

1966

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### Recommended Citation

Schwartz, Harry (1966) "The Economy of The People's Republic of China," *Naval War College Review*: Vol. 19 : No. 1 , Article 3.  
Available at: <https://digital-commons.usnwc.edu/nwc-review/vol19/iss1/3>

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## THE ECONOMY OF THE PEOPLE'S REPUBLIC OF CHINA

A lecture delivered  
at the Naval War College  
on 28 September 1965

by

Mr. Harry Schwartz

When one talks about the economy of Communist China, one is immediately faced with a paradox. While it is possible to talk about the economy of Communist China as a homogeneous entity much the same as the economy of the United States, Great Britain, or France, we should actually consider that the economy of Communist China is, in fact, two economies. It is this concept of two economies that I should like to dwell on in this lecture.

One economy, which you might call the "major" economy (I call it *major* simply because it embraces most of the population of the country), is the economy of a very poor and underdeveloped country. It includes that great mass of Chinese peasants tilling the soil in a rather primitive fashion. They have few tractors or other farm machines. Most of the motive power in Chinese agriculture is provided by animals—oxen, water buffaloes, and the like—and by human beings. It is an agriculture which is, in the main, as primitive and as backward as any in the world. It is an agriculture in which land is very densely populated; where you have people trying to make a living by the extensive cultivation of two or three acres per person. It is, in short, the classical agriculture of China that has changed little from five hundred or two thousand years ago.

The "minor" economy—*minor* in terms of the total country and population—is the economy with which you would be more concerned. It is what we might call "islands" of modern industrial technology and modern industrial scientific production. These islands, in the aggregate, do not amount to much by such normal

measuring sticks as gross national product, production of steel, and the like. The Chinese have not published any industrial production statistics since the year 1960. However, the general impression, which can't be too far wrong, is that they may be producing somewhere in the neighborhood of ten to fourteen million tons of steel annually.

The United States now produces well over a hundred million tons of steel; the Soviet Union produces almost a hundred million tons of steel; and Japan, West Germany, Great Britain, and France all produce more than do the Chinese. If we use steel as a rough indicator, the Chinese industrial economy isn't very great. However, we live in a world where some of these "islands," if they can get the backing of the state and the required allocation of resources, can produce some very major achievements. What I am thinking about, of course, is that one of these islands of modern industry and technology in the Chinese economy has, to date, produced at least two atomic bombs. Presumably there are others which have not been exploded. So you have this curious dichotomy in China: a country which is, overall, one of the most backward, most poverty-stricken in the world; and yet which has been able to become the fifth nuclear power. It is the only country in the underdeveloped world to have nuclear weapons.

However, the poverty of the country is a drag on the Chinese economy. Its leaders have been trying to overcome this. Much of the history of the Chinese economy over the past fifteen years has been concerned with efforts to accelerate economic growth and industrialization. It should be borne in mind that the present situation in Communist China is one which, from the point of view of the dreams of the leaders, is highly disappointing. The leaders of Communist China, as of a decade ago, had hoped that their country would now be much further along on the road to industrialization.

When you think of Chinese industrialization, it is important to remember that Communist China started from a much smaller industrial base than the Russians. We tend to use the term "underdeveloped" rather loosely; we think of Russia in, say 1913, as having been underdeveloped, and of China as having been underdeveloped in the last years of nationalist rule. While this is true it is misleading, because Russia in 1913 produced roughly four million tons of steel; it had one of the longest railroads in the world, the Trans-Siberian Railroad; and it had a long tradition of science and technology. In the 19th century,

the Russians contributed significantly to science and technology. For example, Meudeleev discovered the periodic table of elements. Pavlov, the discoverer of conditioned reflex, was also one of the discoverers of non-Euclidean geometry. Thus Russia, in the 19th century, already had a very thriving, if small, tradition of accomplishment in science and technology, along with its application to modern industrial production. This base did not exist in China, and what I am trying to suggest is, that in some very important respects, China, in 1950, was very far behind the Russia of 1913. One indicator of this is the fact that China in 1950 had a steel production of less than one million tons, which is less than one quarter of what the Russians enjoyed in 1913.

When the Chinese Communists took over in 1949 and 1950, they attempted to impose upon China an economic system which was, in large measure, simply a duplicate of the Soviet system. I understand that Professor Berliner of Brandeis University described the Soviet economic system to you, so I shall not dwell on that in any great detail. Essentially, the Chinese People's Republic had nationalized all significant industry by 1956. They had eliminated individual peasant farming and had created a system of collective farms; they had introduced a system of governmental economic planning under the State Planning Commission—one which operated in very much the same way as the Soviet system operates. It is a system that attempts to account for the major resources available, and then allocates those resources to the primary needs of the nation as determined by the political leadership of the country. Thus, the Chinese, with due regard to the differences in the size and the backwardness of the country, had imitated the Russian pattern up to 1956.

There was, however, at least one major difference in that, during the first years of the 1950s, the Chinese received rather substantial aid from the Russians. Much of this aid was in the form of technical assistance, rather than purely monetary assistance. The Russians did give the Chinese a 300-million-dollar loan at the beginning of 1950 and additional loans in 1954, but the monetary amount wasn't very great. However, the Russians did send thousands of their Soviet advisers to Red China—engineers, architects, chemists, and skilled workers of all kinds. They helped the Chinese draw up plans and build modern plants in a wide variety of areas. The Russians also educated and trained thousands of Chinese in Soviet universities, laboratories, and factories. Similarly, the Russians supplied the

machinery required for the new Chinese factories. There were several hundred modern factories involved in this very substantial injection of industrial technology into China from the Soviet Union.

A major difference arose between the Soviet and the Chinese economic patterns of development in 1957-1958. The cause seems to have been the feeling on the part of the Chinese leadership that continued dependence upon technological aid from the Soviet Union, was simply too slow a process. The impatience of the Chinese Communists resulted in what they called "the great leap forward." The great-leap-forward period, which was nominally supposed to be the three-year period from 1958 to 1960, was an attempt to move ahead extremely rapidly within a very short period. Those of us who have studied Soviet economic history believe that the idea for the "great leap forward" in China came from the Soviet experience of the early 1930s, when the Russians did make a very great leap forward. Since the Chinese started at a lower level than did the Russians, they had a more difficult task. This difference in starting points obviously had something to do with the final outcome.

The "great leap forward" had two aspects—one in industry and one in agriculture. In industry, there was adopted the policy called "walking on two legs." This has a poetic ring, and one of the charming things about working in China is their rather poetic language. We talk about "free speech"; the Chinese talk about "letting a hundred flowers bloom." We use a rather prosaic language, but it is quite exciting to see the Chinese perspective—such as their walking-on-two-legs industrial policy. "Walking on two legs" was essentially an attempt to push industrialization ahead, not just in one way, but in two ways. One leg was the old and usual manner of building cities and modern plants, taking time to instruct and train the workers, to get machinery and so on. This was simply a continuation of what had been done in the early or mid-1930s.

The other leg was an attempt to mobilize the huge labor power of China. You must remember that by general estimates, which may be off by 50 to 100 million people, China now has around 700 million people. While China has always been short of capital, it does have an enormous manpower reserve. This other industrial leg was the formal policy of having people, all through China, use rather primitive techniques to produce goods needed in a modern society.

The key element was the backyard iron and steel furnace. There was a period in 1958 and 1959 when just about every apartment house in every major Chinese city, and every house in every Chinese farm village, had to have a small blast furnace somewhere in the backyard to make iron and steel, using local raw materials. They used this technique in many ways: to create small furnaces for copper, small factories for manufactured goods, and so on.

These installations were primitive and inefficient by standards of modern technology. Nevertheless, the idea was that there would be so many of them, that in the aggregate they would make a major contribution to the industrialization of the country. You can see the immense effort that was involved when, in 1958, it was claimed that there existed about 700 thousand of these backyard furnaces, and that they produced over 5 million tons of steel. This was the official claim which sounds very impressive. However, there were certain elements that the Chinese had not taken into account. One was that the production of these backyard furnaces and analogous installations were of such poor quality, that most of it was ineffective. As a matter of fact, there were some economists who estimated that the value of this production was negative on the basis that the cost of the raw materials and the labor inputs were greater than the value of the output.

This effort to substitute the low-paid labor of millions of Chinese for the missing capital simply failed, and failed dismally. Moreover, there was a further negative consequence. The Chinese leaders assumed that they had a large reservoir of unemployed manpower. What they hadn't realized was that this unemployed labor was only seasonally unemployed. At the height of the agricultural season, many of these people were needed in the fields. However, when they should have been in the fields, they had to tend their furnaces and were thus not available for farming. This failure to consider seasonally employed agricultural workers had serious consequences in the agricultural sector of the Chinese economy.

With the great change of 1958, and the agricultural revolution of the great-leap-forward period, "people's communes" were created. In American terms, how shall we define *people's commune*? As an oversimplified example, a people's commune would be as though you took all the people in every American county, and combined all these people into one governmental and economic organization. Remember that before the communes,

there had been collective farms in China. There were hundreds of thousands of these collective farms on the Soviet model. However, under the new program, these collective farms were abolished and amalgamated into the people's communes. The theory was that with the people's communes, a number of advantages would result. Private property would be abolished, and the labor of all of the people within a commune would be available for whatever work was needed. As an example, one day a couple of thousand of workers could be marched off to till the fields, and that was all that was required. The next day, they could be marched off somewhere else to help build a dam or canal, or whatever work was required. It was really a Chinese adaptation of Trotsky's idea of labor armies. As a matter of fact, the roots of this idea could go even further. If you have read the Communist Manifesto of Marx and Engels, you would find that one of their notions was that agriculture, after a triumph of the communists, would be handled by huge labor armies. The communes were apparently an attempt to effectuate that concept.

A second function of the communes was military, and this has remained to the present day. The concept was that everyone of adult or semiadult age would get military training. The commune, therefore, became a unit for militia training where hundreds of millions of people received training in the elements of guerrilla warfare. Moreover, it was thought that the people's communes would provide a faster approach to the theoretical communist state. In this connection, communes resulted in the destruction of family ties and traditions. In some cases whole families were simply wiped out. The population was resettled into dormitories. Men were settled in male dormitories and the women in female dormitories; husbands and wives were permitted to meet once or twice a month if they were good production workers. I suppose this was a way of providing some incentive to the workers.

As part of the idea of moving toward communism, payment was by a rationing system. Normally people were not paid money. If they did receive money, it was very little. Meals were provided without cost, as were haircuts once a month and one suit of clothes. It was a little like being in the Navy. The idea was to get rid of private property, to make everybody available for work wherever the need existed, and to abolish inequality.

At first, the Chinese leaders thought that this was the greatest discovery of all times. In the fall of 1958, they began printing very "snooty" articles which enraged the Russians. These writings

suggested that the communes were highly successful because they were using such revolutionary methods in production and agriculture, and that China was obviously only a couple of years away from perfect communism. Of course, when the Chinese began to make such claims, it was an implicit rebuke to the Russians. These claims, in effect, said, "There are those slow-pokey Russian Communists. They have been in charge of their country for 41 years, and are not even talking about when they will have perfect communism. We Chinese Communists have been in charge for less than a decade, and already we can see the advance of perfect communism around the corner." The difficulty was that the communism the Chinese were dreaming of in 1958 just didn't seem to come.

To make a long story short, the Chinese Communist government simply blundered into a very embarrassing situation when they announced such fabulous agricultural production results. The figures do not matter now, but they came pretty close to claiming that in 1958 alone, they had doubled the production of grain. People like myself looked at these claims and wondered what they meant. We were flabbergasted in that the claims made no sense whatever; and yet, it seemed inconceivable that a modern government would make such fantastic claims without having some real basis. I recall a certain agency in Washington which issued a forecast, based on projections of these results, indicating that China would be a great economic power by 1962-63. If you projected the kind of progress the Chinese Communists were claiming in 1958-59, their progress was really very frightening.

What happened was very simple. The people's communes did not do much in the way of improving actual production. Under terrific pressure from above to obtain good results, the managers of those communes felt there was one thing that they could do: make up good statistics. The output of the communes was, above all, a crop of glowing statistics in production. For a while, everyone was eating and gorging themselves on the assumption that they had a tremendous amount of food. Before long, food supplies were exhausted. An investigation was hurriedly conducted, and it was embarrassing for Premier Chou En-lai to have to announce that the original production figures had to be corrected—like cutting them nearly 75 percent.

As with industrial progress, the impatience of the Chinese Communists had betrayed them. Those who carried out this

agricultural revolution knew very little about the peculiarities of Chinese agriculture or local conditions. The great wealth of wisdom that existed on how to till the land under the intense population demands of China was ignored and wasted. As a result, agricultural production deteriorated. Much of the work of the communes was actually disastrous. For example, irrigation canals were built in such a way that much of the land became waterlogged and excessively polluted by salt. The whole program was a genuine debacle.

The Chinese, while never admitting defeat, hurriedly backed away on certain agricultural policies. They have kept the people's communes, but there has been a trend back to the old collective farm system. They are now called "agricultural brigades," and there is even a smaller farming unit called "the production team." The whole role of the communes has, therefore, been cut back sharply, and all of the folderol of reaching perfect communism has been dropped. The peasant is now allowed to have a little garden of his own. He can keep a couple of chickens, and maybe a pig, if he is really wealthy. Payment to workers is now unequal; families are reunited; and things are more nearly "normal."

It wasn't enough that the Chinese were set back in 1958 and 1959 by the failure of both of these aspects of the "great leap forward." They received another blow in 1960 when the entire struggle between the Chinese and the Russians came to the fore. In the summer of 1960, the Soviet government ordered all of its technicians, some 1300 to 1400 of them, to come home. Most of them took their blueprints with them. This meant that the Chinese were often left with half-completed factories, or with factories whose structures were completed but with machinery still in the process of being installed. Before the Chinese really knew what had happened, the Soviet technicians were gone and had taken their blueprints with them.

Natural disasters also appear to have had an effect during this period. The net impact of all of these setbacks was that the Chinese economy went into a distinct nose dive. The magnitude of its depression can be indicated by the fact that the Chinese Communists officially claimed that they produced 18 million tons of steel in 1960. Western estimates are that in 1962, they may have produced only 7 million. As I indicated earlier, I thought that the 1965 figure was probably in the 10 to 14 million ton range.

What do I mean when I say that the Chinese economy went into a terrific nose dive? China apparently had extremely bad

harvests for several years. Their leaders claim that these bad harvests were primarily the result of the worst weather Communist China had ever experienced. Every area that could have a flood was flooded; every year that could have a drought had the worse drought in a hundred years. Even though the weather may have been bad, there are some of us who think that God wasn't out to wage meteorological warfare against the Chinese. The blunders of the people's commune movement had come home to roost and these errors had much to do with their predicament. Whatever the causes, it is quite clear that food production in Communist China went down.

We know from once-secret documents that are now available, that there were periods in 1960 and 1962 when the leaders of Communist China were afraid of revolution because they didn't trust their own army. The army was, after all, composed of peasant youngsters, many of whom must have received letters from their folks and friends at home telling of the starving conditions.

Thus, the combination of the Russian pull-out and the agricultural catastrophe forced the Chinese Communist leadership into a tremendous campaign of retrenchment. The entire order of priorities for economic development was completely revamped. During the 1950s, the order of priorities had been primarily the same as the Russians—heavy industry first. This was supposed to make China a modern, industrial, technical, and military power. The Chinese also wanted to have their own nuclear weapons, their own Polaris-carrying submarines, their own ICBMs, and so on. After all, these were the status symbols of the modern world.

In the early 1960s, the push for heavy-industry-first was temporarily abandoned with top priority being given to agriculture. When I say that top priority was given to agriculture, they really had no alternative when they couldn't feed the swollen population of their industrial cities. Moreover, as a result of not being able to feed their population adequately, many of their workers, particularly the coal miners, were so weak that they just couldn't mine enough coal, which meant that their productivity went way down. The result was that several million people were shipped out of the cities to the farm areas where they were told to find some way to feed themselves. A great many of China's factories, which had either been built with Russian help or inherited from the nationalist regime, were either closed down or only worked at a quarter or a

half of their capacity. Almost all of the resources of the country were focused on the desperate job of trying to get enough food to feed the people. It was during this period that the Chinese began buying large quantities of grain from abroad—a practice which they have continued every year since 1961, up to and including 1965.

It is now clear that during this process of retrenchment, there must have been at least one area of military effort which the Chinese kept going—the nuclear one. This nuclear effort is one which was begun no later than 1957. We know that in October 1957, the Soviet Union and China entered into a secret treaty in which the Soviet Union pledged itself: (a) to transfer nuclear weapons to China, and (b) to help the Chinese develop their own nuclear weapons industry. Unfortunately, for the Chinese, the Russians reneged on that treaty in June 1959. We knew nothing about it at the time. However, in this period of almost two years, the Russians must have given the Chinese a good start in nuclear technology. The Chinese continued their nuclear development even while they were being hit by the economic catastrophes of the early 1960s. As you know, the day after Khrushchev was deposed in Moscow last year, the Chinese exploded their first atomic bomb.

We have in China today a country which has apparently (I stress the word *apparently* because the Chinese are still not releasing any statistics) recovered, at least partially, from the catastrophes of the early 1960s. Food production has apparently improved. Visitors to China report that in cities like Shanghai, Canton, and Peking, there seems to be more food; rations are more nearly fulfilled (unlike the earlier period when people couldn't even get what they were supposed to get); and that things generally seem better. The Chinese also claim they have used this period of retrenchment to improve the quality of their industrial production, and to extend very sharply the range of industrial products they can produce. This is evident when the Chinese participate in an industrial fair in which they show off some fairly large machine tools and other complex items of machinery with the boast that they were made in China. They argue that they are now far less dependent upon foreign industrial and technological aid than they were a few years ago. In other words, this has been a period of initial retreat and then regroupment of forces. The general impression the Chinese give is that they may be very close to a new attempt at moving forward industrially.

It is rather interesting that the Chinese have recently admitted some 150 foreign correspondents into China on very short notice. There were no Americans included, but these correspondents have already been provided one story of note. A former Chinese Nationalist official, a Vice-President who defected to the communists several months ago, gave a press conference in which he said that the United States had asked him to overthrow Chiang Kai-shek in 1955. This is certainly too minor a story to justify the unprecedented admission of 150 foreign correspondents. However, we did know that on October 1st, the Chinese Communists would be celebrating their sixteenth anniversary. It may be that the foreign correspondents were desired in Peking for this celebration in order to announce a new five-year plan, or some other new ambitious plan aimed at once more starting the Chinese economic advance. Be that as it may, Communist China has some glaring weaknesses at the moment.

Now what are the weaknesses of the People's Republic of China? Look at it from the military point of view. One of their weaknesses is clearly that much of their military equipment, such as planes, tanks, and more complex weapons, is Russian in origin, and the Russians for some time have not been supplying them with spare parts. In any case, this equipment is now rather obsolete. Then again, military technology is changing rather rapidly, and the planes they received in 1957 or 1958 may not be the most desirable equipment with which to wage a present-day war.

Another weakness is in the area of oil. The Chinese were able to fight in Korea because the Russians supplied the oil—a good deal of oil. Since then, the Chinese claim to have increased their oil production quite substantially. Their last published figure was about 5 million metric tons of oil in 1960. They have claimed vaguely that they have been increasing their oil production in the years following. In fact, a year or two ago, the claim was made that China was now "basically self-sufficient in petroleum." This may be true for the kind of primitive economy China has today, but China would be unable to fight a modern war, using mass flights of planes, with their present petroleum facilities.

Russian-supplied petroleum products would somewhat alleviate the seriousness of Chinese fuel demands. However, continuation of the Soviet-Chinese rift places the supply of Russian oil in questionable perspective. The fact that the Chinese can't properly count on the Russians to supply them with very much oil would seem to suggest real limitations in the use of air and sea power in the event

of a war with the United States. Their emphasis seems to be that if they get into a war with us, it will finally be decided on the ground in a guerrilla-type action. The Chinese seem to envision a South Vietnam-type war, but expanded a hundredfold to the dimensions of Communist China. Some of the people I know in the Army don't particularly like to fight under the conditions in South Vietnam. I can assume they would like even less to fight under similar conditions in China. I hardly blame them.

Let me conclude that the Chinese economy, by the usual indicators, by the usual status symbols of a major power, is really a joke. Even with nuclear power, it's quite clear that if the Chinese dare to use nuclear weapons in anger or in war, they are simply asking for their own destruction. I don't believe it is classified to say that the United States can very easily destroy China several times over with the stockpile of United States' nuclear weapons. I do not think that the Chinese really intend to use their nuclear weapons for military purposes. The nuclear weapon is primarily important in their minds as a status symbol—as a sign to underdeveloped countries that China should be regarded as a leader of the underdeveloped countries. After all, the People's Republic of China is the only such country that has a nuclear weapon.

What I am really trying to say is that for certain kinds of warfare, it is China which is the paper tiger rather than the United States. If you are talking about air or sea warfare, China is a joke. On the other hand, partisan warfare is the kind of war that the Chinese Nationalists and Communists alike fought against the Japanese in the early 1930s. This is the kind of war which the Chinese seem to be preparing for under the assumption they may be attacked by the United States. At least, that is what the Chinese Communists say. However, looking ahead, I see no reason why China should not in time become a major industrial, technological, and military power. The Chinese, once they have recovered from the catastrophe of what was the "great flop backwards" rather than the "great leap forward," should be able to move ahead. I think they have learned a lesson, and after the debacle of the late 1950s and early 1960s, they will be more cautious. Given time, there is no reason why the Chinese can't make hydrogen bombs; why they can't make ICBMs; why there can't be a Chinese equivalent of SAMOS or Sputniks orbiting the earth and taking pictures; etcetera.

In terms of modern military technology, I don't see China as a problem today. I do think, however, that the generation of my children, which will have to worry about China twenty years from now, really has something to think about. For both the United States and the Soviet Union, I would suppose that one of the great strategic problems to be faced is: Should the United States and the Soviet Union, either alone or together, permit Communist China to become a modern military and industrial power? Or should they take measures in the near future to interdict the growth of that power? That is a question beyond my competence, and perhaps your competence.

#### BIOGRAPHIC SKETCH

Mr. Harry Schwartz (Ph.D., Columbia University) is presently employed by *The New York Times* as a specialist on Soviet Affairs. He has served in numerous governmental agencies, including the State Department, as an economist. During World War II, Mr. Schwartz served in the U.S. Army and also with the Office of Strategic Services. Prior to his present assignment with *The New York Times*, he was Professor of Economics, Syracuse University. In addition to numerous articles in newspapers and magazines dealing with the political and economic life of the Soviet Bloc, Mr. Schwartz is also the author of *Russia's Soviet Economy* and *The Red Phoenix*.