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THE PRC ECONOMY: FIRST QUARTER  
PERFORMANCE AND POSSIBLE DIFFICULTIES

IAC Special Assessment 11/79

Approved: 2 May 1979

L'ECONOMIE CHINOISE: RENDEMENT AU  
PREMIER TRIMESTRE ET DIFFICULTES EVENTUELLES

Rapport spécial d'évaluation du CCR no. 11/79

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THE PRC ECONOMY: FIRST QUARTER PERFORMANCE AND POSSIBLE DIFFICULTIES

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IAC Special Assessment 11/79  
Approved: 2 May 1979

THE PRC ECONOMY: FIRST QUARTER  
PERFORMANCE AND POSSIBLE DIFFICULTIES

SUMMARY AND CONCLUSIONS

1. A recent brief official PRC report covering the performance of industry and rail transport in the first quarter of 1979 indicates that the economy has had a slow start this year. Although the report provides relatively sparse data for analysis, the performance of even the few sectors referred to points to difficulties in maintaining growth rates in key areas. The rate of growth in total industrial production apparently declined by more than 50 per cent compared to a similar period in 1978. Possible economic growth problems in early 1979 could reflect a number of factors, including: military pre-emption of rail transport in the first quarter; a general adjustment of the economy following the rapid take-up of the slack in the economic system during 1978 and a reshuffling of priorities following the Party Central Committee Plenum in December 1978; difficulties in maintaining general public order and labour discipline; and changes of procedure in national statistical accounting.

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Rapport spécial d'évaluation du Comité  
consultatif des renseignements 11/79  
Date d'approbation: le 2 mai 1979

L'ÉCONOMIE CHINOISE: RENDEMENT AU  
PREMIER TRIMESTRE ET DIFFICULTÉS ÉVENTUELLES

RESUMÉ ET CONCLUSIONS

1. Selon un bref rapport officiel, publié récemment par la RPC sur le rendement de l'industrie et du transport ferroviaire au premier trimestre de 1979, l'économie chinoise a connu un lent départ cette année. Le rapport en question ne fournit que peu de données à l'analyse, mais le rendement dans les quelques secteurs visés fait ressortir les difficultés qu'éprouvent les dirigeants chinois à maintenir le taux de croissance dans les domaines clés. Le taux de croissance dans la production industrielle globale a apparemment baissé de plus de 50% par rapport à la même période en 1978. Ces problèmes de croissance économique qui se posent en début d'année, seraient attribuables à un certain nombre de facteurs, y compris la préséance accordée au premier trimestre aux militaires pour l'utilisation des moyens de transport ferroviaire, le redressement général de l'économie à la suite des mesures prises en 1978 pour rattraper le retard qu'avait pris le système économique, le rajustement de l'ordre de priorité qui a suivi le plénum du comité central du parti, tenu en décembre 1978, les difficultés à faire respecter l'ordre public et à maintenir la discipline chez les travailleurs et la révision des méthodes comptables statistiques. (CONFIDENTIEL)

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2. While no official rate of growth in total industrial output was quoted for the first quarter of last year, claims of an all time high suggest that the rate may have been equal to the annual rate for 1978, or over 13 per cent. Since output in first quarter 1979 was less than six per cent, it would appear, therefore, that the rate of growth in total industrial production declined by more than 50 per cent. Output of chemical fertilizers and tractors this quarter - important for the high priority agricultural sector - was up 5.6 and 29.7 per cent respectively. During first quarter 1978, the output of chemical fertilizers, pesticides (not referred to this quarter) and tractors was said to have increased by more than 50 per cent. Although here again statistical problems make exact comparison impossible, the data suggest a decline in performance. The two areas where a decline in growth is absolutely clear are electrical power and rail transport. Power output rose only 13.5 per cent this quarter compared with nearly 23 per cent in first quarter 1978, while freight volumes were up a meagre four per cent compared with over 30 per cent last year.

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3. The fall in growth of freight volumes is the most marked change evident in statistics covering this year's first quarter. The abrupt tumble in growth of freight traffic probably reflects military pre-emption of both freight cars and line time (in support of the February

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invasion of Vietnam and reinforcement of the Sino-Soviet border), and a consequent curtailment in the transport of non-military and hence statistically accountable goods.

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4. The difficulty of moving economic goods by rail in the first quarter may partly explain why no growth figure for total coal output was released this year, in contrast with the practice last year. (Output in large coal mines - under the Ministry of Coal Industry and covering about two-thirds of output - was said to have exceeded plan by 1.9 per cent.) Since coal represents over one-third of all rail freight, and as non-military rail traffic was down substantially in the first quarter, it is likely that coal shipments were affected. Therefore, if coal could not be moved from pit heads as quickly as was expected and began to accumulate, it is possible that output was cut back with the result that growth in production was unfavourable and consequently concealed.

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5. No rate of growth in output was reported for oil and natural gas for the first quarter of this year, again in contrast with the practice in 1978. It was claimed, however, that more oil was carried by rail than had been planned which may reflect the high priority relative to coal placed on oil both as a heating source as well as a raw material for the petro-chemical industry.

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6. First quarter results for 1979 may look somewhat threadbare compared with 1978 largely because last year's figures reflect expansion based not only on the addition of new productive assets but also a once-for-all boost from the improved productivity of restored assets. (Earthquake damage in 1976 and the subsequent high costs of reconstruction as well as factional problems in 1976 and 1977 retarded the progress of the economy during these years.) The expansive effects of recovery seem to have appeared about the beginning of 1978 and along with new capital investment laid the ground for a sharp spurt in the rate of economic growth. Poor first quarter results for the present year could simply indicate that most of the expansionary effects of recovery were exhausted by the end of 1978 and that economic growth this year will have to be based largely on new additions to productive capital.

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7. Adjustment of the economic system will be complicated by the fact that policymakers appear to be on the brink of officially revealing important changes in economic priorities and goals. The knowledge that possible far-reaching changes in economic programs were in the making may have generated an economically harmful climate of indecision among managers and administrators. Steel and grain targets at least seem likely to be formally scaled down this year following what appears to be thorough-

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going review of earlier decisions and plans. Shortages of all types of skilled labour including university trained engineers and managers, raw material supply shortages, problems with the commissioning of new plants, infrastructure imbalances, the scarcity of hard currency, and a simple lack of knowledge on the part of policymakers of all the commitments made by lower level officials, apparently obliged senior party members late last year to take a hard fresh look at China's economic programs.

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8. A Party Central Committee Plenum in December 1978 seems to have spent a good deal of its time looking at economic policy questions and in the months following, key party newspapers have made it clear that a questioning of economic programs and policies was continuing. This is being accompanied by a general and more fundamental backswing of the pendulum in other areas of Chinese political life, which would appear to reflect the leadership's concern about the social consequences of economic liberalization. The leadership's ability to preserve some measure of public debate and activity on the part of managerial and labouring groups as well as the necessity to maintain law and order will have an important effect on the pace of modernization. (CONFIDENTIAL)

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9. While the authorities appear to be maintaining a tight grip on areas of the country where earlier factional problems had serious economic effects, new difficulties reflecting a perhaps more general state of public disaffection and labour unrest seem to be frequently cropping up. The economic aspect of the situation which is most troubling, is the extent to which the present situation is affecting labour productivity. Numerous official references to the need to curb unacceptable behaviour which affects the "normal order of production and work" indicate that disaffection and unrest may be widespread and seriously undermining industrial discipline. These problems are likely to be long-lasting to the extent that they reflect a response to the pitifully low standard of living which prevails throughout most of China and the helplessness of the present or any leadership to raise it rapidly.

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10. Low quality output in Chinese industry appears to be a long-standing problem and attempts to improve quality control have evidently not had the success that senior management expected. In order further to improve quality standards, the managers of firms with unfavourable records are now supposed to be penalized by having their wages withheld, while their products are to be sold at discounted prices. A related concern has been that industrial output has been inflated in the past through the inclusion of low

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quality, if not unusable products. In order to provide a more reliable guide to levels of output of "economic" goods, production figures this year are supposed to be deflated by the value of unusable or non-economic goods. While it is not clear precisely how serious the effects of the output of unusable product have been in distorting economic accounting in the past, we do not believe that current attempts to achieve more accurate accounting can fully explain the abrupt decline in economic growth in the present first quarter.

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11. What appear to be relatively low rates of increase in production this year in the first quarter point to difficulties in maintaining growth in key areas of China's economy. Some problems affecting first quarter activities, such as military pre-emption of rail transport, are transitory while others, such as ineffective planning and subsistence standards of living, are likely to be long-lasting and not amenable to easy short-term solutions. We would expect some improvement in performance in the industrial and transport sectors in succeeding quarters of 1979. Declining military pre-emption of transport facilities and better weather should provide some assistance here. Spring and summer seasons ease the task of operating many productive capital assets and lighten the burdens that winter inevitably places on the labour force.

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