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ECONOMIC COMMITTEE

THE TRENDS OF THE ECONOMIC POLICY, THE ECONOMIC SITUATION  
AND FOREIGN TRADE OF THE PEOPLE'S REPUBLIC OF CHINA

Note by the German Delegation

I. THE TRENDS OF THE ECONOMIC POLICY

Until the second half of the fifties, the Chinese economic policy had closely followed the Soviet model. Investments had clearly been given priority over consumption with emphasis on those in heavy industry while agriculture and light industry had been neglected.

The "Great Leap Forward" at the end of the fifties clearly indicated that the PR of China did not after all consider the Soviet conception as the appropriate means to solve the specific development problems of the country. This applied especially to the undervaluation of agriculture.

The priorities were then clearly shifted in favour of agriculture in order to achieve self-sufficiency in the food sector and thus become largely independent of grain imports. In the industrial sector, the development of the chemical industry - especially of the fertilizer industry - of the electronic, iron and steel industries as well as of the agricultural machinery industry was promoted. At the beginning of the sixties, emphasis in the industrial sector was shifted from the construction of capital-intensive major projects to the establishment of small and medium-sized enterprises in the provinces. This led to a decentralization of production plants. The principal aim was to achieve the self-sufficiency of the individual economic regions, which was desired for strategic reasons.

However, the high degree of decentralization of the Chinese economy must also be seen in very close connection with the inadequate transport facilities of the country. Whether decentralization should be regarded as the necessary consequence of the inadequate transport system or whether it constitutes an economic aim cannot be clearly determined.

N A T O   C O N F I D E N T I A L

AC/127-D/482

-2-

The decentralized development of the Chinese economy is also favoured because the natural raw material resources are dispersed over the whole territory of the PR of China. It offers relatively favourable geographical advantages for the setting up of similar economic centres in various areas.

2. The basic principles of the Chinese economic policy conceived at the beginning of the sixties have also retained their validity in the current Five-Year Plan 1971/75. Although little has become known so far about the specific objectives of this planning period, they can be described approximately as follows:

- establishment of a limited number of modern capital-intensive major enterprises;
- development of labour-intensive medium-sized and small enterprises on a large basis, because a faster amortization of investments is expected in such enterprises;
- increased employment of workers and technicians in rural areas in order to prevent overpopulation and unemployment in the towns and to relieve the overloaded transport system by the decentralization of production plants;
- build-up of a modern infrastructure.

The concept of decentralization is retained. The creation of independent agricultural-industrial communities is governed by the principle of self-help; these economic units are subsidized by the government only in exceptional cases.

It seems that the PR of China has now reached a degree of industrialization where further growth reserves can only be set free by an increasing division of labour. To insist on an exaggerated regional policy of self-sufficiency which does not take specific geographical advantages sufficiently into account would doubtlessly be detrimental to a modern economy. It is possible for this reason that increased investments were made in the transport sector in 1973.

There are indications that the current Five-Year Plan was drawn up only as a skeleton plan with general data for orientation which have to be taken into consideration in the respective annual plans. It is reported that until 1972 inclusively only provisional target figures were laid down also for the annual plans. However, the appointment of a planning minister at the end of 1972 indicates that specific detailed plans were again established for 1973, as it was the custom before the Cultural Revolution.

II. THE ECONOMIC SITUATION

Although the economic performance of the PR of China is increasing in almost all sectors at present, the Central Office of Statistics in Peking still does not support the progress made in the individual economic branches by quantitative evidence. A change in this attitude could possibly be brought about by the accession of the PR of China to the UN and its endeavours to replace Taiwan in the IMF. Until then, however, most of the information given on the economic development of the PR of China will have to continue to be based on estimates.

1. According to provisional estimates, an increase in the gross national product (GNP) by about 10% can be expected for 1973. It should thus have reached a value of 160-170 thousand million US dollars - at current prices; this corresponds to a per capita income of about 200 US dollars.

There are no absolute figures available on the composition of the GNP. Estimates for 1965 indicate the following composition of the GNP on the basis of US dollars at current prices (in brackets: provisional estimates for 1970):

Industry, transport, building industry:	30%	(37%)
Agriculture:	46%	(30%)
Other sectors:	24%	(33%).

There are no data available either on the utilization of the GNP. It can be assumed, however, that at least 25% are used for gross investments. About 20% are used by the public sector (about half of it probably by the armaments sector). 50-55% would then be available for private consumption.

These figures confirm the statements of the Chinese leadership that China is still a developing country with difficult building-up problems. It must not be overlooked, however, that the relative importance of the industrial sector in the Chinese economy has already considerably increased in the past few years.

2. So far, Peking has only stated that the gross value of the agricultural and industrial production increased by 8% in 1973 compared with an increase of 10% in 1971. No data on this item at all were given in 1972. According to Chinese allegations, a number of industrial products achieved very high growth rates last year. For these products, the planning targets were reached or overfulfilled. It is interesting that various products in short supply, the production of which was given priority in the Chinese industrial policy last year, were not mentioned (iron ore, crude iron, coal, cement and mining machinery).

AC/127-D/482

-4-

In the important industrial provinces the gross production value is reported to have increased by 8-10% in comparison with 1972. There are indications that the production results of small and medium-sized enterprises which are dispersed over the whole country were generally satisfactory while the major enterprises obviously achieved only small growth rates. The reason for this is partly the missing continuity of supply owing to the inadequate infrastructure. A greater weight should, however, be given to the observations which indicate that, in spite of the Chinese faculties of invention and improvisation, the mostly antiquated major enterprises have definitively reached their limits of capacity. The facilities purchased in the West can only affect the production results after a certain period of time.

3. In 1973 the Chinese agriculture recovered from the serious setback of the previous year. Record crops were reported for cereals, cotton, hemp, sugar and tobacco. According to official information, the grain crop exceeded 250 million tons. This corresponds to an increase of more than 7% with regard to 1972 and exceeds the record crop of 246 million tons in 1971. Considerably higher rates of increase should have been achieved in the crops of plants used for industrial purposes. For cotton, it was almost 20% higher than in the previous year. (For further details see the attached Part B.)

4. The PR of China holds the third place in the world output of raw materials. Its natural resources make it largely independent of foreign trade, with the exception of some non-ferrous metals. Considerable progress has been made especially in oil production. The official production figure for 1973 was 50 million tons.

5. According to official information, the savings deposits of the population increased by 16% in 1972. This trend has probably continued in 1973. With a stable level of consumer goods prices and an increase in wages of approximately 10% food rations were somewhat reduced and the rationing of important durable consumer goods was reintroduced in the second half of 1973. This has probably led to a certain compulsory saving process. In income policy, recommendations for creating moderate material incentives to increase productivity can again be observed, in contrast to the years of the Cultural Revolution. The policy of income levelling carried out in the second half of the sixties is no longer pursued. Instead, there are again indications of a trend towards a differentiated wage and income policy.

III. FOREIGN TRADE

1. In the past few years the Chinese foreign trade has grown faster than the gross production of the country. The foreign trade turnover increased by about 8.5% in 1971 and by over 19% in 1972. According to provisional estimates, the foreign trade volume rose suddenly by about 27% to approximately 7 thousand million US dollars in 1973. For 1972, the balance of trade surplus was still estimated at about 400 million US dollars. In 1973, however, the balance of trade showed a deficit for the first time since many years. This deficit is assumed to be about 400-500 million US dollars.

The share of the PR of China in world trade is still considerably below one per cent. Although the foreign trade relations of the Chinese economy are relatively unimportant - they account for about 4% of the GNP - the overall economic importance of foreign trade - especially for the economic sectors which strongly depend on modern technology - must not be underrated.

2. The Regional Structure of Foreign Trade

- (a) Until 1960, the Socialist countries had clearly been dominant (see the table, Enclosure 1) in the regional structure of the Chinese foreign trade. Until then the most important trade partner had been the USSR which share almost 52% of the Chinese foreign trade in 1955, and still 42% in 1960. As a consequence of the ideological conflict, the trade turnover between the two countries fell from its absolutely highest level in 1959 (over 2 thousand million US dollars) to 47 million US dollars until 1970. In 1971 the trade volume soared again to about 155 million US dollars. In 1972 Chinese imports from the USSR increased by about 55% to about 121 million US dollars and exports by 75% to about 133 million US dollars. The overall trade volume thus increased by 65% to about 254 million US dollars.

There are no figures available yet on the actual development of trade between the two countries in 1973. The trade protocol which was signed on 1st August, 1973 provided for a trade volume of 186 million US dollars; this would be a considerable decrease with regard to the previous year. According to preliminary estimates, the actual trade volume amounted to about 220 million US dollars in 1973.

AC/127-D/482

-6-

- (b) The trade turnover with the Western industrial countries (see the table, Enclosure 2) has continuously increased in the past 20 years. The share of this group of countries in the imports and exports of the PR of China increased from 13.5% in 1950 to 48.7% in 1970. In 1971 it was 45% and in 1972 again 48% with a value of 2.76 thousand million US dollars. Since the trade turnover with this group of countries increased above average in 1973, a share of more than 50% can be assumed.

A look at the foreign trade turnover of 1972 shows that, with a share of about 20%, Japan holds the first place as the most important trade partner followed by Hongkong with almost 13%, Canada and Germany with 5% and France with almost 4%. Due to the extraordinary increase in the imports from the United States in 1973, the latter are probably now also among the most important trade partners.

- (c) Not only the trade with the Socialist countries - especially with the USSR - increased considerably in the last three years, but also the trade with the countries of the Third World.

### 3. The Goods Structure of Foreign Trade

- (a) The state of development of the Chinese economy can also be seen from the goods structure of foreign trade. Thus, about 50% of the imports of the PR of China consist of semi-finished and finished goods, about 30% of raw materials and chemical initial products and about 20% of foodstuffs and cereals.

In 1973 Peking concluded, for the first time, long-term grain supply contracts with the three traditional suppliers - Canada, Australia and Argentina.

Grain imports reached an amount of about 6-7 million tons in 1973 (until then an average of 5 million tons per year). They cost about 650 million US dollars.

For 1974, a further increase in grain imports is to be expected which is mainly due to three factors:

- although the grain crop of 1973 exceeds the record crop of 1971, the number of people to be fed has increased by about 15 million in the PR of China since 1971;

- the strategic reserves which were reduced by about 20 million tons in 1972 because of the bad crop will have to be replenished again;
- the PR of China has concluded contracts for deliveries to other countries, e.g. North Vietnam whose spring rice crop was about 6% below that of the previous year and whose autumn crop was probably also bad because of unfavourable weather conditions.

In 1973 the PR of China concluded contracts for the import of industrial plants to a value of 1.1 thousand million US dollars with non-Communist countries, mainly for the production of fertilizers and synthetic fibres. Furthermore, it is negotiating with Japan and Germany on the import of rolling-mills. The value of these plants, of which a cold rolling-mill with an order value of DM. 491 million was contracted for with a German consortium on 27th March, 1974, is also about 600 million US dollars.

- (b) About 50% of the Chinese exports consist of semi-finished and finished goods, about 20% of raw materials and chemical products and almost 30% of foodstuffs, beverages and tobacco. In the next few years the main emphasis in the Chinese exports will be on agricultural products and mineral raw materials, although Peking is trying to export also its industrial products to an increased extent.

In 1973 the government further accelerated the development of the rapidly growing mineral oil industry in order to profit from the favourable world market conditions. There are indications that Peking will in the future take the road of international co-operation - which is new to this country - in this field. Other measures to increase its receipts in convertible currencies were: a considerable increase in export prices, more flexibility vis-à-vis the wishes of buyers with regard to quality, package and labelling as well as incentives for larger transfers by Chinese nationals living abroad.

#### 4. Foreign Trade Policy

It cannot necessarily be concluded from the greater readiness of the PR of China to incur debts - especially with regard to major investment projects - which could be observed in 1973, and from the first balance of trade deficit since many years, that a change in the trend of the Chinese foreign trade policy has come about which would mean a turning-away

AC/127-D/482

-8-

from autarchic thinking. The balance of trade surpluses over many years and the transfer payments by Chinese nationals abroad have led to foreign exchange reserve which could easily cover the deficit of 1973. The gold and foreign exchange reserves of the PR of China are estimated at about 1.5 thousand million US dollars. There are no indications that the PR of China wants to use long-term, untied foreign credits and abandon the principle of an even balance of trade.

Due to its historic experience, it will also in the future allow the intensification of foreign trade relations only to such an extent that there is no danger of paralyzation of the whole economy in case of an interruption in the flow of goods.

It is thinkable, however, that the autarchic concept may be modified and deficits be accepted over short periods of time after it has been realized that foreign trade involves considerable chances of growth.

The PR of China may also come to the conclusion that the risk of dependency can be reduced by a diversification of the supplying countries, as is already indicated by the negotiations on the purchase of rolling-mills from Germany and Japan.

It may be assumed that the PR of China is now also aware of the "convertibility" of its raw material resources (here we should think of the increase in the mineral oil production) which can be used to set off balance of trade deficits at any time.

The growing industrialization and the development of the infrastructure will certainly increase the share of capital goods in total imports in the future, especially since the supply of the population with food can be regarded as guaranteed. These capital goods comprise e.g. equipment for land, sea and air transport, furthermore, equipment for telecommunications facilities, relay techniques, colour television and studio equipment as well as facilities for the sector of heavy industry.

As regards the agricultural sector, offers serving to stabilize the yields at a high level - e.g. seedcorn, certain special machinery, etc. - or offers leading to an increase in the quality of the processed products of the primary production (e.g. preserving facilities etc.) should be interesting for the PR of China.

The PR of China will also in the future not come into consideration as a market for consumer goods since its imports of industrial consumer goods will be drastically restricted in order to maximize its imports of capital goods.

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AC/127-D/482

Foreign Trade of the PR of China with Socialist Trade Partners  
(in million US dollars)

Enclosure 1

Country	1968			1969			1970			1971			1972 1)		
	Exports	Imports	Turn-over	Exports	Imports	Turn-over									
Albania	.	.	.	64,80	39,60	104,40	68,40	41,80	110,20	79,20	48,40	127,60	.	.	.
Bulgaria	2,15	2,63	4,78	1,77	2,44	4,21	0,77	1,13	1,90	5,00	8,37	13,37			
Czechoslovakia	18,25	26,43	44,68	29,25	28,41	57,66	22,63	34,05	56,68	22,50	37,59	60,09	24,90	31,76	56,66
GDR	24,89	41,10	65,99	30,66	32,89	63,55	32,14	46,54	78,68	35,10	48,40	83,50	40,55 <sup>2)</sup>	47,72 <sup>2)</sup>	88,27 <sup>2)</sup>
Yugoslavia	0,27	1,21	1,48	0,77	0,68	1,45	1,99	5,04	7,03	2,61	4,42	7,03	3,16	16,25	19,41
Cuba	65,70	60,50	126,20	63,00	71,50	134,50	61,20	66,00	127,20	70,00	65,00	135,00	70,00	68,00	138,00
Poland	28,10	27,09	55,19	21,02	20,22	41,24	21,96	28,93	50,89	18,78	41,03	59,81	30,51	30,83	61,34
Romania	39,12	45,02	84,14	38,12	42,35	80,47	55,82	78,98	134,80	80,46	109,23	189,69	86,24	134,11	220,35
USSR	32,67	64,57	97,24	26,10	30,47	56,57	19,53	27,39	46,92	68,60	85,68	154,28	120,29	133,44	253,73
Hungary	8,01	11,00	19,01	10,35	7,92	18,27	11,34	9,24	20,58	15,07	29,30	44,37	18,49	35,98	54,47
	219,16	279,55	498,71	285,84	276,48	562,32	295,78	339,10	634,88	397,32	477,42	874,74	394,14	498,09	892,23

Exports = fob

Imports = cif.

- 1) Conversion according to "Währung der Welt", December 1972
- 2) Conversion at one US dollar rate of exchange of 4,20 M since with the new rate of 1 US \$ = 3,20 M of December 1972 the figures can no longer be compared.

N A T O C O N F I D E N T I A L

AC/127-D/482

Enclosure 2Foreign Trade of the PR of China with Western Trade Partners  
(in million US dollars)

Country	1968			1969			1970			1971			1972		
	Exports	Imports	Turn-Over												
Belgium-Luxembourg	10,69	21,91	32,60	11,12	17,69	28,81	9,50	24,95	34,45	15,01	8,58	23,59	21,05	12,41	33,47
FR Germany	76,79	191,53	268,32	79,38	173,71	253,09	75,92	184,01	259,93	85,86	152,46	238,32	95,58	181,76	277,34
Denmark	1,45	2,38	9,83	8,21	1,45	9,66	9,50	4,22	13,72	10,48	2,64	13,12	10,15	9,77	19,92
Finland	6,26	12,67	18,93	6,59	6,34	12,93	5,40	14,12	19,52	10,04	13,20	23,24	8,42	18,61	27,03
France	47,95	96,49	144,44	69,01	48,84	117,85	62,86	88,84	151,70	63,72	122,50	186,22	93,20	64,68	157,62
Greece	0,12	0,12	0,12	0,36	0,02	0,38	0,13	0,13	0,13	0,93	0,23	0,93	0,23	0,87	1,10
Great Britain	74,09	76,62	150,91	81,54	143,88	225,42	72,47	117,74	190,21	69,44	76,03	145,47	79,71	85,67	165,38
Ireland	1,99	0,14	2,13	2,43	0,13	2,43	1,85	0,02	1,87	2,43	1,67	4,10	3,01	0,01	3,02
Iceland	0,16	0,16	0,16	0,13	0,13	0,13	0,13	0,13	0,13	0,22	0,22	0,22	0,21	1,21	1,42
Italy	43,20	67,19	110,39	57,78	61,91	119,69	56,80	62,70	119,50	57,89	65,21	123,10	75,92	84,61	160,53
Netherlands	24,41	31,81	56,22	25,06	25,34	50,40	24,08	24,16	48,24	31,75	19,14	50,89	40,39	11,09	51,48
Norway	4,86	7,16	12,02	5,40	5,28	10,68	5,72	12,67	18,39	4,32	9,77	14,09	4,64	28,51	33,15
Austria	7,45	7,52	14,97	8,42	4,49	12,91	11,12	5,94	17,06	9,94	5,41	15,35	7,56	15,18	22,74
Portugal	0,11	0,11	0,11	0,24	0,01	0,25	0,26	0,02	0,28	0,22	0,01	0,23	0,42	0,01	0,43
Sweden	16,42	26,34	42,56	16,74	12,94	29,68	16,85	24,42	41,27	15,44	33,40	48,84	18,68	44,62	63,30
Switzerland	14,37	21,38	35,75	16,31	15,97	32,28	16,31	22,84	39,15	15,12	18,61	33,73	17,71	21,38	39,09
Spain	0,87	1,47	2,34	1,01	0,90	1,91	0,81	0,57	1,38	1,77	0,64	2,41	13,24	0,58	13,82
Turkey	0,22	1,14	1,36	0,18	0,09	0,27	0,09	0,97	1,06	0,05	2,51	2,56	0,04	20,64	21,28
Australia	27,53	98,42	125,95	31,28	130,91	162,19	31,94	142,19	174,13	36,86	29,95	66,81	49,46	52,40	101,66
Japan	201,78	357,94	559,72	211,14	429,88	641,02	228,42	625,79	854,21	290,97	635,80	926,77	442,08	569,79	1111,97
Canada	21,72	166,06	187,78	25,32	124,61	149,93	18,24	148,76	167,00	23,04	221,89	244,93	48,96	287,89	336,85
USA	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	4,43	0,14	4,57	29,02	66,31	95,33
Hongkong	364,50	8,10	372,60	405,00	6,80	411,80	424,60	11,60	436,20	499,00	10,40	509,40	626,30	19,60	645,90
Developing countries	511,09	223,50	734,50	538,80	295,20	834,70	498,60	262,50	781,10	566,70	344,50	911,20	621,20	401,80	923,00
	1463,94	1419,77	2883,71	1601,45	1506,96	3108,41	1571,60	1799,03	3370,63	1815,63	1774,46	3590,09	2307,79	2099,40	4407,19

Exports = fob.  
Imports = cif.N A T O C O N F I D E N T I A L