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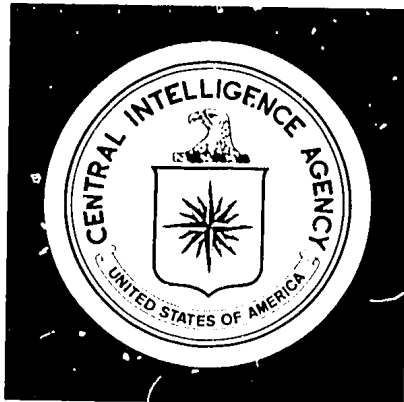
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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

China's Economic Slowdown in 1972

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March 1973

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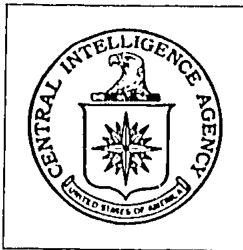
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March 1973

China's Economic Slowdown in 1972

China's rate of economic growth waned noticeably in the second year of the Fourth Five-Year Plan (1971-75). Judging from Peking's cryptic disclosures and other indicators, agricultural production may have declined by as much as 5%, growth in industrial output probably fell off to around 8%, and gross national product barely kept pace with the 2% annual increase in population. These are necessarily rough-hewn estimates because China still discloses only a few selected economic statistics.

Some slippage in the rate of economic growth last year had been anticipated as most nonagricultural sectors of the economy had revived production capacity which had been idled during the Cultural Revolution (1966-69). The slowdown was greater than expected because agriculture was struck by adverse weather, industrial raw materials were in short supply, key construction projects lagged behind schedule, bottlenecks in transportation cropped up, and local authorities misused the decisionmaking authority they had inherited in the aftermath of the Cultural Revolution.

How serious the economic setback was and how long its repercussions may persist are open questions. Peking's mood thus far has been one of concern but not alarm. Nevertheless, China's planners have reacted to the slowdown with several adjustments -- including revisions in the national economic plans. The government has cut the 1973 ration of cotton cloth, strengthened measures to conserve food, accorded higher priority to mining of raw materials, and acted to curb unsanctioned activities by local authorities. It has also shown a greater willingness to turn to the foreign trade sector to support agriculture and maintain living standards. Grain and cotton imports have been stepped up and have included the first purchases of these commodities from the United States in more than two decades. Likewise, Peking has contracted since the first of this year for six Western plants worth almost US \$150 million to expand production of fertilizer and synthetic fibers.

Agriculture will continue to be the pivotal element in China's economic picture in 1973 and the years beyond. With reasonably good weather, the 1972 slowdown should prove temporary. All this depends critically on continuity in China's recent pragmatic economic policies, which have permitted the country to handle its heavy task of feeding and clothing a huge population and still make notable progress in developing modern weapons and the related industrial and technical base.

Note: Comments and queries regarding this publication are welcomed. They may be directed to [redacted]

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DISCUSSION

Official Statistics: Still in Short Supply

1. One bright note for China watchers in 1972 was Peking's decision to again release some selected statistics, a policy initiated in 1970 by Premier Chou En-lai in his last interview with the late Edgar Snow. For the third year in a row, Peking has given out its official "estimates" for two basic indicators of agricultural and industrial performance in the Chinese economy, as follows:

	<u>Million Metric Tons</u>		
	1970	1971	1972
Grain	240	250	240
Crude steel	18	21	23

In addition, the Chinese have announced a considerable volume of percentage increases in the production of various goods and services. These data are much less useful because the base years are often obscure -- for example, production of certain commodities in 1972 is compared with "just before Liberation" (1948?) or "prior to the Cultural Revolution" (1965?). By contrast with 1971 when the Chinese reported a 10% increase in the gross value of industrial and agricultural output, no similar overall claim was made in 1972.

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3. Some observers had expected that, with entry into the United Nations, the People's Republic of China (PRC) might open its ledgers even wider and provide detailed data for various UN economic publications. The Chinese did not do so in 1972, and if Chou's policy remains intact, they are unlikely to do so this year either. It is noteworthy in this connection that the many prominent Americans who visited China last year were able to acquire almost no absolute output figures or any details relating to the current five-year economic plan.

4. The size and rate of growth of China's population remains a special puzzle, even to Chinese officials. Various Chinese leaders have given out figures ranging from 700 million to 850 million, and growth rates in the neighborhood of 2% per year. Moreover, Vice Premier Li Hsien-nien complained recently that "there are no accurate statistics in this connection." Because of the problems this uncertainty creates in economic planning and other matters, Peking apparently will conduct a national census in 1973 -- exactly 20 years after its first one. A recount seems especially timely in view of the problems Peking probably is facing in providing an adequate supply of food and clothing to areas hit unevenly by last year's bad weather.

5. Tables 1 and 2 of this memorandum list most of the major statistical figures released by the PRC for the years 1971 and 1972. An appended table of economic indicators provides unclassified estimates of long-run trends in the PRC's gross national product, agricultural production, industrial output, and foreign trade. These estimates were derived from the PRC's official pronouncements and a wide variety of other sources, including trade statistics reported by China's trading partners.

Economic Policy: Problems of Local Compliance

6. Peking's principal reaction to the economic slowdown has been to crack down on local authorities whose actions have run counter to official policies that "for the present stage" stress moderation, flexibility, and a no-nonsense approach to economic administration. The new, harder line on local compliance with central directives was evident in the New Year's editorial in the official press which set as a prime goal in 1973 "rectification of the style of work." With the post-Cultural Revolution economy still in a state of decentralized decisionmaking, local authorities apparently are either too inexperienced or too fearful of making missteps to steer a course that is neither excessively "leftist" nor "rightist." The official press in 1972 was replete with articles condemning local mismanagement in dealing with agriculture, industry, and construction.

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Table 1

PRC: Official Claims for Agricultural Production in 1972

Aggregate agricultural production
Grains	Down 4%
Rice	....
Wheat	Up 8%
Other	....
Soybeans	....
Major industrial crops	....
Cotton	Down "somewhat"
Oilseeds	....
Peanuts	Down "somewhat"
Sesame	Down "somewhat"
Rapeseed	Up 20%
Minor industrial crops	....
Hemp (bast fiber)	Up 20%
Silkworm cocoons	Up by "a wide margin"
Tobacco	Up by "more than" 10%
Tea	Up by "a wide margin"
Sugar beets and cane	Up 20%

7. In agriculture, local zealots were enjoined to cease and desist from interfering with the "rights" of production team members to spend part-time tilling their private plots, engaging in useful, slack-season avocations, and trading on rural markets. They were also reprimanded for mishandling the shareout from collective labor – that is, for not providing material rewards to peasants who have worked harder than their cohorts. Misuse of farm machinery came in for special criticism; examples included neglect of maintenance and repair, failure to provide for spare parts, and use of tractors for transport purposes unrelated to agricultural production.

8. In industry, Peking launched a series of campaigns aimed at checking a multitude of unsanctioned operating procedures. Chinese news media persistently complained about slipshod managerial practices which permitted loafing on the job, shoddy workmanship, waste of raw materials, and sloppy record keeping. Although such reports exaggerate actual conditions, the central leadership unquestionably is concerned about the state of affairs in industrial management at the plant level. China's leaders evidently are seeking to have it both ways: lip service must be paid to the rash "revolutionary reforms" of 1966-69, while in actuality the industrial management structure is to be revamped along the lines of the standard command economy which proved successful in reviving production following the collapse of the Leap Forward in 1960.

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Table 2

PRC: Official Claims for Industrial Production

	<i>Percent Increase over Previous Year</i>	
	1972	1971
Iron ore	....	26.1
Pig iron	12	23
Crude steel	9.5	18
Rolled steel	10	15
Electric power	....	18
Coal	....	8+
Crude oil	16	28.6
Natural gas	....	25
Chemical fertilizer	18.1	20.2
Cement	....	16.5 ^a
Timber	8	....
Machine building	....	18
Mining machinery	....	68.8
Metallurgical machinery	....	24.7
Agricultural machinery	....^b	21
Tractors	10	....
Internal combustion engines	25	....
Pharmaceuticals	11	....
Synthetic fibers	14	....
Bicycles	6.7	....
Wrist watches	12	....

a. Large modern plants only.

b. "Higher" than in 1971.

9. In construction, Peking's invectives were exceedingly harsh: unbridled local consumption of construction materials and other investment resources was threatening to undermine the state's priority projects and to jeopardize important goals in the national economic plans. To curb excesses, local authorities were ordered to abandon ill-conceived and unapproved undertakings and to concentrate on finishing up authorized projects that were already well under way.

10. By mid-1972 the mounting problems created by local mismanagement and poor farming weather had become serious enough for Peking to call for revisions in the 1972 economic plan as well as in the plans for the remaining years of the five-year plan (1973-75). Details of the revisions are not known, but they probably involve added support for agriculture and for production of industrial raw materials as well as retrenchment in local construction projects.

SECRET**Agriculture: "Natural Calamities" Again**

11. Plagued throughout much of the year by what was officially described as the worst weather "in several decades," China's agricultural production dropped an estimated 5% below the 1971 level. Peking blamed the decline on drought, floods, frost, windstorms, hail, and insects. The government also asserted -- and with undoubted veracity -- that the impact would have been much greater had the policy of stepped-up investment in agriculture not been in force over the past decade. On the other hand, reports earlier in the year suggested that the downturn might have been less had the local industry program taken away fewer farmhands for employment in small-scale rural factories.

12. In general, the bad weather hit North China harder than South China and was more detrimental to cotton than to grain. Peking reported that grain output dropped 4% below the 1971 level and that production of cotton and the most important oilseeds also declined (see Table 1). We believe that the output of autumn-harvested grains -- corn, millet, and sorghum -- and of cotton was well below Chinese expectations, particularly in the North China area. This region is China's most important cotton growing region and is also an area where imported grain is required to feed the major cities even when harvests are good.

13. On the heels of a 1971 harvest that matched but did not surpass the good harvest of 1970, the 1972 shortfalls forced the government to make economic adjustments on a scale not required since the early 1960s. These included:

- a doubling or tripling of cotton imports;
- the first large imports of vegetable oils;
- an intensification of the usual programs to save and conserve grain; and
- a reduction in the annual cotton ration for 1973.

In addition, China's imports of grain in calendar year 1972 were increased to almost 5 million tons, well above the recent annual average of about 4 million tons. As prospects for the 1972 harvests dimmed, the Chinese entered the world grain markets earlier than usual. Some 5.5 million to 6 million tons of grain are likely to be imported by China in 1973.

14. The setback in agriculture was obviously upsetting to a government which had been according high priority to agricultural

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development since late 1962. The construction of water conservancy and irrigation projects, the increased supply of chemical fertilizer and pesticides, and the development of improved seeds and agricultural machinery suited to China's requirements have been stressed for the past 10 years. Following the 1971 harvest, the government modified its pricing policies in order to (a) facilitate increased purchases of needed industrial inputs by farming units - production teams, brigades, and communes - and (b) stimulate the production of industrial crops. To this end, Peking reduced the state sales prices of farm machinery, petroleum products, chemical fertilizer, and insecticides and boosted the state procurement prices of peanuts, sesame, rapeseed, and sugar crops.

15. Such material incentives yielded only mixed results in 1972. According to official reports, the supply of chemical fertilizer to farming units increased by 20%. No yearend percentage figure was cited for increased availability of agricultural machinery, although production of tractors reportedly was up 10% for the year as a whole and of drainage and irrigation equipment by 30% during the first eight months. Similarly, whereas the harvests of rapeseeds and sugar crops were both said to have risen by 20% in 1972, harvests of the much more important crops of peanuts, sesame, and cotton were admittedly down. Thus, despite the concentrated efforts of the past decade, China's agriculture remains vulnerable to adverse weather, and the time is not yet in sight when China can become self-sufficient in both foodgrains and essential industrial crops.

16. While disappointing to Peking, the lower harvest of 1972 is unlikely to pose critical economic problems - at least not this year. Another poor harvest in 1973, however, could have disturbing economic and political consequences because the agricultural sector must not only provide food and clothing for China's ever-growing masses but also make available the surpluses for investment in industry and agriculture, raw materials for light industry, and exports.

17. The effects of an off year in Chinese agriculture generally are reflected in living standards and the performance of light industries more in the following year than in the current year. Even so, for 1972 the government announced only that (a) retail sales of consumer goods "rose," (b) supplies of basic necessities were "adequate," and (c) state purchases of grain were "satisfactory." By contrast, in 1971 Peking had claimed a 7.8% increase in retail sales. Where percentage gains were cited, they dealt almost exclusively with increased sales of food items raised on private plots (pork and eggs) or goods not made from agricultural raw materials (synthetic fabrics, bicycles, wrist watches, television sets, and transistor radios).

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18. The average Chinese consumer in 1972 thus apparently was no worse off, nor was he any better off. Estimated GNP per capita remained virtually unchanged at roughly \$155.

Industry and Construction: Searching for Balance

19. China's commentary on industrial production and investment in capital construction in 1972 was low-pitched compared with the claims of 1971. For 1971, Peking had implied a growth rate well in excess of 10% for industrial production and announced that investment was "considerably greater" than in 1970. In the subdued language of 1972, industrial output was said to have "continued to rise" and construction to have scored "fresh successes." Substantially fewer gains for major industrial products were announced in 1972, and the rates of increase in every case were below those reported for 1971.

20. Judging from the official figures shown in Table 2, from scattered reports of percentage increases in gross value of industrial output in various provinces and major cities, and from numerous other reports on major industrial facilities, China's overall industrial growth probably declined from an annual rate of about 13% in 1971 to around 8% in 1972. While still a respectable rate of advance, China's planners seemed to be concerned over whether such a pace can be sustained in the three remaining years of the five-year plan. Reports throughout the year indicated that production of raw materials, coal, and electric power was not keeping up with demand. Significantly, Peking's yearend reporting omitted any percentage claims for increased output of cement, iron ore, coal, or electric power.

21. In part, the industrial slowdown was attributable to:

- failure to complete on schedule the construction of key investment projects and resultant imbalances among basic industries;
- shortages of both industrial and agricultural raw materials; and
- confusion and uncertainty among local cadres, workers, technicians, and scientific personnel, many of whom are still smarting from maltreatment administered during the Cultural Revolution.

However, some slackening of the pace had been anticipated simply because the relatively large increases of the previous two years represented catch-up gains achieved by reviving production which had fallen off during the

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"revolutionary" turmoil of 1967-68. By 1972, China's modern industries were operating at or near full capacity. Moreover, in such industries as iron and steel and cement the large increases in output of 1970-71 reflected in part the rapid proliferation of small-scale plants. Quantum jumps in output from commissioning more and more of these often primitive facilities could not be expected to continue indefinitely. Indeed, the Chinese appear to have cut back on expanding the number of small plants in 1972, and production from these enterprises - with the notable exception of chemical fertilizers, steel, and cement - apparently leveled off during the year.

Metals and Minerals

22. According to Peking, **crude steel production** totaled 23 million tons, a gain of 9.5% above the 21 million tons produced in 1971. Pig iron production again expanded at a swifter rate (12%) than crude steel, although not fast enough to obviate the need for continued imports. As in recent years, the increase (15%) in crude steel production registered by the small-scale and medium-scale plants of "local industry" exceeded the national average. Local plants presently account for roughly one-fifth of the pig iron and one-seventh of the crude steel produced in China. With both defense and non-defense requirements for higher quality and special steels growing rapidly, China last year opened negotiations for the import of at least \$300 million worth of advanced steel finishing equipment. Even when this capacity is in place, China will continue to need to import substantial amounts of steel products. China's annual imports of steel products have amounted to about 2 million tons over the past several years.

23. China has yet to release figures on production of **nonferrous metals and minerals**. Many of these commodities are known to be in keen demand by the defense and machine building industries, yet - apart from aluminum - China seems unwilling or unable to expand capacity. Unless the copper, lead, and zinc industries are expanded soon, China will become seriously dependent on foreign suppliers over the next few years. A large part of China's traditional export metals (tungsten, tin, antimony, and mercury) continues to be reserved for domestic consumption.

Fuels and Power

24. Production of coal is estimated to have increased by less than 5% to 340 million tons in 1972, compared with Peking's claim of an 8% growth rate in 1971. The slow growth in China's primary source of energy can be traced to (a) the lack of major investment in the industry since the mid-1960s, (b) the increasing difficulty of opening new mines now that the best and most accessible resources have been tapped, (c) the long gestation period from start of mine construction to extraction of coal, and

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(d) the perennial shortage of pit props. Because most major mines are now producing near capacity levels, little additional output can be derived from expanding existing facilities. In 1972, only a few new mines were reported to have been opened, adding at most merely 2 million tons to national output. The local industry program of building small-scale coal mines appears to have run its course for the time being, with the surviving mines accounting for about one-fourth of national output. Chinese plans for further development of the coal industry are not known; however, mining machinery, including coal extraction equipment, apparently has a high place in the PRC's current list of import needs.

25. Output of electric power is estimated to have increased by about 10% to 95 billion kilowatt-hours in 1972, substantially below the 18% increase claimed for 1971. Electric power capacity is presently about 22 million kilowatts, of which 2 million kilowatts were added in 1972. With powerplants currently being utilized at a high rate, future increases in production will depend on comparable additions to capacity. Accordingly, the Chinese have begun constructing new powerplants, some of which will employ imported equipment. Thus far, foreign purchases have been mostly small gas turbine and medium-sized thermal units worth a total of about \$150 million. The Chinese also have been showing interest in importing large units with capacities of 300 megawatts and above.

26. By the end of 1971, 35,000 small rural hydroelectric powerplants had been built. At yearend 1972, the capacity of such plants had totaled about 1.4 million kilowatts, or roughly one-sixth of China's hydroelectric capacity. Generation of electricity from these and other local powerplants accounts for only about 5% of total electric power production. Power from small plants, nevertheless, is essential to the development of local industries and contributes an important part of the electrical energy going to agriculture for irrigation and other uses.

27. China's petroleum industry in 1972 continued to register remarkable gains in crude oil production, expansion of refining capacity, and output of petroleum products. Production of crude oil rose to a record level of 30 million tons. No serious problems were evident, although here again the rate of increase slackened - 16% in 1972 compared with 28.6% in 1971, according to Peking. New catalytic cracking units were completed at several refineries. Volume and quality of major products - including jet fuel, motor gasoline, diesel fuels, and various lubricating oils - were raised, and most refineries initiated or increased the supply of raw materials to the petrochemical industry. A shift from coal to oil as fuel for some thermal electric powerplants and the expansion of land, sea, and air transportation also absorbed a large share of the increased supply.

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28. The volume of the foreign trade in petroleum in 1972 remained at a low level, despite reports that an expansion of Chinese exports is under consideration. Estimated imports of petroleum amounted to less than 300,000 tons -- about the same level that has been maintained since 1966. Exports also remained at a low level, probably less than 250,000 tons.

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Within a few years, however, China could have as much as 10 million tons of petroleum available for export annually.

Chemicals

29. The continued rapid growth of petroleum production has bolstered China's program for development of its small **petrochemical industry** which, according to Peking, sharply increased the production of synthetic fibers and compound detergents in 1972. Of even greater potential importance were Chinese negotiations to import complete plants for both ethylene and synthetic fiber production. After protracted bargaining, the Chinese early this year signed contracts with Japanese suppliers for two complete plants that will provide China with its first large facilities for producing ethylene, a versatile petrochemical with numerous military and industrial applications. The PRC also this year has contracted with Japan for an acrylonitrile monomer plant which will manufacture synthetic fiber, synthetic rubber, and plastics. In addition, the Chinese apparently completed in 1972 an old Soviet-aid project at Lan-chou, which probably is China's largest present producer of synthetic rubber.

30. The Chinese also dispatched technical personnel to Japan and Western Europe to acquire firsthand knowledge of the technology and operation of modern synthetic fiber plants. Although no contracts were concluded for fiber plants in 1972, negotiations are usually a drawn out process, with the Chinese requiring presentation of every detail. The types of plants under consideration include those for producing vinylon, polyester fibers, nylon-6, and nylon-66.

31. The development of a substantial petrochemical industry, apart from its contribution to modernizing both defense and non-defense industries, has the potential for easing China's dual problems of feeding and clothing the huge population. Petrochemicals can serve, for example, as substitutes for grain-base and potato-base alcohol used by the Chinese in making synthetic rubber. They also can replace the wood pulp, cotton linters, and similar agricultural raw materials used in making rayon-type fibers. If China succeeds in greatly boosting its production of synthetic

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fibers and fabrics, Peking may find it easier to shift some cotton acreage into grain production.

32. Perhaps the most impressive development in the PRC's chemical industries in 1972 was the commissioning of an additional five large-scale chemical fertilizer plants and at least 100 small ones. As a result, claimed production rose by 18.1%, only slightly less than the 20.2% claimed for 1971. Consistent with China's long-term emphasis on increasing the share of nitrogen fertilizer in total output, nitrogen fertilizer reportedly rose by 23.4% and phosphate fertilizer by 10.9%.

33. Of the large fertilizer plants that came on stream in 1972, by far the most important is a modern new facility in Shantung Province. This plant is highly mechanized and has an annual capacity of 110,000 tons of urea fertilizer. In addition, the Chinese recently purchased three huge urea plants from the Dutch; when these facilities become operational in the latter 1970s, they will probably double China's capacity to produce high-quality urea fertilizer.

34. The PRC also pushed ahead with the expansion of small-scale fertilizer plants. These plants presently account for about 60% of total output, although the quality of product varies widely and in general is much lower than that of large-scale plants. Despite the favorable growth prospects for total domestic production, the demand for chemical fertilizer by Chinese agriculture remains insatiable, and in 1972 the PRC imported 4.2 million tons of high-grade fertilizer.

Construction Materials

35. Peking withheld any useful assessments of the 1972 performance of the hard-pressed construction materials industry. Official news media did report a gain of 8% in timber production, the first such figure in several years. It was also reported that 600 more small-scale cement plants were constructed in 1972, bringing the total to more than 2,400, and that small plants accounted for 48% of China's cement production. With the demand for construction materials at or approaching an all-time high, Peking's reluctance to be more definitive suggests that shortages of these materials are constraining the investment program. For many years now, the highest quality construction materials have been preempted by China's multifaceted defense and defense-support projects.

36. In 1971 the Chinese had published special articles praising the "swift" growth of the construction materials industry and had claimed that cement produced by large modern plants had increased by 16.5% over the preceding year. They made no such claims for 1972. Actual production

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from large cement plants probably rose only about one million tons, or 7%, to roughly 15.5 million tons. As for the local plants, production at the astonishing level cited would equate to about 14 million tons. The quality of cement produced by small plants is low, and it is used almost exclusively in building the thousands of small-scale, agricultural-support projects in rural areas. It cannot be used to erect large scale, modern facilities.

37. Some appreciation of the magnitude of the demands being placed on China's construction materials industry can be inferred from a listing of major claimants:

- the construction of new industrial and military production facilities, some of which are quite large;
- the building of new rail lines, highways, and airfields;
- the hardening against attack of defense production facilities and fortifications; and
- the nationwide construction of tunnels and air raid shelters.

Machine Building and Armaments

38. Peking's comments on machine building in 1972 dealt mostly with the technological advancement of the industry since 1949. The few percentage figures cited for production were for 1971 compared with 1957 and 1965. A February 1973 broadcast on progress in agricultural mechanization, however, noted that in 1972 output of farm machinery was "higher" than in 1971 and that production of tractors and internal combustion engines had risen 10% and 25%, respectively. The skimpy reporting was not surprising; the Chinese rarely give out figures on machine building because much of the industry is engaged directly or indirectly in armaments production. Nevertheless, in 1971 Peking had reported an overall increase of 18% as well as gains for three non-defense categories currently being stressed in the five-year plan - 68.8% for mining machinery, 24.7% for metallurgical machinery, and 21% for agricultural machinery. The suspicion is strong, therefore, that at least some branches of machine building turned in a sub-par performance in 1972.

39. Judging from highly fragmentary data, China's production of general industrial machinery and transport equipment probably rose by

5%-10% in 1972, compared to 10%-20% in 1971. At numerous industrial exhibitions both at home and abroad, the Chinese unveiled prototypes of a wide assortment of modern-looking equipment, ranging from numerically controlled machine tools to computers using integrated circuits. These high-technology products are intended to show China's state-of-the-art in engineering technology. Production of such items, with few exceptions, is still experimental. Moreover, the widely heralded "technical innovations" campaign consists not so much of original research and development but rather of adapting proven foreign technology to Chinese conditions.

40. The local industry program is of marginal significance in most branches of machine building apart from the manufacture of simple agricultural implements, small industrial engines, and electronic components adaptable to labor-intensive production techniques. Batch production of trucks in small-scale facilities was again highlighted by the official news media, but such production contributes little to the solution of China's chronic shortage of automotive vehicles.

41. In armaments production, there appeared to be a slackening during 1972 in work on at least aircraft and naval ships. Output of aircraft declined, and naval ships spent longer on the building ways. The Chinese continued to produce a broad assortment of weapons of both Soviet and Chinese design. No space satellites were launched during the year, but construction continued on associated instrumentation facilities. Two nuclear tests were conducted, bringing the total since 1964 to 14. Production of ground weapons included tanks, a widening variety of artillery, and small arms.

Transportation: Heavily Burdened

42. China's recent economic recovery and expansion began to overload the transportation system in 1972. For example, railroads, the backbone of China's transportation system, experienced periodic freight car shortages during the year. Peking reported an increase of only 6.8% in the volume of freight hauled by rail, far below the 18% figure implied for 1971. The volume of cargo carried by trucks reportedly rose a scant 3.4%.

43. The burden on available rail and road services was exacerbated last May with the mining of North Vietnamese ports. After an initial period of transition, the Chinese transported large quantities of military and economic goods - both their own and Soviet - across inland China in support of Hanoi.

44. The impending strain on transportation had apparently been anticipated because Peking has given high priority to expansion of the

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transport sector in the current five-year plan. In 1972 the Chinese continued the construction of new rail lines, roads, and jet-capable airfields. Significant progress was made on several major trunk rail routes in the rugged central and southwestern areas of the country where many new industrial projects are being built. Substantial quantities of transport equipment were imported, including:

- diesel locomotives from West Germany;
- electric locomotives from France;
- railroad tank cars from Romania;
- aircraft from the United Kingdom and the USSR;
- trucks from Japan, Western Europe, and the European Communist countries; and
- merchant vessels from various Communist and non-Communist sources.

In addition, several new pipelines were constructed between North Vietnam and points inside the Chinese border to facilitate the shipment of petroleum.

Foreign Trade: On the Rise

45. China's foreign trade in 1972 rose to an estimated \$5.5 billion, an increase of about 20% over that of 1971. Perhaps as much as one-half of the increase in dollar terms, however, was the result of the revaluation of world currencies in December 1971. As in 1971, exports grew somewhat faster than imports, and China's favorable trade balance with the world expanded. The direction of trade in 1972 did not shift markedly. Trade with non-Communist countries still comprised more than three-fourths of China's total trade. Trade with Communist countries increased largely as a result of a sharp rise in Sino-Soviet trade to about \$250 million.

46. Japan remained as China's largest trading partner. Sino-Japanese trade topped the \$1 billion mark in 1972 for the first time, while China's trade deficit with Japan was reduced to less than \$200 million. Chinese exports to Hong Kong (including reexports to third countries) rose to more than \$600 million, and overseas remittances and other earnings from Hong Kong totaled about \$150 million.

47. Sino-US trade in 1972 took a sharp upward turn as a result of the intense interest generated by President Nixon's visit to the PRC, the

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gradual removal of political and legal barriers to trade, and most particularly China's purchase of US grain and cotton for 1972-73 delivery. Trade with the United States jumped from \$5 million in 1971 to \$92 million in 1972. China's exports to the United States of \$32 million consisted of a variety of crude materials, foods, and light manufactures. US exports to China totaling \$60 million were mostly wheat and corn, which were shipped in the last few months of the year. Besides the large purchases of US farm products, the highlights of Sino-US trade in 1972 were the attendance of US businessmen at the spring and fall Canton fairs and the contract for ten Boeing 707s worth about \$120 million for 1973-74 delivery. Sino-US trade in 1973 could be three or four times the level of 1972, judging from existing contracts for US farm products and Boeing aircraft.

48. New emphasis is being placed on foreign trade by Peking, reflecting its greater interest in international affairs and decisions to improve its domestic performance by acquiring larger amounts of foreign equipment and technology. In addition to expanded outlays for farm products from abroad, China has under contract for 1973 delivery substantial amounts of transportation equipment, various types of machinery, and some whole plant equipment and will continue to import large quantities of metals, fertilizer, and other industrial materials. To pay for its rising import requirements, Peking has launched an effort to increase foreign exchange earnings, including price increases for exports in strong demand, measures to enlarge remittances and bank deposits of overseas Chinese, and initial steps to develop new markets (both in new areas such as the United States and in new products such as petroleum to Japan). Ostensibly, this campaign is to permit larger imports of capital goods; it undoubtedly also represents Chinese recognition that last year's agricultural shortfalls make necessary the acquisition of additional hard currency in ways not dependent on domestic agriculture.

49. Since the first of the year, China has also indicated a willingness to revert to its pre-Cultural Revolution practice of using medium-term credits for purchases of whole industrial plants. The contracts for the two ethylene plants noted earlier involve the first use by China of medium-term credits from the Japanese Export-Import Bank since 1963, when the now-defunct Yoshida Letter prohibited such credits for China. The three urea plants ordered from the Netherlands are also likely to involve some type of deferred payment arrangement. China's current negotiations with Japanese and West European firms for whole plants cover a broad range of industrial facilities. If all pending deals are consummated, the total cost will amount to at least \$500 million, roughly twice the total value of whole plant purchases from Japan and Western Europe during the mid-1960s. These facilities are not likely to enter production during the current five-year plan, however, because of the time required for machinery and equipment to be manufactured, shipped, and erected at the plant site.

SECRET

PRC: ECONOMIC INDICATORS

	1952	1957	1958	1959	1960	1961	1962	1963	1964	1965
GNP (billion 1970 US \$).....	59	82	95	92	89	72	70	82	90	97
Population, mid-year (million persons)...	570	642	658	674	689	701	710	721	735	751
Per capita GNP (1970 US \$).....	104	128	144	137	131	103	112	114	122	129
Grain (million metric tons).....	154	185	200	165	160	160	175 180	175 180	180 185	189 195
Cotton (million metric tons).....	1.3	1.0	1.7	1.5	1.4	0.9	0.9	0.9	1.3	1.5
Industrial production index (1957 = 100).....	51	100	131	166	161 163	107 110	108 113	119 125	133 142	148 161
Crude steel (million metric tons).....	1.35	5.35	8.0	10	13	8	8	9	10	11
Coal (million metric tons).....	66.5	130.7	230	300	280	170	180	190	200	220
Electric power (billion kilowatt hours)...	7.3	19.3	28	42	47	31	30	33	36	42
Crude oil (million metric tons).....	0.44	1.46	2.3	3.7	4.6	4.5	5.0	5.5	6.9	8
Cement (million metric tons).....	2.86	6.86	9.3	11.0	9.0	6.0	5.5	7.3	8.7	11
Chemical fertilizers (million metric tons)										
Supply.....	0.4	1.9	3.0	3.1	3.5	2.4	3.1	4.9	4.7	6.8
Production.....	0.2	0.8	1.4	1.9	2.5	1.4	2.1	2.9	3.5	4.5
Imports.....	0.2	1.1	1.6	1.2	1.0	1.0	1.0	2.0	1.2	2.3
Machine tools (thousand units).....	13.7	28.3	30	33	38	30	25	35	38	44
Trucks (thousand units).....	0	7.5	16.0	19.4	15	1	14	16	26	31
Locomotives (units).....	20	167	350	500	600	100	25	25	25	50
Freight cars (thousand units).....	5.8	7.3	11	17	23	3	4.0	5.9	5.7	6.6
Cotton cloth (billion linear meters).....	3.83	5.05	5.7	7.5	5.8	4.0	4.2	4.5	4.9	5.4
Foreign trade (billion current US \$)										
Total.....	1.89	3.06	3.76	4.29	3.99	3.02	2.68	2.77	3.22	3.8
Exports.....	0.88	1.62	1.94	2.23	1.96	1.53	1.53	1.57	1.75	2.0
Imports.....	1.01	1.44	1.82	2.06	2.03	1.49	1.15	1.20	1.47	1.8

PRC ECONOMIC INDICATORS

1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	Preliminary 1972
89	72	70	82	90	97	105	102	101	111	126	134	136
689	701	710	721	735	751	766	783	800	818	836	855	874
130	103	112	114	122	120	137	130	126	136	151	156	155
160	160	175 180	175 180	180 185	190 195	195 200	210 215	195 200	200 205	220 225	220 225	215 220
1.4	0.9	0.9	0.9	1.3	1.3	1.6	1.8	1.6	1.7	1.7	1.6	1.2
161 163	107 110	108 113	119 125	133 142	148 161	166 182	136 151	149 168	178 203	208 241	234 274	252 290
13	8	8	9	10	11	13	10	12	15	18	21	23
280	170	180	190	200	220	240	190	200	250	300	325	340
47	31	30	33	36	42	50	45	50	60	72	86	95
4.6	4.5	5.0	5.5	6.9	8	10	10	11	14	20	26	30
9.0	6.0	5.5	7.3	8.7	11	12	10	11	12	13	14.5	15.5
3.5	2.4	3.1	4.9	4.7	6.8	8.0	8.7	10.3	12.3	14.3	16.6	18.9
2.5	1.4	2.1	2.9	3.5	4.5	5.5	4.4	6.3	8.2	10.0	12.3	14.7
1.0	1.0	1.0	2.0	1.2	2.3	2.5	4.3	4.0	4.1	4.3	4.3	4.2
38	36	25	35	38	44	48	40	40	45	50	55	60
15	1	14	16	26	34	47	34	31	60	70	81	92
600	100	25	25	25	50	140	200	240	260	280	300	320
23	3	4.0	5.9	5.7	6.6	7.5	6.9	8.7	11	12	14	15
5.8	4.0	4.2	4.5	4.9	5.4	6.0	4.8	4.8	6.5	7.5	7.5	7.5
3.99	3.02	2.68	2.77	3.22	3.88	4.24	3.90	3.76	3.86	4.22	4.66	5.5
1.96	1.53	1.53	1.57	1.75	2.04	2.21	1.95	1.94	2.03	2.04	2.40	2.9
2.03	1.49	1.15	1.20	1.47	1.84	2.03	1.95	1.82	1.83	2.18	2.26	2.6