

Economic Intelligence Report

FOREIGN AND DOMESTIC DEBT  
IN COMMUNIST CHINA



CIA/RR ER 60-27

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CENTRAL INTELLIGENCE AGENCY

Office of Research and Reports

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FOREIGN AND DOMESTIC DEBT IN COMMUNIST CHINA

After the Communists gained control over all of mainland China in 1949, they repudiated the debts of the former Nationalist government and began a pay-as-you-go policy, which entailed only minor deficits in domestic budgets and international accounts. During the first decade of Communist rule the internal and external public debt was remarkably low, amounting at its peak in 1958 to only 5 percent of the gross national product. Borrowing from all sources from 1950 through 1959 totaled 9,056 million yuan,\* and the total government debt at the end of 1959 was 5,834 million yuan.\*\* Receipts of credit by the government of Communist China were at their highest level in 1955, amounting to 2,276 million yuan, or 8.5 percent of total budgetary receipts.

The debt of the Chinese Communist government has been incurred by the receipt of loans from the USSR and by the sale of bonds to the Chinese people. Soviet deliveries on credit reached a peak of 1,657 million yuan in 1955, representing one-fourth of total Chinese imports in that year. Communist China used the last of the Soviet credits in 1957, bringing the total of loans from the USSR to 5,294 million yuan. The Chinese issued their first series of national bonds, the "Peoples Victory Bond," in 1950. During the 3 subsequent years, no bonds were sold, but from 1954 through 1958 the Chinese issued an annual series of "National Economic Construction Bonds." National bond sales, which amounted to 3,762 million yuan during 1950-58, were discontinued at the end of 1958 and have not been resumed.

Although the size of the national debt in Communist China has been kept low, more than one-half of the debt is held by the USSR and requires payments of interest and principal in scarce foreign exchange. The repayment of this debt to the USSR has been more disadvantageous to China than the repayment of domestic bonds, all of which are owned

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\* One yuan equals 1 ruble in Chinese transactions with the rest of the Sino-Soviet Bloc (4 rubles equal US \$1 at the official rate of exchange). In exchanges with non-Bloc countries, 2.5 yuan equal US \$1. All monetary values in this report are current.

\*\* This figure includes 234 million yuan of debt scheduled for repayment but not repaid. Domestic bondholders have failed to redeem some bonds in the years that they were due and have been given the privilege of redeeming these bonds in subsequent years.

by Chinese Communist residents and can be redeemed in Chinese currency through an appropriation from the state budget. It is estimated that, from 1955 through 1958, China paid 2,071 million yuan in interest and principal to the USSR, representing nearly 20 percent of the total value of Chinese imports from the USSR in those years. In 1958 alone, the Chinese payment of interest and principal to the USSR, 634 million yuan, was equal in value to one-half of all the machinery and equipment imported from the USSR. When China has completely repaid the Soviet loans, the ruble foreign exchange now used for loan repayments will be available to permit either a substantial increase in imports from the USSR or a decrease in exports.

Communist China has made annual appropriations from its state budget to cover the interest and principal payments on both domestic and foreign debt. China began repaying its debt to the USSR in 1954 and probably will make the last repayment in 1964. Interest on loans from the USSR has been at rates of 1 to 2 percent per year. China is making interest and principal payments on its domestic debt according to published schedules for redemption of the "National Economic Construction Bonds." The last appropriation for redemption of bonds is scheduled for 1968.

Appendix A to this report presents details of both receipts and repayments of foreign and domestic credits and describes the method used for estimating the level of debt repayments.

APPENDIX A

METHODOLOGY FOR ESTIMATING CHINESE DEBT AND DEBT REPAYMENTS

1. Accumulation of Chinese Debt, 1950-58

a. Loans from the USSR

Communist China has reported the receipt of credits from the USSR in the following amounts (million yuan) 1/\*:

1950	244	
1951	625	
1952	1,305	
	1950-52	<u>2,174**</u>
1953	438	
1954	884	
1955	1,657	
1956	117.4	
1957	23.3	
	1953-57	<u>3,120</u>
	Total	<u>5,294</u>

The Chinese Communists have specified the amount and purpose of only two of the individual loans that they have received from the USSR: an economic loan worth US \$300 million to be drawn during the years 1950 through 1955, bearing interest at 1 percent per year and repayable in 10 equal installments beginning not later than 31 December 1954, and a second economic loan of 520 million rubles. An unanticipated loan from the USSR was referred to in the Chinese budget report for 1954, but the purpose of this loan was not indicated. Communist China received a loan from the USSR of unspecified amount in 1955 to purchase the Soviet shares in four Sino-Soviet joint-stock companies. The Chinese budget

\* For serially numbered source references, see Appendix B.

\*\* The Chinese Communists reported the total amount of loans received from the USSR as 2,174 million yuan for the years 1950-52; the allocation by individual years for this period is estimated from budget figures. The Chinese reported the amount of loans from the USSR in each year for the period 1953-57.



for 1955 referred to the receipt of military material from the USSR in the form of a loan. 2/

b. Domestic Bonds

The Chinese Communists reported six national bond issues during 1950-58, providing total revenue of 3,762 million yuan. The "Peoples Victory Bond" of 1950 represented the first nationwide sale of bonds by the Chinese. During 1951-53, no domestic bonds were issued, but each year from 1954 through 1957 the Chinese scheduled an issue of "National Economic Construction Bonds" in the planned amount of 600 million yuan annually. The planned amount of the "National Economic Construction Bond" for 1958 was 625 million yuan. All these issues, except that of 1950, were oversubscribed. Table 1\* indicates the distribution of bonds among various sections of the Chinese population. 3/

The terms of the "National Economic Construction Bonds" issued each year from 1954 through 1958 are nearly identical. These bonds all carried a 10-year normal maturity, except the 1954 series, which is for 8 years. The bonds are in the denominations of 1, 2, 5, 10, 50, and 100 yuan and carry interest of 4 percent. Interest coupons attached to the bonds are redeemable on the specified dates at all branches of the Peoples Bank. Beginning in 1959, national bonds were discontinued, and local governments were authorized for the first time to issue local government bonds.

2. Repayment of Chinese Debt, 1950-60

Communist China has made payments on foreign and domestic debt each year through the state budget account, Expenditures on Loans. The total amount of funds budgeted in this account and the actual payments from the account have appeared each year for 1955-59 in the official reports on the Chinese Communist budget and for earlier years in other Chinese sources. 4/ A Chinese publication of 1957 5/ reported the following five subaccounts under this general budget account:

1. Repayment of Principal on Public Bonds
2. Payment of Interest on Public Bonds
3. Repayment of Principal on Foreign Loans
4. Payment of Interest on Foreign Loans
5. Obligation Expenditures

\* Table 1 follows on p. 7.

The first subaccount covers the redemption of domestic bonds, and the second covers interest payments on domestic bonds. The third and fourth subaccounts cover payments of principal and interest on Chinese Communist debt to the USSR. The fifth subaccount probably refers to fixed payments made to former owners of joint public-private enterprises. In their annual budget statements the Chinese have not reported the amounts of funds allocated from the general account, Expenditures on Loans, into the five subaccounts described above. The amounts appropriate to subaccounts 1, 2, and 5, however, can be derived from other Chinese sources, leaving a residual amount for subaccounts 3 and 4.

The scheduled redemption of domestic bonds and the interest payments on bonds (corresponding to subaccounts 1 and 2) are given in the official regulations covering each bond issue. These regulations were published by the Chinese Communists at the time that each series of bonds was announced. All the regulations provide for accelerated redemption of bonds based on an annual lottery type of drawing. The 1957 series, for example, is to be repaid by 10 annual drawings. Five percent of the total bond issue will be repaid on each of the first, second, third, and fourth annual drawings; 10 percent, on each of the fifth, sixth, and seventh annual drawings; and 15 percent, on each of the eighth and ninth drawings. The remaining 20 percent will be repaid on the tenth drawing. Interest on the bonds outstanding at the rate of 4 percent per year is paid annually, except for the series of bonds issued in 1958, on which interest payments will be made only at the time of redemption. The scheduled payments of interest and bond redemptions for each of the six bond issues, calculated from the Chinese regulations for these bonds, are shown in Table 2.\* The Chinese have reported that some bonds scheduled for redemption in a given year have not been redeemed for various reasons, such as failure of the owners of the bonds to understand that their bonds have been drawn for redemption or inaccessibility of redemption offices. Bondholders who fail to redeem their bonds when they are due are permitted to redeem them during subsequent redemption periods. 6/

It is believed that subaccount 5, Obligation Expenditures, is used to finance the payments that are made to former owners of private business and industrial firms in Communist China. The privately owned firms became joint public-private enterprises under the Communist regime during 1953-56 and will be completely owned by the state after 1962. A recent Chinese Communist publication 7/ states that payments are made from the state treasury in the amount of 120 million yuan annually to the former owners of private business and industrial enterprises, covering fixed payments of 5 percent per year on the private assets of these enterprises, amounting to "about 2,418 million yuan." The first of these annual payments was made in 1956, and the last payment will be made in 1962.

\* Table 2 follows on p. 8.

Payments of principal and interest on Chinese Communist debt to the USSR (subaccounts 3 and 4) are represented in this estimate by the residual in the general account, Expenditures on Loans, after deducting for each year the amounts in subaccounts 1, 2, and 5. China probably did not repay any of the principal of the Soviet loans until 1954. At that time the first installment was paid on the 1950 economic loan, which was the first loan that the USSR granted to Communist China. During the years 1950-53 it is probable that the only payments made by China to the USSR were interest payments on the outstanding loan balances. The very small amounts allocated by the Chinese during 1950-53 to the budget account, Expenditures on Loans, were sufficient to cover only the interest payments to the USSR and scheduled repayments on domestic bonds, indicating that China did not begin repaying the principal of the Soviet loans until 1954.

The calculated Chinese Communist payments of interest and principal to the USSR for the years 1954-60 are shown in Table 3.\* The estimated repayments of principal, as shown in this table, represent maximum amounts. These repayments would be smaller if, as is possible, the Chinese include the value of overdue bonds (which people failed to redeem when they were due) in subaccount 1 and other items (probably small) in subaccount 5.

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\* Table 3 follows on p. 9.

Table 1

Distribution of Chinese Communist Domestic Bonds  
1950 and 1954-58

	Million Current Yuan											
	1950		1954		1955		1956		1957		1958	
	Actual Sales	Planned Sales	Actual Sales	Planned Sales	Actual Sales	Planned Sales	Actual Sales	Planned Sales	Actual Sales	Planned Sales	Actual Sales	
Private industry and commerce a/	184	320	394	270	244	140	139	75	81			
Peasants b/	18	180	140	180	135	190	138	200	217			
State employees c/	30	100	246	150	195	230	244	280	260			
All others d/	28		56		45	40	86	45	92			
Total	<u>260</u>	<u>600</u>	<u>836</u>	<u>600</u>	<u>619</u>	<u>600</u>	<u>607</u>	<u>600</u>	<u>650</u>	<u>625</u>	<u>790</u>	

a. After 1955, when nearly all industry and commerce had become socialized, this category represented former private businessmen receiving "fixed dividends" on the assets that they had contributed to joint state-private enterprises plus some 3 million small traders and peddlers throughout the country.

b. This category represents the rural areas.

c. The category state employees includes industrial and commercial workers employed by state enterprises and working personnel of government administrative organs and cultural and educational agencies.

d. The category all others includes the armed forces and the urban population not otherwise accounted for. In the 1954 and 1955 planned sales figures, this category is included in the category state employees.

Table 2

Scheduled Debt Service on Chinese Communist Domestic Bonds  
1954-68

	Million Current Yuan														
	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>
Principal repayment	57.0	136.0	73.3	145.9	178.3	260.1	291.1	363.7	396.2	298.0	328.4	391.9	337.4	248.5	158.0
Interest	6.0	38.0	57.0	78.3	98.5	92.9	85.7	77.1	65.8	61.0	55.4	48.6	51.9	47.9	63.2
Total	<u>63.0</u>	<u>174.0</u>	<u>130.3</u>	<u>224.2</u>	<u>276.8</u>	<u>353.0</u>	<u>376.8</u>	<u>440.8</u>	<u>462.0</u>	<u>359.0</u>	<u>383.8</u>	<u>440.5</u>	<u>389.3</u>	<u>296.4</u>	<u>221.2</u>

Table 3

Estimated Allocation of the Chinese Communist Budget Account for Expenditures on Loans  
1954-60

	Million Current Yuan						
	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
Planned Expenditures on Loans	210	626	750	829	1,031	1,100	1,200
Less:							
Repayment of Principal on Public Bonds (subaccount 1)	57	136	73	146	178	260	291
Payment of Interest on Public Bonds (subaccount 2)	6	38	57	78	99	93	86
Obligation Expenditures (subaccount 5)			120	120	120	120	120
Total deductions	<u>63</u>	<u>174</u>	<u>250</u>	<u>344</u>	<u>397</u>	<u>473</u>	<u>497</u>
Available for Payment on Foreign Loans	147	452	500	485	634	627	703
Of which:							
Payments on Principal (subaccount 3)	102	392	432	423	579	581	666
Payments of Interest (subaccount 4) <u>a/</u>	45	60	68	62	55	46	37
Net cumulative debt to the USSR (as of 31 December)	3,394	4,659	4,344	3,945	3,366	2,785	2,119

a. The Chinese Communists reported that the interest rate on the 1950 loan from the USSR was 1 percent per year. Other Chinese statements have referred to interest rates of 1 to 2 percent per year on loans from the USSR. In this estimate the interest rate is assumed to average 1.5 percent for the balance of loans outstanding. Interest payments are calculated on the assumption that one-half of annual loan receipts and one-half of annual loan repayments are subject to the interest rate of 1.5 percent.

APPENDIX B

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