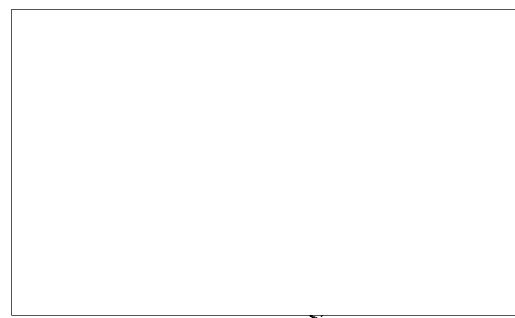


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**Nº 75**

**ECONOMIC INTELLIGENCE REPORT**

**ECONOMIC DEVELOPMENT IN COMMUNIST CHINA  
UNDER THE FIRST AND SECOND FIVE YEAR PLANS  
1953-62**



50X1

CIA/RR 142

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**CENTRAL INTELLIGENCE AGENCY**

**OFFICE OF RESEARCH AND REPORTS**

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ECONOMIC INTELLIGENCE REPORT

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(ORR Project 15.2092)

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## S-E-C-R-E-T

CONTENTS

	<u>Page</u>
Summary and Conclusions . . . . .	1
I. Performance Under the First Five Year Plan (1953-57) . . .	7
A. Economic Planning and Administration . . . . .	7
B. Trends in Output . . . . .	8
C. Agricultural Socialization and Production . . . . .	9
1. Socialization . . . . .	9
2. Production . . . . .	11
D. Industrial Socialization and Production . . . . .	13
1. Socialization and Management . . . . .	13
2. Production . . . . .	14
3. Transportation . . . . .	18
E. Foreign Trade and Economic Relations . . . . .	19
F. Trends in National Finance . . . . .	21
G. Trends in Capital Construction Investment . . . . .	22
1. First Five Year Plan Fulfillment . . . . .	22
2. Industrial Capital Construction . . . . .	23
II. Economic Trends Under the Second Five Year Plan (1958-62) . . . . .	25
A. Introduction . . . . .	25
B. Gross National Product . . . . .	25
C. Agricultural Production . . . . .	26
D. Industrial Production . . . . .	27
E. Foreign Economic Relations . . . . .	28
1. Foreign Trade . . . . .	28
2. Economic Dependence or Self-Sufficiency . . . . .	29
F. National Finance and Investment . . . . .	31
1. Financing the Second Five Year Plan . . . . .	31
2. Allocation of Investment . . . . .	31

## S-E-C-R-E-T

	<u>Page</u>
III. Problems of Economic Development . . . . .	33
A. Introduction . . . . .	33
B. Population and Labor Force . . . . .	33
C. Investment Allocation . . . . .	35
D. Agriculture . . . . .	37
1. Investment . . . . .	37
2. Trends in Worker-Peasant Income Differentials . .	38
3. Collectivization . . . . .	39
E. Large Versus Small Industrial Units . . . . .	41
F. Prospects . . . . .	43

Appendixes

Appendix A. Statistical Tables . . . . .	45
--	----

50X1

Tables

1. Communist China: Average Annual Rates of Increase of Production, 1953-57 . . . . .	15
2. Communist China: Gross National Product and Index of Per Capita Gross National Product, 1952-57 . . . . .	46
3. Communist China: Gross National Product and Percentage Distribution, 1952-57 . . . . .	47
4. Communist China: Income Originating by Economic Sector, 1952-57 . . . . .	48
5. Communist China: Estimated Production of Selected Agricultural Commodities and Aquatic Products, 1952-62 . . . . .	49
6. Communist China: Estimated Production of Selected Commodities, 1952-62 . . . . .	50

## S-E-C-R-E-T

	<u>Page</u>
7. Communist China: Estimated Volume and Performance of Transportation, 1952-62 . . . . .	56
8. Communist China: Estimated Balance of Payments, 1953-62 . . . . .	57
9. Communist China: Gross Investment and Savings, Five Year Total for 1953-57 . . . . .	58
10. Communist China: Estimated Completed Capital Construction Investment in the First Five Year Plan, 1953-57 . . . . .	59
11. Communist China: Trends in Gross National Product, by End Use, 1952, 1957, and 1962 . . . . .	60
12. Communist China: Economic Gross National Income, by Sector of Origin, 1952, 1957, and 1962 . . . . .	61
13. Communist China: Selected 1962 Plan Goals . . . . .	62
14. Communist China: Estimated Gross Investment and Savings in the Second Five Year Plan, 1958-62 . . . . .	63
15. Communist China: Proposed Allocation of Gross Investment and Ratios of Investment to Increases in Output, 1958-62 . . . . .	64
16. Communist China: Population Based on 1953-54 Census, 1953-57 . . . . .	65
17. Communist China: Workers and Staff, 1952 and 1956 . . . . .	65

IllustrationsFollowing Page

Figure 1. Communist China: Production of Selected Items, 1952-57 and 1957 Five Year Plan Goals (Chart) . . . . .	8
--	---

- v -

S-E-C-R-E-T

S-E-C-R-E-T

Following Page

Figure 2. Communist China: Gross National Product, by Sector of Origin, 1952, 1957, and 1962 (Chart) . . . . .	10
Figure 3. Communist China: Gross National Product, Railroad Freight Traffic, and Production of Selected Commodities, Compared with Those of Selected Countries, 1952-57 (Chart) . . . . .	14
Figure 4. Communist China: Foreign Trade, 1952-57 and 1962 (Chart) . . . . .	20
Figure 5. Communist China: Budget Revenues and Expenditures, 1950-58 (Chart) . . . . .	22
Figure 6. Communist China: Indexes of Growth of Selected Industries, 1952-62 (Chart) . . . . .	28
Figure 7. Communist China: Railroads and Selected Roads, June 1958 (Map) . . . . .	Inside Back Cover

CIA/RR 142  
(ORR Project 15.2092)

S-E-C-R-E-T

ECONOMIC DEVELOPMENT IN COMMUNIST CHINA  
UNDER THE FIRST AND SECOND FIVE YEAR PLANS\*  
1953-62

Summary and Conclusions

Communist China made substantial economic progress during the period of the First Five Year Plan (1953-57). Total output of goods and services (gross national product -- GNP) increased at an average annual rate of about 7 to 8 percent, which may be compared favorably with recent rates of growth of a little more than 3 percent in India, 8 percent in Japan, and 7 percent in the USSR. The rate of growth was quite uneven during the period, however, varying from 4 to 5 percent in 1954 to 12 to 13 percent in 1956 and revealing the extent to which economic activity in Communist China is geared to the results of the previous year's harvest. Total output on a per capita basis increased at an average annual rate of 5 to 6 percent, with nearly half of the additional output channeled into investment or government purchases of goods and services. As a result, per capita consumption rose more slowly, averaging 3 to 4 percent a year. As probably more than 60 percent of this increase in consumption went to urban inhabitants, per capita consumption of the peasant population, which constitutes more than 80 percent of the total population, probably showed little improvement.

During the First Five Year Plan the major accomplishment in the agricultural sector was the nearly complete collectivization of China's peasants, far ahead of original plans. The number of peasant households which have not yet joined cooperative farms, 3 percent of the total, is expected to decrease rapidly as a result of recently imposed restrictions on private peasants. For all practical purposes the basic unit for control of agricultural production during the Second Five Year Plan (1958-62) will be the collective farm.

Agricultural production during the First Five Year Plan generally was adequate to meet the basic needs of the population and the economy, but few targets for increased production in this sector actually were achieved. Crop losses from natural calamities in 1954 and 1956, disruption and confusion from rapid socialization; and shortages of equipment, draft animals, and fertilizers combined to prevent targets from being met. The apparent fulfillment of the goals for increased production of food grains and cotton

\* The estimates and conclusions contained in this report represent the best judgment of ORR as of 1 May 1958.

S-E-C-R-E-T



## S-E-C-R-E-T

is believed to have been due in part to statistical understatements in 1952 and 1953 when the National Statistical Bureau was in process of organization. To the extent that this bias in statistical reporting influences current agricultural planning, it leads to the setting of optimistic targets in the Second Five Year Plan.

In contrast with an average annual increase in agricultural production of only 3 percent during the First Five Year Plan, industrial output achieved the high average annual growth rate of more than 16 percent, and production targets on the whole were significantly overfulfilled. During the 5-year period, finished steel production more than tripled and the output of such other basic raw materials as coal, electric power, and cement doubled. An even more notable achievement was the rapid development of the machine building industry to a point where Communist China can now produce large-scale precision machine tools, simple mining and metallurgical processing equipment, power station equipment for medium-size plants, motor trucks, aircraft, and large locomotives. In fact, the machine building industry expanded at such a rapid pace that by 1957 it had outstripped fuel and raw material production, resulting in production cutbacks and underutilization of capacity in many branches of the industry. Light industry progressed much more slowly than heavy industry during the First Five Year Plan, in large part because of shortages of agricultural raw materials.

The impressive record of economic development during the First Five Year Plan demonstrates the ability of Communist China to restrict consumption and mobilize resources for investment. The high level of investment, averaging each year about 17 percent of GNP for the 5-year period, enabled the regime to overfulfill the capital construction plan by about 14 percent in spite of the concern evinced in early 1957 that the program was endangered by "strains, stresses, and imbalances." Approximately 56 percent of investment was allocated to the industrial sector, within which heavy industry received overwhelming priority, accounting for nearly 89 percent of total industrial investment. State investment in agriculture was held to a minimum in spite of the fact that more than half of total investment funds originate in this sector.

Foreign trade, which in total turnover was equivalent to about 10 percent of GNP, was a significant factor in the economic progress of Communist China during the First Five Year Plan. Approximately 15 percent of total investment in capital construction consisted of imports of vital machinery and equipment, nearly all of which originated in Bloc countries and which together accounted for 78 percent of total trade. Soviet credits made only a minor contribution to the economic development of China, because most of these credits were military in nature. Soviet technical assistance, however, was of considerable importance to the industrialization program. In addition to assisting in major industrial construction projects, Soviet

## S-E-C-R-E-T

advisers and technicians worked with virtually every ministry in the government and with individual enterprises. As a result of steadily mounting foreign debt charges and payments under Communist China's own foreign aid program, the regime was confronted with a shortage in foreign exchange at the close of the First Five Year Plan period.

It is estimated that total output of goods and services will increase about as rapidly during the Second Five Year Plan as in the First Five Year Plan. Estimates of GNP show that, in general, sufficient funds will be available to finance the investment which would be required to achieve projected increases in production during the Second Five Year Plan. This achievement will entail a relative increase in the share of total output allocated to investment but at the same time will also permit some improvement in per capita consumption. As an indication of continued progress toward Communist China's major goal of industrialization, it is estimated that the industrial sector will contribute nearly 26 percent of gross national income in 1962 compared with 20 percent in 1957 and only 13 percent in 1952. Industrial output will increase at a somewhat slower rate (91 percent) during the Second Five Year Plan than during the First Five Year Plan (109 percent), in large part because of increasing reliance on new capacity to achieve increases in production. On the other hand, agricultural output during the Second Five Year Plan is expected to increase at a faster rate (17 percent compared with 13 percent in the First Five Year Plan) in keeping with the new emphasis on agricultural development in Communist China's economic planning.

Recent speeches by Chinese Communist leaders indicate their determination to reach a solution of the agricultural problem. Their announced plans call for a significantly higher investment in agriculture than during the First Five Year Plan. Assuming no serious difficulties with peasant morale and attitudes, the production of basic food crops is expected to increase by approximately 16 percent in 1962 above 1957. An increase in population of 13 percent which is expected during the same period should allow a slight increase in per capita consumption by 1962 compared with 1957. Production of industrial crops should be sufficient to maintain current consumption levels of consumer goods made from agricultural raw materials. With increased incentives to farmers, including measures recently inaugurated, the number of livestock should increase appreciably.

The Second Five Year Plan, as announced, contains no provision for new long-term credits from the USSR. Under the plan, Communist China will have to finance through exports the imports required for industrialization as well as to repay Soviet credits advanced during the First Five Year Plan (estimated to be 3.1 billion yuan). With their present capabilities the Chinese Communists probably do not need further Soviet credits to carry out their planned industrial development. In the event

S-E-C-R-E-T

## S-E-C-R-E-T

of serious economic difficulties, however, the Chinese might seek and obtain some assistance on credit from the USSR.

Successful completion of the Second Five Year Plan will depend on the degree of flexibility and realism with which the regime approaches certain perennial problems of economic development in China. The basic problem confronting any government is the unrelenting pressure of population on food supply. The impressive gains in industrial and agricultural output to date have been accompanied by an accelerated rate of growth in population, from about 1 to 1.5 percent per year in the period from 1950 to 1952 to an estimated 2.4 percent in 1957. The average annual rate of growth in agricultural output during the First Five Year Plan, about 3 percent, provided only a small margin above the average growth in population of about 2 percent. That the Chinese Communists are aware of the gravity of their Malthusian problem is illustrated by the current birth control campaign and by the all-out effort to expand agricultural production.

The Chinese Communists are promoting an extensive campaign to encourage birth control and to make large families economically unattractive. The new policy on population, however, is not expected to do much more than level off the annual rate of growth at about 2.4 percent, so that the estimated population will be about 710 million in 1962 and 799 million by 1967. The estimated increase in population of 13 percent during the Second Five Year Plan will continue to press heavily on the supply of food and consumer goods.

The Chinese Communists also have evidenced awareness of their growing employment problem. The goal of mechanizing industry as rapidly as possible has been replaced by plans to use more investment funds on projects which offer maximum employment. Job opportunities arising from this program, however, are limited, and it is probable that nearly half of the increase in the labor force during the Second Five Year Plan will have to find employment in agriculture. In addition, various steps have been taken to stiffen the policy preventing peasant migration into the cities and even to transfer large numbers of present urban residents back to the countryside. These developments will tend to depress further the low per capita income of the rural population but will not materially increase agricultural output, because rural labor is already abundant.

The Chinese Communists have demonstrated their ability to mount a program of rapid industrialization. A continuing allocation of 15 to 20 percent of output to investment -- and an allocation of half of this to investment in heavy industry -- is feasible because of the growing capacity of the economy for production of producer goods and because of the ample supply of labor for construction. The productive capability of China in investment goods, however, contrasts sharply with its capability in agriculture. As noted above, there is a rather narrow margin

## S-E-C-R-E-T

between the rate of growth in population and the rate of growth in agricultural output. The rapid rate of growth in population poses not only a problem of food supply but also a problem of maintaining full employment with equitable income distribution.

It is impossible to forecast whether or not Communist China's agricultural policies will lead to serious difficulties. Some of these policies, however, should be described as risky, in that the regime, having socialized the agricultural population, cannot afford not to achieve increases in agricultural production. Investment allocation for increasing agricultural output appears to be adequate in the period of the Second Five Year Plan. The risk, then, results from the low incomes and incentives for peasants. The Chinese are following the Soviet example in collectivization and in financing investment by forced savings which are extorted primarily from the agricultural population. They are doing so without the margin of diet and production of surplus food that the USSR had and in the face of a rapid and possibly accelerating growth in population.

Should insufficient peasant incentives have an adverse effect on agricultural production, the Chinese Communists could, of course, modify their program so as to alleviate the most pressing difficulties. Peasant incomes could be raised and urban incomes reduced while investment would be left intact, a situation which in practice probably would be both administratively and politically difficult. If the supply of agricultural products becomes critically low, the shortages could be relieved by foreign trade, in that agricultural exports could be reduced or agricultural imports increased. This expedient, however, would be at the expense of imports of investment goods. Alternatively, some reduction of the planned level of investment could be made, as was the case in 1957. Another measure which is open to the Chinese Communists is an increase in the imports of chemical fertilizers. Such imports probably would pay for themselves through expanded agricultural production, permitting an increase both in agricultural exports and in domestic food supply.

## S-E-C-R-E-T

I. Performance Under the First Five Year Plan (1953-57).A. Economic Planning and Administration.

Although the Chinese Communist First Five Year Plan (1953-57) was drawn up to cover the period from 1953 through 1957, the plan was published only at the midpoint of the period in July 1955. 1/\* During the first half of the period the regime operated under annual plans and at the same time attempted to complete its institutional organization for administration of both annual and long-term plans. A number of serious faults were revealed in the statistical system which still remain to handicap present and future planning. The first complete enumeration of population was carried out in 1953-54 and revealed a total population of about 100 million in excess of previous estimates. 2/ In the process of the population census and of the subsequent collectivization of agriculture in 1955-56, additions were made to the statistics on cultivated area and crop production which resulted from improved statistical coverage. The official statistical reports on increases in cultivated area and crop production achieved during the course of the First Five Year Plan thus show a bias (because of statistical understatement in the base year of 1952) which may influence the future estimates of possible results to be realized from investment in agriculture. This bias also may affect the long-range planning of budgetary receipts and investment which are based largely on national income to be derived from production and processing of agricultural products.

At first, economic planning was modeled closely on Soviet experience, in spite of the widely different conditions in China of heavy population pressure on the land and low per capita productivity. Because of an increased awareness of the special characteristics of China's population-resource base, however, the regime altered its approach to a number of economic problems during the course of the First Five Year Plan, especially the interrelated problems of population, employment, and investment. The shift was from one of Soviet and Marxist emphasis on the advantages of a large population and a capital-intensive investment program to one of seeking to impose limitations on population growth, additional stress on labor-intensive investment projects, numerically large shifts of population from urban areas to marginal agricultural areas, and deemphasis of mechanization of agriculture.

In spite of the defects in Communist China's planning for economic development, the regime has achieved remarkable success in its main objectives of heavy industrialization, socialization of both agriculture and

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## S-E-C-R-E-T

industry, and fulfillment of most targets in the First Five Year Plan.\* The degree of success which had been achieved in the First Five Year Plan was the basis for strong expressions of optimism on the part of the Chairman of the National Economic Commission in his report to the National Peoples Congress in early February 1958. 3/ Although credit was given to the USSR and "other fraternal countries" for the "enormous assistance" given during the First Five Year Plan, it was assumed that the Chinese Communist leaders could proceed under the 1958 annual plan and the Second Five Year Plan to manage the increasing complexity of centrally controlled planning, production, and allocation of resources with less Soviet aid than in the First Five Year Plan.

B. Trends in Output.

Communist China made substantial economic progress during the period of the First Five Year Plan. Total output of goods and services (GNP) increased at an average annual rate of about 7 to 8 percent, a figure which compares favorably with recent rates of growth of a little more than 3 percent in India, 8 percent in Japan, and 7 percent in the USSR. GNP, valued in constant 1956 market prices, rose from about 78 billion yuan in 1952 to about 111 billion yuan in 1957.\*\* Growth was quite uneven during the period, however, varying from 4 to 5 percent in 1954 to 12 to 13 percent in 1956 and revealing the extent to which economic activity in Communist China is geared to the results of the previous year's harvest. Total output on a per capita basis increased at an average annual rate of 5 to 6 percent, with nearly half of the additional output channeled into investment or government purchases of goods and services. As a result, per capita consumption rose more slowly, averaging 3 to 4 percent a year. As probably more than 60 percent of this increase in consumption went to urban inhabitants, per capita consumption of the peasants, who constitute more than 80 percent of the population, probably showed little improvement.

The impressive record of economic development during the First Five Year Plan demonstrates Communist China's ability to restrict consumption and mobilize resources for investment. To achieve this rate of growth, total investment per year averaged about 17 percent of GNP for the 5-year period, a proportion roughly comparable to that achieved in recent years in the US.\*\*\* During the plan period the share of GNP contributed by the

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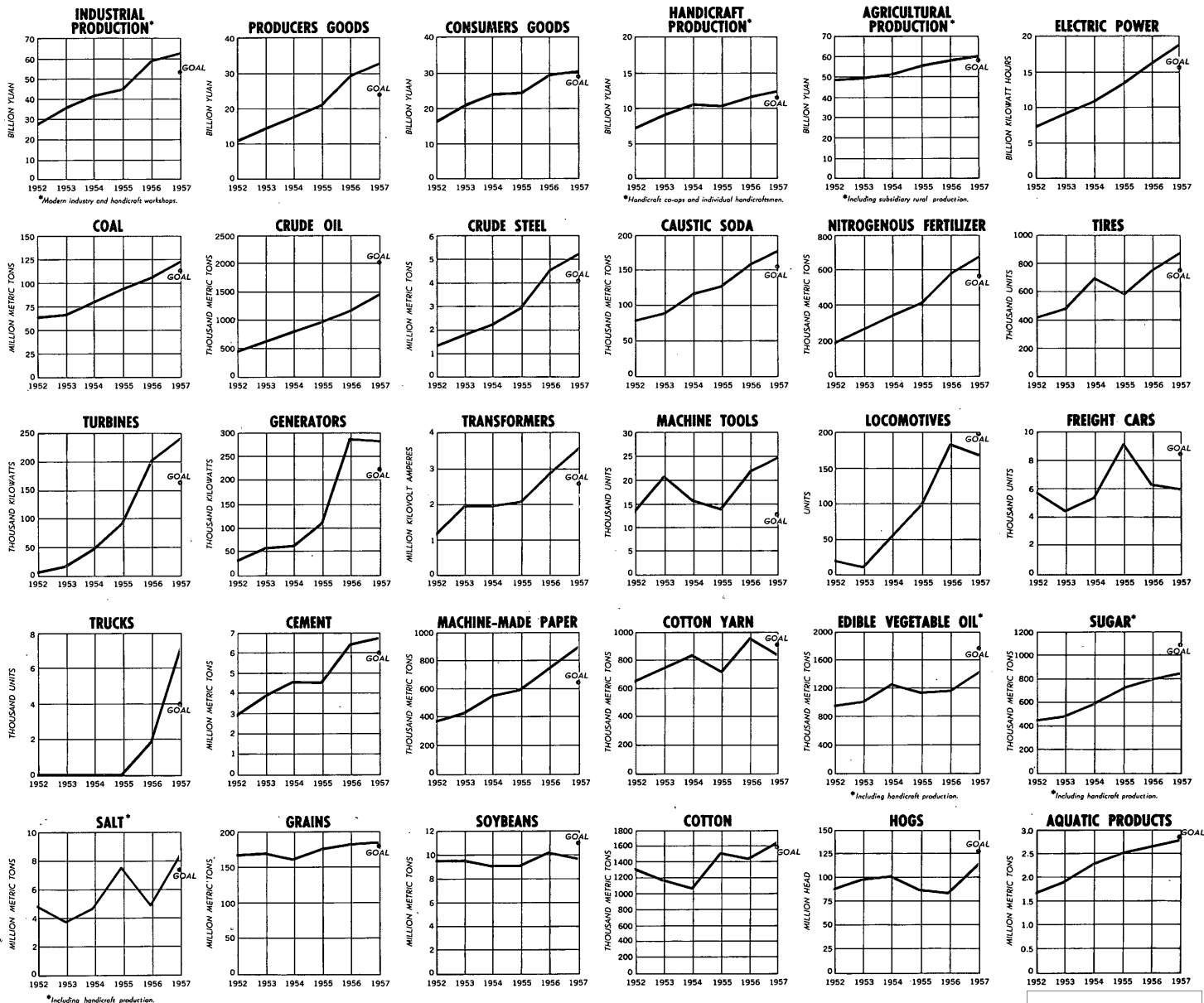
\* Production of selected items during the plan period and targets for the First Five Year Plan are shown on the chart, Figure 1, following p. 8.

\*\* For the GNP of Communist China, allocated by end use in 1956 constant prices, for the years 1952-57, see Table 2, Appendix A, p. 46, below.

\*\*\* For the distribution of GNP by end use in current market prices and in percentages for the years 1952-57, see Table 3, Appendix A, p. 47, below.

Figure 1

# COMMUNIST CHINA PRODUCTION OF SELECTED ITEMS, 1952-57 AND 1957 FIVE YEAR PLAN GOALS



## S-E-C-R-E-T

industrial sector rose from 13 percent in 1952 to nearly 20 percent in 1957, revealing a rapid rate of progress toward Communist China's major goal of industrialization. As agricultural output increased at an average annual rate of less than 3 percent, its relative share of GNP decreased from 58 percent in 1952 to 47 percent in the last year of the First Five Year Plan.\*

C. Agricultural Socialization and Production.

1. Socialization.

The original goals for the socialization of agriculture called for the incorporation of one-third of all peasant households in semisocialist agricultural producer cooperatives by 1957 and for a majority in the principal agricultural areas to be organized in such cooperatives by 1962. This step would complete preparation for the transition into fully socialist cooperatives -- collective farms -- during the Third Five Year Plan (1963-67). On publicizing these goals in mid-1955, however, Mao Tse-tung called for a daring program of rapid socialization which quickly swept millions of peasants into producer cooperatives. <sup>4/</sup> A bumper harvest in 1955 encouraged the regime in its belief that cooperativization resulted in greater production, and promises of higher income were persuasive influences in collectivizing the peasants. After reaching a high of 1.9 million cooperatives in late 1955, consolidation and transformation into collective farms took place at an increasing rate. By July 1957, 97 percent of all peasant households were members of about 750,000 agricultural cooperatives, including 93 percent in 680,000 collective farms. <sup>5/</sup> A State Council directive of 21 December 1957 placed even the few remaining private peasants under a comprehensive system of controls to be implemented by neighboring collective farms. <sup>6/</sup> Agricultural socialization thus was practically completed.

On entering collective farms, peasants lost the remaining benefits from ownership of land, livestock, fruit trees, and implements which had played a part in determining their share of total income in the lower forms of agricultural cooperatives. Promised remuneration for these compulsory contributions is still forthcoming in most instances, and the delay and uncertainty are sources of dissatisfaction, especially among those who contributed the most to the collectives -- the upper middle class peasants.

\* For estimates of GNP by sector of origin, for the years 1952-57, see Table 4, Appendix A, p. 48, below. The same data on income originating by sector in percentages for the years 1952, 1957, and 1962 are shown on the chart, Figure 2, following p. 10.



## S-E-C-R-E-T

Certain advantages should accrue to the state from agricultural socialization, such as tighter political control over the peasants, increased efficiency in the mobilization of labor for reclamation and water conservancy work, and closer control over the production, procurement, and distribution of agricultural commodities. Although some of these benefits have been realized, peasant disenchantment with socialization has made itself felt in many ways.

In the winter of 1955-56, exorbitant demands on off-season peasant labor were made for the construction of irrigation facilities. As a result, many peasants lost their usual income from sideline activities, with harmful effects on purchasing power and morale. This practice has since been modified. In 1956, natural calamities in some areas further aggravated the peasants' economic situation, leading to underfulfillment of the state's grain procurement plan. Although sales of domestic grain were 6.5 million metric tons\* greater than in 1955, grain procurement was 1.5 million tons less, and the resulting deficit had to be met from state grain reserves. 7/ Peasant resistance to grain procurement, in many cases supported by sympathetic cadres, was achieved by various methods, among them the following: reports of crop failure were falsified, standard yields were based on the least productive fields, measures and scales were altered, and grains were not completely threshed.

In the winter of 1956-57 a substantial number of peasants, primarily of the upper middle class, withdrew from collective farms. In Kwangtung Province alone, more than 100,000 households dropped out of collective farms. 8/ Many subsequently returned, but throughout China an increasing influx of peasants into cities, where unemployment is already a critical problem, has created a serious drain on urban food supplies. Strong measures have been taken to force these dissatisfied peasants to return home, but the problem still exists. The reasons for leaving cooperatives include the unfavorable comparison between the wages of workers and those of socialized peasants, the low returns to members of cooperatives compared with those to the few remaining private well-to-do peasants, the assertion of authority by poorly trained cadres, and the restrictions on the exercise of former sideline pursuits, especially trading.

Another result of collectivization has been a serious decline in the number of hogs and draft animals arising from lack of personal care, inadequate fodder, and low procurement prices. Measures taken to strengthen incentives to increase the number of livestock have been only partially successful. These measures include increases in procurement prices for livestock and livestock products, increases in the size of private plots (up to 10 percent of total cooperative land) to promote

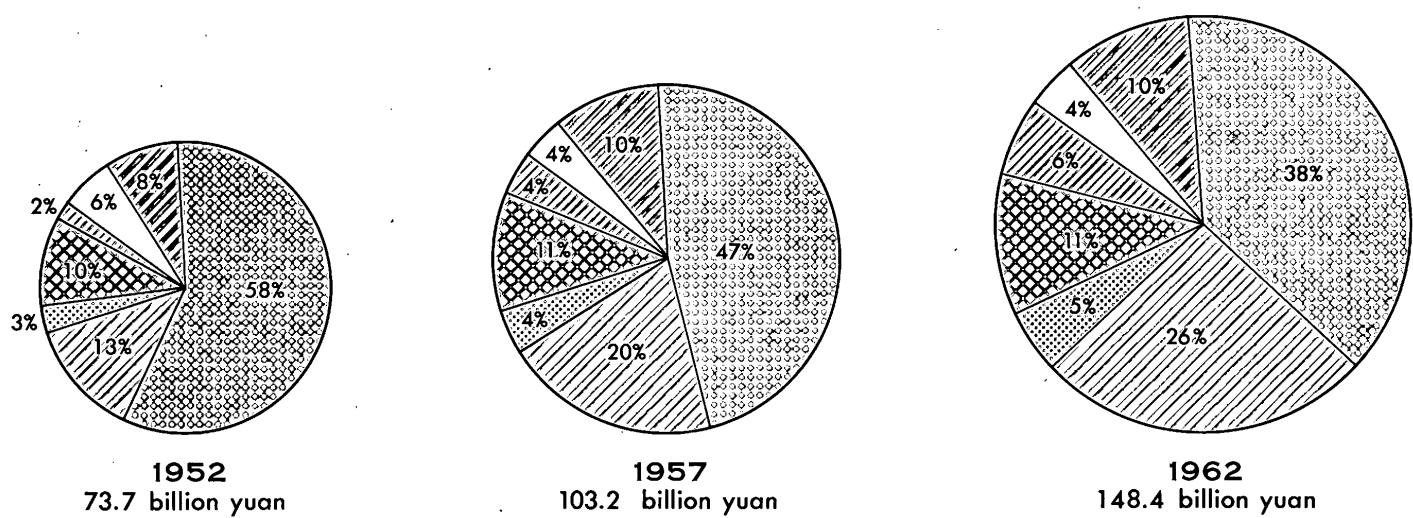
\* Tonnages are given in metric tons throughout this report.



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Figure 2

**COMMUNIST CHINA**  
**GROSS NATIONAL PRODUCT, BY SECTOR OF ORIGIN**  
 1952, 1957, and 1962  
 (1956 Constant factor prices)



- Agriculture, Forestry, and Fisheries
- Industry
- Modern Transportation and Communications
- Trade, Native Transportation, and Other Business Services
- State Construction
- Government (including Health and Education)
- Miscellaneous Consumer Services and House Rent

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## S-E-C-R-E-T

production of fodder, and assignment of livestock to individuals for raising and use. The number of draft animals, which provide nearly all draft power on China's farms, had decreased by 4 percent in late 1957 compared with mid-1956. 9/

2. Production.

"The expansion of agriculture is a basic condition for ensuring the development of our industry and fulfillment of our economic plan as a whole. ... It is agriculture that provides conditions for the growth of industry." These statements, appearing in the text of the First Five Year Plan, 10/ illustrate the extreme importance attributed to the role of agricultural production in the development of the Chinese Communist economy. Although the plan stressed the importance of raising output of grain and cotton crops, it also called for significant increases in all types of agricultural production.

In general, attempts to reach the original targets planned for 1957 were successful, particularly those for total grains and cotton. Production of soybeans, sugar cane, and sugar beets, however, fell short of planned goals.\* As production in 1952 probably was higher than that on which the Chinese based their Five Year Plan goals, successes in meeting specific production goals in 1957 are correspondingly less spectacular and failures all the more serious.

To achieve the planned goals, major efforts were put forth to increase the area under irrigation and multiple cropping and to increase the availability of chemical and organic fertilizers. It is estimated that production of grain actually increased about 17 million tons during the First Five Year Plan. Approximately 45 percent of this increase resulted from expanding the area under irrigation and multiple cropping; about 40 percent, from increased availability of fertilizers; and the remainder from such measures as the reclamation of waste land; the use of improved seeds, implements, and pesticides; and the application of improved methods of cultivation.

Official statistics on production of grain for the past 4 years (1954-57) are generally reasonable in the light of known weather conditions, expenditures on improvements and fertilizers, and general conditions in the countryside. There is a possibility that 1956 agricultural production was overstated. One reason for this conclusion is that only a modest increase of 2.5 million tons was claimed for 1957 above 1956 in spite of much better weather. Statistics for 1952 and 1953, however, are believed to have been understated considerably because of inadequate reporting and have been revised in the estimates presented in this report. Several types-of evidence support this revision.

\* For the estimated production of selected agricultural commodities for the years 1952-62, see Table 5, Appendix A, p. 49, below.

## S-E-C-R-E-T

The main source of official statistics in Communist China, the State Statistical Bureau, was not established until the eve of the First Five Year Plan, in late 1952. One of its first major tasks was to take the population census of 1953, which revealed about 100 million people more than had been accounted for in the official statistics before that time. As this fact reflects the poor condition of Chinese statistics before the First Five Year Plan, it is highly unlikely that an accurate estimate of cultivated and sown area was available at that time. In fact, in 1952, the authorities admitted that 11 million hectares of registered taxable land had already been discovered as a result of expanded survey coverage between 1950 and 1952.

In mid-1955, when the goals for the First Five Year Plan were first published, the 1957 goal for sown acreage was 151.6 million hectares. When the final figures for 1955 were published in 1956, sown acreage had already reached 151.1 million hectares, 11/ indicating that the statistics for the base year of 1952, on which the 1957 goal was based, had been understated. The 1957 goal was later revised to 160 million hectares, a reasonable figure in light of both the existing sown acreage and the continued efforts to expand crop cultivation.

The considerable increases of about 6 million hectares of sown area and 21 million tons of grain claimed for the 3 years from 1952 to 1955 are not believed to have been possible. Increases in production which could have resulted from increased irrigation facilities and other improvements as well as increased supplies of agricultural chemicals, especially fertilizer, fall far short of Chinese Communist claims of increases for that period. Weather is not a factor, for both 1952 and 1955 were excellent crop years, well above average. These considerations support the conclusion that statistical understatement, because of inadequate coverage in the base year, was responsible for a substantial proportion of the claimed increases in production.\* The year 1955, considered to be an "average calamity year" and well covered statistically, is therefore selected as the base year from which to project estimates for the Second Five Year Plan and to adjust the data for 1952 and 1953. Trends using these revised data are considered to be feasible and acceptable.

Food requirements of China's rapidly expanding population have necessitated a continuous expansion of area sown to food crops, especially grains. During the First Five Year Plan, however, the area under industrial crops increased even more rapidly. From 1953 to 1956 the percentage of the total sown area in industrial crops rose from 8.1 percent to 9.2 percent, but that of grain crops dropped from 79.3 percent to 78.1 percent

\* Confirmation of this conclusion is provided by a recent Chinese Communist admission that nearly half of the claimed increase in cultivated area during the First Five Year Plan resulted from improved statistical coverage. 12/

## S-E-C-R-E-T

and that of soybeans from 8.6 percent to 7.6 percent. In 1957 the percentage of the total sown area in grain crops further decreased to 77.1 percent. 13/

Although official concern has been great, planned increases in livestock have not been realized, including the target for the First Five Year Plan. The number of hogs, for example -- despite a considerable increase from a low of 84 million in 1956 to 114 million in mid-1957 -- still fell short of the 1957 target of 138 million. 14/

D. Industrial Socialization and Production.

1. Socialization and Management.

By the end of 1956 the socialization of industry had virtually eliminated all private industrial enterprises in Communist China. The conversion of most of the private industrial sector in 1956 into joint state-private enterprises, a transition stage preliminary to exclusive state ownership, was a device which enabled the regime to exercise effective controls over the activities of these enterprises and at the same time retain the services of the former private managers and technicians. Payment of liquidation dividends at a flat rate of 5 percent to the former capitalist owners was originally planned to continue at least until 1962, but there has been recent Party agitation to abolish this form of "exploitation" within a period of 2 to 3 years. 15/

The general growth and expansion of the industrial base during the First Five Year Plan have been accompanied by Chinese Communist measures directed at increasing Party control over all industrial enterprises. Party control over management in industrial enterprises has been expanded by strengthening the "collective leadership" of the Party committee over the individual plant managers, and control over the workers has been similarly expanded by the establishment of workers' congresses in place of the unpopular trade union conferences. These workers' congresses, which also function under the leadership of the Party committee, are supposed to have certain supervisory powers over the plant manager, thus further limiting the authority of managerial personnel in industrial enterprises. 16/

If the isolated complaints made in the past year by non-Party managerial personnel and former capitalist groups are indicative of the general situation in Chinese industrial enterprises, the economic waste generated by unskilled or ignorant Party representatives at the individual enterprise level must be substantial. It is hardly probable that the recent increase of Party influence in enterprises will alleviate the dissatisfaction and unrest manifested by the workers and noted in Mao's "contradictions" speech in 1957. 17/

## S-E-C-R-E-T

2. Production.

During the First Five Year Plan, Communist China made considerable progress in laying the foundations for industrialization. The gross value of modern industrial output (excluding handicrafts) increased about 133 percent during the plan, with heavy industry increasing more than 200 percent and light industry about 85 percent. <sup>18/</sup> Although the average annual rate of growth of industrial output during the period was high (about 16 percent), it was uneven, having been reduced to about 7 percent in 1957, which was a year of consolidation and restoration of balance after the relatively overambitious construction of 1956. The share of GNP originating in industry rose rapidly, and the proportion of gross industrial output originating in the state, joint state-private, and cooperative sectors of the economy increased from about 49 percent in 1952 to about 71 percent in 1955 and to more than 99 percent in 1957. In spite of notable advances in industrialization, China still lags behind Japan and far behind other advanced industrial nations in per capita and total production of most industrial goods.\* Riding the wave of success developed in the course of the First Five Year Plan, Communist China has recently announced its intention of surpassing Great Britain's output of most producer goods by 1972, including iron and steel, electric power, coal, cement, and chemical fertilizer.

Production targets in the First Five Year Plan were, on the whole, significantly overfulfilled: production of producer goods in 1957 was about 34 percent above the plan goal, production of consumer goods 4 percent above the plan goal, and handicraft production 6 percent above the plan goal. Crude oil, edible vegetable oil, sugar, cigarettes, and cotton cloth (excluding homespun) constitute the major commodities which underfulfilled plan targets.\*\* The degree of overfulfillment of production targets varied greatly, however, so that critical imbalances between industrial sectors and between related industries were developed in 1956 and 1957. Heavy industrial development was given special emphasis during the plan period, and high average annual rates of increase in production were achieved, as shown in Table 1,\*\*\* which compares the average annual rates of increase in output of selected heavy and light industrial products during 1953-57.

By far the most notable achievement of the 5-year period was the establishment of the basis for further industrialization in the machine

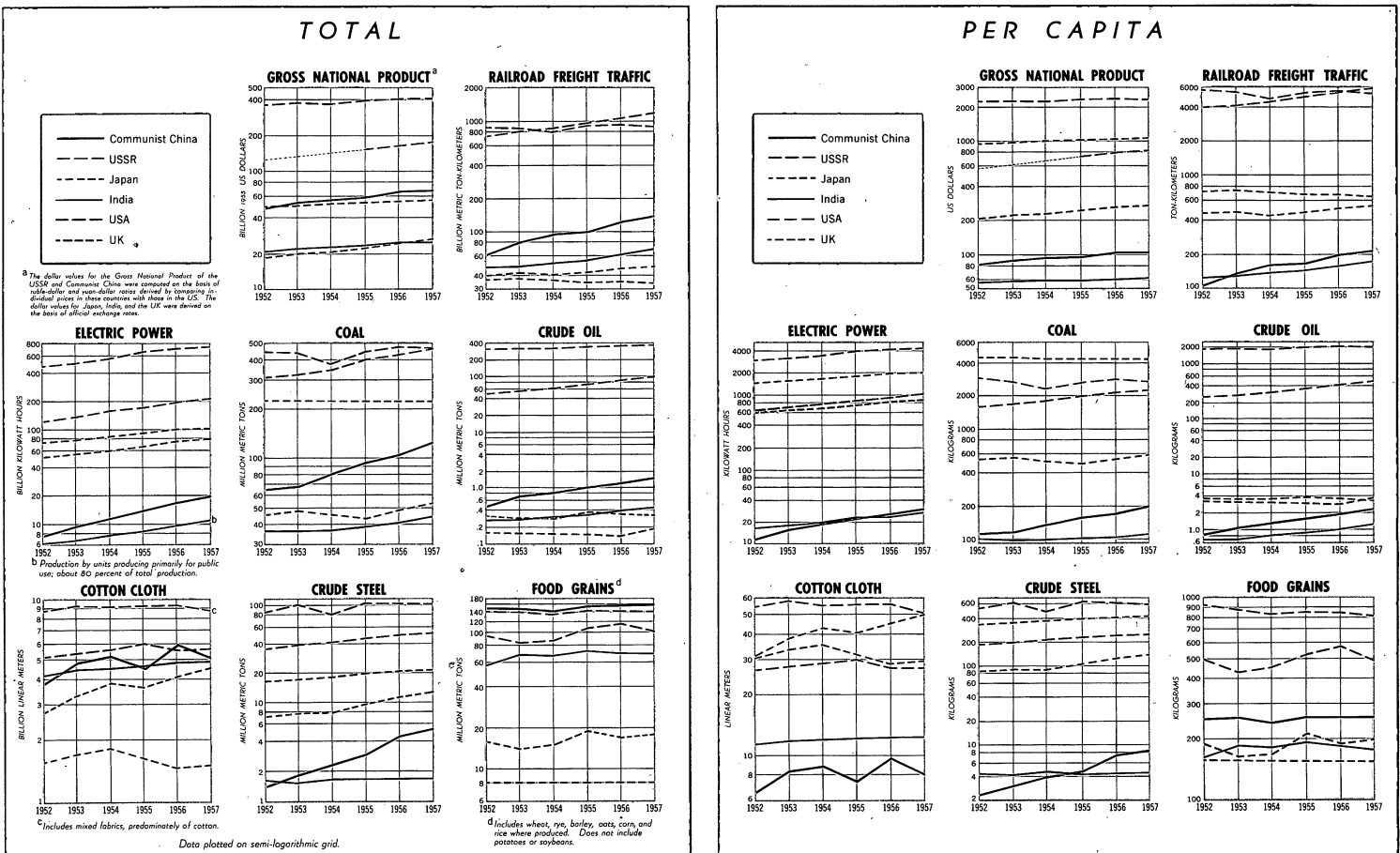
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\* A comparison of Communist China's GNP and production of selected commodities with those of various industrial nations is shown on the chart, Figure 3, following p. 14.

\*\* For goals of the First Five Year Plan and estimated output of selected industrial products for the years 1952-62, see Table 6, Appendix A, p. 50, below.

\*\*\* Table 1 follows on p. 15.

**COMMUNIST CHINA**  
**GROSS NATIONAL PRODUCT, RAILROAD FREIGHT TRAFFIC, AND PRODUCTION**  
**OF SELECTED COMMODITIES, COMPARED WITH THOSE OF SELECTED COUNTRIES, 1952-57**



## S-E-C-R-E-T

Table 1

Communist China: Average Annual Rates of Increase of Production  
1953-57

		Percent	
Product	Rate	Product	Rate
Pig iron	25	Cotton cloth	5
Crude steel	32	Paper	20
Electric power	21	Grain	2
Coal	14	Cotton	5
Machine building industry	35	Textiles	7
Cement	20	Sugar	
Petroleum products	22	(including handicrafts)	14
Nonferrous mining	21	Vegetable oils	
Chemicals	31	(including handicrafts)	8
Cotton yarn	6	Flour	11

building industries. Whereas China was formerly heavily dependent on foreign producers for almost all machinery as well as for many of the raw materials required by the machine industry, it is now claimed -- and reasonably so -- that the machine building industry can satisfy between 70 and 80 percent of machinery requirements under the Second Five Year Plan. 19/ Although still dependent on imports for certain components, China now is able to produce large-scale precision machine tools, simple mining and metallurgical processing equipment, power-station equipment for medium-size plants, motor trucks, aircraft, and large locomotives. The naval and civil shipbuilding industries, the electronics industry, and related ferrous and nonferrous metallurgical industries also have achieved considerable development. Much of the recent advance has involved imitation of Russian designs, but China has begun to design some types of new equipment independently. The extra-rapid development of machine industries in relation to other industries and services created imbalances in product demand and raw material availability which led in 1957 to production cut-backs and underutilization of capacity in such machine building industries as those producing trucks, locomotives, freight cars, agricultural machinery, and textile machinery. This capacity will be utilized extensively in meeting the targets of the Second Five Year Plan (1958-62).

The iron and steel industry has so developed that in 1957, it was claimed, 88 percent of rolled steel requirements would be met by domestic production, compared with 61 percent in 1952. 20/ The significant increases in production still have not eliminated many of the basic problems in the iron and steel industry, including concentration of a



## S-E-C-R-E-T

large share of production at An-shan, inadequate development of ore mining and dressing facilities, and the inability to supply the increasing variety of steels required by the advancing technological level of Chinese industry. These continuing problems are being met to a degree by construction now under way, or planned, of integrated plants at Pao-t'ou and Wuhan and of about 25 small and medium-size plants advantageously located throughout the country near the ore deposits and local consumption centers. China has become self-sufficient in most nonferrous metals (with the notable exceptions of copper, chromium, and nickel). Two significant aspects of production of nonferrous minerals have been the increase in exports of nonferrous metals and the rapid development of the aluminum industry, which presently meets domestic metal demands. Further development of metals and minerals for export is planned, but expansion of production of copper, presently inadequate, probably will remain the most important item in the plan for the development of nonferrous metals.

Although production in the chemical industry increased about three times during the First Five Year Plan, the industry still is far from meeting the needs of agriculture and other industries in either volume or variety of products. Development of the chemical industry during the Second Five Year Plan appears, however, to have the highest priority. As an integral part of the drive to solve China's pressing agricultural production problem, the chemical fertilizer industry is to be developed as fast as possible, and, to aid the tense situation in the supply of cotton cloth, the synthetic fiber industry is also to be encouraged.

Starting from a very low base, production of crude oil achieved the impressive growth rate of 230 percent during the plan period. 21/ Development of existing and new producing fields and construction of new processing and transport facilities during the plan period have laid the groundwork for future large increases in production. Demand for petroleum products is increasing rapidly, however, and China still will be dependent on imports to a marked degree during the next 5 years. Shortage of petroleum products probably has retarded the growth of some sectors of the economy.

Production of coal, which almost doubled during the First Five Year Plan, generally has kept pace with industrial and power requirements, but unanticipated urban and rural household demand brought on a coal shortage in 1956 and 1957. Increased emphasis on small and medium-size workings should help to meet the growing demand for household use. Recent steps to help solve another problem, the poor quality of coal produced, include an accelerated program for construction of coal washing and processing units.

## S-E-C-R-E-T

As shown in Table 1,\* light industry progressed much more slowly than heavy industry during the First Five Year Plan. Growth of China's light industrial sector is, of course, limited by the inadequate supply of agricultural raw materials. Most of the increases in production by light industry during the Five Year Plan have come from a greater utilization of existing facilities. Although the cotton textile industry has developed additional capacity, shortages of raw materials have led to considerable underutilization of capacity during the last 3 years.

The relatively small rate of growth of consumer goods industries probably should be further depressed because of an upward statistical bias created especially in this sector by socialization and the concomitant increased ability of the regime to account for production at the local level. The meat-slaughtering industry is mentioned as a case in point. In 1952, only 10 percent of this industry was controlled by the government and was reported as light industrial output in the modern sector, but the corresponding figure in 1955 was nearly 70 percent. Although the index of total meat slaughtered, with 1952 as 100, increased to only 129 by 1957, the index of industrially slaughtered meat (that done by the state) rose to 1,146. This falsely inflated the growth of the light industrial sector. With slaughtering deleted from the production tabulation, the 1957 index for modern light industry would be reduced from 185 to 172 (1952 = 100).

In spite of the heavy priority assigned to the development of modern, mechanized industry during the First Five Year Plan, handicraft in 1957 still comprised about 16 percent of total industrial output compared with about 21 percent in 1952. 22/ The handicraft industry accounted for the following significant proportions of the production of major consumer goods in 1956: salt, 22 percent; sugar, 36 percent; edible oils, 27 percent; and cotton cloth (including homespun), 22 percent. Handicraft production of producer goods, largely simple farm tools and other ironware, also increased at a rapid rate (about 126 percent) over the plan period.

Regional dispersion of industry, motivated by both strategic and economic considerations, is a long-range goal of the Chinese Communists. There was, however, an even greater concentration of industrial production in the old industrial areas during the First Five Year Plan. This concentration resulted not only from the reconstruction of the existing industrial plant but also from the location of new industry in these areas which provided known sources of raw materials and fuel and developed transportation facilities and a reservoir of skilled labor. More than 80 percent of total investment in China's iron and steel industry was allocated to Northeast China during the plan period, and half of the 156 key industrial projects receiving Soviet aid are located in this one region. 23/

\* P. 15, above.

## S-E-C-R-E-T

3. Transportation.

The transport sector of Communist China has supported the rapid advance in economic development and, except for local dislocations, has kept pace with the general industrial growth of the economy. The transportation system has been utilized at close to capacity, and all branches of the sector have experienced high annual growth rates.\* The railroads, with their high percentage of the traffic load, have been primarily responsible for the support of the industrial sector,\*\* but the other types of carriers are increasing their proportionate share of the load as shown in the following tabulation of percentages of total freight ton-kilometers borne by each type of carrier for 1950, 1956, and planned for 1962:

	<u>1950</u>	<u>1956</u>	<u>1962</u>
Railroads	93.2	82.8	81.3
Highways	0.9	2.4	3.6
Inland waterways	4.0	8.9	8.8
Coastal shipping	1.9	5.9	6.3
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

The supporting role of native transport in China is traditionally very important. A recent article by the Soviet Minister of the River Fleet, 24/ reporting on his inspection of Chinese inland waterways, presents the following percentage breakdown of freight carried by all of the various types of transport in 1956:

	<u>Tons Carried (Percent)</u>	<u>Ton-Kilometers (Percent)</u>
Railroads	33.0	78.7
Inland waterways		
Modern ships	4.7	8.5
Native ships	9.9	3.6
Coastal shipping	1.5	5.7
Motor vehicles	10.7	2.3
Carts and pack animals	40.2	1.2
Total	<u>100.0</u>	<u>100.0</u>

\* Communist China's railroad system and major highways are shown on the map, Figure 7, inside back cover.

\*\* For the estimated volume and performance of the various types of transportation carriers for the years 1952-62, see Table 7, Appendix A, p. 56, below.

S-E-C-R-E-T

The absolute amounts derived from the percentages given for the modern means of transport and cart transport check closely with official Chinese Communist announcements of transport achievement. The estimate for inland transport by junks is the first provided [redacted] for this sector. This series points up the important part native transport, in the form of native ships and carts and pack animals, plays in short-haul local movement of goods. Native transport in 1956 carried more than 50 percent of the total tabulated freight tonnage, although it accounted for less than 5 percent of the total tabulated ton-kilometers.

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#### E. Foreign Trade and Economic Relations.

Foreign trade turnover of Communist China was equivalent to approximately 10 percent of GNP over the First Five Year Plan, rising from more than 8.1 billion yuan in 1953 to a high of more than 11 billion yuan in 1955, followed by a drop to slightly more than 10 billion yuan in 1957.\* The decline in 1956 was on the import side and reflected a sharp reduction of receipts under Soviet loans. In 1957, there was a cut in both imports and exports, with total trade about 5 percent less than in 1956. In spite of the 1956-57 decline the foreign trade goals of the First Five Year Plan, it is claimed, were overfulfilled and total trade by the end of 1957 was expected to exceed the First Five Year Plan target by 6.4 percent, with the import and export plans overfulfilled by 8 percent and 4.8 percent, respectively. 25\*\*

The contribution of foreign trade to economic and military development during the First Five Year Plan is indicated in the composition of Communist China's imports. Imports during this period totaled more than 25.3 billion yuan, of which approximately 8 percent were financed by Soviet loans, presumed to be largely of a military nature, and about 4 percent by Soviet economic credits. Articles in the Chinese Communist press have stated that the composition of imports was approximately as follows: machinery and equipment, 60 percent (15.2 billion yuan); essential raw materials, 30 percent (7.6 billion yuan); and consumer goods, 10 percent (2.5 billion yuan).\*\*\* The machinery and equipment category perhaps includes some or all of the military imports financed by Soviet loans as well as about 3 billion yuan in military imports estimated to have been financed through normal trade channels. 26 In addition, the Chinese

\* The volume and direction of foreign trade for the years 1952-57 and 1962 are shown on the chart, Figure 4, following p. 20.

\*\* The reported overfulfillment is based on a cumulative total for the years 1953-57. It was stated in the First Five Year Plan that the total volume of imports and exports in 1957 would be 66.5 percent greater than in 1952. It is estimated that the actual increase in total trade was about 60 percent.

\*\*\* These percentages were given for the years 1953-56. It is assumed that there was little change in 1957.

S-E-C-R-E-T

## S-E-C-R-E-T

Communists have estimated that during the First Five Year Plan imports of machinery and equipment for state construction projects would account for 15.2 percent of total investment in capital construction, or about 7.4 billion yuan.

Exports are estimated to be approximately 23.5 billion yuan during 1953-57. Agricultural products and products processed from agricultural raw materials are stated to have been 77.5 percent of total exports, with exports of mining products, machines, and industrial products contributing the remaining 22.5 percent. 27/

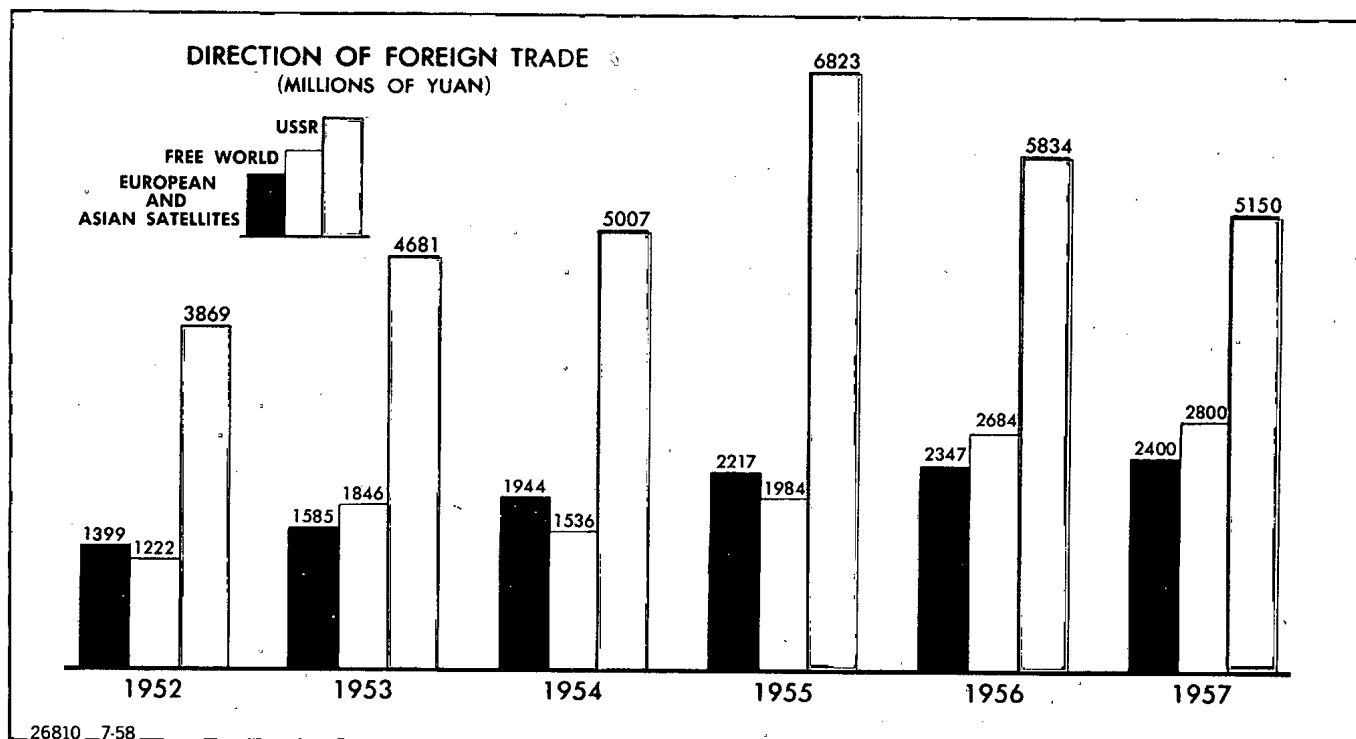
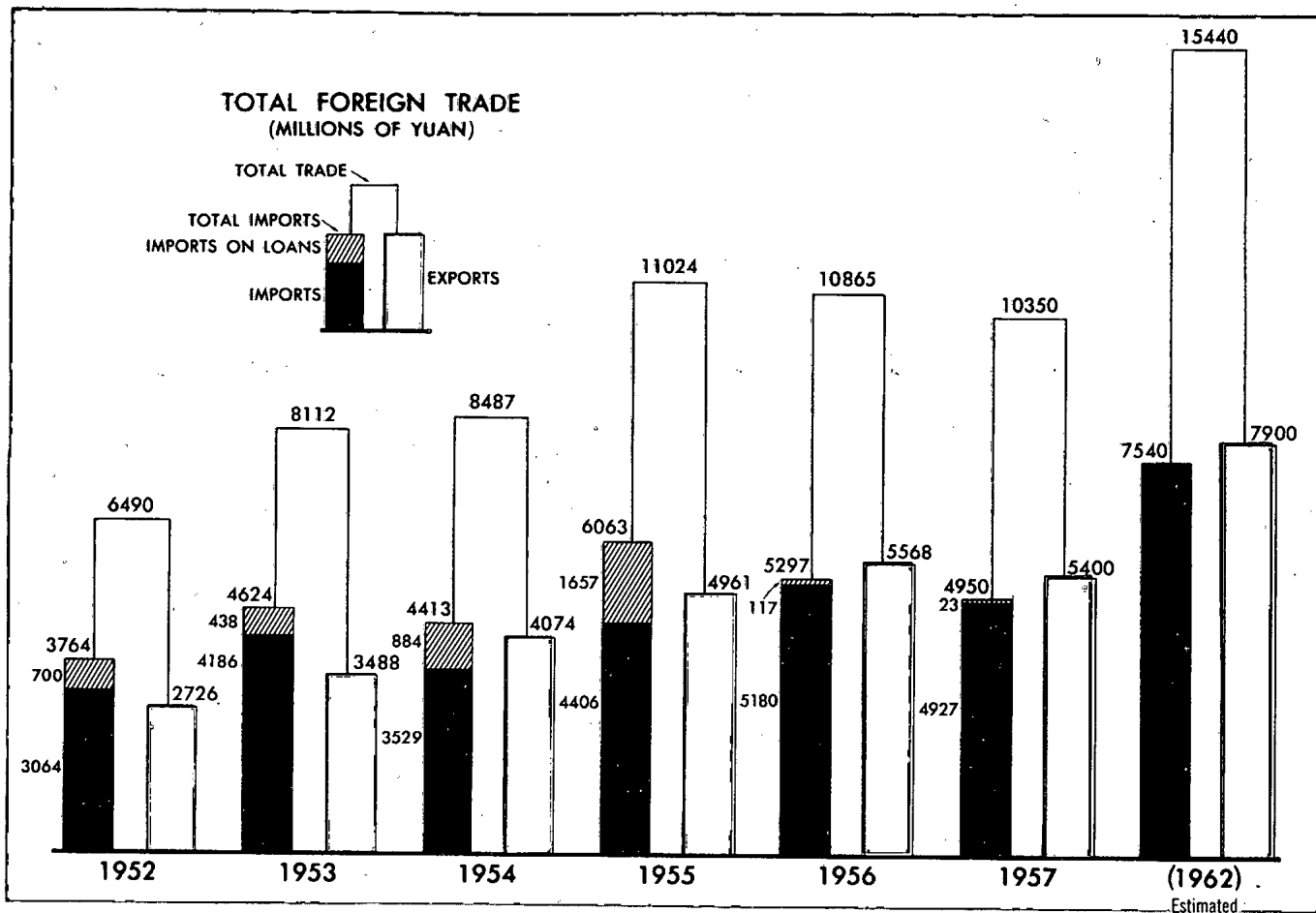
Trade with the USSR and other Bloc countries was predominant during this period, accounting for nearly 78 percent\* of total trade for the years 1953-57. Trade with the Free World, however, increased in relative importance during the last 2 years of the plan period. Maintenance of trade with the Free World at this level while total trade was dropping is attributable in part to the increase in trade over the past few years with Afro-Asian countries and to the partial relaxation of trade controls against Communist China in 1957 by some Free World countries. Minister of Foreign Trade Yeh Chi-chuang predicted in midyear that trade with Afro-Asian countries in 1957 would be about 88 percent above the 1950 level. 28/ The decline of exports in 1957, which apparently caused the Chinese Communists to reduce imports, was partly a result of a drop in exports of foodstuffs which largely would have gone to the USSR.

An analysis of Communist China's balance of payments over the First Five Year Plan period indicates net receipts in the nontrade items which enabled the financing of an import surplus of approximately 1.9 billion yuan. Payments for debt service and for foreign aid totaled almost 3.5 billion yuan, receipts of Soviet credits were more than 3.1 billion yuan, and net receipts from all other items were more than 2.2 billion yuan, including overseas Chinese remittances, expenditures of Soviet forces in China during 1953-55, drawings on foreign exchange holdings, clearing account debts incurred, and exports of gold. Of the Soviet credits received during 1953-57 -- valued at about 3.1 billion yuan -- only about one-third can be considered as being used for economic development purposes. In terms of funds available for industrial development during the First Five Year Plan, the Soviet economic credits were relatively small, amounting to about 4 percent of total imports and about 5 to 6 percent of investment in machinery and equipment for capital

\* This percentage would be reduced to 70 percent of total trade if the yuan data were converted to US dollars. The discrepancy results from the different yuan-dollar exchange rates believed to be employed in China's trade with the West (2.46 yuan to US \$1) and with Bloc countries (multiple exchange rates, the weighted average of which is 3.79 yuan to US \$1).

# COMMUNIST CHINA FOREIGN TRADE 1952-57 AND 1962

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## S-E-C-R-E-T

construction projects. The economic credits, in fact, were far less than the yuan -- about 1.9 billion -- required for repayment of principal and interest on the total foreign debt in the plan period. In view of statements in the Chinese Communist press which suggest only limited reserves of foreign exchange, it seems likely that Communist China will be unable, during the Second Five Year Plan, to depend on existing foreign exchange holdings for sizable imports.\*

F. Trends in National Finance.

Actual budget revenues and expenditures during Communist China's First Five Year Plan almost exactly balanced at a level approximately 5 percent above the plan figures. <sup>29/</sup> Most of the above-plan expenditure was allocated to economic construction, with more than half of budget appropriations under this category devoted to industrial development. Although profits from state enterprises and tax receipts exceeded the original plan, the largest increment in above-plan revenue resulted from foreign loans, principally in the form of transfers, on credit, of Soviet military equipment located in China. Expenditure rose more rapidly than revenue during the plan period. As a result, the budget surplus which had been accumulated in the years 1951 to 1954 was exhausted by 1956, when the government resorted to currency issue to cover the budget deficit in that year. Reflecting the agricultural base of China's economy, annual budget revenues were to a large extent governed by the harvest results of the preceding year. This pattern of sharp, cyclical fluctuations in annual financial and economic activity during the First Five Year Plan prompted a concerted effort in 1957 to build up state reserves of basic grain and industrial crops and thus make possible somewhat steadier growth during the Second Five Year Plan.

The most striking feature of Communist China's public finance in 1956 was the development of an inflationary trend revealed in deficits appearing both in the budget accounts and in the balance sheet of the state bank. In spite of the liquidation of 2 billion yuan of state commodity reserves to absorb some of the "excess purchasing power" created by the state's overambitious construction program, there was still an increase in note issue amounting to nearly 1.7 billion yuan. <sup>30/</sup> A series of deflationary measures adopted in 1957 included a cutback in budget expenditures, a drastic curtailment of agricultural loans, and a reduction in the labor force. The necessary corollary of these measures was a slowdown in the rate of economic growth, with state investment in capital construction in 1957 declining for the first time and by the sizable margin of about 15 percent. Among other trends appearing during 1956 and 1957 was the continued reduction of defense expenditure. This

\* For an estimated balance of payments for Communist China for the years 1953-62, see Table 8, Appendix A, p. 57, below.

## S-E-C-R-E-T

development is a reflection of the modernization program in Communist China's armed forces which calls for diminishing expenditure for manpower (carried under the defense category in the budget) and for increasing investment in military industry producing modern arms and equipment (carried for the most part under the economic construction category in the budget). Still another trend was the sharp contraction in receipts from foreign aid coincident with steadily mounting foreign debt charges and payments under Communist China's own foreign aid program.\*

G. Trends in Capital Construction Investment.1. First Five Year Plan Fulfillment.

It is estimated that gross investment in Communist China amounted to nearly 84 billion yuan during the First Five Year Plan, of which more than 60 billion yuan were provided by the state. The major sources of savings for gross investment were as follows: profits and depreciation allowances of state enterprises, 62 percent; surplus of taxes over government noninvestment expenditures, 14 percent; and farmers' investment expenditures out of income, 9 percent.\*\* Nearly 80 percent of total savings were channeled through the state budget, with most of the remainder consisting of private savings and a small amount generated at the enterprise level. As further evidence of the key role of agriculture in China's economic development, more than half of total investment is based on the output of the agricultural sector.

Although a number of somewhat fearful views of "strains, stresses, and imbalances" created in the Chinese economy during the First Five Year Plan emanated from Peiping in early 1957, it now appears that the regime was eminently successful in attaining the capital construction objectives laid out in the plan. In fact, it is reported that planned investment in capital construction was overfulfilled by 14.1 percent, or approximately 6.03 billion yuan above the original target of 42.74 billion yuan. 31\*\*\* Reflecting Communist China's preoccupation

\* Communist China's budget accounts for the years 1950-58 are shown on the chart, Figure 5, following p. 22.

\*\* For the major components of investment and savings estimated for the First Five Year Plan, see Table 9, Appendix A, p. 58, below.

\*\*\* It should be noted that the plan and fulfillment figures are not strictly comparable for the following reasons. First, the fulfillment figure is the cumulative total of investment made under the respective annual plans which include certain types of construction (for example, some local construction) not incorporated in the Five Year Plan. This would have the effect of inflating the fulfillment figure. On the other hand, as the fulfillment figure is expressed in current prices, the reduction in producer goods prices in 1956 [footnote continued on p. 23]

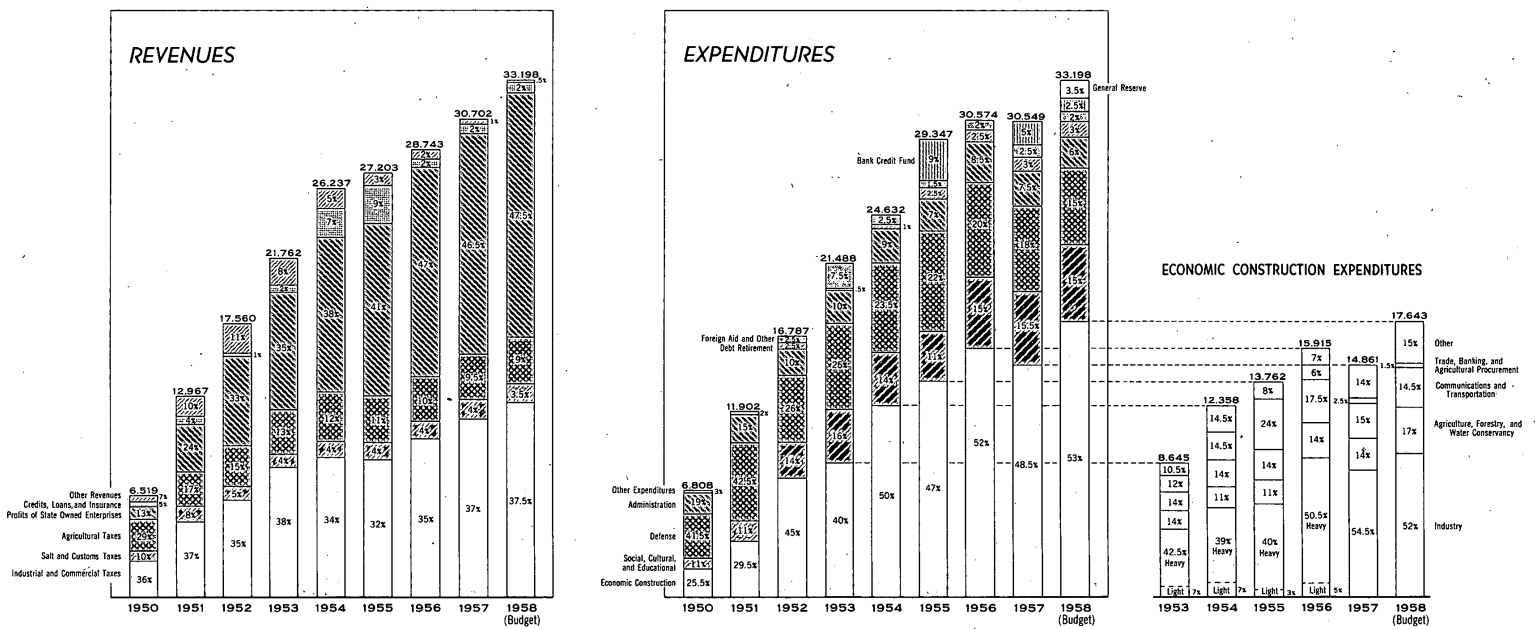


Figure 5

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COMMUNIST CHINA  
**BUDGET REVENUES AND EXPENDITURES**  
 1950-58

(Billions of Current Yuan)\*



\* Because of a general reduction of producer goods prices in 1956, revenues and expenditures totals for 1956-58 should be increased by about one billion yuan to make them comparable with earlier years.

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## S-E-C-R-E-T

with rapid industrial development, approximately 56 percent of total investment in capital construction was channeled into the industrial sector and less than 8 percent into the agricultural sector.\* The increasing tempo of the regime's drive for rapid industrialization is illustrated by the fact that about 54 percent of total investment was concentrated in the last 2 years of the plan.

2. Industrial Capital Construction.

It is estimated that 27.38 billion yuan were invested in industrial capital construction during the First Five Year Plan. Approximately 21 billion yuan of this sum represents the gross value of industrial fixed assets newly added during this period, an amount slightly higher than the net value of all industrial fixed assets existing in 1952. <sup>32/</sup> One result of such a rapid expansion of industrial capital in Communist China has been the appearance of serious dislocations and imbalances between the different industrial sectors. As illustrations of the imbalance in industrial development that occurred during the plan period, the Chinese Communists have cited lagging production in the fuel and raw material extraction industries relative to the manufacturing sector as well as the uneven development of various branches of the machine building industry.

The proportionate distribution of investment funds between heavy industry and light industry has continued to be a topic of much discussion among Chinese Communist planners. In spite of a temporary shift in favor of light industry in 1956, the ratio of heavy to light industry investment for the 5-year period was approximately the same as that provided in the plan, about 7.9 to 1. <sup>33/</sup> The major obstacle to expanding production of consumer goods is not so much lack of productive capacity as a shortage of raw material supplies from the agricultural sector. The Chinese Communists have realized belatedly that increased investment in agriculture and in the machinery and chemical fertilizer industries which support agriculture provides the only basic solution to the continuing problem of insufficient consumer goods. For this reason, the heavy industry - light industry ratio loses much of its significance as an indicator of trends in economic planning in Communist China.

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would have the effect of understating the investment totals for 1956 and 1957 in relation to the plan prices. Thus the two factors tend to compensate for each other.

\* For a breakdown by major economic sector of capital construction investment during the First Five Year Plan, see Table 10, Appendix A, p. 59, below.

S-E-C-R-E-T

II. Economic Trends Under the Second Five Year Plan (1958-62).A. Introduction.

In formulating their 1958 annual economic plan the Chinese Communists have demonstrated a new awareness of the fundamental need for expanding agricultural production, especially food grains and fibers, as the only practical way to provide both increased investment funds and consumption goods. A change in emphasis in their priorities has occurred in that although heavy industry will continue to receive the largest share of investment, increased investment will be accorded to those heavy industries providing fertilizers, agricultural chemicals, irrigation equipment, and implements for agriculture. A crash program to construct new chemical fertilizer plants, combined with a rising level of imports, is expected to make available by 1962 at least 7.5 million tons of chemical fertilizers, a threefold increase over the amount available in 1957. At the same time, it has been recognized that important increases in production have resulted from raising procurement prices in the past, and further price adjustments for certain industrial crops may be planned. Whether these shifts in investment and incentives in favor of the peasants will be sufficient to improve production to the necessary extent cannot yet be estimated, but it is at least clear that the new "policy of developing industry and agriculture simultaneously on the basis of priority to the growth of heavy industry" is a realistic adaptation of Communist policy to conditions existing in China.

B. Gross National Product.

It is estimated that total output of goods and services (GNP) will increase about as rapidly during the Second Five Year Plan (1958-62) as during the First Five Year Plan (1953-57). The estimates of GNP for 1962 are based on trends in commodity production, government purchases and investment, and consumption expenditures. The estimates show that in general sufficient funds probably will be available to finance the investment required to achieve the projected increases in production during the Second Five Year Plan. As shown in Table 11,\* GNP at market prices will increase by about 45 percent in 1962 above 1957, or 7 to 8 percent per year. In the distribution of total output, investment will increase its share from 20 percent in 1957 to 24 percent in 1962, largely at the expense of consumption expenditures which will decline from 70 percent to 66 percent of the total. In spite of its lower proportion, the total consumption expenditure will still permit some increase in per capita consumption.

\* For projected trends in GNP by end use for the period 1952-62, see Table 11, Appendix A, p. 60, below.

S-E-C-R-E-T

## S-E-C-R-E-T

Among the trends projected to 1962 for national income by sector of origin, the most significant finding is the continued progress toward Communist China's major goal of industrialization. According to these estimates the industrial sector will contribute about 26 percent of total gross income in 1962 as against 20 percent in 1957 and 13 percent in 1952.\* Industrial output will increase at a somewhat slower rate (91 percent) during the Second Five Year Plan than in the first plan period (109 percent), in large part because of increasing reliance on new capacity to achieve production increases. On the other hand, agricultural output is expected to increase at a faster rate (17 percent compared with 13 percent in the First Five Year Plan), in keeping with the new emphasis on agricultural development in Communist China's economic planning.

C. Agricultural Production.

The Peiping regime has decided that an all-out effort must be made to increase agricultural output during the Second Five Year Plan. Accordingly, agriculture will receive a larger share of investment than it did in the First Five Year Plan. Direct investment by the state, to be used primarily on large-scale irrigation and water conservancy projects, will increase from 7.8 percent of total capital construction in the first plan to about 14 percent of total investment in 1958. <sup>34/</sup> Indirect investment also will increase significantly; for example, investment in the chemical fertilizer industry will rise from 1 percent of the total during the First Five Year Plan to about 3 percent in the Second Five Year Plan. The bulk of agricultural investment, however, will continue to be financed out of funds accumulated by the collectives, with primary emphasis on small-scale irrigation projects which permit expansion of double cropping and an immediate increase in agricultural production. Substantial increases in production are planned for both food and industrial crops.

It is estimated that the increase in grain output by 1962 will be on the order of 30 million tons. Applied to the production of grain of 185 million tons in 1957, it is felt that production of grain in 1962 will be approximately 215 million tons. This figure is considerably less than the original plan goal of 250 million tons, but plan revisions have already been made, with a recent drop to 240 million tons. <sup>35/</sup> Other revisions probably will follow. By comparison, the 1962 target for production of cotton is conservative -- 2.15 million tons, having recently been lowered from 2.4 million tons. It is estimated that production of cotton in 1962 will reach 2 million tons.

Factors considered in making the above estimates include the increase in irrigated area, the increased availability of chemical and

\* For projected trends in national income, by sector of origin, for 1952-62, see Table 12, Appendix A, p. 61, below. See also Figure 2, following p. 10, above.

## S-E-C-R-E-T

organic fertilizers, and the increased sown area obtained through reclamation and multiple cropping. Underlining the importance of Communist China's program for rapid expansion of the chemical fertilizer industry, about one-fourth of the increases in production estimated as possible by 1962 are expected to result from increased application of chemical fertilizer. The amount available in 1962, including imports, is expected to be four times that in 1957, totaling approximately 7.5 million tons of both nitrogenous and phosphorous fertilizers.

In order to increase production, incentives must be offered which will complement the physical improvements made. So far, incentives for collective farm peasants are not satisfactory. Many socialized peasants have suffered disillusionment instead of experiencing increased incentives. With increased labor requirements for construction, crop cultivation, and livestock raising, increased competition for land among grain, industrial, and fodder crops, and an increasing gap between urban and rural income, the work of collectivized peasants must be properly encouraged with increased incentives in procurement prices of agricultural products and in better supplies of consumer goods if the estimated increases in production are to be realized.

In general, in view of the recent realistic adaptation of Communist policy to conditions in China, agricultural production during the Second Five Year Plan is expected to keep pace with the basic food requirements of Communist China's rapidly growing population and to permit some expansion of light industry. It is doubtful whether any significant surplus will appear in the agricultural economy. Even the achievement of the production figures for 1962 will require a flexible approach to the problems of management of the collective farms. Possible modifications of the present agricultural program which may result from increasing strains on the cooperatives include organizational changes, the readjustment of planned allocations of resources to agriculture, and the raising of state procurement prices.

D. Industrial Production.

During the Second Five Year Plan, Communist China will advance a step further toward creating an independent, socialized industrial economy, building upon the foundations laid in the First Five Year Plan (1953-57). No finalized plan has been released, but the proposals put before the Eighth Congress of the Chinese Communist Party for increases in industrial output apparently are still the basis for detailed planning. 36/ If anything, these now appear to be generally conservative.\* The proposed 1962 targets were based on the original First Five Year

\* For different versions of 1962 plan goals for both agriculture and industry, see Table 13, Appendix A, p. 62, below.

## S-E-C-R-E-T

Plan goals. Thus, in the case of those commodities (such as crude oil and edible oils) which failed to meet the original targets, attainment of the Second Five Year Plan goals is doubtful. In other cases the 1957 target was significantly overfulfilled, and achievement of the 1962 goals appears likely.\*

Heavy industry (including the chemical industry) will continue to receive priority development, with greater emphasis being devoted to those industries which support agricultural production. This is especially true of the chemical fertilizer industry and the production of farm and irrigation works equipment. A greater part of the heavy industrial investment will be in newly developing industrial areas in northern Manchuria, North-Central China, and the Northwest, based upon extensive inland deposits of industrial raw materials. Increased production during the second plan will rely heavily on new capacity (much of which was designed, partly constructed, or completed during the first plan), whereas rehabilitation of existing capacity and improved technology were important factors in achievement of the first plan goals. Significant proportions of the increased output of the iron and steel industry and the coal extraction industry will come from production of small- and medium-size producing units, under the program for effecting a rapid increase in local industries.

The product mix of Chinese industry will continue to expand rapidly and by 1962 will be capable of supplying many basic materials as well as medium- and some large-scale machinery and equipment. By 1962 the plan calls for the machine building industry to furnish about 80 percent of machinery requirements compared with about 60 percent in 1957. In addition to the priority development of the chemical and machinery industries, it is expected that production of petroleum and copper will be emphasized. Chinese production of petroleum, however, is far below requirements for consumption, and even if the 1962 proposed target is met, it is estimated that imports of finished petroleum products will remain slightly higher than the 1957 level.

#### E. Foreign Economic Relations.

##### 1. Foreign Trade.

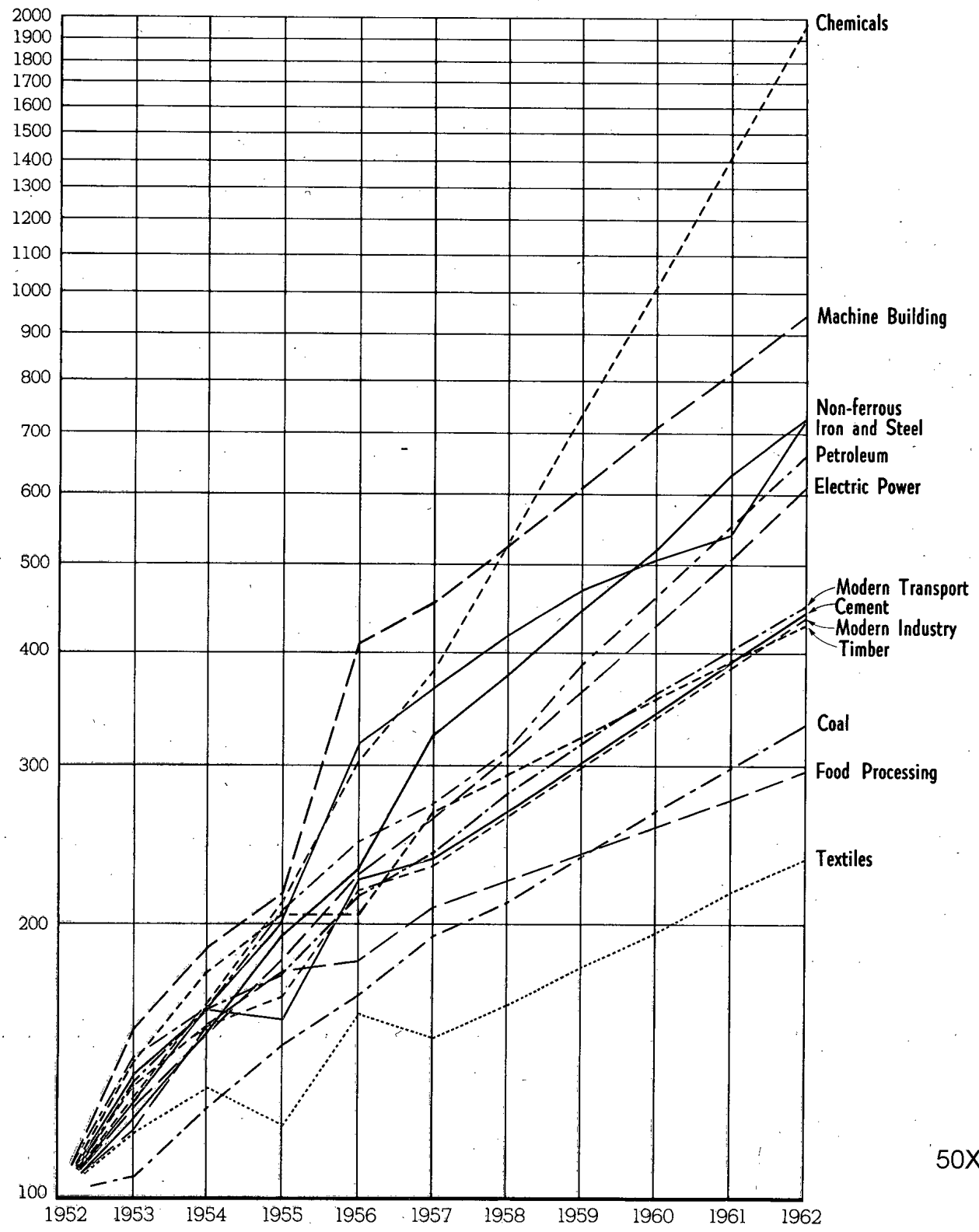
The economic development program of Communist China will necessitate continued growth in its foreign trade. During the First Five Year Plan, more than 12 percent of total imports were financed by credits from the USSR. Assuming no great change in the world situation through 1962, it is believed that no significant economic credits

\* The growth of selected industries for the period 1952-62 is shown on the chart, Figure 6, following p. 28.

Figure 6

# COMMUNIST CHINA INDEXES OF GROWTH OF SELECTED INDUSTRIES, 1952-62

1952 = 100



50X1

26809 7-58

Data plotted on semi-logarithmic grid.

## S-E-C-R-E-T

will be received by Communist China. Therefore, the level of imports will be largely determined by export capabilities.

In the First Five Year Plan period, Communist China's exports increased at an average annual rate of under 540 million yuan. It is believed that exports will be pushed strenuously over the period of the Second Five Year Plan, but the export expansion will be limited considerably, as indicated by the 1957 cutbacks, by the demands for domestic consumption. It is estimated, therefore, that the potential increase in exports over the Second Five Year Plan period will be on roughly the same order of magnitude in absolute value terms as that experienced during the years 1953-57 -- that is, assuming an average annual increase of 500 million yuan, with exports being able to reach approximately 7.9 billion yuan by 1962, about 46 percent above 1957.

Assuming that Communist China exploits this export potential fully, approximately 4.0 billion yuan, or more than 11 percent of exports during the Second Five Year Plan, will be required for debt service and foreign aid grants and credits. It is estimated that 700 million yuan in foreign exchange may be received by Communist China during this period from overseas Chinese remittances. If miscellaneous foreign exchange payments and receipts are approximately in balance and if foreign exchange holdings are at approximately the same level at the end of 1962 as they were as of 1 January 1958, Communist China's import potential for 1958-62 would be approximately 31.2 billion yuan,\* a 23-percent increase above total imports during the First Five Year Plan. Total trade in 1962 would be approximately 15.4 billion yuan, a 49-percent increase above 1957.

The foregoing estimate of Communist China's ability to pay for imports and the estimates of import requirements during the next 5 years suggest that Communist China probably will have sufficient foreign exchange to finance the level of investment goods imports apparently planned for the Second Five Year Plan.

## 2. Economic Dependence or Self-Sufficiency.

One of the long-term goals of Communist China is the achievement of a high degree of economic self-sufficiency. In the industrialization program to date, however, Communist China has been dependent on outside assistance, largely from the USSR, in the form of imports of investment and military goods, technical assistance, and, to a much lesser extent, economic credits. Imports of investment goods refer primarily to machinery, equipment, and installations for

\* Calculated on the basis of multiple yuan-dollar exchange rates. The total import figure would be somewhat lower if calculated on the basis of a single exchange rate. See footnote, p. 20, above.



## S-E-C-R-E-T

industrial construction, principally the 211 (205 being industrial) construction projects receiving complete Soviet aid which are said to form the core of Communist China's industrialization program. Although most of this aid has come from the USSR, the aid from the European Satellites has not been insignificant, with Czechoslovakia alone reported as assisting in the construction of 27 industrial enterprises. Communist China's dependence on other, largely Bloc, countries for imports needed for industrialization is indicated by the following tabulation, which shows the degree of self-sufficiency claimed by the Chinese Communists:

<u>Commodity</u>	<u>Proportion Domestically Produced (Percent)</u>	<u>Period</u>
Machinery and equipment	60 <u>37/</u>	1953-57
Steel (rolled) <u>39/</u>	70 to 80 <u>38/</u>	1958-62
	61	1953
	88	1957
Metals	More than 80 <u>40/</u>	1957

Technical assistance, most notably in the form of technical data, planning, and technicians furnished for specific construction projects, has been of considerable importance to Communist China's industrialization. Technical assistance, however, has not been confined to construction projects. In the reconstruction period especially, when the shortage of trained technical personnel was most acute, Soviet advisers and technicians worked with virtually every ministry and agency in the government and with many individual enterprises. Technicians provide on-the-job training for Chinese workers, and, in addition, about 7,000 Chinese have been sent to the USSR for training. Soviet Bloc technical data have been utilized extensively.

With the continuing industrialization of the Chinese economy and the expansion of trained personnel in various fields, the dependence on Soviet Bloc technicians will gradually decline. Chinese Communist statements suggest some dissatisfaction with Soviet designs and technical advice and indicate that foreign technical assistance must be adapted to the actual conditions prevailing in China. 41/ This may be an indication that Communist China will endeavor to rely increasingly on its own technical resources. In view, however, of the many technically complex projects (including a number in the electronics, synthetic fiber, metalforming machinery, and precision tool industries) in the planning or preliminary stage of construction, it appears likely that the need for technical assistance from the Bloc will remain strong throughout the Second Five Year Plan.

## S-E-C-R-E-T

F. National Finance and Investment.1. Financing the Second Five Year Plan.

Estimates of gross investment and sources of savings for the period 1958-62 indicate that sufficient funds probably will be available to finance the level of expenditures for capital construction outlined in the Draft Proposals for the Second Five Year Plan.\* The estimate of budget savings, which are expected to account for about 85 percent of total savings in the economy, is based on an analysis of trends in taxes and profits and depreciation funds of state enterprises in terms of projected increases in production of commodities and services. The other savings components, including increases in bank deposits, savings at the enterprise and farm level, and net foreign investment, are estimated on the basis of trends observed in the years 1953-57. Given an estimate of total savings, gross investment is derived in the same ratio to savings as in the period of the First Five Year Plan.\*\* Individual estimates, again based on trends observed in the First Five Year Plan period, for agricultural investment outside the budget; increases in inventories; and major repair expenditures and supplementary budget expenditures for agriculture, water conservancy, and forestry are then aggregated and subtracted from the gross investment total. The residual is then treated as the amount available for state investment in capital construction during the Second Five Year Plan.

The resulting estimate of state investment, roughly double the amount provided in the original First Five Year Plan, corresponds with the proposed level of expenditures for capital construction as announced in the Draft Proposals for the Second Five Year Plan. 42/ Thus, on the basis of present economic policies and in view of trends in production and consumption, Communist China's program for mobilizing investment capital during the Second Five Year Plan period is considered to be probably feasible.

2. Allocation of Investment.

Estimates of investment-output ratios by sector for the First and Second Five Year Plans show higher ratios of investment in relation to output in the years 1958-62 than in the First Five Year Plan period.\*\*\*

\* For estimates of the major components of investment and sources of savings for the Second Five Year Plan, see Table 14, Appendix A, p. 63, below.

\*\* See Table 9, p. 58, below.

\*\*\* For estimates of major components of investment and investment output ratios for the Second Five Year Plan, see Table 15, Appendix A, p. 64, below.

## S-E-C-R-E-T

This finding reflects the increasing necessity of relying on newly added capacity rather than on greater utilization of existing capacity in order to achieve planned expansion of production. In the First Five Year Plan the targets for investment were high in relation to production goals for 1957, and most of the goals were achieved in 4 years. The proposed level of investment in the Second Five Year Plan is not likely, however, to lead to a similar overfulfillment of the 1962 targets.

Recent discussions of the 1958 plan reveal a new pattern of state investment allocation designed to correct the imbalances in economic development appearing under the First Five Year Plan. Greater emphasis on agricultural development is seen in the rising proportion of capital construction investment in agriculture as against industry (1 to 4.7) compared with the corresponding ratio (1 to 6.6) under the First Five Year Plan. Heavy industry, particularly the chemical fertilizer and farm equipment industries which support agriculture, occupies an even more favored position in relation to light industry than in the First Five Year Plan, the new ratio being 8.9 to 1 compared with 7.9 to 1 in the years 1953 to 1957. The reason for this decision at a time when supplies of consumer goods are far from meeting demand is that expansion of light industry must await the prior development of production of raw materials in the agricultural sector. Another characteristic of the 1958 investment plan is an increase in the ratio of investment between the fuel and raw material extraction industries on the one hand and the processing and manufacturing sectors on the other, the ratio rising from 2.5 to 1 in the First Five Year Plan to 4.6 to 1 in 1958. Finally, in recognition of the problem of rising investment cost per additional unit of production, more investment is to be allocated to small- and medium-size mining and industrial installations under the jurisdiction of local levels of government, projects for which the investment cost per unit of capacity is considerably lower than for large-scale, highly mechanized plants and mines. This trend is reflected in the ratio between central and local government investment in 1958, their respective shares changing from 4.1 to 1 in the First Five Year Plan to 3.2 to 1 in the first year of the Second Five Year Plan. 43/

S-E-C-R-E-T

S-E-C-R-E-T

III. Problems of Economic Development.A. Introduction.

The salient fact about the Chinese economy is the enormous population relative to the quantity of arable land. In most periods the extremely high birthrate of the peasant population has been largely offset by a high death rate. In any period, however, when wars, disorder, natural calamities, and disease have been mitigated, there has been an immediate response by growth in population. This unrelenting pressure of population on food supply is the basic problem with which any Chinese regime is faced regardless of its other objectives.

The Chinese Communists have had remarkable success not only in forwarding their major objective of industrializing China but also in restoring general economic activity and in improving agriculture and the food supply. This success has borne its usual fruit of growth in population. The rate of growth which in 1950-52 was about 1 to 1.5 percent per year is now estimated to have reached 2.4 percent in 1957. The average annual growth of agriculture for 1953-57, nearly 3 percent, provided a small margin above the average growth in population of 2 percent. The margin, however, has diminished as growth in population increased.

The gains in agriculture over the past 5 years resulted from relatively simple and inexpensive measures. Future gains are likely to become slowly more difficult. Only a small decrease in growth of food production would lower it below the rate of growth in population. The First Five Year Plan (1953-57) demonstrated the ability of the Chinese Communists to mount a program of rapid industrialization. But the Malthusian problem will remain to confront the Chinese Communists regardless of their success in industrialization.

The problem of population versus food supply is discussed in more detail below. Communist China's economic policies and plans are evaluated in the light of this problem.

B. Population and Labor Force.

The population of China in mid-1957 was 631 million compared with about 575 million in 1952.\* The increase over the 5 years averaged about 2 percent per year, well above the rate of the period 1950-52 and perhaps 3 to 4 times the rate of 1930-50. This acceleration of growth poses not

\* For data on China's population for the period of the First Five Year Plan, see Table 16, Appendix A, p. 65, below.

S-E-C-R-E-T

## S-E-C-R-E-T

only a problem of food supply but also the problem of maintaining full employment with equitable income distribution.

Before 1956 the Chinese Communists were inclined to flaunt their large population as an attribute of national power and prestige. Accelerating growth in population, however, gradually brought home to them the difficulty of maintaining the average consumption of the total population. When demands for austerity in consumption failed to achieve the desired rate of saving, important consumer goods such as grain, vegetable oils, and cotton cloth were rationed. The insufficiency of agricultural production to meet both ration commitments and desired levels of state reserves influenced a change in the official attitude toward population and the formulation of a positive policy on the subject. An extensive campaign is now being waged to encourage birth control and to make large families economically unattractive.

The new policy on population is not expected to do much more than level off the rate of growth at about 2.4 percent, so that the estimated population will be about 710 million in 1962 and 799 million by 1967. The present shortage of medical services probably will prevent the birth control program from making much headway in the rural areas, where more than 80 percent of the population resides. The gains which are achieved are likely to be largely offset by reductions in the death rate. The estimated increase in population of 13 percent during the Second Five Year Plan (1958-62) will continue to press heavily on the supply of food and consumer goods.

A similar awakening has taken place in Chinese Communist employment policy. The goal of mechanizing industry as rapidly as possible has been replaced by plans to devote more investment funds to projects which offer maximum employment. Planning for agricultural mechanization, originally based on Soviet experience which substituted large-scale tractors and combines for scarce labor, has been revised drastically to feature small-scale, multiple-purpose machinery designed to supplement rather than displace China's abundant agricultural labor force. 44/ Various steps have been taken to stiffen the policy preventing peasant migration into the cities and even to transfer large numbers of present urban residents back to the countryside. These increments to the agricultural labor force will tend to depress further the low per capita income of the rural population but will not materially increase agricultural output, because there is already an ample supply of rural labor.

The prospects for a new labor force policy that will provide proportionally greater nonfarm employment opportunities in the Second Five Year Plan and the Third Five Year Plan (1963-67) than were provided by the First Five Year Plan are not promising. A brief review of labor force trends during the First Five Year Plan provides a basis of comparison.

## S-E-C-R-E-T

The official data on the number of office staff and factory workers indicate that they totaled about 24.2 million in 1956, or less than 10 percent of the estimated total labor force. During the First Five Year Plan, only 5.2 million new office and factory workers were added to the labor force\* out of a total population increase of more than 50 million. A national rate of participation in the labor force of 47 percent of the population has been indicated in several sample studies. Applied to the estimated 1956 nonfarm population of 104 million, this meant a total nonfarm labor force of 49 million in that year. Besides the 24 million office and factory workers, 20 million more were accounted for in such categories as handicrafts, military forces, and services. The remaining 5 million probably were unemployed or casual laborers.

In the early years of the Second Five Year Plan, the population increment annually reaching employment age will be about 5 million or 6 million. Assuming a participation rate of 70 percent for this age group, nearly 20 million jobs will be required during the plan period. Moreover, this increase in job requirements is in addition to the need for employment of those at present unemployed or underemployed. Toward the end of the Second Five Year Plan and to a much greater extent in the Third Five Year Plan, about half of the annual population increments of 15 million or more will be seeking employment in the labor market.

The only employment goal expressed in the Second Five Year Plan is to increase factory and office employment by 6 million to 7 million persons. <sup>45/</sup> Although this goal was fixed before the recent emphasis on small- and medium-size industrial installations, rough estimates indicate that this new program can provide at best no more than 1 million additional jobs during the period of the Second Five Year Plan. Another major source of nonfarm employment, the handicraft industry, is not encouraged by the Chinese Communists, for the reason that expansion of handicrafts would enlarge the demand for scarce agricultural raw materials and interfere with planned production in the modern industrial sector. It is probable that nearly half of the 20 million entering the labor force during the Second Five Year Plan will be underemployed in agriculture, if not unemployed.

### C. Investment Allocation.

The Chinese themselves have viewed their present problems primarily as a question of investment allocation -- that is, the share of total output devoted to investment and the allocation of investment among various sectors.

\* For the sector distribution of this labor force for the years 1952 and 1956, see Table 17, Appendix A, p. 65, below.

## S-E-C-R-E-T

At the Eighth Party Congress and thereafter, a number of speeches and articles took issue with the official Communist doctrine of the overwhelming priority of industry, especially heavy industrial development, in Chinese Communist planning. The three general themes of those advancing such views follow. First, the ratio of "accumulation" (the Communist term for net investment) to total output in the First Five Year Plan period was about the maximum that could be achieved in China. Although this rate of investment (about 22 percent) was lower than that attained in the USSR during its several Five Year Plans (about 25 percent), it could not be raised, because of the consumption requirements of China's enormous population. <sup>46/</sup> Second, the share of industrial investment allocated to light industry in the First Five Year Plan was too low, accounting for less than 12 percent of total industrial investment. <sup>47/</sup> This pattern of allocation was preventing increases in light industrial output which would in turn provide investment funds for heavy industry by increasing budget income from the state's light industry enterprises and from indirect taxes. The small share of investment in light industry and existing price and trade policies had resulted in production by light industry of poor-quality goods. By improving the quality and variety of the products of light industry, it was argued, living standards could be raised and exports of these commodities could be greatly increased. Third, the rate of increase in agricultural output was too small in relation to increases in the nonagricultural sectors, causing consumption to rise too slowly in relation to investment. Moreover, peasant consumption was increasing much more slowly than wages of employees in the nonagricultural sector, and prices paid for agricultural products were too low to support an increasing peasant standard of living and to provide incentives for increasing agricultural production.

These criticisms were directed at some of the major features of Communist China's investment program during the First Five Year Plan. For the 5-year period 1953-57, gross domestic investment at current prices averaged about 17 percent\* of GNP, a percentage which is roughly comparable with that achieved in recent years in the US. The allocations of investment expenditures to heavy industry were 30 percent of total investment in 1952 and rose steadily each year up to nearly 50 percent in 1957. The average annual rate of increase in investment in heavy industry from 1953 through 1957 was nearly 24 percent as against an average annual rate of increase in other investment of a little less than 10 percent.

\* This estimate is based on a study of China's national accounts. The percentage given in Chinese Communist statistics is larger mainly because a number of expenditures and reserve funds which they include in the "accumulation" figure are not considered to be investment as defined in the West.

S-E-C-R-E-T

## S-E-C-R-E-T

It is noteworthy that this increase in investment in heavy industry has taken place simultaneously with a modest increase in over-all per capita consumption and in general without serious strain on the economy. The difficulties that appeared in 1956 and led to a reduction of investment in 1957 resulted from investment (and current production) outstripping the supply of industrial materials (and inventories of all kinds) rather than an excess of investment at the expense of consumption. Corrective measures were taken in 1957 to raise investment in raw materials industries relative to processing industries. Moreover, the allocation of nearly nine-tenths of total industrial investment to heavy industry in the First Five Year Plan period was not excessive in the light of China's needs. Even with the modest development of the light industry sector during the period 1953-57, most of the major consumer goods industries were producing well below capacity in 1957 because of the shortage of raw material supplies from the agricultural sector.

Thus the critics of Communist China's investment program sensed a basic problem in the economy, but their analysis was only partly correct. Only the third of the criticisms cited above approaches the essential problem. This problem is not that total investment has been necessarily too high but that the burden of saving for the investment has been too heavily concentrated on the agricultural population, whose per capita consumption probably rose little if at all during the First Five Year Plan. The basic question is whether the investment, management, and incentives in agriculture are adequate to produce sufficient food and fibers for a rapidly growing population and in addition to provide a surplus to support investment programs in other sectors of the economy.

D. Agriculture.

1. Investment.

Agricultural prospects hinge on two kinds of factors: first, the physical potentiality of the land and the cost of exploiting this potential, and, second, the impact of socialization and other Communist policies on peasant incentives and hence on productivity.

Investment planned for agriculture for 1958-62 represents a larger share of planned total output and of total investment than in the preceding 5 years. State investment will concentrate on large-scale water conservancy projects which will not contribute substantially to production until after 1962. Investment by the peasants themselves will center about small-scale irrigation projects which will have a more immediate effect on production. As nearly as one can tell, the target for expanding irrigated (and thus multiple-cropping) area is about the maximum that can be achieved. In addition to the direct investments in



## S-E-C-R-E-T

agriculture, a major effort to increase production of chemical fertilizer will contribute materially to agricultural output. In this case, the revised 1962 production target of more than 10 million tons of chemical fertilizer appears to be in excess of what is feasible.

Thus it appears that the Second Five Year Plan calls for doing nearly all that can be done to increase agricultural output. The success of the plan, however, is contingent on the cooperation of the peasants. Of an estimated total investment of 33 billion yuan for agriculture, forestry, and water conservancy, it is estimated that more than half is to come from the collectives' and cooperatives' income -- that is, out of the peasants' own income.\* In practice it may prove impossible to exact such a large amount of forced savings from the peasants, in which case the discrepancy would have to be made good by the state in the form of loans or subsidies.

Most of the funds for state investment also come from the agricultural population through the mechanism of state procurement at fixed low prices. The impact of these policies is reflected in peasant income.

## 2. Trends in Worker-Peasant Income Differentials.

Trends in worker-peasant per capita incomes, measured in constant prices, for 1952, 1957, and 1962 are presented in the following tabulation (in yuan per year):

	<u>1952</u>	<u>1957</u>	<u>1962</u>
(a) Peasant**	77.4	83.3	89.8
(b) Worker**	148.3	189.5	236.8
Ratio of (a) to (b)	1 to 1.9	1 to 2.3	1 to 2.6

These estimates cannot be considered an exact measurement of comparative consumption, because they do not take into account the higher prices (25 to 30 percent) of commodities in cities, the different consumption patterns in urban and rural areas, and the additional expenses incurred by workers for housing, utilities, and transportation. Nevertheless,

\* See Table 14, Appendix A, p. 63, below.

\*\* Worker income is derived from the total wage bill, excluding fringe benefits; peasant income is derived from estimates of both cash income and farm home consumption.

## S-E-C-R-E-T

they do indicate that the income differential, already substantial in 1952, was even greater in 1957 and that it will become even more pronounced during the period of the Second Five Year Plan.

The Chinese Communists themselves have expressed concern over this large disparity between worker and peasant incomes, especially as it affects peasant morale and productivity and stimulates peasant migrations into the already overcrowded cities. The regime has taken certain measures, mainly in 1956-57, which seek to narrow the differential. Procurement prices for farm products have been raised on the average relative to retail prices. According to official announcements, the index of state procurement prices in 1956 was 16.6 percent higher than in 1952. <sup>48/</sup> On the other hand, average retail prices of industrial products sold in rural areas were claimed to be approximately the same in the 2 years in question. Other measures to stimulate production were directives to the cooperatives to allow more time and labor points for subsidiary industry and to increase from 5 to 10 percent the proportion of land held in individual plots. Finally, recent directives on wages of unskilled workers attempt to meet the problem in a reverse manner by lowering the initial wages for city jobs for which the peasants might qualify.

These measures apparently had little net effect on narrowing the differential in 1956-57, and estimates for 1962 indicate that the discrepancy between worker and peasant incomes will increase. A solution to this problem would be simply to increase significantly the prices paid for agricultural goods. Then, however, a way would have to be found to lower urban incomes, or over-all investment would have to be reduced.

### 3. Collectivization.

Incentives depend not only on income but also on the way in which incomes are tied to individual performance. Collectivization removes land and capital from individual ownership and responsibility. Wherever it has been tried, it has had a negative effect to one degree or another on agricultural productivity. Whether this will happen to a significant extent in China remains to be seen. In the USSR a large export surplus and an initially adequate diet provided a cushion for the reduction in output that accompanied collectivization. A comparable reduction in China, where a large portion of the population is on the edge of malnutrition, would be much more serious.

China's collectivization experience is still too short to provide the basis for judging its ultimate success. Experience to date\*

\* See I, p. 7, above.

## S-E-C-R-E-T

provides both favorable and unfavorable signs. Over-all agricultural output has increased somewhat. Although grain procurement declined in 2 successive years, 1955 and 1956, it probably rose again in 1957. There was a precipitous decline in the number of hogs in 1956 but a recovery in 1957 when hogs were returned from the collectives to the individual peasants. On the other hand, the downward trend in draft animals continued, and because of peasant dissatisfaction with collectivization, there has been a large influx of peasants into cities.

In general, the Chinese Communist leadership has displayed considerable flexibility in adjusting to problems arising from collectivization, as illustrated by the increase in the size of the peasant's private plot in 1957, by increases in procurement prices during 1956 and 1957, and by the return of hogs to private care in 1956. Flexibility is limited, however, by the overriding procurement objectives of the state.

This limitation is illustrated by the abortive "free market" policy introduced at the Eighth Congress of the Chinese Communist Party in September 1956. <sup>49/</sup> By this time, almost all peasants' sales of major agricultural products were restricted to the procurement and purchasing agencies of the state. In an attempt to stimulate the lagging production of subsidiary agricultural commodities, a state-regulated free market was to be opened for such secondary agricultural products as poultry, vegetables, farm handicrafts, and fruit and aquatic products from scattered sources. In effect, this was merely a recognition of a traditional, long-existing marketing system which up to that time the Chinese Communists had not brought under state control.

By November 1956 a free market had been established in nine provinces, and, as predicted, the supply of vegetables, poultry, fish, and handicraft products had increased rapidly in response to demand and favorable prices. In spite of controls, however, alleged abuses of the free market system soon spread. <sup>50/</sup> Commodities on the lists of goods restricted to planned state procurement and unified purchase, especially grains and edible oils, found their way into the free market before the state purchasing quotas had been fulfilled. Although production of grain in 1956-57 was reported as 5 percent above that of the previous grain year, purchases of grain by the state decreased by 5 percent. One of the reasons why peasants left the cooperative farms was to engage in full-time commercial activity. In some cases, whole cooperatives apparently collaborated in selling their produce before fulfilling state quotas. Prices of some products soared, and a black market flourished.

In October 1957, all sales of major agricultural commodities except to state trading agencies were prohibited, and in addition the list of commodities which could be sold in the free market was greatly

S-E-C-R-E-T

## S-E-C-R-E-T

reduced. Even these items may be brought under government procurement and sale by local governments in those areas where particular items are produced in large quantities. Thus the end result of the free market experiment was to subject even more of agricultural production to the state's procurement and pricing policies.

E. Large Versus Small Industrial Units.

During the First Five Year Plan, Communist China's industrial investment program stressed capital-intensive projects which failed to make optimum use of the vast labor existing in China. The choice of capital-intensive technology has two consequences that are serious in the light of Communist China's problems and objectives: (1) output gains probably are not so large, particularly in the short run, as they could be under a labor-intensive investment program; and (2) a considerable part of the increase in labor force becomes unemployed or is pushed back into agriculture where low per capita income is already a problem. With increasing growth of the labor force over the next decade, it will become even more urgent to provide productive employment outside of agriculture. Chinese Communist plans for developing small-scale plants indicate an awareness of this problem. On the basis of available information, however, the scope of these plans does not appear to be extensive enough to contribute significantly to a solution of the employment problem. Moreover, the planning and supervision of many small-scale plants is clearly more difficult than would be the case with a relatively few large plants.

The industrial planners of Communist China entered upon the First Five Year Plan with a predilection for large-scale, integrated industrial plants like the new iron and steel combines under construction at Wuhan and Pao-t'ou. During 1957, however, a combination of factors relating to the allocation of resources influenced the Chinese Communist economic planners to consider favorably the relative economy of investment in small- and medium-size heavy industry installations and the expansion of existing plants in such old manufacturing centers as Shanghai and Tientsin. Such plants would require more laborers than large-scale plants but would permit exploitation of additional natural resources, reduce transportation costs of raw materials, utilize domestically produced equipment, and enable more rapid completion of construction.

During the course of the First Five Year Plan the Chinese Communist planners learned from experience that labor costs in construction are relatively low and that the costs of imported designs and heavy automatic equipment are relatively high. Thus in some industries in China the investment cost per unit of capacity of a small- or medium-size installation may be substantially lower than the cost of a large

## S-E-C-R-E-T

one. On the other hand, this initial advantage may be somewhat counter-balanced by a higher production cost per unit of output. The following figures, which were taken from a Chinese Communist review of coal mine investment and production costs, 51/ illustrate these points:

<u>Mine Capacity (Tons per Year)</u>	<u>Category</u>	<u>Investment Cost (Yuan per Ton of Capacity)</u>	<u>Production Cost (Yuan per Ton)</u>	<u>Time Required to Reach Design Capacity (Years)</u>
Below 150,000	Small	18.0	11.7	3
210,000 to 300,000	Small	24.2	11.7	5
450,000 to 600,000	Medium	27.6	11.17	7
600,000 to 900,000	Large	28.0	9.75	8

Another advantage of the small- and medium-size mines is that they can help meet the growing shortage of coal for household consumption, at the same time reducing the load on the railroad system and freeing the large mines to produce for industrial demand. Also, China is able to provide production equipment for the small- and medium-size mines from domestic resources, thus reducing the pressure on its limited holdings of foreign exchange. As a result of all of these considerations, it is now planned to have small mines (with an annual production capacity of 300,000 tons or less) account for well over one-third of the new capacity to be added to the coal industry during the Second Five Year Plan. 52/

In the iron and steel industry it has also been found that limited increases in productive capacity can be realized by improving some existing small plants and building similar ones for less cost per ton of capacity than would be involved in building a large integrated plant. The small-plant program will alleviate local shortages of iron and steel, will permit exploitation of a number of scattered small iron deposits, and will enable the large mills to make economies by mass-producing for large consuming industries. The original small-plant program called for the construction of about 18 plants at widely dispersed locations with a combined production of 1.6 million tons of steel and for a total cost of about 600 million to 700 million yuan. 53/ By comparison, a large iron and steel plant with an annual production of 1.5 million tons of steel has required more than 1 billion yuan in capital investment. It is expected that these small plants will contribute more than one-fourth of the new capacity to be added to the steel industry during the Second Five Year Plan.

This trend toward economizing on capital investment, with emphasis shifting to smaller, less mechanized plant facilities, has

## S-E-C-R-E-T

characterized planning in other heavy industries as well. Several non-ferrous metals processing plants have been planned to utilize less mechanized units, more domestically produced equipment, and more labor-intensive processes, with the result that the plants can be constructed more quickly. A similar program is under way for the chemical fertilizer industry, with numerous medium- and small-scale plants planned for construction within a relatively short period of time.

F. Prospects.

Whether or not the agricultural policies of Communist China will lead to serious difficulties is difficult to predict. China cannot afford a decline in agricultural production, and, in this sense, some of these policies might be considered risky in that they provide relatively low incentives for the peasants. The Chinese Communists are following the Soviet example in collectivization and in financing investment by savings extorted primarily from the rural population. They are proceeding, however, without the margin of diet and production of surplus food that the USSR had and in the face of a rapid and possibly accelerating growth in population.

The Chinese Communists can, of course, modify their program to counteract the more pressing difficulties should these policies prove detrimental to agricultural production. Peasant incomes could be raised and urban incomes reduced while leaving investment intact, although in practice this procedure probably would be both administratively and politically difficult. A safety valve is available in foreign trade in that agricultural exports can be reduced or agricultural imports increased, although this latter expedient would likely be at the expense of imports of investment goods and would thus affect to some extent the planned level of investment. Another measure which the Chinese Communists might adopt, and one which appears to be the most promising, is substantially increasing imports of chemical fertilizers. These imports would tend to pay for themselves through expanded agricultural production, which in turn would both increase the domestic food supply and permit increased agricultural exports.

S-E-C-R-E-T

APPENDIX A

STATISTICAL TABLES

- 45 -

S-E-C-R-E-T

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S-E-C-R-E-T

Table 2

Communist China: Gross National Product and Index of Per Capita Gross National Product  
1952-57

Billion Yuan in 1956 Prices

Category	1952	1953	1954	1955	1956	1957
Consumption Expenditures						
Retail Sales and Nonagricultural Services	29.94	34.05	37.74	40.24	46.19	46.95
Imputed Farm Home Consumption and Agricultural Purchases of Services	27.75	28.59	26.84	28.94	31.30	30.86
Total consumption	<u>57.69</u>	<u>62.64</u>	<u>64.58</u>	<u>69.18</u>	<u>77.49</u>	<u>77.81</u>
Government Purchases	9.42	11.19	11.14	11.32	11.80	10.87
Net Foreign Investment	-0.77	-0.50	-0.20	-0.76	+0.47	+0.56
Gross Domestic Investment	9.52	12.08	14.53	14.23	16.82	22.75
Total gross national product	<u>75.86</u>	<u>85.41</u>	<u>90.05</u>	<u>93.97</u>	<u>106.58</u>	<u>111.99</u>
Index of gross national product (1952 = 100)	100	113	119	124	140	148
Index of per capita gross national product (1952 = 100) a/	100	110	115	117	130	134

a. Growth in population is calculated at an annual average rate of 2 percent year.



S-E-C-R-E-T

Table 3

Communist China: Gross National Product and Percentage Distribution  
1952-57

Category	1952	1953	1954	1955	1956	1957
	Billion Yuan in Current Market Prices					
Personal Consumption Expenditures	50.77	59.73	63.07	67.50	77.49	79.92
Gross Domestic Investment	10.09	13.46	15.83	14.95	16.82	22.84
Net Foreign Investment	-0.77	-0.85	-0.15	-0.92	-0.47	0.59
Government Purchases of Goods and Services	7.92	10.20	10.40	10.73	11.80	11.18
Gross national product	<u>68.01</u>	<u>82.54</u>	<u>89.15</u>	<u>92.26</u>	<u>106.58</u>	<u>114.53</u>
	Percentage Distribution					
Personal Consumption Expenditures	74.7	72.4	70.7	73.2	72.7	69.8
Gross Domestic Investment	14.8	16.3	17.8	16.2	15.8	19.9
Net Foreign Investment	-1.1	-1.0	-0.2	-1.0	0.4	0.5
Government Purchases of Goods and Services	11.6	12.3	11.7	11.6	11.1	9.8
Gross national product	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

S-E-C-R-E-T

S-E-C-R-E-T

Table 4

Communist China: Income Originating by Economic Sector  
1952-57

Economic Sector	Billion Yuan in 1956 Prices					
	1952 <sup>a/</sup>	1953	1954	1955	1956	1957
Agriculture b/	42.73	43.3	41.9	44.9	47.0	48.3
Industry (including individual handicraft)	9.61	11.7	13.8	14.6	18.7	20.1
Modern Transportation and Communications	1.85	2.5	3.0	3.3	4.0	4.4
Trade, Native Transportation, and Miscellaneous Business Services	7.33	8.4	9.1	9.9	10.8	11.5
Construction	1.73	2.8	3.1	3.4	4.6	4.3
Government	4.18	4.3	4.2	4.3	4.5	4.4
Consumer Services and House Rent b/	6.29	7.2	8.0	8.6	9.5	10.2
Total gross national product at factor cost	<u>73.72</u>	<u>80.2</u>	<u>83.1</u>	<u>89.0</u>	<u>99.1</u>	<u>103.2</u>
Estimated value of indirect taxes	4.34	5.3	5.9	6.5	7.5	8.2
Gross national product at 1956 market prices	<u>78.06</u>	<u>85.5</u>	<u>89.0</u>	<u>95.5</u>	<u>106.6</u>	<u>111.4</u>
Index of gross national product at factor prices (1952 = 100)	100	109	113	121	134	140
Index of gross national product at market prices (1952 = 100)	100	110	114	122	137	143

a. Figures for 1952 are carried to two places for use with indexes.

b. Imputed agricultural services are included under Consumer Services and House Rent.

S-E-C-R-E-T

## S-E-C-R-E-T

Table 5

Communist China: Estimated Production of Selected Agricultural Commodities  
and Aquatic Products  
1952-62

Commodity	Unit	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	
							(First Five Year Plan Goal)						
Rice	Million metric tons	75	76	71	78	82	82	85	88	91	94	97	99
Wheat	Million metric tons	22	22	23	23	25	24	25	26	27	27	28	28
Other grains	Million metric tons	53	52	49	55	53	55	53	55	56	58	60	62
Tubers (grain equivalent)	Million metric tons	18	19	17	19	22	21	22	23	24	24	25	26
Total grains	Million metric tons	168	169	160	175	182	182	185	192	198	203	210	215 a/
Soybeans	Million metric tons	9.5	9.5	9.1	9.1	10.2	11	9.7	11	11.1	11.3	11.5	12.5 b/
Sugar cane	Million metric tons	7.1	7.2	8.6	8.1	8.7	13.2	10.8	11.6	12.4	13.3	14.1	14.9
Sugar beets	Thousand metric tons	479	505	989	1,596	1,644	2,135	1,700	1,967	2,234	2,502	2,769	3,036
Peanuts	Thousand metric tons	2,316	2,127	2,767	2,926	3,337	N.A.	3,473	3,577	3,684	3,795	3,909	4,026
Rape seed	Thousand metric tons	932	879	878	895	921	1,000	1,000	1,224	1,260	1,298	1,337	1,377
Sesame seed	Thousand metric tons	525	428	330	367	390	N.A.	413	436	459	482	505	525
Tung oil	Thousand metric tons	N.A.	N.A.	85	85	90	N.A.	100	105	110	115	120	125
Tea	Thousand metric tons	82	85	92	108	120	112	125	131	142	153	164	175
Meat	Thousand metric tons	5,771	6,377	6,817	6,265	5,944	N.A.	7,713	8,195	8,671	9,153	9,634	10,110
Poultry	Thousand metric tons	338	345	352	360	368	N.A.	376	385	392	401	410	417
Aquatic products	Thousand metric tons	1,663	1,900	2,294	2,518	2,640	2,807	2,800	3,167	3,514	3,870	4,227	4,584
Eggs	Thousand metric tons	921	941	960	981	1,000	N.A.	1,021	1,043	1,065	1,087	1,110	1,132
Cotton (ginned)	Thousand metric tons	1,305	1,175	1,065	1,518	1,445	1,635	1,640	1,635	1,726	1,817	1,908	2,000 a/
Wool (grease)	Thousand metric tons	34	34	35	36	37	N.A.	38	38	39	40	41	41
Domestic silk (cocoon)	Thousand metric tons	62	59	65	67	72	93	80	N.A.	N.A.	N.A.	N.A.	N.A.
Wild silk (cocoon)	Thousand metric tons	61	12	26	64	62	62	75	N.A.	N.A.	N.A.	N.A.	N.A.
Tobacco (flue-cured)	Thousand metric tons	222	213	232	298	399	390	350	390	431	471	512	552
Cattle (including buffalo)	Million head	56.6	60.1	63.6	66.0	66.8	73.6	73.6	76.9	80.1	83.5	86.7	90.0 b/
Sheep and goats	Million head	61.8	72.0	81.3	84.2	92.1	113.0	106.0	114.8	123.6	132.4	141.2	150.0 b/
Hogs	Million head	88.8	98.1	101.7	87.9	84.0	138.3	114.0	123.2	132.4	141.6	150.8	160.0 a/
Donkeys, horses, and mules	Million head	19.5	19.6	20.4	21.4	20.9	24.3	24.2	25.4	26.4	27.5	28.7	29.9

a. Estimate differs from Chinese Communist goal.

b. Estimate agrees with Chinese Communist goal.

Table 6

Communist China: Estimated Production of Selected Commodities  
1952-62

Commodity	Unit	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	
							(First Five Year Plan Goal)						
Pig iron	Thousand metric tons	1,900	2,175	2,962	3,630	4,777	4,674	5,847	8,000	9,000	10,000	11,000	12,000
Crude steel	Thousand metric tons	1,349	1,774	2,225	2,853	4,465	4,120	5,235	7,000	8,000	9,000	10,000	12,000 a/*
Finished steel	Thousand metric tons	1,110	1,487	1,740	2,220	3,921	3,045	4,478	4,900	5,500	5,800	6,100	9,000
Coke	Thousand metric tons	1,885	2,375	4,500	5,500	5,570	6,685	6,685	7,870	8,700	9,500	10,400	11,000
Iron ore (50 percent Fe)	Thousand metric tons	3,900	4,800	6,200	7,614	12,890	N.A.	14,900	16,900	18,745	21,370	25,170	26,270
Tungsten (concentrate, 68 percent WO <sub>3</sub> )	Thousand metric tons	15.8	17.4	19.0	20.5	22.1	N.A.	23.7	N.A.	N.A.	N.A.	N.A.	N.A.
Manganese ore (+ 35 percent Mn)	Thousand metric tons	123.8	134.7	168.4	196	400	N.A.	469	550	590	620	650	690
Molybdenum (metallic equivalent of MoS <sub>2</sub> )	Thousand metric tons	0.550	0.575	0.575	0.600	1.5	N.A.	1.6	1.65	N.A.	N.A.	N.A.	3.0
Copper (refined)	Thousand metric tons	8.0	10.9	12.6	12.9	13.2	N.A.	13.6	17.7	23	30	38	50
Tin	Thousand metric tons	9.8	11	13	16	19	N.A.	21	22	24	26	28	30
Lead	Thousand metric tons	7	12.3	22.2	22.5	22.8	N.A.	23.1	27	32	37	43	50
Zinc	Thousand metric tons	3.5	5.2	6.8	7.9	8.3	N.A.	11	15	20	27	37	50
Antimony	Thousand metric tons	10	11	11	11	11	N.A.	11	11	11	11	11	11
Mercury	Flasks of 76 pounds	2,600	4,500	7,800	13,000	26,000	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Aluminum	Thousand metric tons	0	0	2	10	15	N.A.	40	50	60	80	90	100 e/
Fluorspar	Thousand metric tons	120	127	134	142	150	N.A.	160	170	180	190	200	210
Electric power	Billion kilowatt-hours	7.3	9.2	11.0	13.4	16.6	15.9	19.03	22.45	26	31	37	44 g/
Coal b/	Million metric tons	63.5	66.6	79.5	93.6	105.9	112.985	122.44	129 to 134	142 to 150	157 to 168	173 to 189	190 to 210 a/
Crude oil													
Natural	Thousand metric tons	182	298	409	476	633	N.A.	863	1,100	1,450	1,800	2,000	2,300
Synthetic	Thousand metric tons	254	324	380	490	530	N.A.	580	600	650	700	1,000	1,200
Total	Thousand metric tons	436	622	789	966	1,163	2,012	1,443	1,700	2,100	2,500	3,000	3,500 c/

\* Footnotes for Table 6 follow on p. 55.

## S-E-C-R-E-T

Table 6

Communist China: Estimated Production of Selected Commodities  
1952-62  
(Continued)

Commodity	Unit	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	
							(First Five Year Plan Goal)						
Finished petroleum products													
Gasoline	Thousand metric tons	126	166	194	223	286	N.A.	319	340	430	520	600	700
Kerosine	Thousand metric tons	48	72	86	103	129	N.A.	152	200	250	300	350	400
Diesel fuel	Thousand metric tons	20	33	39	47	56	N.A.	63	85	100	120	150	180
Lubricating oil	Thousand metric tons	13	22	27	32	39	N.A.	43	55	72	90	100	120
Residuals (fuel oil, asphalt, coke, and other residuals)	Thousand metric tons	295	415	502	635	699	N.A.	782	830	1,000	1,200	1,400	1,700
Total	Thousand metric tons	<u>502</u>	<u>708</u>	<u>848</u>	<u>1,040</u>	<u>1,202</u>	N.A.	<u>1,329</u>	<u>1,510</u>	<u>1,852</u>	<u>2,230</u>	<u>2,600</u>	<u>3,200</u>
Turbines	Thousand Kilowatts	6.7	15	45	90	200	164	240	336	470	658	921	1,289 c/
Batteries	Metric tons	9	10	13	15	17	N.A.	21	29	30	36	43	52
Electric lamps	Million units	29	32	34	36	39	N.A.	43	52	62	74	89	107
Electric wire and cable	Million US \$	22.9	25.4	30.7	64.1	90.4	N.A.	117.2	164	230	322	451	631
Electric motors	Thousand Kilowatts	639	902	713	524	1,068	1,048	1,368	1,751	2,451	3,431	4,803	6,724
Electric generators	Thousand Kilowatts	30.0	59.4	61.8	108.0	287	227	284	420	588	823	1,152	1,400
Transformers	Thousand kilo-volt-amperes	1,167	1,961	1,961	2,079	2,846	2,610	3,598	5,037	7,052	9,873	13,822	19,351
Switchgear and switchboard apparatus	Thousand US \$	3,600	5,600	6,100	6,400	10,034	N.A.	12,022	16,830	23,562	32,987	46,182	64,655
Radio receivers	Thousand units	129	175	225	275	500	N.A.	670	993	1,191	1,429	1,714	2,056
Telephone handsets	Thousand units	64	135	284	600	690	N.A.	793	952	1,142	1,370	1,644	1,973
Telephone switchboards	Thousand lines	31	36	42	48	57	N.A.	62	74	89	107	128	154
Textile machinery													
Spindles	Thousand units	250	286	400	500	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Looms	Thousand units	6	8.5	13	8	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Machine tools	Thousand units	13.7	20.5	15.9	13.7	21.7	12.7	24.8	27	33	40	50	60 a/
	Thousand metric tons	16.3	24.0	23.5	23.0	26	29.3	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

S-E-C-R-E-T

Table 6

Communist China: Estimated Production of Selected Commodities  
1952-62  
(Continued)

Commodity	Unit	1952	1953	1954	1955	1956	1957		1958	1959	1960	1961	1962
							(First Five Year Plan Goal)						
Agricultural equipment (new type only)	Thousand units	300	343	429	1,300	2,100	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Mainline locomotives	Units	20	10	52	98	184	200	170	380	330	320	450	460
Freight cars	Units	5,792	4,500	5,445	9,258	6,387	8,500	6,000	10,000	10,000	11,000	11,000	12,000
Passenger cars	Units	6	50	100	200	300	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Trucks	Units	0	0	0	0	1,654	4,000	7,000	13,000	15,000	19,000	26,000	32,000
Three-wheel trucks	Units	0	0	0	0	0	N.A.	50	500	500	1,000	1,500	2,500
Tractors	Units	0	0	0	0	0	N.A.	0	150	1,500	3,000	4,500	5,500
Naval vessels	Thousand standard displace- ment tons	1	3	3	5	13	N.A.	20	26	30	34	37	40
Merchant vessels	Thousand gross reg- ister tons	7	11	17	22	15	N.A.	21	37	56	78	100	120
Inland vessels													
Self-propelled	Thousand horsepower	4	4	14	26	24	N.A.	29	40	55	66	75	84
Non-self-propelled	Deadweight tons	14	1	26	51	93	N.A.	117	135	148	157	163	170
Fishing vessels	Thousand gross reg- ister tons	0	0	3	6	0	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Aircraft, fighter	Units	0	0	0	0	0	N.A.	0	60	90	100	100	100
Cement	Million metric tons	2.9	3.9	4.6	4.5	6.4	6.0	6.69	7.8	8.8	9.9	11.1	12.5 <sup>a/</sup>
Timber													
Industrial production	Thousand cubic meters	7,611	9,643	10,906	12,501	10,751	N.A.	15,931	N.A.	N.A.	N.A.	N.A.	25,000
Total production	Thousand cubic meters	10,020	14,171	17,855	20,476	20,558	20,000	26,580	N.A.	N.A.	N.A.	N.A.	43,000 <sup>c/</sup>

S-E-C-R-E-T

## S-E-C-R-E-T

Table 6

Communist China: Estimated Production of Selected Commodities  
1952-62  
(Continued)

Commodity	Unit	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	
							(First Five Year Plan Goal)						
Ammunition (all types)	Thousand metric tons	54	54	22	23	24	N.A.	25	26	28	30	30	30
Artillery	Thousand pieces	1.0	1.2	1.4	1.6	1.6	N.A.	0.6	0.6	0.6	0.8	0.8	0.8
Mortars	Thousand pieces	5	6	7	8	3	N.A.	3	3	3	3	3	3
Machineguns	Thousand pieces	4	6	10	15	15	N.A.	6	6	6	6	6	6
Small arms	Thousand pieces	200	230	260	260	150	N.A.	150	150	150	150	150	150
Rocket launchers	Thousand units	8	9	5	5	2	N.A.	2	2	2	2	2	2
Recoilless rifles	Thousand units	3	3	2	2.4	2.4	N.A.	2	2	2	2	2	2
Chemical fertilizer	Thousand metric tons	194	264	354	426	663	N.A.	800	1,180	1,870	3,200	4,600	6,000 c/
Nitrogen fertilizer	Thousand metric tons	194	264	343	414	586	578	680	930	1,450	2,500	3,400	4,000
Phosphorous fertilizer	Thousand metric tons	0	0	11	12	77	N.A.	120	250	420	700	1,200	2,000
Synthetic ammonia	Thousand metric tons	31.9	41	57	68	105	N.A.	123	174	280	501	678	798
Sulfuric acid	Thousand metric tons	190	259	356	388	500	N.A.	611	737	1,200	2,000	2,900	3,400
Nitric acid	Thousand metric tons	18.4	27	45	69	101	N.A.	110	196	270	417	461	554
Calcium carbide	Thousand metric tons	12	14	17	30	33	N.A.	43	69	84	94	100	125
Soda ash	Thousand metric tons	192	223	310	405	485	476	478	515	575	650	750	850
Caustic soda	Thousand metric tons	79	89.3	116	137	156.4	154	178	205	230	260	300	340
Chlorine	Thousand metric tons	22	25	32	37	41	N.A.	46	52	57	62	70	75
Refined benzol	Thousand metric tons	19	23	29	36	36	N.A.	44	51	54	57	60	65
Toluol	Thousand metric tons	2.2	2.8	3.5	4.2	4.3	N.A.	5.1	6.1	6.4	6.8	7.1	7.3
Refined naphthalene	Thousand metric tons	4	5	7	8	8	N.A.	10	12	13	13	14	14
Refined phenol	Thousand metric tons	0.4	0.5	0.6	0.8	0.8	N.A.	0.9	1.1	1.2	1.2	1.3	1.3
Penicillin	Billion units	45.9	578.3	1,973.7	6,316	12,980	8,700	14,800	N.A.	N.A.	N.A.	N.A.	N.A.

Table 6

Communist China: Estimated Production of Selected Commodities  
1952-62  
(Continued)

Commodity	Unit	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	
							(First Five Year Plan Goal)						
Chloromycetin (syntomycin)	Metric tons	0	0	0	3.0	8.5	6.0	15.0	N.A.	N.A.	N.A.	N.A.	N.A.
Sulpha drugs	Metric tons	80.6	300	806	887	1,475	844	1,650	N.A.	N.A.	N.A.	N.A.	N.A.
Motor vehicle tires	Thousand units	417.2	488.1	701.3	593.2	761.4	760.0	873.0	1,000	1,200	1,500	1,750	2,000
Shoes, rubber	Million pairs	60.1	70.3	78.0	89.7	93.0	109.3	136	143	150	157	165	174
Cotton yarn	Thousand metric tons	656	745	834	720	952	907.1	837.9	944	1,036	1,137	1,248	1,370 c/
Native Cotton cloth	Thousand metric tons	140	N.A.	N.A.	N.A.	N.A.	80	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Factory Handicraft d/	Million meters	3,017	3,643	4,135	3,485	4,600	N.A.	4,000	4,508	4,912	5,353	5,833	6,354 a/
Wool yarn	Thousand metric tons	756	1,359	1,406	1,025	1,261	N.A.	1,000	1,127	1,228	1,338	1,458	1,589 b/
Wool cloth	Million meters	4.4	5.5	5.8	10.6	15.7	N.A.	18.8	20.7	22.8	25.0	27.5	30.3
Silk cloth	Million meters	4.0	5.0	5.2	9.6	14.3	7.5	17.1	18.7	20.6	22.6	24.9	27.4
Gunny bags	Million bags	38.8	44.1	47.1	62.5	80.3	69.2	138.7	N.A.	N.A.	N.A.	N.A.	N.A.
Cigarettes	Million cases	67.4	60.4	60.0	53.4	78.7	68.0	78.14	82.1	86.2	90.5	95.0	99.8
Matches	Billion boxes	2,650	3,552	3,728	3,567	3,916	4.7	4,326	4.5	4.8	5.0	5.2	5.5
Machine-made paper	Thousand metric tons	9.11	8.02	10.35	11.188	12.025	12.7	12.7	13.6	14.6	15.6	16.7	17.9
Newsprint	Thousand metric tons	372	427	556	589	746	655	890	940	1,056	1,187	1,334	1,500 b/
Native-made paper	Thousand metric tons	47	61	79	120	N.A.	N.A.	N.A.	188	211	237	267	300
Wheat flour	Thousand metric tons	167	183	290	256	N.A.	237	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Edible sugar	Thousand metric tons	2,995	3,390	3,724	4,530	5,020	4,670	5,030	5,220	5,420	5,620	5,830	6,060
Industrial production	Thousand metric tons	249	298	347	410	518	686	558	656	N.A.	N.A.	N.A.	1,194
Total production	Thousand metric tons	451	487	597	726	807	1,100	850	1,023	1,160	1,330	1,530	1,750 c/



## S-E-C-R-E-T

Table 6

Communist China: Estimated Production of Selected Commodities  
1952-62  
(Continued)

Commodity	Unit	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	
							(First Five Year Plan Goal)						
Edible vegetable oils													
Industrial production	Thousand metric tons	724	767	944	898	862	1,552	881	1,028	N.A.	N.A.	N.A.	2,530
Total production	Thousand metric tons	983	1,025	1,260	1,142	1,176	1,794	1,450	1,690	1,960	2,290	2,660	3,100
Salt													
Industrial production	Thousand metric tons	3,460	2,683	3,300	5,895	3,832	5,932	6,300	N.A.	N.A.	N.A.	N.A.	8,600
Total production	Thousand metric tons	4,945	3,783	4,700	7,571	4,921	7,554	8,260	8,500	9,000	9,600	10,200	10,500

- a. Estimate agrees with Chinese Communist goal.  
b. Excluding handicraft production.  
c. Estimate differs from Chinese Communist goal.  
d. Including homespun 1952 through 1957.

Table 7

Communist China: Estimated Volume and Performance of Transportation  
1952-62

Industry	1952	1953	1954	1955	1956	1957 (First Five Year Plan Goal)	1957	1958	1959	1960	1961	1962
	Million Metric Tons											
Tons originated												
Railroads	132.1	160.4	192.6	193.4	246.0	245.5	274	310	347	389	436	488
Motor vehicles	20.7	30.4	43.5	50.1	79.1	67.5	105	131	161	193	228	262
Inland waterways (excluding junks)	9.41	15.3	20.5	26.3	35.4	36.9	40.6	45.7	50.9	56.0	61.2	66.3
Coastal waterways (excluding junks)	5.76	5.92	9.91	10.4	10.8	11.5	13.9	15.8	17.5	19.4	21.2	23.0
Total	<u>167.97</u>	<u>212.02</u>	<u>266.51</u>	<u>280.2</u>	<u>371.3</u>	<u>361.4</u>	<u>433.5</u>	<u>502.5</u>	<u>576.4</u>	<u>657.4</u>	<u>746.4</u>	<u>839.3</u>
Billion Ton-Kilometers												
Performance												
Railroads	60.2	78.1	93.2	98.1	120.4	120.9	134.6	152	170	191	214	239
Highway	0.678	1.18	1.87	2.52	3.50	3.2	3.79	5.24	6.44	7.72	9.12	10.5
Inland waterways	3.64	5.63	7.89	10.4	12.9	15.3	15.7	17.7	19.7	21.7	23.7	25.7
Coastal waterways	5.0	4.65	8.04	8.38	8.6	10.7	11.1	12.6	14.0	15.5	17.0	18.4
Total	<u>69.518</u>	<u>89.56</u>	<u>111.0</u>	<u>119.4</u>	<u>145.4</u>	<u>150.1</u>	<u>165.19</u>	<u>187.54</u>	<u>210.14</u>	<u>235.92</u>	<u>263.82</u>	<u>293.6</u>

S-E-C-R-E-T

Table 8

Communist China: Estimated Balance of Payments  
1953-62

Million Yuan in Current Prices

Category	1953	1954	1955	1956	1957	5-Year Total	5-Year Total	1962
						1953-57	1958-62	
<b>Payments</b>								
Imports, c.i.f.	-4,624	-4,413	-6,063	-5,297	-4,950	-25,347	-31,200	-7,540
Debt service	a/	-138	-518	-602	-669	-1,927	-3,200	-500
Foreign aid grants and credits	b/	-300	-393	-404	-454	-1,551	-800	N.A.
Total payments	-4,624	-4,851	-6,974	-6,303	-6,073	-28,825	-35,200	N.A.
<b>Receipts</b>								
Exports, f.o.b.	3,488	4,074	4,961	5,568	5,400	23,491	34,500	7,900
Overseas remittances	200	200	200	175	150	925	700	140
Foreign credit receipts	438	884	1,657	117	23	3,119	0	0
Total receipts	4,126	5,158	6,818	5,860	5,573	27,535	35,200	8,040
Other (including errors and omissions) c/	498	-307	156	443	500	1,290	0	0

a. Slight interest payment only. Estimates for 1954-57 are from budget data.

b. Assumed to be none.

c. For example, this item includes known Chinese payments for which specific value estimates are not available, such as the cost of Chinese students studying in other Bloc countries, the cost of technical services received from the Bloc, the maintenance of diplomatic missions abroad, and the like, and Chinese receipts for similar expenditures by other countries in China. In addition, this item includes changes in foreign exchange holdings and clearing account balances.

S-E-C-R-E-T

Table 9

Communist China: Gross Investment and Savings  
Five Year Total for 1953-57

Billion Yuan in Current Prices			
Investment		Sources of Savings	Percent
State investment		Budget savings	
Budget appropriations for capital construction	53.21	Profits and depreciation allowances of state enterprises	56.47
Major repair expenses of state enterprises	3.02	Taxes and nontax receipts	71.25
Supplementary expenditure for agriculture, water conservancy, and forestry	4.32	Government payments	58.35
Total state investment	<u>60.55</u>	Surplus of taxes over government noninvestment expenditures	12.90
		Bond purchases net of repayments	2.23
Increases in inventories (except for construction included above)	8.45	Total budget savings	<u>71.60</u>
Private investment (other than changes in inventories)		Other savings	
Agricultural	11.80	Increases in bank deposits	4.13
Other	3.10	Major repair funds of state enterprises	3.53
Total	<u>83.90</u>	Net foreign investment in China	0.86
		Farm gross investment financed out of current income a/	8.24
		Nonagricultural nonstate investment financed out of current income	3.10
		Total	<u>91.46</u>
		Transfer items, unaccounted for investment, and discrepancy b/	-7.56
			<u>100.0</u>

a. This figure is derived by subtracting the net increase in agricultural loans including loans by credit cooperatives of 3.56 billion yuan from nonbudgeted agricultural investment expenditures.  
b. For example, 1.76 billion yuan of capital construction appropriations have been subtracted as additions to cash reserves for construction enterprises, and figures for state profits and depreciation allowances include returned working capital.

## S-E-C-R-E-T

Table 10

Communist China: Estimated Completed Capital Construction Investment in the First Five Year Plan  
1953-57

Economic Sector								Million Yuan	
	1953	1954	1955	1956	1957	Plan Target	Actual Total	Fulfillment (Percent of Plan)	Percent of Total Investment
Industry a/ Transportation, Post and Telecommunications	3,116	4,044	4,924	7,866	7,430	25,400 b/	27,380	107.8	56.1
Agriculture, Forestry, and Water Conservancy	1,016	1,447	1,935	2,849	1,948	8,210	9,195	112.0	18.9
Urban Public Utilities	667	371	642	1,160	941	2,460 b/	3,781	153.7	7.8
Other d/	250	232	233	361	258	1,600	1,334 c/	83.4	2.7
	1,457	1,404	898	1,750	1,578	5,070	7,087	139.8	14.5
Total	6,506	7,498	8,632	13,986	12,155	42,740	48,777	114.1	

a. Including estimated state investment in local industry.

b. The original targets in the First Five Year Plan for these categories were 24,850 million and 2,680 million yuan. The new targets are derived from Li Fu-chun's estimates of overfulfillment of the plan given on 7 December 1957. 54/ It is probable that the upward revision of the industrial target is the result of including 550 million yuan of the planned investment in the lumber industry by the Ministry of Timber Industry (created in May 1956) under industrial investment. The remaining 250 million yuan of investment originally planned for the lumber industry cannot be specifically located at the present time.

c. 55/

d. Residual composed of the First Five Year Plan categories of "Trade, Banking, and Stockpiling Departments," "Cultural, Educational, and Health Departments," and "Other Items."

S-E-C-R-E-T

Table 11

Communist China: Trends in Gross National Product, by End Use  
1952, 1957, and 1962

Billion Yuan in 1956 Market Prices

End Use	1952 <sup>a/</sup>	1957	Average Annual Increase 1952-57 (Percent)	1962	Average Annual Increase 1957-62 (Percent)
Consumption Expenditures	57.7	77.8	6.1	104.9	6.2
Government	9.4	10.9	3.0	16.5	8.6
Net Foreign Investment	-0.8	0.5	0	0.6	0
Gross Domestic Investment	9.5	22.8	19.1	38.8	11.3
Total gross national product	<u>75.9</u>	<u>112.0</u>	8.1	<u>160.8</u>	7.5

a. The total is derived independently from unrounded data and does not agree with the sum of its rounded components.

S-E-C-R-E-T

S-E-C-R-E-T

Table 12

Communist China: Economic Gross National Income, by Sector of Origin  
1952, 1957, and 1962

Economic Sector	1952 (Billion Yuan in 1956 Prices)	1957	Percent Increase 1952 to 1957	1962 (Billion Yuan in 1956 Prices)	Percent Increase 1957 to 1962	Percentage Distribution of 1962 Total
Agriculture	42.7	48.3	13	56.6	17	38
Industry	9.6	20.1	109	38.3	91	26
Modern Transportation and Communications	1.9	4.4	140	8.3	89	5
Trade, Native Transportation, and Miscellaneous Business Services	7.3	11.5	57	16.6	44	11
Construction	1.7	4.3	153	8.7	102	6
Government	4.2	4.4	5	5.6	27	4
Consumer Services and House Rent	6.3	10.2	62	14.3	40	10
Total gross national product at factor cost	<u>73.7</u>	<u>103.2</u>	<u>40</u>	<u>148.4</u>	<u>44</u>	<u>100</u>
Indirect taxes	4.3	8.2	89	14.6	78	
Total gross national product at market prices	<u>78.0</u>	<u>111.4</u>	<u>43</u>	<u>163.0</u>	<u>46</u>	

S-E-C-R-E-T

S-E-C-R-E-T

Table 13

## Communist China: Selected 1962 Plan Goals

Product	Unit	Original 1962 Goal <sup>a/</sup>	Revised 1962 Goal <sup>b/</sup>	1962 "Struggle Goal" <sup>c/</sup>
Electric power	Billion kilowatt-hours	40 to 43	44	50
Coal	Million metric tons	190 to 210	230	300
Crude oil	Million metric tons	5 to 6	5 to 6	5 to 6
Steel	Million metric tons	10.5 to 12.0	12	15
Chemical fertilizers	Million metric tons	3.0 to 3.2	7	15 to 20
Cement	Million metric tons	12.5 to 14.5	12.5	N.A.
Salt	Million metric tons	10 to 11	N.A.	20
Edible vegetable oils	Million metric tons	3.1 to 3.2	N.A.	5.47
Sugar	Million metric tons	2.4 to 2.5	N.A.	7.0
Paper	Million metric tons	1.5 to 1.6	N.A.	3.85
Grain	Million metric tons	250	240	N.A.
Cotton	Million metric tons	2.4	2.15	N.A.

a. Adopted by the Eighth National Congress of the Communist Party of China on 27 September 1956. 56/

b. Presented by Li Fu-chun at the Eighth All-China Congress of Trade Unions on 7 December 1957. 57/

c. Goals presented since February 1958. "Struggle goal" is a Chinese Communist term indicating a desired production target as opposed to an official plan goal.

S-E-C-R-E-T



S-E-C-R-E-T

Table 14

Communist China: Estimated Gross Investment and Savings  
in the Second Five Year Plan  
1958-62

		Billion Yuan in Current Prices	
Investment		Sources of Savings	Percent
State Investment		Budget Savings	
Budget appropriations for capital construction	98.7	Profits and depreciation allowances of state enterprises	107.9
Major repair expenditures	6.0	Total taxes and nontax receipts	103.9
Supplementary expenditures for agriculture, water conservancy, and forestry	8.4	Less: estimated government payments	76.8
Total state investment	<u>113.1</u>	Surplus of taxes over government noninvestment expenditures	27.1
Increases in inventories (except for construction included above)	12.3	Bond purchases	3.8
Private investment (other than increases in inventories)		Bond repayments	-2.9
Agricultural	17.1	Bond purchases net of repayments	0.9
Other	3.8	Total budget savings	<u>135.9</u>
Total	<u>146.3</u>	Other savings	85.2
		Increases in bank deposits	6.0
		Major repair funds of state enterprises	7.2
		Net foreign investment in China	-3.5
		Farm gross investment expenditures financed out of current income	10.1
		Nonstate investment financed out of current income	3.8
		Total	<u>159.5</u>
		Transfer items, unaccounted for investment, and discrepancy	-13.2
			<u>100.0</u>

- 63 -

S-E-C-R-E-T

S-E-C-R-E-T

Table 15

Communist China: Proposed Allocation of Gross Investment  
and Ratios of Investment to Increases in Output  
1958-62

Billion Yuan in 1956 Prices

Economic Sector	Investment <sup>a/</sup>	Increase in Income Originating, as Projected	Ratio of Investment to Increases in Output in 1952-57	Ratio of Investment to Increases in Output in 1957-62
Industry <sup>b/</sup>	59.1	20.3	2.4 to 1	2.9 to 1
Heavy	52.5	15.3	2.7 to 1	3.4 to 1
Light	6.6	5.0	1.2 to 1	1.3 to 1
Modern Transportation and Communications	16.0	3.9	3.4 to 1	4.1 to 1
Agriculture	33.2	8.7	3.4 to 1	3.8 to 1
All other sectors <sup>c/</sup>	15.8	12.3	1.0 to 1	1.3 to 1
Total	<u>124.1</u>	45.2	2.2 to 1	2.7 to 1

a. State expenditures for capital construction are allocated by sector in terms of the pattern of investment proposed for the Second Five Year Plan. Major repairs and increases in inventories are excluded as well as that portion of state capital construction allocated for stockpiling of equipment and materials. Agricultural investment includes state capital construction expenditures, state supplementary expenditures, and nonbudgeted investment by the peasants themselves.

b. Excluding individual handicraft and construction under heavy industry.

c. Including individual handicraft.

- 64 -

S-E-C-R-E-T

## S-E-C-R-E-T

Table 16

Communist China: Population Based on 1953-54 Census  
1953-57

Census Year	Population Midyear (Million)	Annual Rate of Increase (Percent)	Annual Growth (Million)
1953	582.6 a/		
1954	591.6 b/	1.5	9.0
1955	603.2 c/	2.0	11.6
1956	616.5 d/	2.2	13.3
1957	631.0 e/	2.4	14.5

a. Census announcement.

b. ORR estimate.

c. 58/

d. 59/

e. 60/

Table 17

Communist China: Workers and Staff a/  
1952 and 1956

Economic Sector	Thousand	
	1952	1956
Industry	5,260	7,170
Construction	1,050	2,950
Transportation and Communications	1,130	1,560
Banking	305	377
Agriculture, Forestry, and Water Conservancy	239	610
Municipal Public Utilities	41	96
Social, Cultural, and Educational	2,282	2,600
State Administration	1,523	1,600
Commerce b/	3,970	7,227
Total workers and staff	<u>15,800</u>	<u>24,190 c/</u>
Less: former entrepreneurs and the like reclassified as workers and staff, 1953-57		3,180
Workers and staff, net	<u>15,800</u>	<u>21,010</u>

a. Year-end data.

b. Residual, perhaps including some native transportation workers.

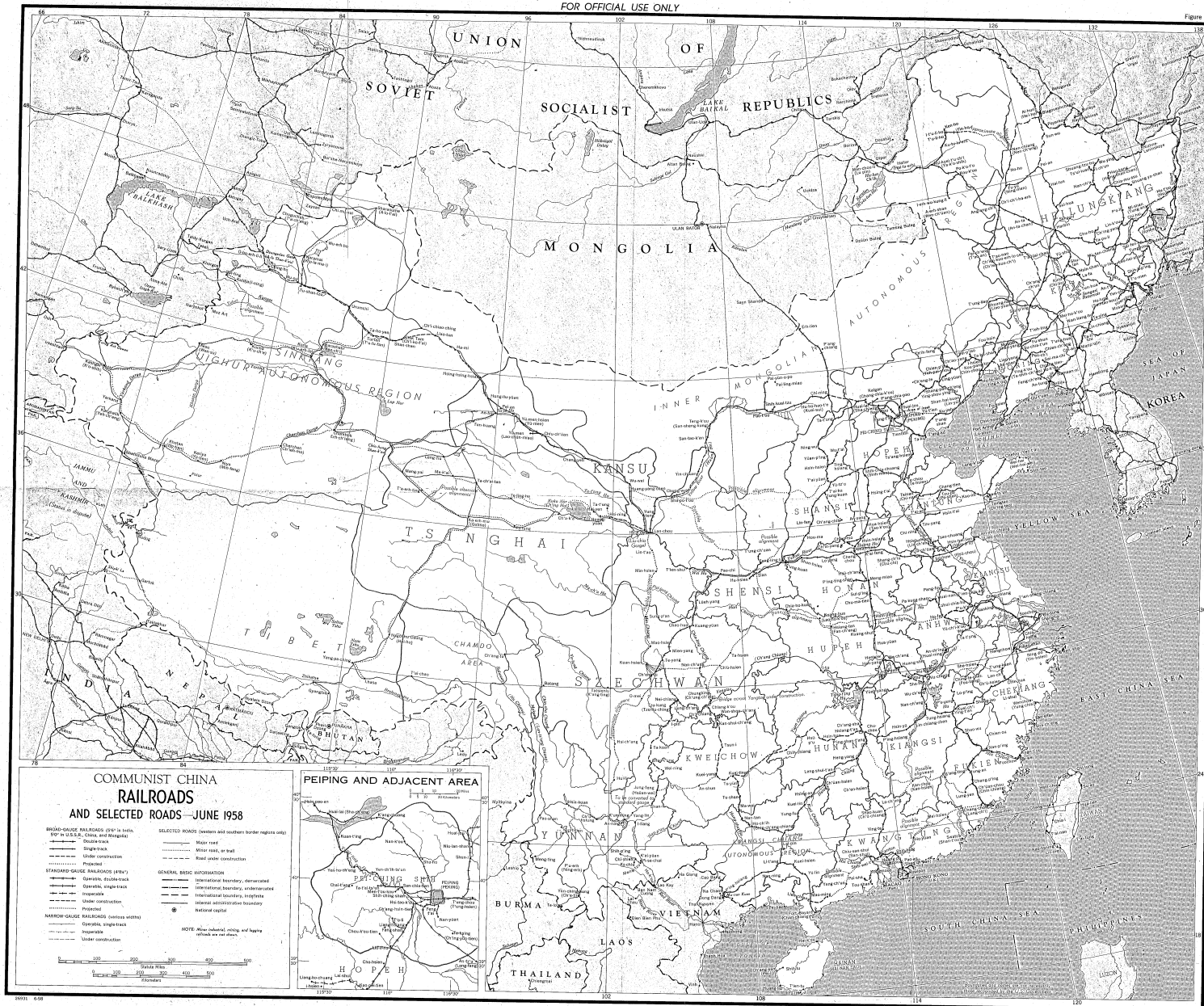
c. It is believed that total workers and staff in 1957 were approximately equal to the 1956 total.

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Figure 7



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