

**National
Foreign
Assessment
Center**

China: Demand for Foreign Grain

A Research Paper

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China: Demand for Foreign Grain

Key Judgments

The People's Republic of China almost certainly will continue to import about 10 million metric tons of grain annually through 1980. The dramatic increase in grain purchases since the post-Mao changes in leadership has resulted both from the leveling off of grain production in 1975-77 and from the move to upgrade living standards.

Several major factors will affect grain imports during the remaining years of the 10-year plan (1976-85). Of first importance will be China's progress toward meeting the highly ambitious plan for producing 400 million tons of grain annually by 1985, which implies nearly a doubling in the historical (1958-75) rate of growth of 2.2 percent; continuation of historical growth would result in production near 350 million tons in 1985, still a substantial gain over the 295 million tons reported for 1978 (see figure 1). Population growth and demand for higher incomes and higher food rations together will exert continuing pressure on Beijing (Peking) to buy foreign grain. Grain distribution will also be a factor—imports will continue to be needed to feed coastal urban centers, thus reducing the internal procurement burden.

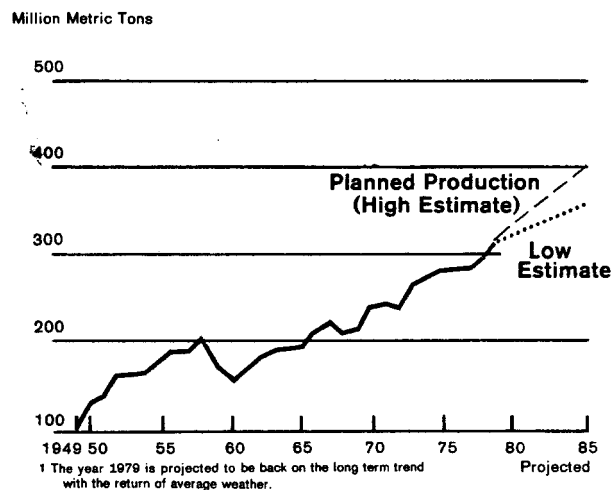
Collective livestock production is now considered by the government as the way to provide more meat for the urban population. Collective livestock raising requires a substantial input of feedgrains and thus will compete more strongly for available grain. At present, livestock in China consume far less than 10 percent of the grain supply.

Expansion of the grain storage system is necessary as the population grows, and this also adds to total demand for grain. Grain storage for practical and strategic reasons is extremely important in China. Since the nutritional needs of the population are narrowly met, a vast storage program is essential in order to prevent malnutrition and starvation during years of poor harvests.

Transporting the larger imports of foreign grain to the northern cities, the main consuming points, presents few problems. Grain-handling facilities in the northern ports and the requisite urban transportation systems are good. Transporting ever higher levels of grain from rural China to the cities, however, is the problem. The recent increase in imports of foreign grain helps reduce the strain on rural transportation.

China's ability to pay for foreign grain at present is not in question. However, as commitments and negotiations for foreign industrial machinery and technology accelerate—they now involve a total of more than \$40 billion—Beijing will wish to keep expenditures on grain as low as possible. Thus, over the next several years the Chinese leaders will be attempting to find a balance among grain imports, industrial imports, and mortgages on the future.

China: Grain Production 1949-1985¹ Figure 1



China: Demand for Foreign Grain

Ten-Year Plan for Grain Production

We estimate Chinese grain production in 1978 at 295 million metric tons, the first substantial increase since 1975 (see table 1). The leveling off of production in 1975-77 had resulted in stock drawdowns and tight rations, which the new leadership is trying to rectify through increased grain purchases in the short run and through increased agricultural investment in the long run.

US Secretary of Agriculture Bergland, during his trip to China in November 1978, was told by Vice Premier Li Xiannian (Li Hsien-nien) that China would be importing "something over 10 million tons of foreign grain per year," and that "5 to 6 million tons would come from the United States." The number of years China will be importing at this level was not made clear, but the time period implied was for the next few years, presumably while the agricultural sector is catching up with rising demand.

Two projections of Chinese grain output to 1985 are shown in table 2. The high estimate reflects China's goal for the 10-year plan (1976-85) of 400 million tons by 1985. The 1980 projection of 330 million tons is consistent with the estimated growth rate for 1978 and the 1985 target. The low estimates for 1980 and 1985 are extrapolations of the 2.2-percent average annual growth rate between 1957 and 1975—both years of average weather. The years 1976 through 1978 (when the weather was poor) were not used to calculate the trend, because their inclusion would introduce a downward bias in the projections for 1980 and 1985. For the next seven years, 1979-85, the high series implies an average annual increment of grain production of 15 million tons, the low series, 8 million tons.

The Chinese goal of 400 million tons can be achieved only with an unlikely coincidence of favorable conditions. To reach the goal, the high-priority political and economic commitment of the regime to the agricultural sector must be maintained; every aspect of the development program—fertilizer, irrigation, mechanization, and seed research—must proceed on or ahead of schedule; and good weather will be required. On the

Table 1

China: Grain Production and Imports

Year	Million Metric Tons		
	Grain Production	Total Grain Imports	Imports of US Grain
1965	194	5.9	0
1966	215	5.6	0
1967	225	4.9	0
1968	210	4.4	0
1969	215	3.9	0
1970	243	4.6	0
1971	246	3.1	0
1972	240	4.6	0.9
1973	266	7.6	4.3
1974	275	6.8	2.8
1975	284	3.5	0
1976	285	2.0	0
1977	286	6.9	0
1978 ¹	295	9.4	3.3

Note: Complete grain production and per capita availability time series is in table 4.

¹ Estimate.

other hand, China probably will do better than the historical trend because the massive development programs, already in train, will begin to pay off.

Grain Rations

For two decades the level of per capita grain production has not risen significantly above 300 kilograms (kg) per year. The grain ration has not increased in this period. We have seen no indication that the Hua government is considering an increase in the ration. On the other hand, the government is moving toward allowing limited free market sales of grain which have been illegal. Such sales would exert upward pressure on the demand for foreign grain; less domestic grain would flow into government channels because less would be available for above-quota government purchases.

Table 2**China: Projected Grain Output**

	1975	1978	1980	1985
	Million Metric Tons			
High estimate output	284	295	330	400
Low estimate output	284	295	317	354
	Million Persons			
Population ¹	952	1,014	1,052	1,132
	Kilograms			
Per capita, high estimate	298	291	314	353
Per capita, low estimate	298	291	301	313

¹ Midrange estimates as projected by the Bureau of the Census, Foreign Demographic Analysis Division, in March 1978.

Adult grain rations in China normally average 30 to 40 catties ¹ per month, depending upon physical need, but may drop to 25 or below if the local harvest is bad.

Urban dwellers are less subject to wide changes in the grain ration than are the peasants. Adolescent children may have larger grain rations than their parents, if, for example, the parents are not engaged in heavy work requiring high food rations. A child of 10 might receive 24 catties, and a child of 5 might receive 20 catties or less.

Vegetable oil is usually rationed at a half catty a month per person. The sugar ration is often the same as vegetable oil. In recent years the rationing of pork in the cities has become more common. A typical pork ration is 1 catty a month per person.

Table 3 shows the overwhelming importance of grain to the Chinese diet. The grain ration may be made up of a combination of several grains or flour. In the south it is usually rice, and in the north it is mostly wheat and coarse grain. Sometimes sweet potatoes are part of the grain ration, at a weight ratio of 5 to 1. Rice, wheat,

¹ One catty is equal to 0.5 of a kilogram.

Table 3**China: Nutrient Values of Per Capita Food Consumption ¹**

	Catties per Month	Calories per Day 1,936	Protein Grams per Day 45.1
Total			
Cereals	29.5	1,721	37
Sugar	0.3	19	0
Oil	0.5	75	0
Vegetables	7.3	27	3
Fruit	1.0	8	negl
Eggs	0.2	5	0.3
Pork	0.7	37	1
Poultry	0.2	4	0.4
Fish	1.0	10	1.4
Other		30	2

¹ The data sample, which was obtained from refugee and traveler reports, represents actual consumption.

coarse grain, or flour contain about 1,750 calories per catty,¹ while potatoes contain only 350 calories per catty. Vegetables play a very important part in the diet, not only for food value (vitamin content), but also for variety.

Nutritional requirements of people vary among countries and depend upon such factors as climate, average size of the people, and number of hours worked per day. Estimates of how much nutrient is needed for an ideal diet also vary. Estimates by the UN Food and Agricultural Organization (FAO) for Asian centrally planned nations show a daily per capita consumption level of 2,170 calories and 60 grams of protein. The FAO estimates that this amount meets 92 percent of human food requirements. The International Vegetarian Society claims that a per capita level of about 2,000 calories and 60 grams of protein is more than enough food, provided the diet includes enough sources of alkaline elements, such as green leafy vegetables, which the Chinese diet does furnish. The Society also claims that there is no need for animal protein.

For most people in China today, the diet is just adequate to preserve productive efficiency. Due to the strict rationing system for foods making up over 90 percent of caloric intake, there is only a small variance in average consumption levels, so that the great bulk of

the populace is at or near the average. FAO estimates of human food requirement for an ideal diet have long been on the high side, and are decreasing over time; furthermore, FAO data sometimes rests on per capita "availability" of food in a country—the figures thus include a considerable element of waste, and losses, and do not represent actual consumption—whereas the data for China in table 3 represent what is actually eaten. Notwithstanding the technical sufficiency of the average Chinese diet, most people look forward to an improvement in quality and quantity. Under the relaxed political climate in Beijing, a demonstration by peasants "from all over China" was recently held in demand of democracy and human rights. One of the main complaints was that "there is not enough food to eat."

Urban Workers' Incomes and Demand for Food

Beijing declared a general wage increase in October 1977, which benefited three-fifths of China's urban workers, mainly in the lower income brackets, and which averaged perhaps 10 percent overall. Since then the reinstatement of bonuses for high productivity has further raised the average income level.

Although in most cases the wage increase was moderate, the aggregate effect on the demand for food has been substantial. We have seen a jump in food prices in China's free markets, which is strongly correlated with the wage increase. At least part of the government's decision to increase grain imports appears to be the result of an increase in demand for food. Urban Chinese on the average spend just over half of their income on food.

Rural Income Policy

Rural incomes by and large are determined by the size of the harvest. Average peasant incomes in the north are lower than peasant incomes in the south because per capita production in the north is lower. Peasants in general have always earned less than city folk. To help rectify the urban-rural income disparity the government has pursued a long-term policy of lowering the

price of farm inputs supplied by industry, lowering rural taxes as a percent of output, and raising state procurement prices of farm products.

Since the "Agriculture First" policy was formulated in 1962,² the government has given special consideration to the northern peasants by importing grain into the major northern cities, thereby reducing rural procurement in the area. To further support northern peasants and reduce the load on the rural transport system, Chinese officials now appear to have made a medium-term commitment to maintain a higher level of grain imports.

An alternative method of supplementing the grain supplies in northern cities is shipping rice up from the south. Very little of this is done, however, since transportation is expensive. Furthermore, the limited amount of surplus rice may be sold abroad and much greater quantity of wheat bought in return; wheat products such as noodles and breads are traditional northern foods.

Demand for Animal Protein

Through both necessity and tradition the Chinese have not been accustomed to a high-meat diet. Nevertheless, per capita meat consumption in China is so low at present, that a marked potential exists for growth in China's livestock industry. As incomes have risen, the people have demanded more meat, and the government has begun to respond to this demand.

In the major suburbs, notably of Beijing, Shanghai, and Guangzhou (Canton), the government is building (sometimes with foreign help) modern, mechanized hog and chicken farms. We do not know the extent of this development. The Chinese have announced the recent completion of three modern chicken farms in the Shanghai area, which have raised a total of 210,000 chickens in eight months, and a foreign-built pig farm near Beijing that raises 10,000 pigs per year. Recently, the Chinese also have purchased from Australia a facility for raising chickens.

² Instead of conducting the agricultural sector as a holding operation, the government began injecting sizable amounts of resources into agriculture from industry.

The trend toward modern feed-lot animal husbandry breaks with Chinese tradition, and, in the future, feedgrain could compete seriously with grain for human consumption. At present, well under 10 percent of the grain supply is used as animal feed. Most hogs are raised on private plots, and are fed almost entirely on poor-quality forage crops such as weeds and tops of root crops.

The recent developments in livestock raising notwithstanding, we doubt that China will be importing large amounts of animal feedgrain before 1985. The 10-year development program for the whole economy is so ambitious that it seems unlikely that China would use much of its scarce foreign exchange to increase the meat supply.

The Grain Storage Program

The preoccupation with obtaining a buffer supply of food is shown in the often-quoted words of Mao, "Dig tunnels deep and store grain everywhere." The leveling off in grain production in 1975-77 resulted in stock drawdowns that Beijing no doubt viewed as an impairment in the general Chinese defensive position and in the ability to meet specific emergencies such as the Tangshan earthquake of July 1976. Nevertheless, the primary function of grain storage in China is to ensure that the minimum grain needs of the population are met at the lowest cost. To minimize transportation costs, each production team, production brigade, commune, county seat, and city has its own storage facilities. After the grain is harvested, the portion to be distributed by the production team and brigade is stored at this primary level in storage facilities operated by the collectives. Grain acquired by the government through taxation and procurement is stored in government facilities at the commune and county levels or is shipped directly to urban areas.

We have no reliable figures on the level of Chinese grain stocks; some estimates are as high as 50 million tons. We do not know what grain stocks are included in the calculation of national grain stocks. We think it logical to assume that national stocks are kept in state-operated facilities and do not include operating stocks.

Table 4

China: Grain Production Estimates

Year	Grain Production ¹ (Million Metric Tons)	Per Capita Grain Production (Kilograms)	Per Capita Grain Availabilities (Kilograms)
1949	111	205	205
1950	130	235	235
1951	141	250	250
1952	161	280	279
1953	164	278	278
1954	166	275	274
1955	180	292	289
1956	188	297	294
1957	191	295	293
1958	206	311	308
1959	171	253	248
1960	156	226	223
1961	168	240	247
1962	180	252	257
1963	190	260	267
1964	194	260	267
1965	194	254	261
1966	215	276	281
1967	225	282	286
1968	210	257	261
1969	215	257	260
1970	243	284	287
1971	246	281	283
1972	240	268	272
1973	266	291	297
1974	275	295	300
1975	284	298	300
1976	285	293	294
1977	286	288	294
1978	295	291	300

¹ Including soybeans.

China employs two types of storage, granaries and open-air storage. Granaries are generally located near cities, county seats, and commune headquarters. Open-air facilities are used at all levels and are the main form of storage at the production level. Civil defense tunnels and caves are also used as granaries.

Granaries are warehouse-type buildings in which grain is stored in either bulk or bagged form. Bulk storage is used for grain that has a low moisture content or that will not have to be handled shortly after arrival. Three methods of bulk storage are used. The first is to simply store the grain loose in the granary; this method has the advantage of using the entire capacity of the granary, but the disadvantage of possible structural damage to the facility from pressure exerted on the walls by the grain and of an increase in quality-control problems. Another method of bulk storage is the use of round, *xuezu* bins in the granary constructed of straw or reeds; these have the disadvantage of significantly lowering the capacity of the granary. The most common method of bulk storage in the granary appears to be the use of bagged grain piled up to form an inner wall as added protection for the loose grain. This method increases capacity over bin storage and improves quality control over general bulk storage.

A large quantity of grain is stored in the open. The methods of storage are similar to those used inside a granary—stacked bags, bulk inside bag walls, and in *xuezu* bins, except in this case the bins are shaped to facilitate rain runoff and are covered with thatching.

Silo construction has been expanding rapidly since the introduction of a medium-sized silo during the Cultural Revolution (1966-69). The silos have been replacing the open-air *xuezu* bins. These structures range in capacity from 10 to 250 tons. The major advantages of these structures are their low construction costs (construction materials are clay, straw, bricks, and rocks); their protection against rats, birds, dampness, fire, and earthquakes; and their ease of adaptation to mechanized grain handling.

The major differences in Chinese and Western methods of storage stem from the differences in the availability of labor and construction materials. Chinese grain storage is very labor intensive. For example, the Ta-hsing-lou granary near Xi'an (Sian), Shaanxi, with a capacity of 18,500 tons, employs 127 people—very high by US standards. The difference in availability of labor is the major reason grain is shipped in bags

in China and in bulk in the United States. Present storage methods seem to meet Chinese needs with minimum losses. A rapid move toward foreign storage technology, grain-handling equipment, and grain dryers seems unlikely except at the major ports.

China's plans to increase regional crop specialization through the development of 12 large "grain bases" and an unknown number of industrial crop bases will not substantially alter the current methods of storage. The major effects will be increased strain on the transportation system and an increase in grain-storage capacity in those areas designated as grain bases (see figure 2).

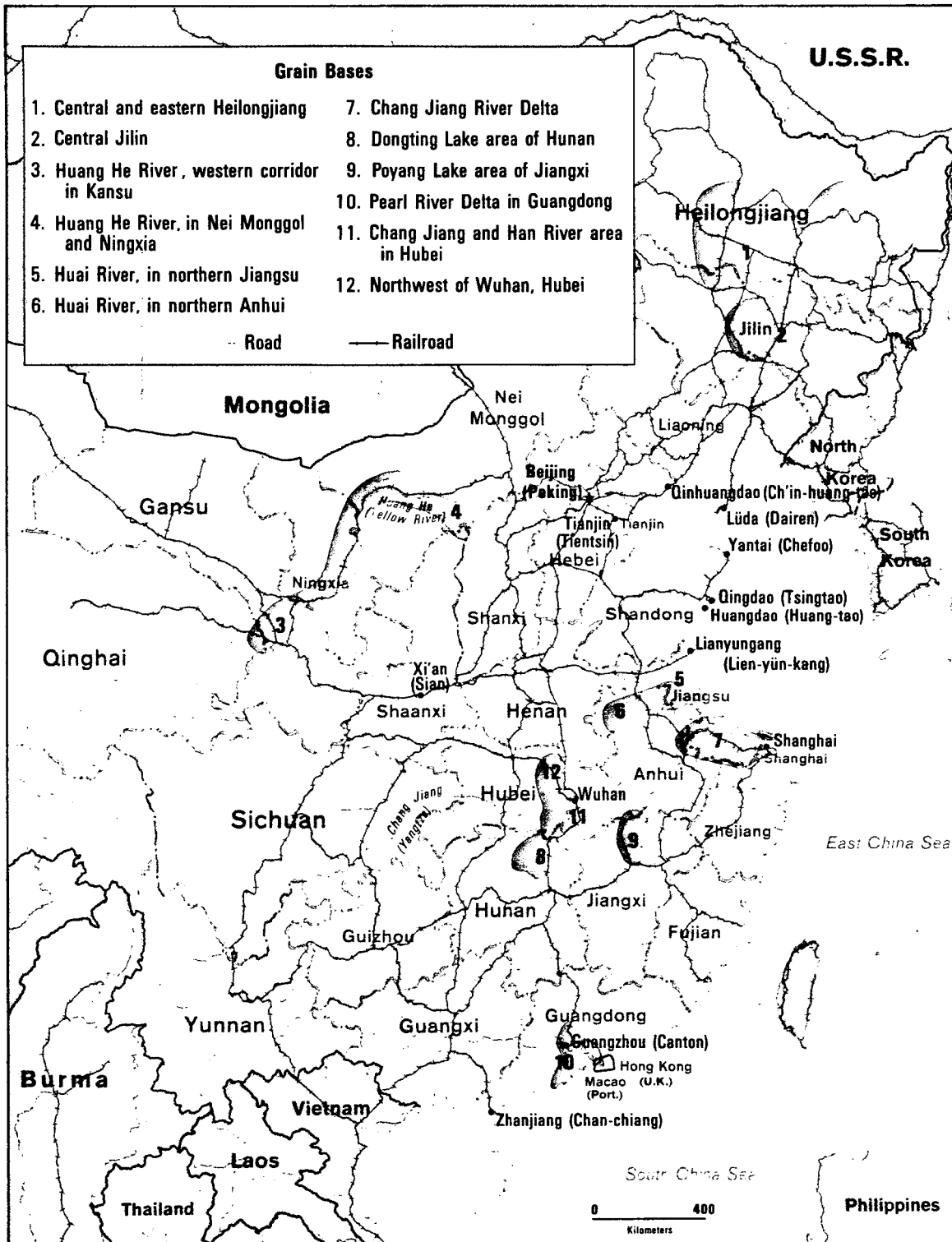
Increased Grain Imports and Internal Transport

If China continues to import grain at current levels (approximately 10 million tons per year), the urban transport system can handle the amounts without undue stress. Because the grain will be unloaded at port facilities in major cities, transport distances and scheduling problems will be minimal. Almost all of the movement will be by rail directly to urban or county distribution centers, with some participation by trucks. This pattern was employed as long ago as the 1920s and 1930s to meet urban demand for food. The distribution of an additional 10 million tons of domestically procured grain would pose far greater problems of transport. In the latter case, native transport (carts, tractors) would have to move the grain to local distribution centers from which short-haul trucks would then convey the grain to railroads or inland waterway ports for transport to the cities.

We know of no big grain losses since the late 1950s stemming from inadequate inland transport. Some loss may be inferred, however, from the ship delays and port congestion of the early 1970s. Inadequate port capacity, not inland transport, was the culprit in this case. But with the additional port capacity derived from new berths and better equipment in recent years (more is continually being added), unloading has been speeded and ship delays shortened.

People's Republic of China: Major Transportation Routes and Grain Bases

Figure 2



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Ports

Ten major ports are involved in the grain trade, with an estimated annual capacity to unload 17 million tons of grain. Only two of the ports, Shanghai and Guangzhou, are equipped with modern facilities to unload grain. The other ports use a combination of mobile pneumatic unloaders, grab-type portal cranes, or shipboard cranes.

Unloading facilities with a capacity of about 5 million tons have been completed during 1976-78. The modern handling facilities at Shanghai account for almost 3 million tons, the special grain berth open in 1978 at Guangzhou adds another 1.5 million tons, and the remainder is the result of new general cargo berths and cranes added at other ports.

The grain port at Shanghai, which can handle about 8 million tons annually, comprises four berths, six pneumatic loaders, a conveyor system, 18 silos, and at least 10 warehouses. Guangzhou has at least one grain berth, two pneumatic unloaders, a conveyor system, and 21 silos, and can unload about 1.5 million tons annually. The grain berth at Luda (Dairen) is served by a battery of 16 silos, but unloading is done by portal cranes or shipboard cranes. Using this and other berths, Luda can unload 2.5 million tons of grain annually. Most of the imported grain goes through Shanghai and Luda. Berths devoted almost exclusively to the grain trade are also located at Qiingdao (Tsingtao), Lianyungang, (Lien-yun-kang), Yantai (Chefoo), and Zhanjiang (Chan-chiang) (see figure 2).

Although grain is unloaded more efficiently at specially equipped grain berths, it can be unloaded at almost any berth at any port. In fact, large quantities of grain are unloaded at general cargo berths at Xingang (Hsin-kang) and Tanggu (T'ang-ku), as well as at general cargo berths at Shanghai, Luda, and Chingdao. Using shipboard or dockside cranes, grain can be unloaded directly into trucks or rail cars and moved immediately out of the port area. The grain can also be bagged at the dockside and either shipped out or stored.

Storage

Capacity of grain-storage facilities, both silos and warehouses, at Chinese ports exceeds 500,000 tons. Assuming that grain will be stored an average of seven days at the ports, existing storage capacity could accommodate 26 million tons of grain imports annually if the grain flowed in steadily. This is in excess of unloading capacity but does provide a cushion as grain imports are not evenly spaced throughout the year.

From Port to Consumer

Grain makes up about 10 percent of the total tonnage moved in the modern transport sector. Of the total tonnage of grain loaded onto the various modes of transport, trucks carry 38 percent and railroads and waterways, 31 percent each. Grain represents about 5 percent of the total rail freight both in absolute tonnage and ton-kilometer terms. With the growth of motor transport, an expanded road network, and centralized state grain procurement, many feeder roads now join scattered communes to the rail and water networks. Some 15 percent of total truck traffic is given over to grain. Grain makes up 30 percent of total inland waterway freight. Although all inland waterways are important in the transportation of food, most of the flow occurs along the Yangtze River, which passes through the major rice areas in Sichuan (Szechwan) Province and the so-called rice bowls of the middle and lower Yangtze Valley. Finally, 10 percent of the total cargoes shipped along the coast consist of grain.

Rail freight volume of all types doubled in the period 1970-77 and is scheduled to double again in 1978-85. The unused capacity on existing railroads combined with additional capacity resulting from new and double-track construction and other improvements will permit increased traffic without squeezing operations. Moreover, the unused capacity at rolling stock plants probably will suffice to accommodate increased demand for hoppers and boxcars for grain transport. Production of such rolling stock increased 75 percent between 1970 and 1977 and can be increased further to meet expanded grain requirements. Motor transport and inland waterways have even more unused capacity, hence potential, than railroads do. Overall then, transport can cope with foreseeable grain imports without substantial detriment to normal traffic.

Financing Grain Imports

Since the first major grain imports took place in 1961, China has used short-term credits to smooth out payments for grain purchases. Imports from Canada and Australia have routinely been financed on 12- to 18-month terms, probably at commercial rates. Some of the US grain purchased in 1973 and 1974 through third-country firms was also under short-term credits. Present US grain purchase terms are all cash. In 1978 the US Congress authorized credits of the Commodity Credit Corporation (CCC) for Chinese grain purchases, but China has not shown interest in using them.

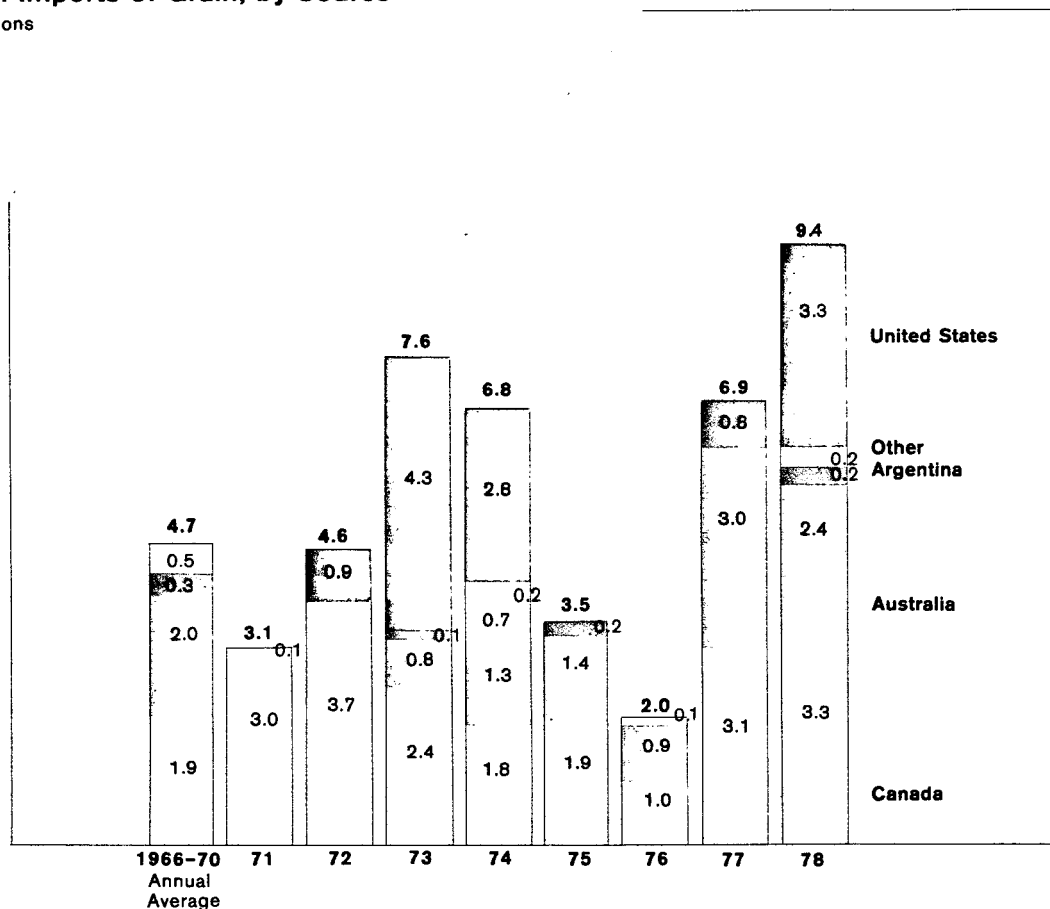
CCC lending rates are currently 10.5 to 11.5 percent per annum for three-year credits.

Variations in China's grain imports have reflected not only crop fluctuations, but also changes in the balance-of-payments position. China severely reduced grain imports during 1975-76 as the foreign exchange situation became unusually tight (see figure 3). The People's Republic of China also drew down stocks and reduced local food rations. As the balance of payments improved in 1977-78, imports of grain rose. Beijing's newfound willingness to incur substantial foreign debt will facilitate maintenance of a more stable level of grain imports in the future.

China: Imports of Grain, by Source

Figure 3

Million Tons



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CHINA: THE ECONOMIC OUTLOOK

Executive Summary

This year, and in 1980-81 as well, China's post-Mao leadership will be concerned primarily with realigning its long-term program for economic modernization. The leadership's reassessment of pace and priorities was summed up by Premier and Party Chairman Hua Guofeng at the National People's Congress (NPC) in late June:

The work of recovery and development in the previous two years (1977-78) has yielded results far in excess of our expectations. But the grave effects of the sabotage by Lin Biao and the Gang of Four cannot be eliminated in a short period. We did not take this into full account and some of the measures we adopted were not sufficiently prudent. [As a result, it is] absolutely necessary that we concentrate our efforts within these three years [1979-81] on readjusting, restructuring, consolidating, and improving our economy. [Emphasis added]

Aside from the forthright discussion of current difficulties, Hua and other officials gave out an unprecedented number of economic statistics that generally confirm their appraisal of economic recovery in 1977-78. On the other hand, the new policies are forcing a slowdown this year in the rate of growth of industrial production and a sharp reduction in budgetary appropriations for capital investment projects. For the first time in many years, China's managers have been directed to emphasize quality, product mix, and cost effectiveness rather than sheer output.

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The five major objectives under the slogan of readjustment center around:

- Praising growth rates for foodgrains and other farm products in relation to population and industry.
- Increasing the growth rate of consumer goods production, both for domestic consumption and to expand exports.
- Assigning higher priority to energy, transportation, and communications.
- Cutting back an "overextended" investment program so as to concentrate resources on completing vital projects.
- Raising the incomes of rural and urban workers.

The new policies of restructuring and consolidating require an "overall reform of the structure of economic management." While efforts in this regard are still experimental, they apparently are expected to evolve into some uniquely Chinese model of market socialism in which local authorities are given greater powers over planning, investment, finance, material supply, and foreign trade. Policies in the improvement category are aimed at raising labor productivity and capital efficiency.

Despite the revamping of economic strategy, China's leaders insist that their need for foreign equipment, technology, and capital remains large. What is new is that their shopping list now is more practically focused, reflecting a better appreciation of the high costs of acquisition and the difficulties in absorbing foreign technology.

The comprehensive character of all that Beijing is attempting to accomplish in 1979-81 has inevitably upset the targets and timetable of the 10-year plan for 1976-85 announced early last year by Chairman Hua. That plan--or "draft outline" as Hua now calls it--has been declared overly ambitious and hastily conceived; neither it nor its first phase, the Fifth Five-Year Plan (1976-80), are given much mention at present. The State Planning Commission, having revised the original version of the

annual plan for 1979, is currently reworking earlier plans for 1980 and 1981. A draft of the Sixth Five-Year Plan (1981-85) will not be presented to the NPC until sometime in 1981.

Finally, we believe that the policies of realignment and retrenchment may be in place longer than the three years now envisaged:

- Institutional changes proposed under the new policies seem too far reaching to be completed so quickly.
- Leadtimes required for bringing new investment projects into production in bottleneck sectors are such as to make it unlikely that these constraints will be lifted by 1981.
- In a country as poor and populous as China, the problem of matching supplies to consumer demand will necessarily be around for a long time to come.

Nevertheless, there are grounds for optimism. In contrast to the Maoist era, the present leadership seems pragmatic and relatively unconstrained by orthodox ideology in its policy choices. And, perhaps most important of all, it has already demonstrated this year an ability to react quickly to adverse consequences of these policy choices.

Economic Performance in 1976-79

One of the milestones distinguishing the recent National People's Congress from all others since the late 1950s is the public disclosure of major speeches and a large body of economic and social statistics. Although most of the data cover only the years 1977 and 1978, enough information was provided to show the performance of key economic sectors in 1976 as well. Some data also were released on planned targets for 1979.

A comparison of the new figures with CIA estimates shows that our appraisal of recent economic trends in China has been close to the mark. This is not surprising inasmuch as our estimates have been attempts to reconstruct official data from piecemeal claims of percentage increases

and other fragmentary disclosures. The new official data appear internally consistent, and we expect to adopt nearly all of the figures as the best available.

In interpreting the tabulation of selected official data presented here (see table), a word of caution is in order. The use by Hua and others of 1976 as the base year for much of the data is logical because it marks the point where the present leadership came into power. It was a poor year economically, however, and thus constitutes a low base. Moreover, much of the output in major basic industries is admittedly of poor quality; for example, nearly half of the 618 million tons of coal produced in 1978 probably came from small-scale mines whose output is of variable and generally low quality. Nevertheless, a number of economic trends stand out at once:

- Industrial output began a rapid recovery in 1977, whereas agricultural production continued to stagnate; in 1978, both had remarkably good years.
- Budget revenues and expenditures, which normally change at about the same rates as industrial production, rose much faster in 1978 than did industry.
- With the notable exception of domestic and foreign trade, plans for 1979 reflect a marked slowdown in rates of expansion.

Reasons for the slowdown in 1979 are not hard to find. Last year was an especially good one for grain production--one that is unlikely to be repeated this year. In industry, most of the capacity that stood idle in earlier years has been brought back into operation, so that double-digit growth in 1979 seems infeasible. In addition, many industries--most notably the iron and steel industry--have been ordered to concentrate on improving product quality and product mix rather than increasing output. As for the budget, expenditures and revenues in 1979 are to level off, reflecting what China's Finance Minister has described as an extremely tight budget. Revenues will be cut into by a number of new incentive policies affecting tax flows, and expenditures are to be held to a minimum as part of a wide-ranging scaleback in investment projects.

China: Selected Official Data on Economic Indicators, 1976-79

	1977				1978				1979 Plan				Percentage changes					
	1977		Over 1976		1978		Over 1977		1979 Plan		Over 1978		Over 1977		Over 1978		Mid-1979	
	Value	Aggregate*	Value	Aggregate*	Value	Aggregate*	Value	Aggregate*	Value	Aggregate*	Value	Aggregate*	Value	Aggregate*	Value	Aggregate*	Value	Aggregate*
Value Aggregates*																		
Billion Yuan in 1970 prices																		
Agricultural production	NA	134.0	145.9	151.7	NA	8.9	NA	4.0	NA	NA	8.9	NA	4.0	NA	NA	NA	NA	NA
Industrial production	326.4	372.8	423.1	456.9	14.3	13.5	14.3	8.0	NA	NA	13.5	14.3	8.0	NA	NA	NA	NA	4.1
Billion Yuan in current prices																		
Budget revenues	75.1	87.45	112.1	112.0	16.4	23.4	16.4	Negl.	NA	NA	23.4	16.4	Negl.	NA	NA	NA	NA	NA
Budget expenditures	NA	84.35	111.1	112.0	NA	31.2	NA	Negl.	NA	NA	31.2	NA	Negl.	NA	NA	NA	NA	NA
Retail sales	131.68	141.00	152.75	175.0	7.1	8.3	7.1	14.6	NA	NA	8.3	7.1	14.6	NA	NA	NA	NA	NA
Physical Output																		
Grain (million tons)	285.0	282.75	304.75	312.5	Negl.	7.8	Negl.	2.5	NA	NA	7.8	Negl.	2.5	NA	NA	NA	NA	NA
Cotton (million tons)	NA	2.049	2.167	2.4	NA	5.8	NA	10.8	NA	NA	5.8	NA	10.8	NA	NA	NA	NA	NA
Crude steel (million tons)	20.46	23.74	31.78	32.0	16.0	33.9	16.0	Negl.	NA	NA	33.9	16.0	Negl.	NA	NA	NA	NA	7.9
Electric power (billion kilowatt hours)	203.0	223.4	256.55	275.0	10.0	14.8	10.0	7.2	NA	NA	14.8	10.0	7.2	NA	NA	NA	NA	10.9
Coal (million tons)	483.0	550.0	618.0	620.0	13.9	12.4	13.9	Negl.	NA	NA	12.4	13.9	Negl.	NA	NA	NA	NA	NA
Crude oil (million tons)	87.0	93.64	104.05	106.0	7.6	11.1	7.6	1.9	NA	NA	11.1	7.6	1.9	NA	NA	NA	NA	3.6
Chemical fertilizer (million tons)	5.24	7.238	8.693	9.570	38.1	20.1	38.1	10.1	NA	NA	20.1	38.1	10.1	NA	NA	NA	NA	NA
Motor vehicles (thousand units)	NA	125.4	149.1	NA	NA	18.9	NA	NA	NA	NA	18.9	NA	NA	NA	NA	NA	NA	NA
Freight cars (thousand units)	NA	6.396	16.950	NA	NA	165.0	NA	NA	NA	NA	165.0	NA	NA	NA	NA	NA	NA	NA
Cotton cloth (billion meters)	NA	10.151	11.029	NA	NA	8.6	NA	NA	NA	NA	8.6	NA	NA	NA	NA	NA	NA	NA
Sewing machines (million units)	NA	4.242	4.865	NA	NA	14.7	NA	8.6	NA	NA	14.7	NA	8.6	NA	NA	NA	NA	NA
Wristwatches (million units)	NA	11.04	13.51	NA	NA	22.4	NA	12.7	NA	NA	22.4	NA	12.7	NA	NA	NA	NA	NA

* The official exchange rate in recent months has averaged about 1.6 yuan per US dollar.
 NA: Data not available.

After the flood of statistics released for 1977-78, China's reporting on economic performance in the first half of 1979 looks curiously thin, apparently because prospects are mixed. The country reportedly had a good winter wheat harvest, but it is too soon to gauge agricultural performance for the entire year. Industrial production rose by only 4.1 percent as compared with the first half of 1978, meaning that second-half performance must be well above the 8 percent planned for 1979 as a whole.

Current Problems and Policies

The proceedings of the National People's Congress formalized policies of economic realignment and retrenchment that have gradually come into force since the third plenum of the Chinese Communist Party in December 1978. The Chinese leadership now is clearly much more concerned with short-term economic problems than with ambitious long-term economic goals such as those embodied in the "draft outline" of the 10-year plan unveiled in March 1978. Thus, while Chairman Hua recently spoke of a three-year period of readjustment (1979-81), only the annual economic plan and planned budget for 1979 were presented for discussion at the NPC.

Domestic economic policies are aimed at rectifying a number of longstanding problems that remain major obstacles to eventual Chinese modernization. These include:

- The need for improved consumer welfare both to stimulate labor productivity and to ensure that poor living conditions do not contribute to political instability.
- Amelioration of the currently high level of urban unemployment, particularly among youths who cannot now be absorbed in the schools and universities.
- Raising the low level of productivity of labor and capital that has prevailed for the past decade.
- Alleviation of the chronic shortages of raw materials, electric power, and transportation capacity that constrain industrial performance.

- Elimination of the waste of resources engendered by ill-conceived investment programs.

Solutions to these problems are still evolving, mainly because of the present leadership's desire to test new policies on a trial basis. Nevertheless, these problems are being tackled by (a) introducing new incentive and institutional systems and (b) changing the pattern of resource allocation. Under the former, agricultural procurement prices have been raised and the prices paid by peasants for industrial goods have been lowered. In addition, rural production teams have been given greater latitude to decide what crops will be grown and how much will be planted. Similarly, new systems of improved worker and management incentives are being installed in industry, transportation, and other services. The systems have not been in effect long enough to judge their impact on production.

The government is well aware of the impact these policies have on incomes and the demand for consumer goods. Thus, it is attempting to ensure--through new investment and increased allocation of energy and raw and finished materials--that the supply of such goods from agriculture and light industry will more adequately meet the new demand. In addition, Beijing is experimenting with numerous new systems of industrial organization and management--for example, a contract system (to govern how and when goods are to be produced and delivered among supplying, producing, and marketing units) and the creation of so-called "specialized corporations"--all of which are designed to increase efficiency and productivity. Progress in this area will remain slow because party, government, and enterprise bureaucracies are resisting changes and individual cadres remain unsure of the permanence of the new policies. Indeed, one of Beijing's major challenges is that of motivating middle-level managers to act decisively.

As for resource allocation, cutbacks have already been ordered in those parts of the construction program that have been poorly designed or that will pay off only over the very long term. Since December 1978 priority in investment has been given to agriculture, light industry, and textiles because of their importance to consumer welfare and to the expansion of Chinese exports. Energy, transportation, and the building materials industry appear to be next in line in resource allocation

decisions because these sectors constrain the operations of industry in general and because they support the scaled back, but still sizable, construction program now under way.

Despite the revamping of economic strategy over the past several months, Chinese interest in foreign equipment, technology, and capital remains strong. However, it is now more practically framed, reflecting the leadership's understanding that both the costs of acquisition and difficulties in absorbing foreign technology are much greater than previously anticipated.

Short-Term Prospects

The policies developed at the third plenum in December 1978 and now formally ratified by the NPC have been described by the Chinese as "preparing the ground" for eventual modernization. They appear to be well designed, practical measures that probably will mitigate some of the problems noted above.

Perhaps the most difficult problem for the government over the next three years will be that of handling rising consumer expectations. Notwithstanding repeated insistence that consumer welfare can be improved only gradually and should be preceded by increased productivity, the new policies are stimulating long-suppressed popular demand for more and better quality food, clothing, housing, and consumer durables.

One indication of the strength of this demand is that, despite low interest rates over the past two decades, urban and rural bank savings have steadily risen. The size of these deposits is unknown but they clearly are large enough to have become a serious concern for the government. In March the government abandoned the old system of paying a uniform annual interest rate for fixed deposits regardless of term and installed a system of six-month, and one-, three-, and five-year time deposits. In addition to inhibiting the withdrawal of funds from these accounts, the new higher interest rates are also intended to attract more of the increased money income that is beginning to be received by the population. We suspect that the government will find this problem of matching supplies to consumer demand a continual one for the foreseeable future.

Providing employment for youths of high school and college age who cannot be absorbed by the educational system is also likely to remain a difficult problem. Although expansion of educational facilities has not been slighted under the new policies, resources are simply inadequate to provide space for several million junior and senior middle school graduates. The current attempt to create new jobs in the services sector seems unlikely to satisfy the ambitions of this group. We suspect that they will continue to be a problem for Beijing's leaders, primarily because they are a potential source of political dissent.

Finally, the policies of realignment and retrenchment may well extend beyond the three-year period now envisaged. The number and scope of changes proposed under the new policies seem too great to be rapidly accomplished. The leadtimes required for adding new capacity in the energy and transportation sectors also make it unlikely that present bottlenecks will be removed by 1981. Nevertheless, we believe the odds favor the general success of new policies because they embody an unprecedentedly rational approach to China's economic problems. As compared with that of the Maoist era, the present leadership appears to be much less bound by ideological constraints in its policy choices and more thorough in its consideration of new policies, and to have demonstrated its ability to react quickly to new problems created by the policies.

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China Sees Economic Problems Despite Plan Fulfillment

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China, while announcing that major 1979 plans were fulfilled, has not concealed its concern over the serious problems that continue to hamper the economic readjustment scheduled for the period 1979-81.

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China's Xinhua news agency last week reported that industrial output grew "over 8 percent" in 1979, with heavy industry up 7.4 percent and light industry up 9 percent. In keeping with readjustment policies, the plan had called for 8 percent in industry as a whole, down from the 13.5 percent achieved in 1978. Heavy industry was to rise by 7.6 percent and light industry by 8.3 percent, a marked change from longstanding patterns of the past. Through June, industrial growth was only 4.1 percent and Beijing was exhorting producers—especially in the faltering light industry sector—to bear down. Subsequently, greater shares of industrial raw materials and energy were channeled to light industry; and military factories used excess capacity to turn out consumer goods.

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Agricultural output responded positively to good weather and a series of policy changes, including substantially higher purchase prices. Beijing claims grain production reached 315 million tons, exceeding the 1979 target by 2.5 million tons and surpassing 1978 production by 10 million tons. Cotton production grew only slightly from the 1978 level of 2.2 million tons, falling short of the 2.4 million ton target. The goal of 4-percent growth in gross value of agricultural output may have been met, although no claim was made.

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The sober tenor of the Xinhua release indicates that the leadership is not completely satisfied with economic performance in 1979. Profits remitted to the state probably did not reach planned levels, most likely resulting in a deficit in what was already a tight budget. Early in the year, Beijing realized that the correction of sectoral imbalances was proceeding more slowly than planned. Overextension of capital construction (which has been under attack since the beginning of 1979) persists, and light industry continues to suffer from inadequate supplies of raw materials and energy. At the same time, increases in urban wages and peasant incomes—while not dramatic—have raised expectations and have added to the demand for consumer goods. Given the difficulties in reshaping economic strategy, the leadership has indicated it may stretch out the readjustment period at least one year, through 1982.

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