

The war in Indochina: withdrawal or blitzkrieg?

While China was capturing headlines for its invasion of Vietnam last month, a possibly even more important story was beginning to come out of the inscrutable Middle Kingdom — the story of the inability of the Teng Hsiao-ping regime to resolve at all satisfactorily the monumental economic problems left over from the Maoist period while still maintaining the Maoist foreign policy of international tension and anti-Soviet vendetta. The limited de-Maoization of social life has unleashed the genius of the Chinese people for organizing societies and networks to demand the new rights and economic privileges promised — but not yet delivered — by the new regime in its effort to win public confidence. It now appears increasingly certain that even before launching his reckless invasion of Vietnam, Teng Hsiao-ping was in deep trouble at home, and that a major motivation for the attack was Teng's desperate need for a foreign policy coup to shore up his domestic position. The failure of that gambit could even, according to some indications, lead to Teng's third fall from power.

The extent of China's economic crisis, as indicated by several recent revelations — highlighted by the suspension of over \$2 billion worth of contracts with Japan last week and confirmed by Peking's own reports of domestic problems — exceeds even the most pessimistic assessments proffered by the most sober Western observers. At the most superficial level, it has been clearly communicated by the Chinese that the last six months of hectic negotiations, contract initialing and bid soliciting from Western firms, was done far too hastily, without adequate preparation and coordination between different Chinese departments, and would have resulted in aggregate costs to China far in excess of China's payment capabilities. And beneath the surface, it is now clear that internal directives to spur economic growth have caused problems similar to those experienced in the Great Leap Forward of 1958-60, where directives were blindly implemented by a population obsessed with carrying out even patently absurd directives to avoid political censure. These problems have been compounded by the population's willingness to speak

up with demands for improved working conditions and a higher standard of living.

Announce steel, foreign exchange crisis

The extent of China's foreign exchange holdings is one of the best-held secrets in international finance, but all evidence suggests that the past year's buying spree rather suddenly confronted China with a foreign exchange crisis. While the abrupt suspension of the 32 contracts with Japanese firms signed or initialed since last Dec. 16 had unmistakable political overtones — China's "punishment" for Japan's unwillingness to support China's invasion of Vietnam — it was motivated as well by the impossibility of paying in cash for the deals. China reportedly wanted the cash deals renegotiated on a loan basis. Japanese sources in Washington said that China had less than \$2.5 billion in foreign exchange, against \$6 billion coming due soon in payments.

Recent media coverage in China has also focused on the urgent necessity of generating increased foreign exchange from all possible quarters. This necessity is undoubtedly one of the prime motivations for an overall shift toward light industry (see below). *The People's Daily*, the Communist Party paper, emphasized in an editorial Feb. 17 that the urgent need for foreign exchange also dictated that China make an immediate push to increase the scale of tourism 10 to 100-fold. "In order to expedite the four modernizations, we need large amounts of capital. Where can we get this capital? ... We must choose those undertakings which are easy to begin with and which can earn us large amounts of foreign exchange so as to quickly accumulate more capital for our socialist construction *and continuously improve China's foreign exchange problem,*" (emphasis added) the editorial said. The article said that "central leading comrades" have been urging every effort to develop tourism, "the industry without smoke," to meet this foreign exchange need, but there was still much popular opposition to doing so.

As for steel, a Feb. 24 editorial in the *People's Daily* openly confessed that China's steel industry is in trou-

ble. Since achieving production of 16 million tons in 1966, China's steel industry has been in the doldrums (see graph), with output actually falling during the Cultural Revolution and in 1975-76, and maintaining an overall average of barely 5.4 percent annual growth (4.5 percent 1966-77), a very low figure for a developing economy with China's needs. However, even these rates may fall still farther due to both the crisis in China's economy as a whole, and the specific problems in steel in particular. The editorial said China must institute "a relative cut in iron and steel investments and a critical examination of years of low economic efficiency in this industry. For many years, we have stressed investment in steel, both financial, material and in terms of manpower, but results have been slow." The editorial justified this turn on the altar of the necessity "to earn more profits and foreign exchange and compete on the international market."

Crisis of agriculture leads to economic right turn

More than just announcing the troubles of the steel industry, the Feb. 24 editorial was a call for at least a 90, if not a 180 degree turn in China's economic policy of the last two years — a turn that had been coming, but not fully spelled out, since the Nov. 24-Dec. 25 Central Committee plenum last year. The editorial said that not only steel, but heavy industry as a whole had to be de-emphasized: "When the steel quota is high, it naturally tips the balance of the national economy in favor of heavy industry at the expense of agriculture and light industry, thus dislocating the order of precedence for agriculture, light industry, and heavy industry, *which should come in this order* (emphasis added). Agriculture and light industry require smaller investment, but they produce quicker results and this meets the needs of the people."

The shift to emphasis on agriculture first became evident in the communiqué of the Third Plenum in late December, which announced a hike of 20 percent in the price of grain procured by the state from those peasants who produce a surplus and discussed at length the need to improve agriculture while omitting to address the nation's industrial goals. In early February, China announced a vaguely defined program to turn certain agricultural areas near urban centers into special zones, apparently to try to commercialize agriculture in these enclaves to supply the cities and satisfy export needs. Whether this represents a net increase in planned agricultural investment, or a mere shifting of resources from the countryside, where resources would be spread thin to small regions where they would be concentrated, is not clear, though the simultaneous announcement by China's leadership that all-around mechanization of agriculture must be postponed suggests the latter. If so, a lot of Chinese peasants may soon become very unhappy.

The Feb. 24 announcement is reminiscent of the Soviet debate of the late 1920s between Bukharin and Stalin, in which Bukharin argued for a radical deemphasis of heavy industry and a rich peasant "kulak" policy. The World Bank today is advising third world countries along such "Bukharinist" lines as well, and has done everything it can to impede the development of heavy industry in third world countries for 30 years. China's shift in that direction carries momentous consequences for the Chinese economy. A Feb. 20 *People's Daily* editorial extolled the virtues of light industry for generating "large amounts of foreign exchange and construction funds." But for China to generate tens of billions of dollars from light industry exports — which is the order of magnitude required for its import plans — presupposes markets for these products in a world which is already erecting protective barriers against similar products from other countries.

The social implications are no less momentous. Following the Bukharinite implications of the policy, a Feb. 17 media release argued the necessity of permitting successful peasants to become well-off—i.e., to become rich peasants. This flies in the face of communist rhetoric in China since 1951 decrying rich peasants, and may very well stir up widespread hostility in the countryside.

Equally significant, according to highly placed sources cited in the *Philippine Daily Express* Feb. 21, Chinese authorities have drawn up an "economic master plan" to develop the southern industrial and commercial entrepôt of Canton as a major free port on the scale of Hong Kong, to be run as a "pure capitalist system."

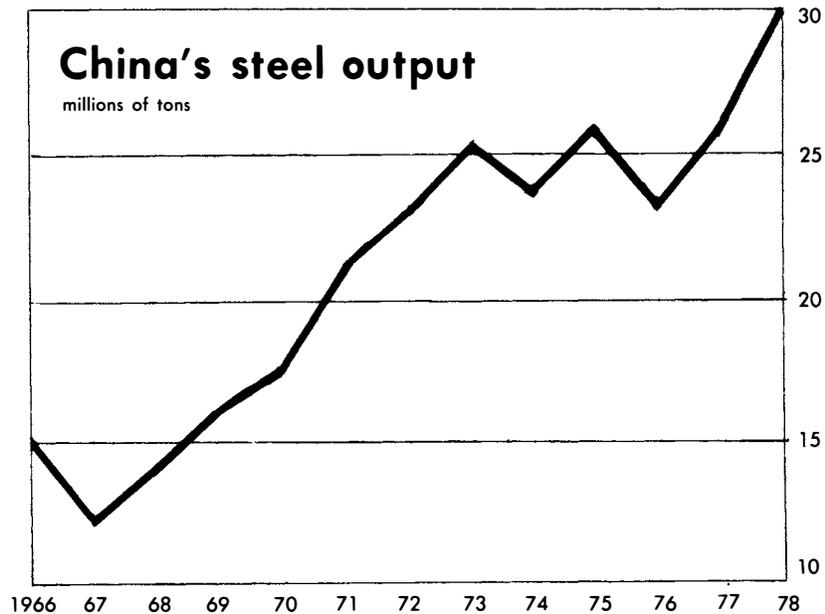
All of these measures have the appearance of desperate expedients to deal with insoluble problems, in which the attempted solutions may be worse than the disease. It is not hard to imagine a very large constituency inside China at all levels that will not go for such drastic reversals of everything that communist rule has stood for, measures that even smack of inviting back in the kinds of conditions that existed before 1949 in the countryside, and in the extent and nature of foreign penetration.

Productivity off, labor restive

According to the usually reliable Hong Kong monthly *The Seventies* citing reliable sources in Peking, in its February issue, the Third Plenum was confronted with a battery of depressing economic statistics. Agricultural production for 1978 was far below quota, making a mockery of the ambitious 4.5 percent growth targets set less than a year earlier. Industrial firms, whose prime goal was to get back to previous peak levels of output, had failed, in 77 percent of cases, to do so. Labor productivity was reported below that in 1966, while one-fourth of all firms were in the red. And overall profit rates were 50 percent down from 1966, at only 16 per-

China's steel troubles continue

Troubled and inefficient for years, China's steel industry is faced with new cutbacks. The government, admitting steel production is plagued by inefficiency and waste, has announced it will reduce capital investments in steel. As the graph shows, China's steel output has been erratic. 1978's high figure, 30 million tons, is the result of an influx of investment over the past several years; the announcement of investment cutbacks suggests it may represent a plateau or even a peak. By contrast with another major power, Soviet steel output in 1978 reached over 152 million tons, and, unlike China's, rises steadily.



cent, very low for an industrializing country.

That China is still recuperating from its Maoist years, rather than registering fundamental new growth, was officially confirmed in the Feb. 24 editorial which said that 1979 and 1980 will still be years of "restoration, adjustment and consolidation in the national economy." A Feb. 10 *People's Daily* article was more explicit, reporting that the nation's economy in the past two years has been in the nature of rehabilitation."

But restoring full production is colliding with grave social problems, some created by the decades of Maoist insanity, some of the present regime's own creation. After 20 years of waiting — the last general increase in wages prior to the one last year was in 1957 — China's workers want to see some improvement in their standard of living. This last increase may have satisfied few, as wage levels are less the problem than the availability of goods to spend them on. The upper stratum of China's working class has surprisingly large per capita bank savings for lack of anything else to do with their money. Inflation has also become a problem in some areas, according to reports last fall. Lack of enthusiasm for working hard in order to enjoy its fruits 20 more years from now accounts for much of the productivity problem.

This demand for higher real wages has already exploded in a vital strategic sector, China's oil industry. Reporting on a conference run by the Ministry of Petroleum, Peking Radio reported on Feb. 15 that

"some people" in the oil industry "practiced anarchism" and "made unreasonable demands and boycotted work or classes at will," an action known in the West as a strike. "Some of them even stormed government organs, encircled and attacked the leadership, blocked the trains and disrupted traffic. Some of the people, *holding high the banner of 'improving living standards,'* made excuses ... to make trouble at various production posts." In China, which has historically been able to cross the borderline into anarchy in short order (as the Cultural Revolution recently reaffirmed), such actions by the oil workers can readily spread.

China has also wasted the productive potential of an entire generation whose number well exceeds 100 million — the generation from 20 to 30 years old which received Maoist miseducation and is consequently presently unfit for skilled or professional employment. Twenty percent of these are urban youth, a great many of whom have been condemned for a lifetime to the idiocy of rural life. This sector, from whom most of the wall poster writers have come, is highly volatile, and held a raucous and violent demonstration in Shanghai last month. They will not readily be contained, nor constrained from linking up with China's restive workers.

Chaos growing

An even deeper dilemma has been publicly revealed in recent weeks — that even where efforts to stir up popular enthusiasm for economic construction have

ostensibly succeeded, it has taken the form not of rationally planned deployment of resources, but of frenetic squandering of resources reminiscent of the "Great Leap Forward" of 1958-60 that wrecked the economy at that time. The baseline problem that still confronts China is the ignorance of its peasantry. A Feb. 16 Peking Radio broadcast illustrated the problem the country faces in mechanizing agriculture by citing the production team in Hubei province which shut off a diesel engine in midoperation by hitting it with clubs and then dumping it in a pond because they knew no other way to shut it off. Thirty-eight percent of that province's 550,000 pieces of farm machinery and implements were found in a survey to be malfunctioning. "Injuries, fatalities and the breakdown of farm machinery and implements, all resulting from farm machinery accidents, are frequent in all areas." In one province, the number of tractors increased more than 25 times between 1965 and 1976, but the area of land tilled by machinery increased by . . . 0.5 percent!

It is thus little surprise that, according to *The Seventies'* account, the plan for completing 120 large-scale

capital construction projects — the cornerstone of China's announced program until 1985 — "is rather too greedy." Apparently, resources are simply being diverted haphazardly from other sectors to these "priority" projects.

The Feb. 24 editorial reveals the fuller dimensions of the problem. The article launches an attack on "rashness and impetuosity" which it says have caused "gaps and imbalances in the plan" which "encourages chaotic development" leading units to overstock and cause man-made shortages, leading to bartering and illegal trading — endemic in China since the late 1950s — vitiating the entire national plan. The article specifically likens the present tendency to the popular attitude during the "Great Leap." Interestingly, the article says that one source of the problem has been setting plan figures too high, which "gives rise to boasting, empty talk and fabricated figures." In plain language, China is having to drastically revise downward its output and growth targets.

— Peter Rush