be at a minimum.

Finally, the question of how China went about deciding exactly what it would import has been answered: there was no centralized procedure, and import decisions were apparently being made with the same anarchy by the same decentralized units making construction decisions.

The net result ought to be a very sudden collapse of Western illusions that an unlimited China market merely awaited the enterprising firm.

However, not well grasped are the reasons for China's sudden retrenchment. While many questions remain unanswered, a big part of the solution to the riddle is oil. Since late 1977, China had spoken of creating 19 new oilfields to the magnitude of its Daxing field, which supplies 25 to 30 million tons per year, one third of China's production. China, and many westerners as well, considered that China's off-shore reserves could be used mainly for export to generate foreign exchange, and that a great deal of oil could be exported.

Exactly when China discovered this was not the case is still unclear. According to one U.S. oil drilling expert, China still seemed very over-optimistic about its off-

shore reserves as late as last August. In any event, the truth—that China's oil production for the foreseeable future will barely cover domestic needs, if that—must certainly have been recognized by November, when the economic crisis was already so severe as to demand a meeting of the party's Central Committee. Without oil, China's major security against which it had hoped to secure foreign loans evaporated. The import program had to be curtailed, and a new source of foreign exchange found.

The shift to light industry

The gamut of solutions to the above problems reached by the Deng Xiaoping faction fall under four headings: 1) suspension of work on all nonessential construction projects, 2) institution of an economy drive to conserve materials and avoid wastage, 3) putting great emphasis on light industry, especially for export, and 4) instituting a Yugoslav-type of "market socialism" to spur economic accountability and raise efficiency.

The economy drive was publicized nationwide in March 9 *People's Daily* editorial which said that a basic policy in China's socialist construction was to increase production and practice economy. The editorial said: "It is right to take pride in practicing economy; it shameful to be wasteful, and a crime to be corrupt." The degree of desperation attached to this makeshift campaign was revealed by a March 3 *Workers Daily* article on the subject that took the slogan "increase production and practice economy" to absurd lengths. It said that China must "use every means to build more enterprises with less manpower and material and financial resources," a call likely to lead to just the sort of wastage already decried in the construction field.

However, cutbacks and economy do not generate foreign exchange. To replace its once-expected oil revenues, China made a shift which may produce dramatic consequences for world trade in certain commodities: China will attempt to use its own vast pool of cheap labor to compete with the cheap labor of other developing countries in the form of a huge light industry export program, starting with textiles but encompassing a wide range of potential products.

A March 18 Xinhua article reported on an early March conference of the National Textile Industry Bureau Directors attended by people from textile units around the country (see excerpt below). The conference was called to "shift the focus of work" of the textile industry toward improving quality and quantity by practicing economy, but most especially with an eye to large-scale increase of China's textile exports.

This and other articles all represent implementation of the call made on February 24 to shift investment resources out of heavy industry into agriculture and light industry. A *Baltimore Sun* article reported that China is likely as well to compete with the light machinery exports of developing countries such as In-

dia, Taiwan and South Korea—with the advantage not only that its labor is much cheaper than that in all three countries, but that China can readily dump its goods below cost, if it chooses, to ensure its advantage. Should China carry out its new program as planned, a great many Third World countries are in fact going to feel a severe pinch from Chinese competition against their vital exports.

In the same vein, China recently announced that road and bridgebuilding teams would be available for foreign contract, or, if desired, just the laborers could be sent abroad. China apparently hopes to use its own coolie labor to compete with the Pakistanis, Indians and South Koreans now in the Middle East, for example.

Yugoslav model

Finally, Deng has proven that there was a perverse truth to former Maoist charges against him that he was a “revisionist” and a “capitalist roader,” by instituting a series of reforms that shift China from Mao’s labor-intensive rural communalism toward an Adam Smith-style market-determined course, closely modeled on Yugoslavia’s system which China has studied intensively in recent years. This was signaled in articles in March that called for an end to state appropriations for construction projects, and their substitution by loans from the State Construction Bank. This, it was argued in a *People’s Daily* article (see excerpts), would ensure economic accountability for funds allocated, and it was stated that between 1950 and 1977 in the province of Gansu that only 36 percent of the capital spent had increased the productive capacity.

Another article by Zhao Ziyang, a close ally of Deng’s and the province chief of Sichuan province, on March 13, argued that an all-embracing central economic plan does not work, that only major products and key branches of the national economy should be brought under a plan, and that the remainder of the economy should be run by the market mechanism.

The real significance of the faction fight

Underlying Deng’s reopening of the factional sore is the fact that the dramatic change he is introducing to the economy could very quickly blow up in his face. Despite all the fanfare about efficiency, there is no guarantee that his new plan will work any better than previous plans. Much of the rhetoric about economy and efficiency, for instance, sounds very reminiscent of innumerable Maoist campaigns from before 1976. As last year’s capital construction fiasco revealed, China has a very poor capacity for effective economic planning and resource allocation, and despite repeated calls to study western management and “to do management work well,” its weakness in this department will remain for a long time to come.

Moreover, shifting to light industry incurs a very severe long-term penalty, by skewing domestic produc-

tion to export needs in a classic underdevelopment pattern. China will find that it is sacrificing long-term healthy development for immediate profits that depend on the vagaries of the export market.

Worse yet, the decentralized “market socialism” a la Yugoslavia will encourage, as it has in Yugoslavia, every centrifugal force in the country, and the degree of anarchy that now characterizes the Yugoslav economy will be replicated manyfold in diverse China. Indicative of what is in store was revealed by articles (see excerpts) from two provinces attacking peasants who had begun disbanding the work teams, the lowest unit of China’s collective system in agriculture, in response to the loosening of former Maoist controls. The teams were being broken up into small groups based on family or ancient clan ties, revealing just how much of the old China lies close beneath the surface of contemporary, “socialist” China. This problem can be expected to spread uncontrollably under the new regime.

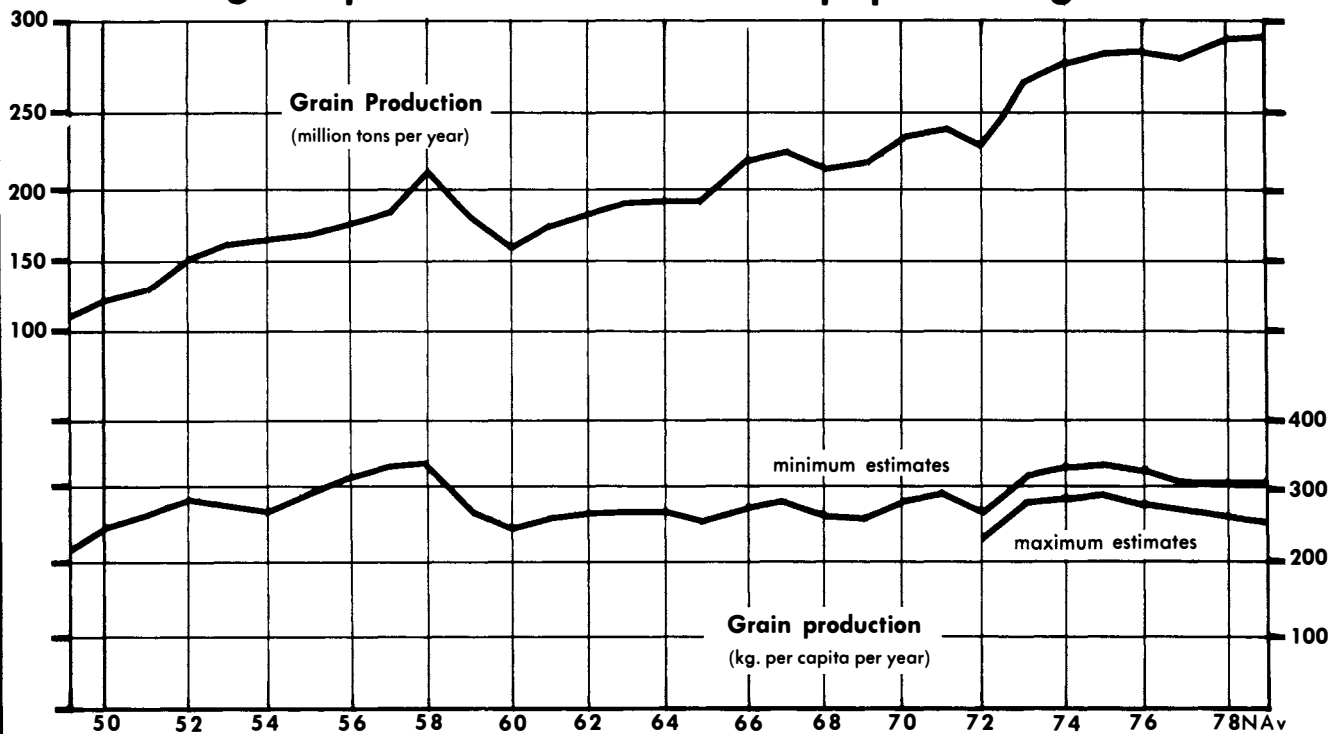
Finally, the Chinese population has been lied to, bamboozled, cajoled and brutalized by the Maoist regime for too long to ever again take promises at face value. China’s workers and farmers will only cooperate for economic construction if there is tangible, rising material reward in it for them. But Deng’s program is incapable of providing more than a token increase in living standards for decades. The bottom line is agriculture, which is nominally the focus of the shift away from heavy industry, but which in reality is getting very little concrete attention. There has been indication of significantly increased allocations to develop agriculture. As the chart indicates, China has not increased even its grain production as fast as its population since 1957, but without increasing agricultural out-

Market mechanisms to regulate the economy

On March 13, Xinhua reported that the party leader of Sichuan province, a crony of Vice-Premier Deng Xiaoping, had urged the establishment of market mechanisms to help regulate China’s economy. Excerpts follow:

Sichuan’s top party leader suggested recently that there must be elements of a market economy within a planned economy.... Experience shows that an all-embracing plan alone does not work. It sometimes hampers the development of the productive forces.... Major products and key branches of the national economy should be brought under a plan, but for the rest there can be indirect control through the market economy.

China's grain production falls behind population growth



China's grain production since the mid-1950s has been highly erratic and, since 1957, has failed to even keep pace with population growth. The population figures used for the per capita calculations were compiled by Foreign Demographic Analysis Division of the Bureau of the Census after exhaustive research and statistical analysis. In the absence of an official census in China since 1953, these figures are more accurate than the official Chinese gross estimates. The per capita figures used are the FDAP's most conservative estimates, which are certain to understate the population and therefore overstate the per capita figures. Thus, since 1953, the true per capita figure must be somewhat less than that indicated. For 1972 through 1979, the FDAP's maximum estimates are superimposed, giving a bottom range for per capita production. The grain figures are in accord with figures put out this year by China.

put substantially faster than population growth for many years running, any substantially enhanced standard of living for its population is impossible. China may have been dazzled by the South Korean and Taiwanese success in moving from light to heavy industry exports, but it seems to have missed the fact that high and rising agricultural productivities were what really made the whole development programs possible.

For all of these reasons, there is a fertile field, which can only become more fertile over time, for a popular opposition to Deng, his faction, and his program. It would seem that Deng sought to eliminate the existing anti-Deng faction led by Wang Dongxing preemptively before it could capitalize on existing and future discontent.

Certainly the coincidence of a renewed campaign against the former Maoist leader Lin Biao, who died in 1971, and the "gang of four" who were deposed one month after Mao's death, in October 1976—a fight that was supposed to have ended by Jan. 1, but which Deng's

faction revived in *People's Daily* on Feb. 16—and the start of the invasion of Vietnam the next day, Feb. 17, is not accidental. While the war had several rationales from Deng's standpoint, it definitely seems in part to have been a factional maneuver to bolster Deng's prestige (assuming China won), especially with the military, and probably to put the Wang group on the spot. It is likely they even opposed the invasion.

It is now almost certain that a decisive factional battle has already been fought, with all indications pointing to a Deng victory. Several rumors said Wang and four Politburo cohorts, General Chen Xilian, Wu De, Chen Yonggui and Ji Dengkui, have variously either been purged from the Communist Party, arrested, dumped from the Politburo, or demoted to pure figureheads. One report said Wang was accused of holding a meeting to plan moves against Deng—a highly plausible charge which may indeed have served as a pretext to remove Wang. None of Wang's group has been seen in public since early March, while Deng and several of his allies

have appeared often. But so far, there is no official word on the Wang faction's status. However, since people close to Deng have recently received high posts, and since the entire policy being followed at home and abroad is Deng's, there is little doubt that he, in any event, has won this round all the way.

Even if the Wang group loses its toehold in the Politburo, however, there are certainly a great many people in the party and the army who believe that Deng is abandoning socialism. Party Chairman Hua Guofeng, close to the Wang group himself, is still the party chairman, though he is likely to have suffered as well during the last six weeks. In fact, it appears likely that he may have been made the scapegoat for the madcap construction binge because of his calls last summer for "a new great leap forward" and for more rapid economic growth. He can always become a pole for anti-Deng forces to rally around. China seems far from free of its perennial factional problems.

In fact, Deng's move in mid-March to quash the wall-poster movement clearly reveals his own insecure position and fear that the "democracy" movement could readily be used against him—as indeed it already has to a limited degree.

Furthermore, there is bound to be widespread opposition to Deng's foreign policy which now is nothing but naked force against not only Vietnam but all of Southeast Asia. China's support for Egypt has cost it any influence in the Arab world, and China is, practically speaking, locked into the London-Washington-Jerusalem axis that is trying to bring down the rest of the world in a holocaust of economic crisis, instability and war. If this axis is defeated, China's Deng will find his future highly problematic as well.

— Peter Rush

Problems of demaoizing

Judging from Chinese provincial radio broadcasts, many Chinese, particularly peasants, are quite ready to return to China's backward, family and clan-based pre-Mao ways, a further obstacle to China's economic plans. Portions of two broadcasts follow.

From Hunan province

However, certain deviations occurred in a few places. For instance, some places split up the production teams ... into work groups according to clans and families, with "father and son" groups and "Huang clan groups" appearing.... Such groups established ties with each other as they pleased, and there appeared strong men's groups, groups of old people and children, and groups of cadres....

From Guizhou province

Party organizations have helped ... to correct erroneous trends such as dividing up the land to go-it-alone, regarding the work group as the basic accounting unit, and demanding disbandment of the production teams. "Teams of brothers" and "father and son teams" appeared....