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# STUDIES ON CHINESE ECONOMY IN JAPAN

by AYAKO HIRANO

## INTRODUCTION

Chinese economy has thousands of years of history. Great many changes took place politically, socially, and economically during those long years at various places within the extensive land spreading from the border of India in the south to the border of Siberia to the north. China with its abundant natural resources and labour force has always cradled, what one might call, a latent power of development at each stage of its historical development. In a way, those rapid changes themselves characterize the unique economic pattern of China.

In this article, our attention will be focussed on the analysis of the structure of the socialist economy in the People's Republic of China, the republic newly formed in 1949. It should be noted that our analysis cannot overlook the factors of backwardness that helped bring forth the current economic pattern of China.

The economy of China has been studied from many angles and by many scholars in Japan. This article chose to introduce recent works in the following two areas that are vital in the understanding of the structure of the economy of the People's Republic of China:

1. Socialistic reconstruction of the national economy in China,
2. The factors of rapid growth of the Chinese economy and the problems facing the socialist economy of China.

### 1. ON THE SOCIALIST RECONSTRUCTION OF THE NATIONAL ECONOMY IN CHINA

In 1949, an upsurge of proletarian dictatorship (People's Democracy) swept across the continental China and established the People's Republic of China. In the process, 65% of all "bureaucratic capital" and private enterprises were confiscated by the new power. As a result, 58% of power production, 68% of coal production, 97% of pig iron production, 68% of cement production, and 53% of cotton yarn production of the whole country fell under the control of the newly established government, although many small private management were especially in agriculture.

With the nationalization of basic industries, transportation, banks, and foreign trade, Chinese economy took a historical step toward the formation of socialist order; while the national market also was un-

dergoing reorganization to suit the new economic structure. The state thus suddenly came to play a decisive role in the national economy. Plans were made to socialize and then modernize all means of production. And the plans to deal with the hitherto unnationalized private land ownership by peasant, which was one of products of this socialist revolution, were also set force.

One of the biggest and the most important subjects of research on the Chinese economy deals with the process of the socialist's reconstruction of national economy since the backwardness of Chinese economy enhanced by the semi-feudalistic and semi-colonialistic factors of Chinese society was known to impose difficult problems on the reformers.

A number of articles were published in Japan as well as in China on the subjects of land reforms, socialization of agriculture, collectivization of farms, mechanism of centralization and concentration of means of production and product distribution, and also on the subject of market and its "credit system".

Main controversies with regard to the reconstruction of Chinese economy center around the following three points; (1), the nature of the socialist revolution in China, (2), the patterns of the economic transition that took place following the initial establishment of Chinese-socialist economy, and (3) the limiting factors and promoting factors of transition from, what we may say, the first stage to the second stage of the socialist economy.

The socialization of Chinese economy was started with land reform. In old China, the fundamental contradiction was between landholders and peasants, between merchants' capital and peasants' holdings, and between foreign capital and peasants' managements based on private land ownership. Kazuo Furushima takes this subject up in his article called, "The Actual Condition of the Agricultural Reform and the Emancipation of Peasants in China".<sup>(1)</sup> He tries to clarify the relationships between the actual conditions of the agricultural reforms and the laws in force at each of the stages of reform development. He explains how the series of land reform leads to the "social revolution," though a land reform itself is a moment of civil revolution and the realization of a private landownership by peasant seems to be a contrast with the nationalization of land in socialism.

This point is very important to analyze the socialist revolution in China. Kazuo Furushima, Hideo Yamamoto, Masahisa Suganuma, and

(1) Kazuo Furushima, "Henkakuki ni okeru Chidaihanchu," edited by Moritaro Yamada, published in 1954 p. 95.

Masao Fukushima examine the Chinese agrarian reform in their co-authored article, "The Process of Evolution of Agriculture in China" (IV)<sup>(2)</sup>. The article is divided into four sections, each of which is written by one of four authors. K. Furushima deals with the relationship between land reforms and the collectivization of agricultural management; H. Yamamoto writes on the evolution of the socialization of rural communities; M. Suganuma discusses the policies on the collectivization of market; and M. Fukushima compares the system of People's Commune with the collective farms in the U.S.S.R. This last article edited with other original papers in "The study on the People's Commune in China" which has been accounted one of the best product in the studies on the Chinese economy in Japan.

Sōichiro Giga deals with the socialization of Chinese national economy as the evolution of the socialist enterprises. "Forms of Enterprises in China of Today"<sup>(3)</sup> shows the level of socialist economics in our country. He also writes "Forms of Socialist Enterprise of Some regions at the Early Stage under the People's Liberation Army"<sup>(4)</sup> and points out the characteristic of enterprises before the "emancipation".

Yasuo Kondo examines the collectivization of agriculture in socialist China from the view point of the "Co-operative theory". Y. Kondo explains how the weak but numerous peasants were organized as a whole in the process of the transformation of capitalistic set up to its socialistic counterpart. In order to control the national production and market, the central government saw it necessary to reorganize Chinese agricultural organization first. This is what S. Giga explains in his first article cited above. Moreover, we cannot forget "Characteristics of the Formation of Socialist Co-operation in China"<sup>(5)</sup> by Akio Sugino. "On the theory of Co-operatives" by Ayako Hirano intends to clear the differences of co-operatives between in capitalism and in socialism, and examines the character of "Gassakusha", the peculiar type of collective farms, co-operative-enterprises in early stage of socialist economy in China. She also deals with the change of productive-power in the socialist co-operative enterprise and analyzes the adequacy of big enterprises (socialist collective farms) in backward

(2) K. Furushima, H. Yamamoto, M. Suganuma and M. Fukushima, "Chugoku in okel Nogyo Hatten no Kenkyu" IV, p. 1, p. 35, p. 47, p. 64.

(3) Soichiro Giga, "Gendai Chugoku no Kigyo Keitai" published in 1957.

(4) S. Giga in "Socialist Enterprises in China" published in 1965.

(5) A. Sugino "Chugoku ni okel Kyodokumiai no Seikaku" in "Keizaigaku Zasshi" Vol. 8 published by Osaka Ichiritsu Univ.

economy like China.<sup>6</sup>

"The Establishment of Chinese Economy in Socialism", edited by the Economic Institute of Osaka University, fully explains the necessity, possibility, and inevitability of socialization in rural communes and the actual processes of their changes. The distribution of net products at producer's co-operatives in agriculture and the reorganization of market in rural communes; Akira Fujimoto, "The Study on the Rural Market in Socialist China" is very noteworthy. Shoji Matsuno also examine the Distribution in rural commune as the form of rent in the process of socialization.<sup>8</sup>

## II

Since 1949, when the socialization began in Chinese economy, the sum total of industrial and agricultural production quadrupled. Even though on the basis of time when the exhaustion by war had recovered, the output of industry accounted for 228.4% (producer's goods for 310.5% among it), and one of agriculture for 124.7% in 1957. Still more, in 1958 the year of rapid growth, the former showed the number of 379.6% (producer's goods 630.3%) and the latter being 155.9%. However, from 1959 to 1960, such rapid tempo of development was interrupted by a short crop and some discordance of planning (for instance, a cessation of import of producer's goods from the Soviet Union). According to the information available, the output in 1962 returned to its normal level with a self-sustenance, though iron and steel were not fully recovered. At any rate, the rate of increase in output of industry at the first five-year program, 14.7%, was over the rate of 9.2% which was the highest one under capitalism (from 1868 to 1878 in U. S. A.). These matters asked us the following questions: Was its rapid speed of growth based on the small number of radix due to the backwardness, or on the socialist reconstruction itself? Or is it a natural tempo of development in socialism in present China? What regulates the economic growth in socialism?

It is the work by Akio Sugino to wrestle such difficult problem in

(6) A. Hirano, "The Change in the Structure of Agricultural Productive Power under the Socialist Co-operative Enterprise" in "Chugoku Keizai Hatten no Tokeiteki Kenkyu" II, III, edited by Asian Economic Institute in Japan.

(7) A. Fujimoto, in "Chugoku Keizai Kensetsu" ed. by Osaka Ichiritsu Univ.

"The Ownership and People's Commune" in "Keizaigakuzasshi," vol. 47, 6.

(8) S. Matsuno, "Observation on the Return for Land", "Tochihoshu no Kosatsu" in "Ritsumeikan Zasshi" Vol. 9. "The Process of the Develop in Socialist Economy in China", vol. 12. I, II.

the first place. In his paper, "On the tempo of Development of Industry and Agriculture, especially of Heavy Industry in the five-year program", he compared the superiority of a tempo of development and the rate of investment in heavy industry with the inferiority of it in the light industry and agriculture. From combination of industry and agriculture, being the original way in China to resolve the shortage of materials and producer's goods, develop big modern enterprises with small manual trades at a time, the characteristic of socialist enterprise in "five-different systems" under State nationalism, and the proportion between accumulation and consumption etc. He intends to put out the possibility of such rapid growth in socialist China.

Next the series of works by Ryuzo Yamashita appeared. "The Rate of Economic Growth in the Chinese Economy"<sup>10</sup>. The characteristic and the problem on the "period of regulation" in the Chinese economy, though Atsushi Motohashi also wrote the paper, "Economic Growth and Balance in the Chinese Economy".<sup>11</sup> Let us examine the evolution of his theory in relation with our question above.

Actual study on the economic study in certain national economy must be set out with the examination of economic statistics in the country. In socialist economy, a number of statistics is always at issue before the outset of original subject as a tempo of economic growth or a mechanism of economic structure which supports it. So, R. Yamashita begins with the examination of official statistics manifesting such rapid, successive development in China. He asks himself whether periodical errors of number on change of "standard price" are there or not; how the "standard price" in socialist economy, which is averaged with thousands commodities in the third and fourth quarter of the first year in each five-year plan, operates the statistics of economic growth.

He must answer also for critique that the influence of inflation does not reflect in "the standard price and upward tendency" (excessive appreciation of quantity) appears, when the number of statistics is compared between the first five-year plan and the second. He sets each different standard price of the output of agriculture and industry, producer's goods and consumer's goods in the first five-year plan and the second to the number being able to be compared with each other

(9) A. Sugino "Gokanenkeikaku niokeru kogyo to nogyo, toku ni Jukogyo no Hatten tempo" in "Chugoku kezai kensetsu"

(10) R. Yamashita, "Chugoku keizai ni okel Keizaiseicho" in "Chugoku Kenkyo jo Kiyō edited by the Institute of Chinese Economy Vol. 1. (article I)

(11) A. Motohashi, "Chugoku keizai ni okel Keizaiseicho to Balance" in "Toyobunka kiyō" Vol. 36.

in a list; and he concludes that there are not any big bias (=fections upward tendency) in such wonderful increase in 1958, quoting the work by Shigeru Ishikawa on a different footing (article I.). If so, we must turn the next subject whether this high rate of economic growth in China will go on in future or not.

In the article 2<sup>12</sup>, R. Yamashita deals with the relation between the actual conditions of Chinese economy and the model of economic growth in socialism, the "theory of the form of waves", while he examines the elements realizing and supporting the rapid growth of Chinese economy to estimate the rate of economic growth in future. In spite of the time of its publication (1961, 3), it has very interest evolution around two essential points for us. The first point is the relation of the actual decrease of the rate of economic growth from 1960 to 1962. And the second is the analysis of the "theory of the waves" (the theory of the economic growth in socialism), which has been criticized in the U. S. S. R. since the last summer though the theory itself was borned there. So, we must put in order the theory of economic growth in the Chinese economy with R. Yamashita' opinion based on the doctrine of the Chinese academy.

"The yearly average rate of increase in agricultural and industrial production is 10.9% in the first five-year plan and 34% in the second five-year plan; in industrial production only, it is 18% in former period and 44.8% in the latter one; and in agricultural department, it is 4.5% in the former and 17.9% in the latter. So, the rate of economic growth in the latter period is very high.

The quantity of yearly increase in agricultural and industrial production from 1958 to 1960, is about the same, but the rate of increase is slow down year by year (1958 = 48%, 1959 = 31.1%, 1960 = 23%). This stagnation seems to become end in 1962 and the output of production is coming up to the normal level except the iron and cotton. We can not affirm that this curve of economic growth is the same one, based on the theory of Yi Chen "The rate of economic growth in socialism will form a curve of waves, because the rapid growth will continue in three years, adjust in a year, and begin in the next three years.

But at any rate, it is true that the yearly average rate of accumulation of capital in Cina, is highest not only in capitalist countries but in every socialist countries. Why? If such high rate of accumulation in China was not due to the excessive accumulation of national income

(12) R. Yamashita, "The Rate of Economic Growth in China" "Chugoku Kokumin Keizai no Seicho Ritsu" published by the Institute of Chinese Economy.

as in Hungary, but due to large increase of the output itself, it must be observed that the socialist factor realizing such prosperity in the old, poor country in Asia, will give any influence to the tempo of economic growth in future or not. For this question, R. Yamashita examines the proportion of the sum total of "productive fund" to the sum of "fixed capital" as the index. He founds his argument on the theory of Михайл Бор: "The key regulating the rate of economic growth generally, is in the analysis of factors regulating the rate of economic growth in industry. So, the rate of development in industry is decided with the proportion of the sum total of productive fund to the sum of fixed fund and the proportion of the output of industry to sum total of national products. The former is regulated with the development of technique, the improvement in efficiency of productive fixed fund, or a revolution of circulating fund; and all these factors accelerate the tempo of development in industry." Does these thesis apply to the Chinese case without question? If the quantity of investment for plant equipments is given, an advance of technique and an improvement in an efficiency of productive fixed fund and in a revolution of circulating fund will reduce the proportion of productive fixed fund to the national products as Ball says. At that time, the degree of reduction in its proportion becomes the index of the development and it may be significant to the comparison of the development of the American economy and Soviet one in the same method.

However, in under-developed countries, the increase of productive fixed fund in the process of socialization of national economy, modernization of enterprises, must be differentiated from one after the establishment of the way of socialist reproduction, and also must not be mixed up with one in advanced nations under a high level of technique supported with a social accumulation of a large quantity of fixed capital.

So if proportion (0.6) in Chinese economy in 1958 is remarkably low in comparison with America or U.S.S.R., it never means the level of economic development in the Chinese economy is higher than these countries because of following reasons:

1. the proportion of modern industry is still under 75% of all.
2. the proportion of production of consumer's goods is still high.
3. the government also encourages the development of small industry: industry in provinces and one at the People's Commune for promotion of efficiency in investment at present.

Thus, the decrease of such "proportion" in the process of modernization in national economy, exposed the backwardness of its country:



and at this stage, the increase of its proportion shows often the progress of technical improvement. So, it is true not by experience but with examination of backward country in Socialism that the proportion of productive fixed-fund to sum total of products will decrease after as in the Soviet economy. When the national economy has gotten rid of a back-wardness, modernization has been finished, and socialist reproduction has been established in fact, "*true* reduction of such proportion" as an index of economic development must appear (M. Eop). (a writer complement something in addition to an original conception by R. Yamashita).

At the five years plan in Socialist Economy, some plant equipments under construction does not operate often in several years; in spite of a large quantity of new investment, and simultaneously they exhibit their productive power *with their accomplishment*. So there is a time lag between the time of increase in productive fixed-fund and one in total of industrial products.

In Chinese economy, these two elements operate together. So, increase of productive fixed-fund on the economic plan, construction of the rate of operation due to the technical improvement, etc. involve and make decrease such proportion; but, after the establishment of perfect mechanization, and automation, increase of such proportion will appear and then its decrease in the system of modern industry will gradually begin also in that country.

At this period, the time of transition to modernization, "*the system of two legs*" must be most important and original mode of productive organization in China, the policy keeping pace with big modern enterprises and small one of old method. According to R. Yamashita, it must elevate the efficiency of social productive funds with three kind of technical revolution proceeding at the same time in present China. He never recede from his theory on the gradual increase of the rate economic growth in socialism.<sup>(13)</sup>

(13) R. Yamashita "The Problems of the Regulating Period in Chinese Socialist Economy", monthly Bulletin vol. 168. published by the Institute of Chinese Economy.