

Evolution of China's U.S. Policy (1965–72): Prelude to the Economic Reform?

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China embarked on its grand economic reform in 1978, and the resulting economic performance has impressive by any standard. Many have accredited China's apparent success to the "gradualism" or patience in its reform agenda. But equally important is China's reform "sequence", which began in staple food production before spreading to other sectors of the economy.

What has been absent in the literature is the explanation of why China started with the staple food sector, and why China embarked on the reform in the first place. This study traces China's early reform (the agricultural production) to her realization and abandonment of the self-reliant agriculture policy in the early 1970s. This self-reliance had been China's central ideology and main objective since the 1950s. We study China's attitude towards the U.S. via the line-struggle between different fractions within the Chinese Communist Party during this period (1965-72). We further quantify the evolution of China's U.S. policy by examining the anti-U.S. propaganda in Chinese publications.

The success of China's economic reforms is clearly apparent. Total GDP has increased over seven fold and the per capita increase is over 500%. Some of the success has been credited to China "gradualist" approach, but the sequence of staple food production, rural industry, urban State Owned Enterprises (SOEs), external factors (international trade and FDI), and the impending reform of the financial sector also appear important. While trying to decide whether this particular gradualist sequence was by design, accident, or coincidence is an interesting academic exercise, the

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starting point of agriculture and food production has its roots in a longer and broader policy power struggle.

Self-reliance was a main objective in China's economic policy and political ideology from the 1950s until the 1970s. Concurrently, China's domestic politics and foreign policy were aggressively being pulled in two different directions by the two dominant camps in the Chinese Communist Party (CCP). While the emergence of the pragmatic Zhou Enlai's views over the more radical leftist agenda views of Lin Biao and later Jiang Qing and the Gang of Four are well-documented,¹ this study considers the political economy factors in play that allowed for Zhou Enlai to prevail. In particular, this study looks at the background and factors leading to China's early reform in agricultural production and abandonment of the "self-reliant agriculture" approach in the early 1970s. We also study China's attitude towards the U.S. via the line-struggle between different factions within the Chinese Communist Party during this period (1965-72) and quantify the evolution of China's U.S. policy by examining the anti-U.S. propaganda in Chinese publications. In addition, we consider China's association with Latin America as supporting evidence collaborating our claim that shortfalls in agricultural production set in motion the eventual dynamics behind the China-U.S. relationship game.

The paper is structured as follows. We first start with the historical origin of the problem: the Post-Great Leap Forward economy and the onset of the Cultural Revolution. This is followed by a discussion of the food crisis of 1968. Section III outlines the economic restoration following this crisis. The political tradeoffs at the Lushan conference and the cause of the second food crisis are documented in section IV. In the next section, we put forth our claim that to alleviate the second (and the first) food crisis, China revised its central doctrine and took a series of steps, both in terms of domestic economic policy and its foreign relation strategies, which led to the Comprehensive Economic Reform (CER) that is still ongoing. A short conclusion and summary end the paper.

1 Roderick MacFarquhar, "The succession to Mal and the end of Maoism, 1969-82," pp. 248-339 in Roderick MacFarquhar, ed. *The Politics of China, 1949-1989* (New York: Cambridge University Press, 1993).

I. THE CULTURAL REVOLUTION AND DECLINE OF THE ECONOMIC SYSTEM

The failure of the Great Leap Forward and "Three Bad Years" left China's economic system in disarray. As a result, there was a three-year gap between the end of the second Five-Year Plan (FYP) and the beginning of the third FYP in 1966.² The planning of the third FYP began in April of 1964, and "An Outline Report of the Planning Condition of the Third Five-Year Plan" was issued in September of 1965. However, the official plan was never completed due to the disruption of the Cultural Revolution.

To gauge the impact of the Cultural Revolution, it is best to take a quick snapshot of the Chinese economy just before hand. After several years of successful economic restoration or reform, the national economy of China was relatively healthy in the first half of 1966. In 1965, the total value of industrial output had increased by a little more than 20 percent over the previous year.³ Grain output in 1965 had also increased by 3.7 percent from the previous year and had increased by over 20 percent from 1962.⁴

Though industrial output had recovered and agricultural output levels were well above the worst years of the Great Leap Forward, agricultural output had not completely recovered. Even after 5 years of steady increase, 1965 total grain production was still less than in 1957. 1965 oilseed production was only 86 percent of the 1957 level, and tea leaf and fruit production were also below 1957 levels. On a per capita basis, agricultural output was clearly below the levels attained in 1957. These decreases occurred in

2 Certain scholars have argued that the current Comprehensive Economic Reform (CER) is merely a continuation of the three years of pragmatic restoration by Liu and Deng, with the Cultural Revolution as a long disruption. This view clearly stems from the Third Plenum's (of the 11th Central Committee meeting, 1979) endorsement of the official document "Regulations on the Work in Rural People's Communes," which is a revised version of a document bearing the same title that was issued in 1961. There is one difference, however. Some may view the reform in the early '60s as a tactical expedient (under the watchful eye and in contrary to Mao's ideals) while the CER marked a strategic turning point from idealism to pragmatism. For more information, see John C.H. Fei and Jack W. Hou, "The Comprehensive Economic Reform of the PRC (1978-)," pp. 19-64 in Shaochuan Leng, Ed. *Reform and Development in Deng's China*, Volume IV, The Miller Center Series on Asian Political Leadership (New York New York 1994).

3 Liu, Suinian, and Qungan Wu, eds. (1986). *Wenhua Dageming Shiqide Guomin Jingji, 1966-1976* [National economy during the Cultural Revolution] (Harbin, China: Heilongjiang Renmin Chubanshe).

4 National Bureau of Statistics. *Zhongguo tongji nianjian*, [China Statistical Yearbook] (Beijing: Zhongguo tongji chubanshe, various years). Most of the figures in this section were taken from the 1992 edition.

spite of a nearly 6 fold increase in the amount of land plowed mechanically and a more than 5 fold increase in fertilizer application.

In 1966, the events of the Cultural Revolution dealt a series of setbacks to the Chinese economy.⁵ During the late summer and early fall of 1966, the transportation system was paralyzed as a combined 13 million plus Red Guards came to mass gatherings in Tiananmen Square. By the end of the year, approximately 10 million tons of unshipped goods and materials (including vital commodities such as coal, lumber, cement, steel, construction materials, and salt) were piled up. Production also declined because factory workers were vigorously engaged in the mandated study of political propaganda materials and managers had to respond to and participate in political campaigns. Commercial activity was disrupted as road names and store names were haphazardly changed for political reasons or as stores were prohibited from selling certain items. Similarly, communications and banking activities were also inhibited.

By the second half of 1966, the Cultural Revolution had already started to impact the national economy. However, the total output value of agriculture and industry (for the year) still increased over the previous year, mainly on the strength of the performance of the first two quarters. Total output value was 253.4 billion yuan, 13.38 percent higher than 1965. Industrial output value was 162.4 billion yuan (a 15.83 percent growth), but agricultural performance was a bit less impressive. Overall growth was 9.24 percent and grain output increased by 10.03 percent, but nearly a third of the grain increase was from tubers, which the Chinese include as an inferior grain. At the same time, it is difficult to adequately assess overall agricultural output because, while certain staples such as grain and cotton show increases in output, output levels of other agricultural products such as total oilseed, fruit, and various animal products are only partially reported for the years 1966-69.

During the years 1967-69, the political turmoil continued and spread to local level administrative units, factories and villages throughout the nation. While accounts of events during this pe-

5 More details on chronology of the events leading up to and during the Cultural Revolution can be found elsewhere. Several of many include Byung-joon Ahn (1976). *Chinese Politics and the Cultural Revolution* (Seattle, WA: University of Washington Press 1976); Chia-chi Yen and Kao Kao, *The Ten-Year History of the Chinese Cultural Revolution* (Taipei, Taiwan: Institute of Current China Studies, 1988); and Colin Mackerras, *Modern China, A Chronology from 1842 to the Present* (San Francisco: W.H. Freeman and Company, 1982).

riod tend to be generally localized, the problems affected the entire planned system as basic economic policies, rules, and regulations were either disregarded or deliberately opposed. Political posturing prior to the full-blown eruption of the Cultural Revolution meant there was only a rough outline for the Third Five-Year plan (1966-1970). At the end of 1966, the meeting for the 1967 one-year plan was held, but it was not wholly successful. Except for Shanghai, the economic plan could not be distributed to the local levels until February. At the national meeting of production and distribution in June, the Economic Planning Committee declared that the target of 1967 would be carried over to the next year, and then the central leadership abandoned the plan half way through the year. At the end of 1967, even basic statistics could not be gathered because of the collapse of the production control system. With no real production plan, the allocation, transportation, and production of goods was paralyzed.

Given the lack of a plan and the nature of the political unrest, it is hardly surprising there was a significant decline in the overall Chinese economy. In fact, the nature of the political struggles almost necessitated a decline since even the systems of production responsibility and quality control were criticized as "capitalistic." Although the localized disruptions are somewhat obvious, a quick look at two vital components of the national economy, transportation and energy, begins to illustrate the extent of the disruption. It also begins to lay the foundations for subsequent changes for a shift in leadership factions and, eventually, economic policy.

Violence erupted repeatedly along the railway lines and forced activity on several sections of railway system to be suspended. For example, for two years, the Beijing-Guangzhou line south of the Yangtze River, the Xuzhou and Bangbu districts of the Tianjin-Shanghai line, the Liuzhou, Guilin, and Nanning districts of the Guangxi autonomous Region, and the Changchun and Siping districts of northeast China were completely suspended or intermittently suspended, affecting the distribution of critical materials including coal, oil, lumber and food. Total freight volume in 1967 decreased by 15.7 percent from 1966 and the drop in railway freight was especially high at 21.6 percent.⁶ Though smaller in magnitude, there was additional decline in 1968 as overall freight

6 Liu and Wu.

volume decreased another 6.9 percent (railway freight by 2.3 percent).

Coal production, the main energy source, also experienced significant production declines in 1967. As the overall political power struggle played out in the mines, the production control system collapsed and workers left their posts. The January (1967) average daily output of coal mines under the direct management of the Coal Ministry was 450,000 tons, or 80,000 tons below the original plan (530,000 tons). This decline translates to a 2.4 million ton shortfall for the month, yet it was just the beginning. From the following month, average daily output continuously declined from below 400,000 tons. By August, output had fallen to 228,000 tons, less than 45 percent of the target, and for the year the decline was over 18 percent.

Because it was the primary energy source and a key input in the economy, the shortfall in coal production had a ripple effect on other sectors. Two industries significantly affected were the steel and power industries, which, in turn, affected the machinery, spinning, and chemical industries. Of the industries mentioned, the chemical industry may be one of the most important because chemical fertilizers are critically important, if not indispensable, to food production. The total output of chemical fertilizers in 1966 was 2.41 million tons, but it decreased to 1.64 million tons in 1967; a 32 percent decline. The following year, output dropped another 32 percent, to 1.11 million tons or less than half of what China produced just two years previously. While the 1967 production decline did not immediately produce a decline in 1967 fertilizer usage, there was a 23 percent decline in the amount of fertilizer applied by sown hectare in 1967. The impact on food and agricultural production was felt in everyday life and eventually necessitated change.

II. THE FIRST FOOD CRISIS IN 1968 AND THE NATIONAL ECONOMIC PLAN FOR 1969

Three years of disorder and the absence of a national economic plan caused food problems in 1968. Most categories of agriculture and industry production decreased during this period. The total output value of agriculture and industry in 1967 was 230.6 billion yuan, a decrease of 9 percent compared with that of the previous year. In 1968, it was 221.3 billion yuan, a further decrease of 4.03 percent. The decline in industrial output was more pronounced

with decreases of 14.9 percent in 1967 and 7.02 percent in 1968 (see Table 1). From a structural point of view, the damage to basic industries was more troublesome. Steel output decreased 32.8 percent in 1967 and 12.1 percent in 1968. Coal output also decreased 18.3 percent in 1967 and remained at the same level in 1968. The total output of electric power decreased 6.2 percent in 1967 and 7.5 percent in 1968 (see Table 2).

Unlike industrial production, the total output value of agriculture increased 1.54 percent in 1967 and 0.49 percent in 1968. However, this is quite misleading as certain staples were essentially stagnant or declined. Tuber production exhibited minor declines in 1967 and 1968. Primary oilseed production declined throughout the period 1967 through 1969. Cotton production increased slightly in 1967 and remained unchanged in 1968, but declined in 1969 (see Table 3).

Though the above figures suggest some problems in the agricultural sector, they are an incomplete picture of a developing food problem. Total grain output increased slightly (1.78 percent) in 1967, but decreased by 3.99 percent in 1968. Meanwhile, China's population grew 1.23 percent in 1967 and 2.84 percent in 1968 (nearly 31 million total); therefore, the real food shortage in per capita terms was much more severe than the 3.99 percent decline in grain output. To explain, in February 1964, long-range plans set the minimum grain target to be 300 kilograms per person per year, which approximates the level observed in 1957 before the onset of the Great Leap Forward. As can be seen in Table 4, the 1967 numbers were already slightly lower than those in 1966, but worsened significantly during the next two years. Grain output per capita in 1968 was only 266 kilograms, a decrease of 6.67 percent and 34 kilograms (or more than 11 percent) below the minimum target.

Under the central planning model, the State Council controlled the production, transportation and allocation of all goods and resources. The widespread disorder at the end of 1967 prevented the formulation of the one-year (for 1968) plan of the national economy, and the absence of a plan created some serious food imbalances in that year. Recognizing the seriousness of these issues, Zhou Enlai mandated that the State Council formulate a national economic plan for 1969. An economic planning committee was formed with representatives from the PLA (People's Liberation Army), the revolutionary workers, and surviving old cadres.

TABLE I
TOTAL OUTPUT VALUE AND GROWTH RATE OF
AGRICULTURE AND INDUSTRY 1952-1976

Year	Agriculture and industry		Agriculture		Industry	
	Output value (b. yuan)	Growth rate (Percent)	Output value (b. yuan)	Growth rate (Percent)	Output value (b. yuan)	Growth rate (Percent)
1952	81.0	—	46.1	—	34.9	—
1953	96.0	18.52	51	10.63	45	28.94
1954	105.0	9.38	53.5	4.90	51.5	14.44
1955	110.9	5.62	57.5	7.48	53.4	3.69
1956	125.2	12.89	61	6.09	64.2	20.22
1957	124.1	-0.88	53.7	-11.97	70.4	9.66
1958	164.9	32.88	56.6	5.40	108.3	53.84
1959	198.0	20.07	49.7	-12.19	148.3	36.93
1960	209.4	5.76	45.7	-8.05	163.7	10.38
1961	162.1	-22.59	55.9	22.32	106.2	-35.13
1962	150.4	-7.22	58.4	4.47	92	-13.37
1963	163.5	8.71	64.2	9.93	99.3	7.93
1964	188.4	15.23	72	12.15	116.4	17.22
1965	223.5	18.63	83.3	15.69	140.2	20.45
1966	253.4	13.38	91	9.24	162.4	15.83
1967	230.6	-9.00	92.4	1.54	138.2	-14.90
1968	221.3	-4.03	92.8	0.43	128.5	-7.02
1969	261.3	18.08	94.8	2.16	166.5	29.57
1970	313.8	20.09	102.1	7.70	211.7	27.15
1971	348.2	10.96	106.8	4.60	241.4	14.03
1972	364.0	4.54	107.5	0.66	256.5	6.26
1973	396.7	8.98	117.3	9.12	279.4	8.93
1974	400.7	1.01	121.5	3.58	279.2	-0.07
1975	446.7	11.48	126	3.70	320.7	14.86
1976	453.6	1.54	125.8	-0.16	327.8	2.21

Source: 1992 Statistical Yearbook

This committee developed the "Outline of the National Economic Plan for 1969," which was then submitted to the national planning meeting in February of 1969.

- The five primary tasks in the submitted outline were as follows:
1. The mass publication (620 million copies) of Mao Zedong's works in 1969

TABLE 2
TOTAL OUTPUT AND GROWTH RATE OF STAPLE INDUSTRIAL PRODUCTS 1957 & 1965-1976

Year	Steel		Coal		Electric Power	
	Total output (m. tons)	Growth rate (Percent)	Total output (m. tons)	Growth rate (Percent)	Total output (b. kwhs.)	Growth rate (Percent)
1957	5.35	19.69	131	19.09	19.3	16.27
1965	12.23	26.87	232	7.91	67.60	20.71
1966	15.32	25.27	252	8.62	82.50	22.04
1967	10.29	-32.93	206	-18.25	77.40	-6.18
1968	9.04	-12.15	220	6.80	71.60	-7.49
1969	13.33	47.46	266	20.91	94.00	31.28
1970	17.79	33.46	354	33.08	115.90	23.30
1971	21.32	19.84	392	10.73	138.40	19.41
1972	23.38	9.66	410	4.59	152.40	10.12
1973	25.22	7.87	417	1.71	166.80	9.45
1974	21.12	-16.26	413	-0.96	166.80	0.00
1975	23.90	13.16	482	16.71	195.80	17.39
1976	20.46	-14.39	483	0.21	203.10	3.73

Notes: Most numbers are from Liu and Wu 1986, p. 132. 1957 values and 1965 growth rates are from 1993 China Statistical Yearbook, pp. 446-7.

TABLE 3
TOTAL OUTPUT AND GROWTH RATE OF STAPLE FOODS, 1965-1976

Year	Grain		Tubers		Primary Oilseeds		Cotton	
	Total output (m. tons)	Growth rate (Percent)	Total output (m. tons)	Growth rate (Percent)	Total output (m. tons)	Growth rate (Percent)	Total output (m. tons)	Growth rate (Percent)
1957	195.1	1.19	21.92	0.32	37.71	-17.23	16.4	13.49
1965	194.5	3.73	19.86	-1.34	32.73	9.21	20.98	26.16
1966	214	10.03	22.53	13.44	35.11	7.27	23.37	11.39
1967	217.8	1.78	22.43	-0.44	34.92	-0.54	23.54	0.73
1968	209.1	-3.99	22.29	-0.62	30.66	-12.20	23.54	0.00
1969	211	0.91	24.12	8.21	29.66	-3.26	20.79	-11.68
1970	240	13.74	26.68	10.61	33.76	13.82	22.77	9.52
1971	250.1	4.21	25.07	-6.03	37.43	10.87	21.05	-7.55
1972	240.5	-3.84	24.52	-2.19	37.48	0.13	19.58	-6.98
1973	264.9	10.15	31.56	28.71	37.42	-0.16	25.62	30.85
1974	275.3	3.93	28.24	-10.52	39.31	5.05	24.61	-3.94
1975	284.5	3.34	28.57	1.17	40.13	2.09	23.81	-3.25
1976	286.3	0.63	26.66	-6.69	34.5	-14.03	20.55	-13.69

Notes: Data are from 1993 China Statistical Yearbook, pp. 364-6. Primary oilseeds figure is the sum of peanuts, rapeseed and sesame and does not include some other oilseed crops. The measure of oilseed production is used because there are no reported national oilseed totals for the years 1966-69. Renmin Chubanshe, 1986), 130.

TABLE 4
TOTAL OUTPUT AND GROWTH RATE OF POPULATION, GRAIN, AND GRAIN PER CAPITA,
1965-1976

Year	Population		Grain		Primary Oilseeds		Cotton	
	Total (million)	Growth Rate (Percent)	Per capita (kg)	Growth rate of per capita (Percent)	Per capita (kg)	Growth rate of per capita (Percent)	Per capita (kg)	Growth rate of per capita (Percent)
1957	646.53		301.76	-1.66	58.33	-19.57	25.37	10.29
1965	725.38	0.00	268.14	0.82	45.12	6.14	28.92	22.61
1966	754.42	4.00	283.66	5.79	46.54	3.14	30.98	7.10
1967	763.68	1.23	285.20	0.54	45.73	-1.75	30.82	-0.49
1968	785.34	2.84	266.25	-6.64	39.04	-14.62	29.97	-2.76
1969	806.71	2.72	261.56	-1.76	36.77	-5.82	25.77	-14.02
1970	829.92	2.88	289.18	10.56	40.68	10.64	27.44	6.46
1971	852.29	2.70	293.44	1.47	43.92	7.96	24.70	-9.98
1972	871.77	2.29	275.88	-5.99	42.99	-2.10	22.46	-9.06
1973	892.11	2.33	296.94	7.63	41.95	-2.44	28.72	27.86
1974	908.59	1.85	303.00	2.04	43.26	3.15	27.09	-5.68
1975	924.20	1.72	307.83	1.60	43.42	0.36	25.76	-4.88
1976	937.17	1.40	305.49	-0.76	36.81	-15.22	21.93	-14.89

Notes: Population data is from 1993 China Statistical Yearbook, p. 81. Per capita figures are derived from Table 3 and population figures.

2. The concentration of state strength upon the development of agriculture and strengthening industries' support for agriculture
3. The development of defense industries, basic industries and inland construction
4. The reconciliation of light industries and markets, and the campaign of late marriage and planned birth
5. The reconstruction of the transportation system.

The influence of radical "revolutionary thought" in this national economic plan is obviously indicated by the mass publication of Mao's works leading the list. Moreover, with the intention of showing the excellent results of the Cultural Revolution and the twentieth anniversary of the founding of the country, the committee set extremely high targets of total outputs. The target of the total output value of industry was an increase of 15 percent from 1966 levels, and the targeted grain output was an increase of 6 percent compared with the previous year. Zhou Enlai tried to revise the plan to more realistic levels and was able to reduce somewhat the publication of Mao's works, make increased staple food production a priority, and revise output targets to more obtainable levels. However, given that the country was still in the throes of the Cultural Revolution, the radical nature of the economic plan was inevitable.

Despite the unrealistic targets, the national economy did recover to some degree with the reassertion of centralized planning and the restoration of social order. The total output value of industry and agriculture surpassed the 1966 levels by 3.12 percent and amounted to 261.3 billion yuan, which was an increase of 18.08 percent from the previous year. Agricultural output amounted to 94.8 billion yuan, which was an increase of 2.15 percent from the previous year and an increase of 4.18 percent from 1966. Industry output was 166.5 billion yuan, an increase of 29.57 percent over the previous year's levels and a 2.52 percent increase from 1966.

Though moderately successful from a realist view, these output levels were a failure when compared to the revolutionary targets. Furthermore, even though overall output values increased, certain key outputs fell short. In the industrial sector, a 20 percent increase in coal production in 1969 results in a net gain of only 5.56 percent over 1966 levels and a nearly 50 percent increase in steel production in 1969 still left output levels 13 percent below 1966

levels (Table 5a). A more complete recovery wasn't realized until 1970 when steel and coal production increased by another 33 per cent (Table 5b).

TABLE 5
OUTPUT AND RECOVERY IN 1969 & 1970

A. 1969

	Total output	As a percentage of 1968 Output	As a percentage of 1966 Output
Agriculture and industry value (in 1969 bil yuan)	261.30	118.08	103.12
Agriculture (in 1969 bil yuan)	94.80	102.15	104.18
Grain	211.00	100.91	98.60
Tubers Million	24.12	108.21	107.06
Primary Oilseeds Tons	29.66	96.74	84.48
Cotton	20.79	88.32	88.96
Industry value (in 1969 bil. yuan)	166.50	129.57	102.52
Steel Million	13.33	147.46	87.01
Coal Tons	266.00	120.91	105.56

B. 1970

	Total output	As a percentage of 1969 Output	As a percentage of 1966 Output
Agriculture and industry value (in 1970 bil yuan)	313.80	120.09	123.84
Agriculture (in 1970 bil yuan)	102.10	107.70	112.20
Grain	240.00	113.74	112.15
Tubers Million	269.14	110.61	118.42
Primary Oilseeds Tons	42.06	113.82	96.15
Cotton	22.77	109.52	97.43
Industry value (in 1970 bil. yuan)	211.70	127.15	130.36
Steel Million	17.79	133.46	116.12
Coal Tons	354.00	133.08	140.48

Sources: 1992 Statistical Yearbook

Agricultural production followed a similar pattern as tuber production increased notably but grain production increased only slightly in 1969 and was below 1966 levels (Table 5a). Primary oilseed and cotton production levels in 1969 were both less than in 1968 and 1966. With additional production gains in 1970, most staple foods had recovered to the 1966 levels, but primary oilseeds and cotton were still below their 1966 levels (Table 5b). Through two years of effort to restore production (starting with the resumption of the one-year economic plan for 1969), output was able to

mostly, but incompletely, attain the 1966 standard by the end of 1970.

III. CHINA'S ECONOMIC RESTORATION AND HER U.S. POLICY

Besides the national economy, the Twelfth Plenum of the Eighth Central Committee of the CCP (October 1968) had an equally important task, which proves to be far more profound in the long-run: foreign policy. To briefly outline the circumstance of the time, virtually all Chinese diplomats were summoned home after the Cultural Revolution broke out and China was in a state of diplomatic isolation. Furthermore, China arguably felt threatened by the two super powers: the Soviet invasion of Czechoslovakia in August 1968 exacerbated Chinese leaders' fears as the Sino-Soviet rift of the late 1950s had deteriorated into active border conflicts in the late 1960s, and in the south, a half-million U.S. troops were fighting in Vietnam.

Within the Chinese leadership, there were two opposing camps regarding the appropriate strategic response to these perceived threats. One camp, made up of mainly the military faction (with Lin Biao as a major figure) and the radical faction, believed that the Soviet Union and the United States had already joined together in a strategy of anti-China collusion. This camp, seeing increased defense preparations as a necessity, advocated high defense budgets as well as the "ideological" preparation and education of the masses. Zhou Enlai's moderate faction, on the other hand, believed that while the two superpowers did cooperate in opposing China, a high degree of mutual distrust existed between them. Consequently, this camp contended that the Soviet-American anti-China collusion might be obviated by diplomatic strategy allowing China to reduce its defense budget and to divert more resources towards economic restoration.

These two points of view were heatedly debated in the Twelfth Plenum, each trying to gain the nod from Mao. Eventually, Zhou's moderate reform faction won Mao's support.⁷ This culminated in the Chinese Foreign Ministry's November 26 (1968) statement proposing an early resumption of U.S.-China ambassadorial talks in Warsaw.

⁷ John W. Garver, *China's Decision for Rapprochement with United States, 1968-1971* (Boulder, Colorado: Westview Press, 1982).

Why did Mao Zedong lend his support to Zhou's position rather than Lin's, the proclaimed "heir?" In our belief, here lies the early origin of China's current economic reform. Mao's original intent was to use the Red Guards as an instrument to strip power from Liu Shaoqi, but the resulting chaos may well have exceeded Mao's expectations. He most likely was genuinely concerned about the state of the economy, both for the people's lives, especially after the Great Leap Forward, and for the future of the CCP. With limited resources and two major competing demands, Mao might have supported Zhou and the reduction of China's heavy defense budget in order to reallocate the resources to economic restoration.

If one went a step further, one could conjecture that Mao and Zhou might want to seek U.S. aid. Immediate U.S. aid was, of course, unlikely due to twenty years of no diplomatic relations between the two countries not to mention the political constraints of the Cold War within the U.S. Nonetheless, there was a sense of urgency under the state of the food crisis and concern for the future development of the Chinese economy, and both Mao and Zhou at different times spoke of international support.⁸

In conclusion, it is our belief that to restore the economy ruined by the chaotic Cultural Revolution, China had to divert resources away from military expenditure. To compensate for this diversion, China had to change its U.S. policy. This change had dual purposes. In the short-run, the intent was to destabilize the U.S.-Soviet anti-China coalition and to potentially change the U.S. from an enemy to an ally against the Soviet threat. In the longer-run, there is most likely the hope of some form of U.S. support. This change was the beginning of a three-year long secret diplomacy between China and the United States for the rapprochement.

IV. LUSHAN CONFERENCE AND THE SECOND FOOD CRISIS

The shifts of China's U.S. policy, though born out of pragmatic necessity, spotlight the power shifts in the central political arena.

8 Mao spoke of foreign capital and American help well before these events in an interview with John S. Service, who went to Yan'an in 1944 as a member of the Dixie Mission to research the condition of the Chinese Communist Party and its relations with the Kuomintang. See Joseph W. Esherick, *Lost Chance in China, The World War II: Dispatches of John S. Service* (New York: Random House 1974). Zhou comments came well after the Twelfth Plenum but almost suggest envy regarding the U.S.-Japanese relations following WWII. See James Reston, "Official Transcript of the Wide Ranging Interview with Premier Chou in Peking," *New York Times*, August 10, 1971.

More specifically, this is the result of the power struggle between Zhou's faction and Lin Biao's faction first and then later the struggle between Zhou's forces and the "Gang of Four." In the previous section, we argued that the food crisis in 1968 was the key element for the first shift in the power structure and hence of the U.S.-China policy. In this section, we focus on the "Lushan Conference," the ensuing second food crisis, and the further transformation of China's U.S. policy.

While China-Soviet border clashes and the indispensability of military power to restore order during 1969 enhanced the power of the PLA and Lin Biao's faction, the quasi-normalization of the Sino-Soviet relations and the gradual restoration of order during 1970 facilitated the gradual shift of the central power in favor of the moderate reform faction. The gradual reconstruction and the revitalization of party committees and governmental organs enhanced the power of the bureaucracy. The rehabilitation of formerly purged bureaucrats partially disengaged the PLA from civil administrations. These shifts strengthened the bureaucratic base of Zhou's moderate reform faction, and this faction was slowly being rebuilt independent of military faction control.

To staunch this erosion, the military faction planned and Lin Biao attempted a series of political maneuvers at the Lushan conference. When these maneuvers failed and Mao openly opposed Lin Biao's group, a new anti-Lin coalition was formed between the moderate faction and the regional leaders, the radicals also joined the new coalition as the best way to preserve their own position.⁹ With Zhou Enlai as the central figure, at least initially, of this new coalition, China's U.S. policy shifted to a more positive diplomacy by Zhou's leadership. As described in the previous section, China began to send messages to the United States, starting with Mao's appearance together with Edgar Snow on the National Day after the Lushan Conference.

As positive as this new coalition may have appeared in terms of foreign policy, unfavorable economic side effects were also a direct consequence. The support of the regional military leaders was crucial for the anti-Lin coalition; therefore, the Fourth Five-Year Plan was drafted in favor of the regional economy in late 1970. The

9 More detail on the political and personal dynamics that took place during the Lushan conference can be found elsewhere. See MacFarquhar, "The succession to Mao and the end of Maoism" or Garver, *China's Decision for Rapprochement with United States, 1968-1971*.

draft of the Fourth Five-Year Plan contained the following eight goals:¹⁰

1. Concentrate the strength of the masses to build inland as the strategic rear base
2. Speed up the development of the steel industry
3. Work more at local mines to reform the resource production system
4. Divide the country into ten economically coordinated regions and make them self-sufficient
5. Develop the "five small" industries in each province, city and district¹¹
6. Stress grain production in the agriculture plan with each province and autonomous region becoming self-sufficient
7. Give priority to armaments in the machine industry
8. Have each province and autonomous region meet its own light industrial needs.

This shift of the economic plan in favor of the local economy and industry severely hampered agricultural production and caused the second food crisis of 1971/1972. While the growth rate of the total output value of industry was 14 percent, agricultural growth was only 4.60 percent (see Table 1).¹² Primary oilseed production saw a healthy increase in 1971 (10.87 percent), but total grain output growth was only 4.21 percent in 1971, down from 13.74 percent the previous year. Tuber output decreased 6 percent in 1971, a sharp contrast to the 18 percent overall increase during the previous two years. Cotton output, which had seen some recovery in 1970, again declined by 7.55 percent (see Table 3).

As shown earlier, when examined in more detail, one can better see the agricultural shortcomings in 1971. The Chinese population had increased by 22.37 million in that year while the total output of grain had increased by 10.1 million tons. Thus, the growth rate of the grain output per capita was only 1.47 percent, much smaller than the 4.21 percent growth rate of the grain total output (see Table 4). Primary oilseed production showed a much healthier per capita increase (7.96 percent), but cotton output de-

10 Liu and Wu.

11 The "five small" industries are small coal mines, small steel factories, small nonferrous metal factories, small chemical fertilizer factories, and small electric power stations.

12 Due to the extensive preparation for war after the China-Soviet border clashes, the growth rates of the total output value of industry in 1969 and 1970 were extremely high to begin with.

creased almost 10 percent in per capita terms. Moreover, the levels of agricultural production were still below pre-Great Leap levels on a per capita basis.

To make matters worse, agricultural shortcomings were amplified due to an increase in the urban population. With the new economic plan emphasizing industry, many farmers sought industrial work, and more than 6 million people moved from villages to urban areas during the years 1970 and 1971. Grain procurement by the State, in contrast, decreased 1.5 million tons in 1971. Consequently, the food situation in the urban areas was worse than the above numbers (which were overall averages) indicate. This food shortage intensified in 1972 when total output of grain decreased 3.84 percent; moreover, grain output per capita decreased nearly 6 percent, and per capita primary oilseed and cotton production levels decreased 2.1 percent and 9.06 percent, respectively.

Clearly, the economic plan devised to win the favor of the regional military leaders caused the second food crisis. Recognizing a problem, in late 1971, China's leaders revised the Fourth Five-Year Plan in an attempt to alleviate the severity of the food crisis. There were three main elements in this revision: the increase of investments in agriculture; the central control of the wage system; and the adjustment of the supply and demand of grain. Of which, the most significant revision was the increase in agricultural investment.

Before we begin the discussion of these efforts, we note a number of other indicators of change in China's fundamental disposition to both its domestic production and its foreign relations. On August 2 (1971), a main CCP publication, *Hongqi*, stated that China must ally itself with its "secondary enemy" (the U.S.) in order to "isolate and strike at" its "primary enemy," the Soviet Union, and China replaced Taiwan in the United Nations on October 25, 1971. In May 1972 during Nixon's historical visit, the Shanghai Communiqué, which is still a key basis of Sino-U.S. relations, was issued.

V. PRELUDE TO THE COMPREHENSIVE ECONOMIC REFORM

As outlined in the above section, the fallout of the Lushan conference was a regional/industrial-biased Fourth Five Year Plan, which led to the second food crisis of 1971/72 and forced a major revision of the Plan to shift the emphasis to agriculture, especially

the investment in agricultural production.¹³ Our contention is that this is the true ground zero of China's current economic reform and is why the Comprehensive Economic Reform (or CER) followed the correct sequence of agricultural reform preceding that of industrial reform.

As stated previously, faced with the (second) food crisis, China's leaders tried to increase agricultural production to alleviate the shortages. To increase production, one can simply increase the inputs: land, labor, and capital. China had long exhausted any new arable land and China's labor sensitivity in cultivation was most likely significantly past the optimal level. This left, as the only option, a move towards more capital-intensive agriculture. This option also has its limitations. First, China lacked the machinery that modern Western agricultural production has long depended on, and since the prevailing industrial structure of the time favored defense related categories, a dramatic increase in machinery was not quickly forthcoming.¹⁴ Still, China attempted to increase the capital side of agriculture production via the use of chemical fertilizers.

The chemical fertilizer industry was never a major part of China's development plan, nor did they have the technology to change that in the short run. Consequently, China had to import Western technology, thus making the rapprochement with the United States ever so crucial. As evidence of this conjecture, 19 of 38 contracts for "imported" plants to China in the year following the U.S.-China rapprochement were facilities for the production of chemical fertilizers. A further breakdown of the 19 chemical fertilizer plants is as follows:¹⁵ 8 ammonia plants from M.W. Kellogg in the United States, 8 urea plants from Kellogg Continental in the Netherlands; 2 urea and ammonia plants from Asahi Chemical in

13 Such "discrete" policy shifts are typical of the planned economy and for many authoritarian states. For China, the Great Leap Forward to Liu's restoration, to the Cultural Revolution and the sequence of compromises and shifts discussed here are all testaments to this mode of behavior. Even after China embarked on the CER, such "discrete" shifts still occur, be it to a lesser extent. The aftermath of the Tiananmen Massacre comes to mind, and as recent as how China handled its monetary crisis. See Gene S. Chang, and Jack W. Hou, "Structural Inflation and the 1994 Monetary Crisis in China," *Contemporary Economic Policy*, 15 (1997), pp. 73-81.

14 It is also significant to note that much of Western capital—tractors, plows, threshers, harvesting combines, etc.—is designed to replace labor and may not necessarily increase total output.

15 Breakdown is from page 232-233 of John L. Scherer, John L. ed., *China Facts & Figures Annual* (Gulf Breeze, FL: Academic International Press 1981).

Japan; and 1 ammonia catalyst from Haldor Topsoe in Denmark. Together, they totaled \$392 million or 85 percent of \$461 million total value of the 38 plants China agreed to import that year. Moreover, 75 percent of the total value of chemical fertilizer plants (\$294 million) came from Kellogg in the United States and the Netherlands.¹⁶

With the new emphasis upon agriculture, agricultural output value increased 9.12 percent and total grain increased 10.15 with per capita grain output increasing 7.63 percent. Finally, in 1974 (ten years after setting the goal), grain output per capita exceeded the three hundred kilograms target set as the minimum amount needed to feed the people and also finally surpassed the level of per capita grain output observed prior to the Great Leap Forward (see Table 4). Though perhaps oversimplifying the matter, we believe China survived their food crises via the rapprochement with the United States. The first food crisis (1968) was overcome by changing China's basic strategy of sending overtures to the U.S. to alleviate the U.S.-Soviet anti-China coalition and allowing China to re-allocate resources from defense budget to economic restoration. While the second food crisis (1971/72) was overcome with perhaps more direct U.S. involvement in the form of purchased chemical fertilizer plants.

The time-line we tried to establish at the end of the previous section clearly shows the "cointegration" of the two time series: the Sino-U.S. relationship and the prelude or events leading up to the CER. With the second food crisis, China formally abandoned its "self-reliant" doctrine, which had been part of the founding central ideology of the CCP. We have documented the effect of importing Western chemical fertilizer plants as a direct way to increase the "capital" intensity of agricultural production. This is the external

16 The nature of these early technology imports are not the same as the Foreign Direct Investment (FDI) currently flowing into China, as they were "purchases" of entire plants, often with some technical advisors attached. For a discussion of the current FDI in China, which is becoming an ever integral part of the China's continued development, refer to Jack W. Hou and Kevin H. Zhang "A Location Analysis of Taiwanese Manufacturing Branch-Plants in mainland China," *International Journal of Business*, 6 (2001), pp. 53-66, and Jack W. Hou and Kevin H. Zhang, "Taiwan's Outward Investment in Mainland China," in Hung-Gay Fung and Kevin H. Zhang, Eds., *Financial markets and Foreign Direct Investment in Greater China* (New York: M.E. Sharpe 2001). A key difference, the domination of Hong Kong and Taiwan firms as well as the lagging behind of U.S. firms is found in Kevin H. Zhang, "Why Is the U.S. Direct Investment in China So Small?" *Contemporary Economic Policy* 18(200), pp. 82-94.

aspect of China's attempt to increase food production. There is, however, another matching internal aspect of this attempt.

As mentioned earlier, China had exhausted its supply of new arable land, and cultivation was already quite labor intensive. While limited in terms of increased usage of farm machinery, steps were taken to increase industrial inputs, especially chemical fertilizers. Another option was to tinker with "incentives," or change the reward scheme. These steps were quite successful, and by the late 1970s, the leadership looked back at what took place and realized they were onto something which can be clearly seen in the Third Plenum's (of the 11th Central Committee meeting, 1979) endorsement of the official document "Regulations on the Work in Rural People's Communes" (Central Committee 1979)¹⁷—the beginning of the CER.¹⁸

Thus, there is no doubt in our minds that the food crisis not only forced China to make radical changes in its central doctrine, and firmly placed them on the road towards economic reform with agricultural reform preceding that of industrial reform (the "correct" sequence). As indirect evidence supporting this claim, we will conclude with three observations. First, though the "Ping-Pong" diplomacy was primarily aimed at the U.S., the Chinese Ping-Pong team also visited Canada and Australia, among other nations. Both Canada and Australia are major exporters of agricultural products. China's targeting these countries was no accident.

Second, we examine the articles in the *Renmin Ribao* to gauge the political climate.¹⁹ Since the direction of China's foreign policy (even as late as the 1980s) is typically unclear via direct official communiqués, we attempt to read between the lines and "count" the hostile or friendly symbolisms. As the organ of the Chinese Communist Party, the *Renmin Ribao* is the natural choice to analyze the trends and shifts in China's foreign policy. Between November 1968 and November of 1969, there was only one article on Sino-U.S. relations, while 542 articles express anti-U.S. sentiments (averaging 45 articles per month). From December 1969 through March 1971, the number discussing Sino-U.S. relations rose to 11

17 Which, incidentally, is a revised version of a document bearing the same title that was issued in 1961 by Liu Shaoqi, with the aid of Deng Xiaoping.

18 Fei and Hou.

19 To compute this, we went through the *Renmin Ribao Suoyin* (Index of *Renmin Ribao*, or Peoples Daily News) focusing on the headings of "Foreign Affairs," "International Politics," and "Countries and Areas." There are other headings where relevant articles may have appeared, but to economize time, we did not examine those areas.

(0.69 per month), and 807 articles exhibited anti-U.S. sentiments (averaging 62 articles per month). However, if one examines the months between April 1971 and February of 1972, the number of articles on Sino-U.S. relations jumps to 116 or 11 per month (there were 32 articles in February 1972 alone). The number of articles showing anti-U.S. sentiments decreased dramatically to 183 or 17 per month, reflecting an important shift in policy focus and direction.

Finally, we take stock of China's relationship with Latin America, especially in the 1970s, which we consider a dramatic piece of evidence regarding the aforementioned transformation in China's central doctrine. In addition to Cuba, China had significant relations with four Latin America countries: Argentina, Chile, Mexico, and Peru. China started importing wheat and millet from Argentina to alleviate the effects of the Great Leap Forward's "Three Bad Years." Chile was under the Allende's Marxian regime and was able to supply wool and fertilizer that China needed. Peru was the first South American country to establish diplomatic relations with China and this relationship was further strengthened after the military coup of Juan Velasco Alvarado when the new government nationalized many U.S. owned corporations, causing the U.S. to cut aid and discourage investment and imports. China was able to absorb part of Peru's exports and minimize the impact.²⁰ Under President Luis Echeverris, Mexico tried to reduce its dependence on the West in order to strengthen its own position in the world market and the political scene and looked towards socialist countries in an effort to better its bargaining position with its neighbor to the north (the U.S.). Trade between the two countries, Mexico and China, also increased significantly from under \$1 million in 1971²¹ to \$52 million in 1977.

The above relations are natural and perfectly aligned with the Chinese doctrine of "exporting" revolution. What followed in the late 1970s, however, is not consistent as the Latin American political landscape underwent major changes. Mexico became more aligned with the U.S., the Chilean Marxian government of Allende fell to the rabidly anti-Soviet regime of General Pinochet, and Ar-

20 During 1960-1970, overall trade between China and Peru was less than \$1 million. Yet, in 1971, the total trade reached \$58 million. Peru voted for the admission of China into the UN in 1971.

21 Echeverris not only supported China's admission to the UN, he also gave a strong speech advocating the expulsion of Taiwan in 1971.

gentina's government was taken over by the anti-Communist regime of General Videla. Yet, China chose to maintain both political and economic ties with these nations in a total departure from its previous patterns. These changes clearly demonstrate China's dramatic alteration of its foreign policy from ideological purity to economic pragmatism. This external aspect grew in tandem with China's internal efforts to change the economic incentives of agricultural production,²² which led to full fledged economic reform by 1979.

VI. SUMMARY AND CONCLUSION

The future is not for us to tell, but the apparent success of China's economic reform stands out like a giant among the cohorts of former socialist economies. Economists and historians will debate for decades to come about what led to China's CER, and when did the "reform" really start. This paper offers some thoughts on these questions.

We believe that China's economic reforms result from a series of mistakes and ensuing corrective efforts. The Cultural Revolution brought chaos and turmoil to China, severely curtailing economic activities and leading to the first food crisis (1968). To restore the economy, scarce resources had to be reallocated from defense commitments. To compensate, China began the rapprochement with the U.S. to break apart the anti-China coalition of the U.S. and the Soviet Union in the short-run and the hope of economic support (from the U.S.) in the longer-run. The political price of addressing the first food crisis was an economic plan heavily devoted to local economies and the industrial sector especially, at the expense of agricultural investment, leading to the second food crisis (1971/72).

At this point, China was forced to re-evaluate its central doctrine, especially in foreign policy and "self reliance" in terms of food production. Either by design or forced by necessity, China replaced ideological purity with economic pragmatism as seen in its political/economic relations with the U.S. and many Latin American countries in the mid/late 1970s. On the domestic front, China started altering economic incentives in contradiction to the

²² For an analytical approach to these "incentives," refer to Jack W. Hou, "Rural Reform and the Welfare Impact on Urban Workers: An Analytical Approach," in Aimin Chen, Gordon G. Liu, and Kevin H. Zhang, Eds., *Urbanization and Social Welfare in China* (England: Ashgate, forthcoming, Spring 2003).

philosophy of communism. Combined, these changes took China on the road of no return, and have placed China well onto the path towards a "socialistic market economy with Chinese characteristics."

Though the final form of China's economic system is still uncertain, it is clear that the Asian development pattern has altered.²³ Indeed, there is no doubt that the 21st century is a brand new playing field, where economic progress and political alliance will both see intriguing and perhaps worrisome developments. It is a brave new world for China and for the world.

23 True as this may be, there are patterns that one can observe in history that may lead us to make strong conjectures of the inevitable. See, for example, Chia-chu Hou and Jack W. Hou, "Evolution of Economic Institutions and China's Economic Reform," *The Social Science Journal* 39 (2002) pp. 363-80. Commentary on the existence of the altering can be found in Jack W. Hou, Shinichi Ichimura, Seiji Naya, Lars Werin, and Leslie Young, "Pacific Rim Trade and Development: Historical Environment and Future Prospects," *Contemporary Economic Policy*, 13 (1995), pp. 1-25.