ECONOMIC DEVELOPMENTS IN MAINLAND CHINA

575

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ECONOMIC DEVELOPMENTS IN MAINLAND CHINA

TUESDAY, JUNE 13, 1972

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room S-407, the Capitol Building, Hon. William Proxmire (chairman of the committee) presiding.

Present: Senators Proxmire and Pearson; and Representative Boggs.

Also present: John R. Stark, executive director; Loughlin F. McHugh, senior economist; John R. Karlik and Courtenay M. Slater, economists; Lucy A. Falcone, research economist; George D. Krumbhaar, Jr., and Walter B. Laessig, minority counsels; and Leslie J. Bander, minority economist.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. The committee will come to order.

This morning's hearing is a symbol of this committee's long and continuous interest in the economy of Communist China. The committee's 1967 study of China served to illuminate a subject that had been shrouded in mystery.

Relations between the United States and China are in the process of dramatic change. The recent invitations to the President and to the majority and minority leaders of the Senate present striking evidence that these relations are entering a more open and, hopefully, a more constructive phase which can benefit both nations.

By way of background, I should point out that our committee has been urged to update our earlier hearings on the Chinese economy of 4 or 5 years ago. Accordingly, we released a second economic assessment of China just last month. This study was intended primarily to bring to light information and analyses which had not previously been available to the public, to the press, or to scholars. It has been enthusiastically received by these groups, and now we are undertaking these hearings to permit scholars and experts to give the benefit of their views to us and to the public.

We intend to hear from a number of outstanding scholars in the field.

We are fortunate in being able to start our hearings with testimony from our distinguished majority leader, Senator Mansfield, and minority leader Senator Scott, who just completed a historic trip to mainland China as representatives of the U.S. Senate.

Senator Mansfield is an outstanding expert on the Far East. As a professor, he taught Far Eastern history; he traveled in China many

years ago, and he has consistently maintained a deep interest in our relations with this most important nation.

Senator Mansfield, I can't tell you how delighted we are to welcome you today. We have a number of questions for you, but I understand you have a statement of your own.

Senator Scott, I understand, will be here a little bit later.

We have adopted a committee policy, which I am sure you are familiar with, of limiting initial oral statements to 10 minutes in order to provide as much time for colloquy as possible, and I am sure that, knowing your emphasis on egalitarianism in the Senate, you would want to be treated just exactly like any other witness or any other Senator, so we will run our timer and let you know when the 10 minutes are up.

You go right ahead.

STATEMENT OF HON. MIKE MANSFIELD, A U.S. SENATOR FROM THE STATE OF MONTANA, ACCOMPANIED BY NORVILL JONES, PROFESSIONAL STAFF, COMMITTEE ON FOREIGN RELATIONS

Senator MANSFIELD. Mr. Chairman, I hope that the distinguished chairman of this committee will recognize that there are some exceptions to some rules and that, if possible, I would like to go a little more than 10 minutes, which is something I usually don't ask, because I have spent some time on this speech, but I will take my chances.

Chairman PROXMIRE. Without objection, that will certainly be done. When the buzzer goes off, you go right ahead; we will just let you know, and we can assume you are answering a question. [Laughter.]

Senator MANSFIELD. Mr. Chairman, I appreciate being invited to participate in these hearings on the Chinese economy. Your committee is to be commended for its work on this timely subject. These hearings can make a significant contribution to public knowledge about developments in China's economy and social system.

I do not profess to be either an economist or an expert on China. What I will say is based on recent personal observations over a period of 16 days in six different Chinese cities and the surrounding countryside, many conversations, and an interest in Asian affairs dating from my service as a Pfc. in the Marines in China in the 1920's.

As a preface to my observations, I want to urge that the committee take with a grain of salt any so-called estimates it may receive about China's gross national product. On the basis of my observations, I would say that our concept of GNP has little, if any, practical application to China. Any general use of GNP as a gage of the state of China's economy could add to the already seriously distorted view we have of that country.

There is no effective way to measure the gross national product and little meaning in the measurement in a country with a socialized economy that is based largely on human labor. While production is stressed in China, the society does not encourage consumption of goods and services as a stimulant to production. There is, for example, no advertising of products of any kind in China. How can one equate, in Western value terms, moreover, the building of dikes, aqueducts, bridges, factories, housing, recreational facilities, and so on, across the spectrum of economic development, all created primarily by human

labor, much of it mobilized on a volunteer basis? Where does the volunteer labor of tens of millions in massive public health programs show in the gross national product?

No visitor of 16 days can expect to fathom the mysteries of that vast and complicated land. No man who has spent his life in that country could expect to achieve that goal.

Any outsider who looks at China sees a distorted picture which, at best, can be tempered by perspective. An observer, for example, can see the bottle, which is China, as half full or as half empty. If China's progress and its system are judged against living standards in this Nation—by the number of cars, television sets, telephones, or plumbing fixtures—the bottle will be half empty, if that.

But the new China is best measured as the Chinese themselves measure it, on the basis of China's past or against the conditions prevailing in other nations of Asia. I have seen the old China, and I have traveled widely throughout Asia. In my view, China's half-filled bottle is filling rapidly.

I would sum up the status of China's social and economic system in three words: It is working. The contrast with the China of the past that I remembered is nothing short of remarkable. Today the people are well fed, well clothed, and, from all outward signs, satisfied. The farms, or communes, appear to be prolific and well managed; much new land is being brought into cultivation and the ravages of nature are controlled; the streets and sidewalks of the cities are clean, the parks meticulously tended, the shops well stocked with food, clothing and other consumer items; policemen are evident only for controlling traffic; military or other armed personnel are conspicuous by their absence. The housing ranges from adequate to marginal, all at low rents; conspicuously absent are the hundreds of thousands of homeless who were to be seen a few decades ago in the streets and on the waterways of China's cities and can still be seen elsewhere in Asia. There is no visible evidence of begging, drug addiction, alcoholism, or delinquency.

The people appear to be well motivated and give the impression of applying themselves vigorously in whatever tasks they are pursuing. Women and men work side by side in the field and the factories. The disparity between the factory worker and the peasant is closing, and the standard of living of both is rising.

China's crops have been good for the last several years, I think, for most of the last decade, due not only to favorable weather but also to intensive efforts, the increased use of fertilizer—both human and synthetic—the spread of scientific methods, more irrigation, and the bringing of new lands into production. China is now a net exporter of foodstuffs.

The wage of the average factory worker in Peking is the equivalent of about $22 a month; that of his wife will be about the same or higher; their children are cared for without charge at a nursery or in public schools; rent takes about 5 percent or less of income; basic food prices are low. For all practical purposes, medical care and recreational facilities are free, and the family probably has a savings account in the factory bank. Nearly everyone rides a bicycle or a bus. Cooking oils, rice, wheat, and cotton cloth—but not synthetics—are still rationed, but the allotments are said to be ample and the system designed more to assure fair distribution than to cope with shortages.

In fact, China exports large quantities of all of these items except wheat.

Industrial progress has carried the Chinese economy a great distance since a quarter of a century ago when even bicycles and radios had to be imported. In Shanghai, we saw impressive examples of modern heavy industry. Before 1949, Shanghai's smelters produced only two kinds of ordinary carbon steel; now they turn out more than 1,000 types. The range of production is from everyday household articles to nuclear devices and space rockets.

Factories and communes are generally more than production centers; they are also self-contained social units. At a cotton textile mill which we visited in Sian, in northwest China, for the 6,380 workers there were dormitories for the unmarried, apartments for families, dining halls, barber shops, libraries, clubs, outdoor sports facilities, swimming pools, primary and middle schools, and medical clinics.

The organization of the 80 percent of China's population living outside the cities is illustrated by the Ma Lu commune, to the south of Shanghai. This commune, as is the case with others, is more than a farm. It is a key unit in China's new social organization. Ma Lu is a self-contained community of over 6,500 families—more than 25,000 people, all having a direct or indirect interest in the commune's output, since both their personal income and China's overall progress depend on their efforts.

Last year, income was about $336 per household. At the commune there were 33 primary and secondary schools, a hospital, a clinic for each of the 14 production brigades, and a health worker for every team.

Extensive power equipment and machine cultivation is in use on Ma Lu commune. Much of what is produced is processed on site and there is also manufacturing both for in-house need and for external distribution. Among the manufactures are gasoline engines for farm machinery, farm tools, spare parts for tractors, insecticides, and some consumer products. These farm factories account for 50 percent of the value of the commune's total output.

The restoration of nature's past ravages and the conservation of natural resources have been given great emphasis by the Chinese Government. As contrasted with the former parched look of the landscape, the sight of miles upon miles of trees around Peking is very impressive. The plantings are said to have altered the local weather for the better. Furthermore, trees are good for absorption of pollution.

Throughout China arable land is being created out of wasteland and massive water-control projects are being built to control destructive floods and droughts. Human waste is recycled, a system which helps to explain why the Chinese, with a population four times ours, have unpolluted rivers and streams and an enormous output of fresh water fish. This system of recycling also returns to the soil as organic fertilizer most of what has been taken from it in the growing cycle, thus serving to maintain a natural fertility.

A word should also be said about Chinese medical care. Only a few years ago little, if any, health care was available to the vast majority of the people. Now medical care is free for all workers in the cities. On the communes each family pays about 4 cents per month for treatment by medical personnel attached to the commune. The

ancient practice of acupuncture—it goes back more than 3,000 years—has been updated and is now used widely as both a treatment for various types of ailments and as a highly effective anesthetic for surgical operations.

The public has been effectively motivated to help stamp out public health problems by the eradication of snails, flies, mosquitoes, and other disease carriers.

As for trade, the Chinese regard their needs from abroad as limited. The emphasis is on the use of inner resources for economic building blocks in order to develop an independent capacity to meet the people's needs. Locomotives, tractors, cars, sewing machines, clothes—on across the industrial spectrum—a whole range of products are now made exclusively on that basis. Most of this capacity has been developed largely in isolation during the past decade and a half.

China's foreign trade is governed by two principles: (1) equality and mutual benefit and (2) the exchange of what exists in surplus for what is lacking. With trade, the few gaps left by domestic supplies of raw materials are filled and the sophisticated machinery and capital goods that are not yet built within China are obtained.

In addition to this frugal standard for external needs, China has a conservative policy of trade finance. Foreign trade is kept in rough balance and there is no external debt—internal either, for that matter. Much of China's best quality consumer goods—bicycles, radios, textiles, and so on—are produced for export. Rice is sold abroad to help pay for imports, including wheat.

China's foreign trade is quite small relative to population. In 1971, it is estimated that exports were $2.3 billion and imports $2.2 billion. However, the growth of the twice-a-year Canton Trade Fair since its beginning in 1957, illustrates the increase in China's interest in the world market. The goods for sale at the first fair were exhibited in a building of 12,000 square feet with 1,200 visitors attending. The fair now occupies three buildings totaling 50,000 square feet and more than 30,000 different items for sale are displayed or represented. Twenty thousand people attended last fall's fair and for the first 10 days of the last fair, which ended on May 15, attendance was 10,000.

There was vast variety at the fair, especially of consumer goods such as clothing, foodstuffs, textiles, clocks, radios, musical instruments, and, of course, traditional Chinese arts and crafts. Goods are priced to be competitive on the world market. A well-made bicycle which would cost the equivalent of $70 retail inside China sold for about $28 wholesale for export.

There were also several types of trucks, tractors, and many items of farm equipment and machinery for sale, illustrating how China sometimes puts foreign trade above internal requirements. All in all, the fair was a remarkable display of China's diversified and expanding productive capacity.

The United States purchased only a few million dollars' worth of Chinese goods last year, mostly through Hong Kong; but Chinese goods appear to be an "in" thing today and substantial increases in imports of Chinese consumer goods are likely this year.

Solid trade relations, however, cannot be based on fads—the sale of chopsticks, Mao buttons, or rice wine. It is not clear at this point what we have that the Chinese want that they cannot obtain cheaper elsewhere, or what Americans will want and need from China over an

extended period. Nevertheless, it seems to me that the administration would be well advised to pursue trade prospects vigorously, not only because there may be profits to be made from it but also because good mutual trade relations can be an important factor in breeching in peace the great wall of separation which has stood between the two nations for almost a quarter of a century. Good trade relations tend to equal good foreign relations.

From my observations, it seems to me that China's society is strong, dynamic, and unified perhaps as never before in modern history. "Serve the People" is Chairman Mao's mandate and there seems to be a great dedication among the Chinese in pursuing it. The Chinese are extending the traditional concept of reliance on the family unit as basic to the social structure to the commune or factory and to the nation as a whole. China is becoming a national family, based on a "one for all and all for one" concept of social and economic development.

What the people of China have achieved in the last two decades is, I believe, truly remarkable. Like it or not, the system of the People's Republic seems to be working very well for them and they for it.

We are a young Nation relative to China—200 years compared with thousands of years. China's known history goes back almost 6,000 years; it has one of the oldest civilizations on earth. There is much we can learn from this ancient and rich culture and there is much China can learn from us.

The mutual educative process has begun again. This time it is not one-sided, teacher-pupil, or missionary-heathen, as in the past. This time it is on the basis of equality and it had best be kept that way for there is no other way which is likely to be acceptable to the Chinese or to our own people. As Premier Chou En-lai said when our conversations were coming to a close, it took "100 years since the Opium Wars for the Chinese people to stand up." Indeed, they are standing up and they have every right to look with satisfaction on what they have created with their own energy and resources in two decades. For one who remembers the old China, the change which has been wrought is nothing less than extraordinary.

Chairman PROXMIRE. Thank you very much, Senator Mansfield, for a most remarkable statement, and I think the way you ended is the key to why it is so valuable.

You were one who has visited China before, many, many years ago, and you have had a chance to observe firsthand, not as a matter of theory or statistical abstraction of some kind, but firsthand the remarkable changes.

You caution us, and this committee should be cautioned, I am sure, on just a blind acceptance of gross national product. You say that just cannot measure the kind of economy that China has, the different kind of economy than ours?

Senator MANSFIELD. That is correct. The indexes are not there to make a similar summary of what its GNP is, in terms of what we have in this country.

Chairman PROXMIRE. We have another scholar coming up—Mr. Ta-Chung Liu—who takes quite a different view than you do. He—without referring to your trip and Senator Scott's trip—does say that a brief trip to China, a nation of 850 million people, can't possibly give a clear understanding of the problem there.

Senator MANSFIELD. Well, Mr. Chairman, may I say that he is right. I agree with him. My experience in China goes back to a little over a year with the marines in the Tientsin-Peking area in 1921, 1922, a trip for President Roosevelt on a special mission at the end of 1944 and the beginning of 1945, and a 2-week trip to North China—Tsingtao, Tientsin, and Peking—in 1946, so I certainly, as I tried to say in the beginning, do not look upon myself as an expert. But I do look upon myself as a student who has a very keen interest in this part of the world and, therefore, I would without question agree with the statement just made.

Chairman PROXMIRE. Well, Mr. Liu, who is an eminent economist, has based his analysis on a very careful study of statistics. He argues since 1957 quite the contrary to the thrust of what you say there has been an actual decline in the diet, the caloric consumption per capita. He says there is no way to interpret it except to interpret it that it has gone down, gone down rather drastically, gone down by 10 percent, 5 to 10 percent.

He also says the cotton fiber available for clothing just has to decline just due to the increase in the population of China and a relatively modest increase in the textile production; and when you look for exports and so forth. He says on this basis since 1957 both the diet and clothing in China have not improved; it has gone the other way.

Senator MANSFIELD. I am in no position to make a comparison with 1957 because I haven't looked into that particular aspect of the situation nor have I studied the statistics.

I would point out, though, that we were allowed free rein in China. We asked to visit certain areas. We were not able to get to Kunming in Yunnan, which I would have like to have returned to, and I assume that the reason that we were not allowed was because that happens to be the railhead for the French-built railroad which goes down to Hanoi. But we did visit Peking, Shanghai, Hangchou, Sian, Changsha, and Canton. We went out in the streets and asked questions which, of course, we had to have an interpreter along to be able to do. We were allowed in areas where foreigners had been forbidden until our trip and we have to make the observations or at least I have to make the observations I do, not only on the basis of the visits to those six major cities but also to numerous villages and communes and factories.

We put in long days and we tried to learn a lot on the basis of personal perspective, because Senator Scott had also been to the mainland some years previously. But I cannot make a comparison with 1957.

All I can say is that from what I saw the Chinese appeared to be well enough fed, getting by on a subsistence plus level.

What the situation was in 1957 I don't know, but the Chinese have had good crops for the past decade; they have been able to grow a great deal more because the yearly floods of the Yellow River, for example, which used to be a regular occurrence in China, and would flood out hundreds of thousands of acres, have now been controlled through irrigation systems, dikes and reservoirs built behind power projects.

I don't think that one can go too much on statistics because I don't think the People's Republic Government in Peking is itself yet too sure of its statistics. For example, if you ask about the population, they will say it is between 750 million and 850 million, and the figure

of the U.S. Census Bureau indicates that the population of China is about 845 million, perhaps a little more.

So I would not disagree with Mr. Liu. He has had access to information which I have not seen. He knows much more about Chinese economics than I do. So all I can do is to reiterate my own personal viewpoints and let it stand or fall on the basis of what is, subsequently, proved or disproved.

Chairman PROXMIRE. This morning you told us that China, you feel, is a strong, dynamic, unified country. Many of us have been concerned about—have been less concerned about the threat of China because we understood it to be relatively weak economically, that its gross national product was one-eighth of ours, that it is somewhat smaller than Italy's.

You, in your report to the Senate, indicated that China is not an aggressive nation.

Senator MANSFIELD. That is correct.

Chairman PROXMIRE. In that connection, do you think that the Chinese have (1) the ability and (2) the disposition to attack and overtake Taiwan, for example?

Senator MANSFIELD. First, let me say that I read the report issued by this committee on the economy and other problems of the People's Republic of China, and I found it quite interesting.

Secondly, may I say also that in response to your question concerning the People's Republic's aggressive intent, the question has been raised, well, what about Tibet? Tibet has been considered a part of China. India so recognized it. This Nation made no effort in opposition. Chiang Kai-shek on Taiwan also recognized it. In 1962 I happened to be in India when the Chinese invaded that country; they could have, in another day or so gone to the Bay of Bengal and split the Indian subcontinent in two, but instead they retired from Assam to their side of the border after making a rectification of the so-called McMahon Line, which China had never recognized.

The Government of Taiwan, Chiang Kai-shek, recognized that as a legitimate Chinese claim.

Then, of course, there was the penetration of the so-called Chinese volunteers into Korea during the Korean war, but that did not occur until American-United Nations troops, rather, reached the Yalu River and there the danger became increasingly significant insofar as the Chinese viewed it. But years ago they withdrew all troops from North Korea whereas the United Nations still has a force in Korea made up primarily of U.S. troops supporting the South Korean Army.

They will be—they are interested though in contacts with so-called third world countries, and they have gone into places like Africa; they have spent $600 or $700 million, I believe, for this purpose. They have also spent tens of millions of dollars building a railroad from Zambia up into the area of Tanzania, so that there could be a shift away from the export of copper from Portuguese-controlled ports up to purely African ports.

They have offered Ethiopia some aid. They are interested in roadbuilding in Somalia. They have extended aid or offered it in certain forms to Guinea, to Chad. For many years they have had an economic mission in the Yemen. I think they have helped to better the harbor at Hodeida; they have engaged in some roadbuilding there, but it seems that they do not say stay, that once they complete a project—I

believe there was an article in last Sunday's Post which would tend to corroborate this—they want to leave; the job is finished. On occasion they have been asked to stay on so that they could teach people how to run a textile mill, for example, which they had built.

So I think what the People's Republic is doing is building up reserves and resources of good-will and benefits within the so-called third world and now as a member of the United Nations, of course, Peking is placed in a more strategic position.

But as far as aggression is concerned, I think this committee's report will bear this statement out: China has enough to do internally to take care of the needs of its people and, therefore, disavows and does not seem to have any aggressive designs, in my opinion, as far as the outside areas are concerned.

As for your specific question concerning Taiwan in talks with the highest Chinese officials, it was brought out that what they—that the issue of primary importance now is Indochina, not Vietnam but Indochina, an end to that war and the withdrawal of all U.S. personnel. Then they said, "Once that is done, we can consider other problems but until that is done there will be no progress between our two countries on other matters; as far as Taiwan is concerned we have patience; we can wait." And they will wait, no matter how long it takes, because if I remember correctly, in the Shanghai communique it was stated this was a matter which the Chinese themselves would have to settle.

Chairman PROXMIRE. My time is just about up. Before I yield to the House Majority Leader, let me just ask one other question: The rhetoric of the Chinese has been very hostile and aggressive at times, especially directed against this country. Without trying to analyze their designs or their impulses in terms of their potential, is it or is it not true that because they have a very limited navy, rudimentary air force, very rudimentary nuclear power, that any threat to this country would have to be limited to our interests in the contiguous areas of Asia, that they couldn't possibly represent an overseas threat because of the inadequacy of their navy and air force, and that their economy simply wouldn't support a substantial attack except, as I say, virtually on their borders?

Is that correct in your view?

Senator MANSFIELD. I would agree, although we have to keep in mind that the Chinese have developed at Lop Nor a nuclear capacity, that they have missiles, at least of intermediate range. They are working, I believe, on long-range missiles. This is something which I just picked up from reading the public prints but I believe it to be true. But the time to worry about China is when an outsider gets close to its borders and the example, of course, is the United Nations penetration to the Yalu during the Korean war which brought the Chinese volunteers in—over a million of them. Incidentally, Mao Tse-Tung's eldest son was killed in that struggle. There was always the possibility, at least I thought so, that the Indochina involvement might get us involved with China if it was carried too far.

There have been—there were two American fliers who were shot down over the island of Hainan which is a part of Kwangtung province. They are in captivity in Peking. We pleaded with the Chinese for consideration to be given to them. We didn't get much satisfaction because their incarceration is being tied to the ending of the war in Indochina, and I repeat they always say Indochina because they tie Laos, Cambodia and the two Vietnams together.

I think it should be brought out that earlier, in the latter years of the last decade, there were anywhere from 40,000 to 50,000 Chinese labor troops supported by antiaircraft batteries and military personnel engaged in repairing the bridges, the railroads and the roads which come down from China into North Vietnam. They have been withdrawn. They may or may not be back there at the present time, I do not know.

Furthermore, in Northern Laos a number of roads—well, a road has been built from Meng La in the extreme southern part of Yunan Province into Laos, with the consent of the Lao Government, not the present but a previous government, and that comes down to a place called Muong Sai and then branches eastward connecting with a North Vietnamese road at Dienbienphu and westward—the road has been extended almost to the Thai border. So there are these elements or there were in the case of the labor troops in Indochina, in North Vietnam, and there are these labor troops protected by antiaircraft batteries and military personnel in Northern Laos, but that is all I know.

There are no Chinese troops in Korea, they were removed years ago, and there are no Chinese troops that I know of stationed in any other part of the world. But when you get close to China's borders, then you have to be very careful because they will fight then.

Chairman PROXMIRE. Congressman Boggs.

Representative BOGGS. Thank you very much, Mr. Chairman.

I would like to congratulate the distinguished Majority Leader for a very fine statement.

I have just one or two questions.

Senator, in connection with that last line of questioning, was there any discussion during your trip about the rather heavy concentration of Russian power along the Chinese frontier?

Senator MANSFIELD. Yes, there was, and I think that one of the biggest problems in the minds of the highest officials of the People's Republic of China is the question of the border differences with the Soviet Union. It is interesting to note that while those meetings had been suspended, that about a week after President Nixon returned from his journey to Peking, the Soviet delegate appeared and the meetings were resumed.

I just happened to read in the paper yesterday where a new Chinese negotiator has been named. He is higher in rank, I understand, than his predecessor.

What the Chinese are interested in at this time is a rectification of the frontier because they feel, for example, the island in the USSURI over which there was some fighting some months ago is half theirs, whereas the Russians say their border goes across the river even into some of the Chinese territory.

Nothing has been settled yet, but this is the most important question; and, in my opinion, the chasm, the gulf, between the Soviet Union and China is wide and deep, and unless they are forced together, it will remain so for some time to come.

It is interesting to note that under the czars in the last century, something on the order of 300,000 to 400,000 square miles were taken away from the Manchu Empire then in control of China; and while I can only speculate, I have an idea that those lands, much of them virgin, are in the back of the minds of both the Chinese and the Soviet Union.

It is my understanding that there are something on the order of just under a million Soviet troops strung along the 4,500-mile frontier, and I was told that there are also 300,000 on the border in Mongolia. I do not know whether that is an accurate figure or not, but the acceptable figure seems to be 44 divisions along the frontiers.

Representative BOGGS. You therefore see continuation of tension between the Soviet Union and China?

Senator MANSFIELD. Yes, I do.

Representative BOGGS. Would you make the same observation with respect to the United States and China?

Senator MANSFIELD. I would say that once we are out of Indo-China that conditions will improve with China.

My feeling is that China wants to improve its relations with the United States, but we have to recognize that there is a war going on on the borders of two countries, Laos and Vietnam, which are contiguous to China. Getting back to a question raised by the chairman, which I forgot to answer, the Chinese said, "We are interested in what you say, but we will wait and see what you do." That could be tied in with the statement issued yesterday by the Chinese because of the fact that U.S. bombers are getting within seconds in their attacks on North Vietnam, within seconds of the Chinese border.

Representative BOGGS. Senator, you have made some comments which I thought were very interesting about Chinese trade policy. Were there any discussions, did you or Senator Scott have any discussions with the Chinese on the possibility of increasing trade between our two countries, and, if so, what in particular may have been discussed?

Senator MANSFIELD. Not too much because I tried to point out we will have to find out what the Chinese want that we have, and I do not know what we have that they need outside of electronic equipment and heavy machinery.

Our trade with China has been minimal, mostly it has been through Hong Kong, which furnishes much of the hard currency for the Chinese treasury.

They certainly were interested in seeing to it that we viewed the industrial exhibits in Shanghai, which is a continuing exhibit and really worth seeing. They took us through the three buildings which housed the Canton Fair, and it was very much worth seeing.

They had invited over 30 American businessmen to come there. We got there just through the middle of it, and at that time about half of the 30 or so Americans had showed up.

I think while they did not push it—they are not a very pushy people—I would say that my impression is that they are interested in trade with this country.

I mentioned the fact that the President had lifted the lid off the nonstrategic items. This does not tie in but, in terms of exchanges, Senator Scott was talking of the glories of the Philadelphia Orchestra and the Pittsburgh Orchestra, he has to play them off [laughter], and other things which are indigenous to Pennsylvania, so I started talking about cowboys and Indians in Montana, and during the questioning I brought up the question of copper.

"Oh," the Chinese official said, "that is not on the list," that they could buy, you see. It is just an aside remark. They are trying to do what they can with what they have.

It is an early-to-bed, early-to-rise society. There is a great veneration for Mao Tse Tung and there is a great dedication to the state, and when Chou En-lai said, "For the first time since the opium wars"—and that was 1840 to 1842—"we are standing on our own legs," he meant it. They are, because what they have on the mainland is a unified society getting by on not—well, on a spare existence but getting by and working together and bringing about a new day for this old country. The year 1949 is looked on as the dividing line. Before that, it is B.C. in our category; and after that, after the liberation itself, A.D. It is before liberation and after liberation, and everything starts from 1949.

Representative BOGGS. Just one further question. Would you expect this collectivist society to evolve somewhat like the Soviet society has?

Today, as I gather from your testimony, the people are pretty well satisfied without most creature comforts that we accept and take for granted in this country. I can think of many fields for trade like agricultural equipment, equipment for buildings and hotels, air conditioning, and all sorts of things. Do you see any of that coming about?

Senator MANSFIELD. Not at this time. They do buy wheat which, of course, is important to me, coming from one of the big wheat-producing States.

From what I have seen of the Soviet Union and China, I would say that they are really two different societies. Ideologically, they are supposed to be the same, but you have more unrest, I would think, perhaps not unrest, but more of a desire for consumer goods in the Soviet Union and less of a desire to sacrifice, which I think would be in reverse applicable to the People's Republic of China.

May I say, as long as the distinguished minority leader is here, that this trip which we took together, and I am glad it was a bipartisan trip, was an eye opener. We were treated with every courtesy and every respect during the course of our short stay there. I want to repeat, in closing, and if there are any more questions, I would be glad to answer them, but I would say again that I am not an expert. I am a student of this area and have been interested for a long time. Every remark I have made is subject to various interpretations, but I have given you an honest analysis of the situation over there as I saw it and to the best of my ability.

Now, there may be areas where there is dissent and discontent, I would not doubt it, but we did not see them. We were given freedom and flexibility to travel around, to talk to people, to do what we wanted, and it is on that basis that I make these remarks today.

Representative BOGGS. Thank you very much, Senator.

As you know, Congressman Ford and I are following you and Senator Scott to China next week.

Senator MANSFIELD. Well, I am delighted, may I say, that the majority leader and minority leader of the House are going, and I hope that Senator Scott and I can get together with you before you do go.

One thing I want to ask on behalf of both of us is a getting together with you as soon as we can after your return because we would like to check our reactions with yours.

Representative BOGGS. Well, we look forward to both of those meetings.

Thank you, Senator.

Chairman PROXMIRE. Could I ask you just one other question, Senator Mansfield, before we hear from the distinguished minority leader.

We made a major breakthrough in policy with respect to China with the presidential and senatorial visits. Other than the Vietnam war, which you have mentioned with emphasis, what are the other major barriers ahead in improving U.S. and Chinese relations? Specifically, how would you perceive a Vietnam settlement and resolution of the Taiwan question in our relations?

Senator MANSFIELD. Well, first, let me say I think President Nixon is entitled to all the credit in the world for the initiative which he undertook in endeavoring to bring about a normalization of relations with China.

Secondly, may I say that on the basis of personal meetings with him since February 1969, the month after he came into office, he has been interested in paving the way to a normalization because he tried to keep alive the Warsaw talks which had been going on in effect since the Geneva Accord of 1954. He widened the spectrum so that more Americans could visit China if they could get Chinese visas. He removed the primary and secondary boycott on trade which had been in effect and which was utterly worthless since the days of the Korean war, and then he treated China to the same basis as other Communist countries in the matter of nonstrategic items.

So I have nothing but words of praise for President Nixon. I think he did a good job, a necessary job because you just cannot ignore 845 million people.

Now, getting back to your question, how the Vietnamese—how the Indochina war will be settled, I do not know.

Chairman PROXMIRE. Then I am also concerned with what other major barriers there may be in the way of good relations, improved relations with China.

Senator MANSFIELD. Those are the two significant ones and of primary importance.

As Senator Scott and I were told, there would be no chance for further progress until the war in Indochina was settled. Again I will repeat what we were told about Taiwan, that Peking had a lot of patience, a lot of time, and they were not concerned about a settlement in the immediate future.

Chairman PROXMIRE. I see.

Senator Scott, we are very honored to have you here, and I might point out that Senator Scott is a distinguished Chinese scholar of many, many years. You cannot visit his office without recognizing his love for and deep appreciation and understanding of Chinese art and Chinese culture generally. We are very honored and happy to have you here.

I understand, I had not realized this, Senator Mansfield told us you had visited China before also.

STATEMENT OF HON. HUGH SCOTT, A U.S. SENATOR FROM THE STATE OF PENNSYLVANIA

Senator SCOTT. I understand that Representative Boggs and Representative Ford will be visiting some of the cities we visited and some others which we did not since they will be in the industrial north,

and we would be very much interested, as Senator Mansfield has said, in learning their reaction when they come back because they will see some areas of heavy industry and medium industry which, for the most part, we did not see.

I am going to talk principally on trade and China's economy, and would be glad to answer any questions on foreign policy that I am capable of answering.

Chairman PROXMIRE. Senator Scott, I feel in an uncomfortable position this morning because I told the Majority Leader he had ten minutes; we gave him a little more than ten minutes and we also, of course, will be delighted to provide any sufficient tolerance for you. Anything you would like to have put in the record, we would be delighted to do it if you would like to abbreviate your prepared statement in any way.

Senator SCOTT. Well, I think that is a good idea because whenever I am presiding I make the point that the Reorganization Act does not require that you read every word of your prepared statement. So I would like to submit the prepared statement for the record.

I take it that copies have already been sent up and, if not, we will see that they are during the course of the hearing.

Chairman PROXMIRE. We have not received them up here, but we would be delighted to receive them.

Senator SCOTT. They are on their way over now.

Chairman PROXMIRE. All right.

Senator SCOTT. So I will simply touch the highlights in order to try to stay within the 10 minutes.

While the area of the People's Republic of China is about the same as the United States, the Chinese population is about four times as large and its gross national product, however, is about one-tenth of the United States, and about 80 percent of the labor force is engaged in farming.

Most of our information on the economy there is derived from experiences of other businessmen and efforts of academicians and professional China watchers. Because there appears to be a matter of policy, no statistical data have been published since 1960 of a broad or detailed nature. Even today, China does not systematically gather, analyze, or publish comprehensive statistics on its economy.

In 1971, for instance, Premier Chou En-lai said China's GNP consisted of $90 billion of industrial output and $30 billion in agricultural products. This figure is fairly in close accord with the most recent Western estimates.

The centrally planned Chinese economy is directed through the medium of 5-year plans. Their central current strategy emphasizes modernizing agriculture and those manufacturing industries most directly related to processing agricultural raw materials. Otherwise, investment is directed mainly toward consolidating and strengthening its present industrial position and developing its scientific and technical resources.

There is also a process of decentralization of industry going on, and another element that they are fond of pointing out, first, that they are moving their industry back from the coast and dividing it among many of their cities, and China has 18 cities of over a million population. The Province of Quangtung, Canton, for example, has 40 million people, or twice the population of California.

It is hard to realize the size of this country, and they emphasize, too, that their cities were formerly largely consumer cities and are now largely self-reliant as being producer cities as well.

This policy of economic self-sufficiency means that China is attempting to rely on its own resources and industrial capacity wherever possible. Nearly all items available to consumers are domestically produced, and this severely limits the selling of consumer goods there.

Their central planning is used to focus the nation's energy toward rapid economic development. This indicates a potential for exporting capital goods to China that will expand over the next decades, with an emphasis on agricultural machinery, complete plants and technology—especially for producing chemicals—machinery and equipment for the steel, mining, transport, power, construction, and petroleum industries, and industrial raw materials.

China's economy is growing at an estimated 4 percent annually, and achieving a strong economic base is the aim for the fourth 5-year plan in 1971, despite the withdrawal of Soviet economic assistance in the early sixties. An excellent harvest was achieved in 1971, and substantial increases in industrial production.

Barring political upheavals, it is expected that China can maintain its economic momentum over the next decade, their greatest worry being the feeding of a population that is expected to reach 1 billion by 1980.

They do have birth control education, they do have the pill, and they do tend, among other things, to try to limit families by limiting the housing accommodations for married couples. They are very much worried and would like to reduce the annual birth rate to about 2 percent or, optimistically, 1.5 percent in the future if they can.

Foreign trade is a state monopoly conducted through a network exclusively of nine corporations in accordance with priorities established well in advance, and the foreign trade corporations are organized according to the commodities or services for which they are responsible, with main offices in Peking and branch offices in various industrial centers, and representation in Hong Kong by China National Resources Corporation.

Development of foreign trade and economic relations is an important part of China's present policy.

It does not rely on just a few Western suppliers and, in fact, now has trading relations with some 100 countries.

A desire to finance its imports with export earnings has resulted in efforts to balance its trade with the rest of the world. They make a very strong point of the fact that they do have a balance of imports and exports. In other words, they only import that which they are able to pay for through exports, and they make the point, too, that they do not go into debt.

Foreign trade is viewed as an adjunct to domestic economic policy, useful and helpful but not a necessity. Chinese trade at times has been channeled to particular countries for strictly political reasons, and I give some figures in my prepared statement regarding its trade in 1971, which I will not read. But the free world's trade with the P.R.C. more than doubled in value during the 1960's, and there is a considerable portion of this increased trade with the Western European countries, principally the Soviet Union, whereas in 1960 approximately two-thirds of their trade was with Communist countries.

As I said, China has been forced to trade largely on a cash, short-term, or barter basis. Other important limitations to further widening of trade have been the export and import control policies of developed free world countries. China has been unable to earn more foreign exchange by offering a greater quantity and variety of goods readily marketable both in the developing countries and in the industrially advanced countries, where import demand has been strongest.

Its trade is small in volume, about 4 percent of its GNP, but its size reflects its limited export potential rather than its needs. China would certainly import more if it could export more.

The pattern of trade has been dominated by the exchange of Chinese agricultural, mineral, and textile products for industrial raw materials and machinery as well as grain and fertilizers.

The U.S.–P.R.C. trade potentially begins by pointing out that the Shanghai communique states that both sides will agree to facilitate the progress of mutually beneficial trade. Some action has been taken, with Paris as its principal contact point.

Some 30 or 40 American firms were invited to the spring Canton Fair for the first time and this is the only place in China where we actually did see Americans, one of the few places where we saw Westerners, although I may add that we saw Peruvians, Pakistanis, and Italians and a few others at scattered occasions. But most of these firms have been invited, American firms, as potential buyers of Chinese products. Some were also invited as sellers to the Chinese. They were received in a friendly manner.

We saw them engaged at small tables in groups of two to four in what appeared to be friendly and serious and business-like negotiations, and they were often given preferential treatment, we are told, in requests for meetings with Chinese officials. Some $10 million worth of goods, we believe, were purchased by American firms.

In addition, 125 subsidiaries of U.S. firms will participate at a Canadian solo exhibition in Peking this summer, and we were told, too, that the number of American firms is expected steadily to increase at the spring and autumn fairs.

Indirect trade has been taking place since April 1970, when the President authorized shipment of American-made components in nonstrategic, foreign-manufactured goods. In June 1971, the President announced the list of commodities that could be freely traded with P.R.C., roughly the same as with the U.S.S.R.

Virtually all imports are now allowed to enter the United States, and I may add that I made this point with every successive Secretary of the Treasury from President Eisenhower on that this should be done.

They are, of course, subject to the same general regulations that apply to imports from other countries such as proper labeling, food and drug regulations.

In 1971, the United States imported some $5 million worth of Chinese-origin goods, which is a mere pittance, from third country sources, chiefly hog bristles, foodstuffs, and handicraft items. Some $9.2 million of Chinese goods were imported in the first part alone of 1972, with commodity composition about the same. These goods are subject to duties generally higher than those imported from countries with whom we have a most-favored-nation agreement.

All U.S. exports are divided into two categories for export control purposes, as you know, and I will not go into the difference between the general license category and all other goods. I have that in my prepared statement.

What are the prospects for further U.S.–P.R.C. trade?

Well, in general, China has very limited ability to expand the amount and type of goods it sells and is therefore limited in its ability to purchase Western goods. An 8- to 10-percent record of growth in foreign trade is there and it is likely that this growth rate will continue.

China is an underdeveloped, predominantly agricultural country with, however, still very limited trade potential and any significant trade between the United States and P.R.C. would have to be at the expense of China's present trading partners unless different policies are enunciated by their government. This would be contrary to China's traditional policy of favoring established customers, but does remain quite possible.

Again I give you the totals in the prepared statement of China's imports from 21 leading nations of $1.4 billion in 1970. Food, and mostly wheat, made up 24 percent of the total, and then I have here the accounting of the other minerals and other materials.

Japan accounted for the largest share of the trade, 41 percent; Germany 12, Australia 9, United Kingdom 8. We have some chance to make some inroads in specific markets such as chemicals, wheat and fertilizers, and the raw materials for which domestic sources of supply are inadequate or nonexistent in the P.R.C., such as rubber or copper, will probably be imported in increasing amounts as their economy expands.

They need an increase in their fertilizer imports and wheat imports which have lately been on the decline, and sugar imports have been rising, but a bad harvest or breakthroughs in technology could quickly alter this situation.

China's purchase of machinery or equipment will probably increase as a percentage of total imports.

Finally, there will be, continue to be, some machinery and equipment that China will be unable to produce at all or could produce only at prohibitive costs, such as commercial jet aircraft and some computers.

The aircraft presently consists, as far as we can see, of Vickers, Viscounts, and various Russian planes, Ilyushin and others.

It is in this category of technology-intensive machinery and equipment that the United States may be expected to enjoy its greatest advantage.

Its exports to industrialized countries, as I have said, are mainly agricultural, mineral, and textile products, and basic manufactures, mostly textile yarns and fabrics, account for about 20 percent of this amount.

Chinese luxury products might enjoy a ready market in the United States since many of these would be unique and face little competition from domestic or foreign sources. This is an area in which I have a special interest, as you know. Typical of potential luxury items are rugs, embroideries, antiques, art objects, and curios.

Currently, a large-scale penetration of the U.S. market would be difficult as it would have to be based on exports of textiles and staple foodstuffs. In view of the impact textile imports have on the sensitive

domestic market and our equity obligations to traditional trading partners who are already controlling their exports to the United States, even small quantities of textile product imports from the P.R.C. could cause us considerable difficulty. Their skills, I may add, are excellent; their cottons are in short supply because presumably they do need them for export. Cotton was the only material which I was able to learn is rationed on a coupon basis. Other items are on a licensing basis whereby you get a ticket and receive your watch or your radio or your bicycle or your sewing machine 1 to 3 months later. There would be some markets for Chinese consumer products such as teas, silks, and light manufactures.

If China were to make available greater quantities of tungsten, tin, and other metals and possibly petroleum, there might be an import market in the United States for these goods.

In the long term, it is likely that the Chinese will welcome the United States as an additional source of supply.

Projections of U.S. exports to China in 1980 range from a low of $50 million to an upper limit of $650 million. The most optimistic estimate is that of Professor Dernberger in "Prospects for Trade Between the U.S. and China." I detail here his estimates and the reasons for them. And if the United States were able to maintain its present share of the world market in the goods I have cited—that is, machinery, minerals, machinery and equipment, and chemicals—American exports to China might reach as much as $325 million in 1980.

Although China is not likely to account for a significant portion of total U.S. trade in the foreseeable future, this trade will offer important opportunities to individual firms, and businessmen should now explore the possibility of trade in this area.

I thank you, Mr. Chairman and Representative Boggs.

(The prepared statement of Senator Scott follows:)

PREPARED STATEMENT OF HON. HUGH SCOTT

PROSPECTS FOR U.S. TRADE WITH THE PEOPLE'S REPUBLIC OF CHINA

CHINA'S ECONOMY

The area of People's Republic of China is only slightly larger than the United States, yet China has a population estimated to be 4 times as large. At the same time, its gross national product is approximately one tenth-that of the United States. About 80 percent of its labor force is employed in farming.

Most of our information about China's economy and foreign trade is derived from the experiences of other Western businessmen and the efforts of academicians and professional China-watchers. Apparently, as a matter of policy no statistical data have been published since 1960. Even today China does not systematically gather, analyse or publish comprehensive statistics on its economy. We depend upon scraps of information. In 1971 for instance, Premier Chou En Lai said that China's gross national product consisted of $90 billion of industrial output and $30 billion of agricultural products. This figure of $120 billion is in fairly close accord with the most reliable Western estimates.

The centrally-planned Chinese economy is directed through the medium of 5-year plans. Its current strategy for industrialization emphasizes modernizing agriculture and those manufacturing industries most directly related to processing agricultural raw materials. Otherwise, investment is directed mainly toward consolidating and strengthening its present industrial position and developing its scientific and technical resources.

A policy of economic self-sufficiency means that China relies on its own resources and industrial capacity to the extent possible. Virtually every item available to consumers is domestically produced; this severely limits, if it does not entirely preclude, selling consumer goods there. Central planning is used to focus

the nation's energy toward rapid economic development. This indicates a potential for exporting capital goods to China that will expand over the next decades, with an emphasis on agricultural machinery, complete plants and technology (especially for producing chemicals), machinery and equipment for the steel, mining, transport, power, construction and petroleum industries, and industrial raw materials.

During the past twenty years China's economy has grown at an estimated 4 percent annually, thus doubling the level of GNP and achieving a strong economic base for launching its fourth Five-Year Plan in 1971, despite the withdrawal of Soviet economic assistance in the early 1960's.

Substantial increases in industrial production and an excellent harvest were achieved in 1971, the first year of the fourth Five-Year Plan. Barring a major political upheaval, there is a good prospect that China will maintain its economic momentum over the next decade—even while feeding a population that is expected to reach one billion by 1980. China is already ahead of other large developing countries in basic economic strength and the gap will probably widen.

Foreign trade is a state monopoly, controlled by the Ministry of Foreign Trade, and is conducted exclusively through a network of 9 corporations in accordance with priorities established considerably in advance by the country's economic plan. The foreign trade corporations are organized according to the commodities or services for which they are responsible. All have main offices in Peking with branch offices in various industrial centers and are represented in Hong Kong by China National Resources Corporation.

Development of foreign trade and economic relations with most nations of the world is an important part of China's present policy. It does not rely on just a few Western suppliers and in fact, now has trading relations with some 100 countries.

A desire to finance its imports with export earnings has resulted in an effort to balance its trade with the rest of the world. China attempts, but does not insist on, balancing its trade with individual countries. It seeks to avoid allowing any supply or export market to become of critical or decisive importance to its economy. Foreign trade is viewed as an adjunct to domestic economic policy—useful, helpful, but never a necessity. Furthermore, Chinese trade has at times been channelled to particular countries for strictly political reasons.

Eighty percent of China's $4.6 billion trade in 1971 (imports, $2.2 billion; exports, $2.4 billion) was with free-world countries, with whom it has maintained an estimated annual balance-of-trade surplus of $100–$250 million for the past 20 years. These surpluses stem principally from its trade with Hong Kong and Singapore. Details of China's import plans are not available; however, a study of China's imports from free world countries can reveal trends and patterns.

The free-world's trade with the People's Republic more than doubled in value during the 1960's. A considerable portion of this increased trade with the West resulted from a shift in Chinese trade away from the East European countries, principally the Soviet Union. In 1960, approximately two-thirds of Chinese trade was with Communist countries.

In the absence of long-term credit from the free world in recent years, China has been forced to trade largely on a cash, short-term, or barter basis. Other important limitations to further widening of trade have been the export and import control policies of developed free-world countries. China has been unable to earn more foreign exchange by offering a greater quantity and variety of goods readily marketable both in the developing countries and in the industrially advanced countries, where import demand has been strongest.

The volume of China's trade is small—about 4 percent of its gross national product, but its size reflects its limited export potential rather than its needs—China would surely import more if it could export more.

The pattern of trade with the industrialized West has been dominated by an exchange of Chinese agricultural, mineral and textile products for industrial raw materials and machinery, as well as grain and fertilizers, to supplement domestic production.

U.S./PRC TRADE POTENTIAL

The Shanghai communique, issued at the end of the President's trip stated that both sides would agree to facilitate the progress of mutually beneficial trade. Several actions have been taken in this connection.

Paris has been established as the principal contact point for exchanging information and exploring the potential for expanding trade with the Chinese.

The Chinese invited 30–40 American firms to the Spring Canton Fair, for the first time. Most of these firms have been invited as potential buyers of Chinese products but some were also invited as sellers to the Chinese. Early reports

indicate that the United States firms were received in a friendly manner and were often given preferential treatment in requests for meetings with Chinese officials. We estimate that some $10 million worth of goods were purchased by American firms.

In addition, 125 subsidiaries of U.S. firms will participate at a Canadian Solo Exhibition in Peking this summer—another indication that the Chinese want to do business with us.

Indirect trade has been taking place since April 1970 when the President authorized shipment of American-made components in non-strategic, foreign-manufactured goods. In June 1971 the President announced the list of commodities that could be freely traded with the People's Republic of China.

Virtually all imports are now allowed to enter the United States. They are, of course, subject to the same general regulations that apply to imports from other countries, such as proper labeling and Food and Drug regulations. During 1971, the United States imported some $5 million worth of Chinese-origin goods, from third countries, chiefly hog bristles, food stuffs and handicraft items. Some $9.2 million of Chinese goods were imported into the United States during the first quarter of 1972 with the commodity composition about the same as last year. Goods imported from the People's Republic are subject to duties generally higher than those imported from countries with whom the United States has a most-favored-nation tariff agreement. Comparable figures are not available on indirect exports of U.S. goods to the People's Republic.

All U.S. exports are divided into two categories for export control purposes. Those which may be exported without prior approval of the Department of Commerce are in the general license category; all other goods require the explicit approval of the Commerce Department before they may be exported. In February of this year, this General License List was expanded so that those goods which are exportable under general license to the Soviet Union may now be exported to China under general license.

WHAT THEN ARE THE PROSPECTS FOR U.S./PRC TRADE?

In general, China has a very limited ability to expand the amount and type of goods it sells and is therefore limited in its ability to purchase Western goods. Recently history shows 8–10% rate of growth in foreign trade, and it is likely that this growth rate will continue. Despite the allure of a market with 800 million people, China is an underdeveloped, predominantly agricultural, country with a very limited trade potential, and any significant trade between the United States and the People's Republic would have to be at the expense of China's present trading partners. This would be contrary to China's traditional policy of favoring established customers, but remains possible.

POTENTIAL U.S. EXPORT COMMODITIES

"China's imports from 21 leading industrial nations totaled $1.4 billion in 1970." Food, mostly wheat, made up 24% of this total, chemicals and fertilizer, 19%; iron and steel 25%, nonferrous metals, 10%; and machines and transportation equipment, 18%. Japan accounted for the largest share of this trade with 41%. Germany had 12%, Australia, 9% and the United Kingdom, 8%. As political and economic barriers dissolve, chances are good for the United States to make inroads in specific markets, such as chemicals, wheat and fertilizers.

Given the present direction of economic development and China's likely future priorities, the pattern of imports will probably remain fairly stable. Key raw materials for which domestic sources of supply are inadequate or nonexistent, such as rubber and copper, will probably be imported in increasing amounts as the Chinese economy expands. Chemical fertilizer imports—4.3 million tons in 1971—will also probably continue at substantial levels for a decade or more. Wheat imports—3.2 million tons in 1971—are on the decline and sugar imports have been rising, but a bad harvest or breakthroughs in agricultural technology could quickly alter this situation.

As trade expands, China's purchase of machinery and equipment will probably increase as a percentage of total imports. The kinds of machinery and equipment ordered will probably change rapidly over time as plants producing new products, or old products in a new way, will be bought until the Chinese have learned how to construct such plants on their own. Temporary shortages of key items excused by mistakes in planning will also create a demand for foreign products. Finally there will continue to be some machinery and equipment that China will be un-

able to produce at all or could produce only at prohibitive cost, such as commercial jet aircraft and some computers. It is in this category of technology-intensive machinery and equipment that the United States may be expected to enjoy its greatest advantage.

China's exports to industrialized Western countries comprise mainly agricultural, mineral and textile products. In 1970, for example, crude materials, such as seeds, nuts and textile fibers accounted for 43% of China's exports to the industralized West. Basic manufactures, mostly textile yarns and fabrics, accounted for another 20% and food products for 18%.

Chinese luxury products might enjoy a ready market in the United States, since many of these would be unique and face little competition from domestic or foreign sources. Typical of potential luxury items are rugs, embroideries, antiques, art objects and curios.

Currently, a large-scale penetration of the U.S. market would be difficult as it would have to be based on exports of textiles and staple foodstuffs. In view of the impact textile imports have on the sensitive domestic market and our equity obligations to traditional trading partners who are already controlling their exports to the United States, even small quantities of textile product imports from the PRC could cause us considerable difficulty. While staple foodstuffs would not enjoy a large market in the United States, China would probably sell substantial quantities of specialty foods to American consumers. There would be some market for Chinese exports of consumer products such as tea, silks and light manufactures. Also, if China were to make available greater quantities of tungsten, tin and other metals, and possibly petroleum, there might be an import market in the United States for these goods.

CONCLUSION

Any attempt to quantify the potential for U.S.-P.R.C. trade is highly conjectural. Given the politicized nature of U.S.-P.R.C. trade relations and the severely limiting economic constraints, experts are generally agreed that U.S.-China trade will evolve slowly, even after a trade infrastructure is reestablished. In the long term it is likely that the Chinese will welcome the United States as an additional source of supply. At the same time China will be concerned about balancing its trade with the United States, and its ability to export to this country may be expected to have a significant influence on the volume of their purchases from us.

Projections of U.S. exports to China in 1980 range from a low of $50 to an upper limit of $650 million. This latter figure is the "most optimistic" estimate of Professor Dernberger in *Prospects for Trade Between China and the United States*. He estimates Chinese imports in 1980 will total $5 billion; then makes a statistical extrapolation of the U.S. share of world exports of minerals and metals, and machinery and equipment applied to projected Chinese imports and assumes these items will be 50% of our total exports to China comprising some 30% minerals and metals, 25% machinery and equipment and 15% chemicals. If the United States were able to maintain its present share of the world market in these goods, American exports to China might reach as much as $325 million in 1980.

Although China is not likely to account for a significant portion of total U.S. trade in the foreseeable future, this trade will offer important opportunities to individual firms, and businessmen should now explore the possibility of trade with this area.

Chairman PROXMIRE. Thank you, Senator Scott. I want to especially thank you for your very heavy emphasis before this committee, which is most appropriate, on trade.

In our previous hearings, this seemed to be the key to many, many things with respect to our relationship with China.

There is a kind of division here of thought. One is that we have everything to gain by increasing trade with China and much more than they have to gain in terms of our foreign policy influence. We would enormously increase trade with China and it wouldn't be anything that this country would have to depend on economically.

On the other hand, because China's economy is not as big as ours, their dependence on us would increase greatly. You have talked about a 10-to-1 relationship and we can almost say that. In other

words, if we have $100 million worth of trade it would be 10 times as important to them as it would be to us and, therefore, we might in that sense have 10 times the influence.

On the other hand, we have that old saying of Lenin, you know, that when the Communists get ready to hang the capitalists the capitalists will sell them the rope—this notion that we would build up the Chinese economy by this kind of trade.

Now, in view of all this, do you think it would be wise for us to consider most-favored-nation status for China so we could really get this moving, or should we be quite cautious in moving in that direction?

Senator SCOTT. I think we are premature in considering most-favored-nation status at this early stage in our relations, after so long a hiatus, because we have not yet extended that to other nations for which there are many more and better reasons perhaps. It is something which could be held out but, as Senator Mansfield has made clear, there can be no true normalization of relations until the war in Vietnam ends. There can, however, be some kind of normalization notwithstanding the failure to solve in the foreseeable future the Taiwan problem, so I think we could hold out various benefits, but we are limited in the amount we can sell to China by the amount which they can buy from us because they have a very strong aversion to going into debt.

Chairman PROXMIRE. That was a very helpful contribution you made to us. In other words, if they are going to buy from us, we have to buy from them?

Senator SCOTT. Yes.

Chairman PROXMIRE. And they have limited amounts that they could sell to us. You say they have some minerals they might not want to sell; is that right?

Senator SCOTT. Tungsten, tin; we do not yet know whether they want to sell it.

Chairman PROXMIRE. At any rate, you see this as a fairly low level operation in terms of our economy?

Senator SCOTT. I think it is.

Chairman PROXMIRE. But very significant in terms of a reapproachment? I can't see any other approach to China.

We are not going to have an aid program to China.

Senator SCOTT. I hope not. [Laughter.]

The two leaders are agreed on that. I think that aside from aid to our own businessmen, aside from keeping open all the conduits and all the faucets in the world having to do with trade, the big reason is to continue a closer communication because the more interweaving we have the more the webbing grows of contacts between China and the United States, the better possibility of understanding, the less likelihood for trouble between us. Moreover, China is far behind Russia in this rise in consumer aspiration. The Russians have had their appetite whetted to a degree that I myself think that the Moscow pacts are apparently a result of Russia's need to send a signal to its people that times are going to be better on the domestic front. The Chinese are not in a position to send that signal. They, on the contrary, have trained their people to endure and even to enjoy a low standard of living on the theory that everyone will progress surely and gradually and slowly to a better level and meanwhile the Chinese do not have the clothing shortages, with the exception of rationing

cotton. There are plenty of synthetic fibers, a substitute for that, and they do not have food problems of any great magnitude so they maintain a consumer aspiration at an agreed low level which, so far as we could see, everybody goes along with the act.

Chairman PROXMIRE. Do you see any improvement in that reaction? We are all familiar with the situation in Russia where they had great emphasis on production and held down consumer consumption for many, many years in a harsh and cruel way. You say in China they have succeeded in persuading the populace to somewhat accept this but have there been somewhat more opportunities for consumers to get some things—for example, bicycles or some of the other very simple things?

Senator SCOTT. There is. They limit the number of things which consumers would get and they also limit by thought control the number of things which consumers would want. So there are only these items I mentioned and a very few more for which you are—in which you are hoping to acquire.

The difference, I think, between the Russian psychology and the Chinese is that the Russians grumble about what they have not got. The Chinese brag about what they have got, even though in some ways it is less than what the Russians have, because the Chinese are content to work this out on a mutual, collective, and self-reliant basis. So they are not grumbling; they are justifying under this thought control, which seems to be working. The concept of the supreme teacher—they are Confucianists although they deny it.

Chairman PROXMIRE. Before I yield to Majority Leader Boggs and Senator Pearson, let me just ask one other question, because it is something that still haunts us from the hearings we had a few years ago.

We were told by experts that there seems to be something endemic in China that slowed them down very greatly. There was a conflict between a pragmatism, a desire to move ahead and adopt capitalistic methods here and there, to modify their ideology, and then, on the other hand, Mao insistence on self-sufficiency, the Mao insistence on absolute egalitarianism where you have people in charge of huge factories who make nothing more than somebody who works on the assembly line, and this was one of the reasons for the big disruptions they had in the decade of the 1960's that slowed them down.

Do you get any feeling about this kind of thing—remember the Red Guard conflict with the students and so forth, and with some of the economists and others who wanted to move in a more practical way?

Senator SCOTT. Well, I have a feeling that they are on top of it for a number of years; no one knows how long—5 or 10 years. I think they are on top of it by having the workers, the peasants, and the People's Liberation Army and the cadre, all on top of things as they happen and everybody watches everybody else, and they are all treated about the same. They don't have dachas, for example, in China; they don't have a privileged class as far as you can see.

I think, however, the Chinese talent for getting ahead, the Chinese being the best businessmen in the world, in time the Chinese will evolve means by which some people will be more equal than others, and whether this will mean another Red Guard or another form of adaptation for socialism, I don't know; but in my opinion it will not exist as it now exists for more than 5 or 10 years, but they will work it out. They have a genius for working it out whereby talent will be recognized.

Chairman PROXMIRE. Congressman Boggs.

Representative BOGGS. Thank you very much, Mr. Chairman.

It is good to have Senator Scott here. I have had the pleasure of talking with him several times about China. I just have one or two questions.

I asked Senator Mansfield this question; Senator, what do you see for the future between the United States and China?

Senator SCOTT. I think the future will be that of a growing acceptance of our differences, a growing confidence that neither wants land, that neither country is land hungry or is inclined to be aggressive toward its neighbors, and that between us we offer a closing of the circle with Russia whereby three very powerful nations will ultimately be able to arrive at a better composition of their differences. What we should avoid is what the Chinese say they want to avoid and that is having nations simply because they are strong seek to rule the world collectively, and I think that has to be avoided.

But the Chinese advocacy of friendliness to the little nations is a rather useful ingredient to throw into this pot with the United States and the Russians I think; and I think I see coming out of it the fact that the Americans and the Chinese like each other and always have. The Japanese people make that point constantly.

Our Governments are very different but I believe that we can arrive at a better basis of understanding than we ever had because once we were the Western conqueror and they were the conquered or the oppressed.

I don't think that Maoism is the same thing as pure Marxist socialism, but I think it is closer to it than the Russians.

On the other hand, I think it is capable of being evolved more successfully into a true socialist state. I think the Russians are going to have to fight between a socialist state and ultimately another form of government. I think the Chinese are heading more toward a true socialism rather than a true communism.

Representative BOGGS. After your trip, did you come to any tentative conclusions on why there has been a thawing in the tensions between this country and China?

Senator SCOTT. Well, it is the usual case. I think it is a mutual self-interest. It is obvious that the United States was the missing link—China could speak to Russia and couldn't speak to us. We could speak to Russia and couldn't speak to them. It was a closing of the circle; but, more than that, it was necessary for China to be able to open some doors to the United States because China needs to have more of world opinion in its favor if it gets into more trouble with the Russians, for example.

China is very, very much worried about Japan. It needs to explain to the United States why it is worried about Japan because we have difficulty seeing it. China feels menaced on all borders—to the south, to the west, to the east, and to the north; and I think this concern they have leads them to want at least, if they don't get new friends, to get new people they can talk to and explain their position to.

Representative BOGGS. I am very much interested in your comments about trade between our country and China. Do you see any danger of problems between China and Japan and if we increase trade with China?

Senator SCOTT. I don't think our increasing of trade will be so great as to increase their problems with Japan. There are more Japanese people visiting China than any other people. The Chinese feel that the danger of Japanese economic expansion is usually accompanied by military expansion or adventurism. We don't see that; they do. So the danger is something that the Chinese and the Japanese, I think, will have to work out rather than for us. But we ought not to get into a position where we appear to be encouraging the Japanese to build immense or aggressive military strength.

Representative BOGGS. Just one other question, Senator, on another subject. While in China, did you get to find out anything about their educational system and how it is working?

Senator SCOTT. Well, we did some, and although Senator Mansfield and I were busy with meetings with various leaders, others in our party saw more of the school system. I think Senator Mansfield and I both saw the kindergartens and the afterhours programs. Some people with us went to the universities and the rest. It is my impression that their universities are only now beginning to recover from the cultural revolution. Many of their professors have had to go to the May 7 Reeducational Schools. Some have spent as much as 3 years being reeducated in the form of thought acceptance.

Peking University, in my opinion, is not much more than a trade school; none of their universities seems to be as big as they once were—at Chinhua, for instance. Their textbooks are temporary; they have not developed new and regular permanent textbooks. Their students are not always people who seem capable of learning, we were told by those who went there. In other words, they must have a certain proportion of workers and peasants, whether they can hack it or not. They say they have graduate courses for those who are especially talented, but they are unwilling to say where or how.

I think their educational system at the upper level has been pretty well shot to pieces, to put it bluntly, and I think it is very slowly recovering and having difficulty because they are afraid to put in the textbooks something that somebody higher up might disapprove of.

I think at the lower levels they have greatly increased the literacy of the country and they seem to have millions of happy schoolchildren who are working and studying quite hard and having a pretty good time after hours. They have good recreation programs.

Representative BOGGS. Thank you, Senator. Thank you. Mr. Chairman.

Chairman PROXMIRE. Before I ask Senator Pearson, I would like to ask Senator Mansfield if he would like to comment on that. We would like to have your observations.

Senator SCOTT. We have both been schoolteachers.

Chairman PROXMIRE. I know that.

Senator MANSFIELD. We both did visit elementary and middle schools. Our wives and other members of the party visited Peking University and came back with the impression generally that Senator Scott has just given.

But we were impressed with the elementary system especially because you may remember, Hugh, we went to a deaf mute school in Canton and there we saw the children in three different rooms. Acupuncture was applied to youngsters who were deaf and sometimes

it worked and sometimes it didn't. The Chinese are the first to admit that they are not by any means absolutely sure of how acupuncture will function, that it is still experimental.

Then we went to a school after hours, and they put on little skits and things for us. They were all prepared ahead of time. This is the only instance that I know of where I felt that we were the recipients of something which had been planned for some hours previously. But they have a good system in the elementary and middle schools; but as the distinguished minority leader has said, you have this amalgamation of the peasant, the worker and the soldier in the universities, and academic standards have declined because of the cultural revolution. They had a sort of an open admission policy which I think is always open to question even though we practice it at some universities in this country. But I think the trend now is, as Senator Scott has said, on the way up. Once again, examinations are being held and I think the egalitarianism which existed, the workers, the peasants and the soldiers is being broken down somewhat and they are getting back to the old Chinese system of meretorious matriculation for entrance into the universities.

Senator SCOTT. We noticed in all the meetings we had the workers, the peasants and soldiers were always included and women members for members of councils of the committee, but we noticed the government official, the bureaucrat, the trained cadre, did almost all of the talking and, on the other hand, the worker or the soldier never had any sense of embarrassment in interrupting or correcting the leading speaker, but basically they spoke not 5 percent of the time. They did the listening and they are pretty well ignored by whoever happens to be the leadoff man.

Chairman PROXMIRE. Senator Pearson.

Senator PEARSON. I don't want to be long. I don't want to be cynical of my constituency, but I notice my wheat farmers become much more tolerant about national philosophies and ideologies when there is a chance to sell more wheat, and I was interested in the observation that in that very limited opportunity for expanded trade, perhaps it is in agricultural commodities, fertilizers, chemicals, and I further understand they have been purchasing about 150 metric tons of wheat from Canada, Australia, some from France, and they pay cash on the barrelhead either in dollars or in gold; is that correct?

Senator SCOTT. I don't have the accurate figures with me on the amount in U.S. dollars. Their percentage, as I read earlier, is 24 percent of the total imports are food and most of that is wheat; I don't have the dollar figure.

Senator PEARSON. I think one of the points to be made and emphasized so we don't raise false hopes—I saw a figure the other day that China represents 7/10 of 1 percent of the total world trade today, and so we are talking about a very limited capacity and very limited opportunity in this field; but, as the chairman said, and as the minority leader and the majority leader said, both this morning and on their report on the floor, this trade can really open the door to many other opportunities of advancing mutual understanding between the two great powers and I think it is important for that reason.

I don't have anything further, Mr. Chairman.

Chairman PROXMIRE. Well, Senator Scott, I want to thank you very, very much. You were most gracious to come before us and I

think your statement and your responses have been very, very helpful to the committee. This is a fine beginning for these hearings in which we intend to probe the Chinese economy and bring up to date our study we made a few years ago.

Senator SCOTT. Thank you, Mr. Chairman.

I would like to close with a little anecdote.

I was talking with Cliff Robertson, the actor, last evening. A few years ago he had acupuncture in Hong Kong. He had 11 needles. And then his wife, Nina Foch, tried to find some places to put iodine and never could find the holes.

It is a very mysterious treatment.

Chairman PROXMIRE. It looks like you have given us the needle this morning.

Senator SCOTT. Glad to be here.

Chairman PROXMIRE. Delighted to have you.

We are fortunate to have two of the leading authorities on China to initiate the academic part of our search for insights on China. Prof. T. C. Liu, is the Goldwin Smith professor of economics at Cornell University, and well known internationally as an econometrician and statistician and as a specialist on the economy of Mainland China.

Professor Liu has nonetheless been responsible for a number of significant publications on China. His "Chinese Economy and National Accounts" with K. C. Yeh, is one of the outstanding publications in the field.

Professor Liu was able to draw on that publication for some of the framework for his input to the committee's earlier publication on China, "An Economic Profile of Mainland China."

If Professor Schwartz would come forward, and sit at the other side, please.

Professor Schwartz is a member of the illustrious group of Asian specialists at Harvard which includes Professor Fairbank and Professor Reischauer. We have often asked his colleagues to share their insights with the Congress. This is the first time this committee has had the pleasure of Professor Schwartz' appearance.

A professional historian, Professor Schwartz has demonstrated a keen insight into contemporary Chinese trends. This combination of current perspective against a rich historical understanding should provide a very useful session indeed.

As I indicated, gentlemen, in my letter, we are most anxious to engage you two scholars in direct dialog, so if you are able to restrict your formal, introductory comments to about 10 minutes, it would be helpful. We will have a timer and ring it so you will know. You may place into the formal record of proceedings a much longer statement if you wish.

May we start with Professor Liu.

STATEMENT OF TA-CHUNG LIU, GOLDWIN SMITH PROFESSOR OF ECONOMICS, AND CHAIRMAN, DEPARTMENT OF ECONOMICS, CORNELL UNIVERSITY

Mr. LIU. Mr. Chairman, it is an honor to appear before this distinguished committee.

The statistics and the estimates presented in this volume entitled "People's Republic of China: An Economic Assessment" are very

useful to the serious student of economics, whether one agrees with them or not. However, the impression of the mainland a nonspecialist reader would get from a rapid reading of this volume would be quite different from what the statistics and the estimates in the volume imply. For instance, it is said on page 6 that "The image of China as a desperately poor nation with most of its people living in misery and degradation is an image of the past." And, on page 10, that "In the early 1970's China almost certainly will be widening its lead over the ordinary less-developed countries."

On the other hand, the most important conclusions one gets from a careful reading of the estimates and the statistics given in this volume are that the Chinese people on the mainland were fed less well in 1970 than in 1957 and that it is not certain at all that they are better clothed in 1970 than in 1957 either.

On the basis of the estimates given in the volume itself, it can be easily calculated that per capita food production in 1970 was only 90 percent of that in 1957. After correction is made for the change in the trade balance in foodstuffs, per capita food consumption was about 6 percent smaller in 1970 than in 1957. Even according to the Communist figures themselves, per capita consumption of food in 1957 was none too high. The hardship caused by a reduction of 6 percent in 1970 from this low 1957 level is not difficult to imagine.

The estimate given in this volume does not indicate an improvement in the clothing situation either. The per capita production of cotton cloth increased by about 1 percent per year during 1957–70. But the per capita production of cotton declined by 18 percent during the same period. There would be much less cotton available for padding winter clothing and blankets in 1970 than in 1957, the main winter clothing and blanket for most Chinese being cotton padded.

Before we have detailed data on exports of cotton cloth and imports of cotton in 1970, we cannot say much about the situation of clothing in 1970. In any case, the mainland produced only 4.4 pounds of cotton in 1970 per person, much of which was used to make the 9 yards of cloth per person, a very small amount indeed for all purposes.

The impression a traveler may get by visiting a few leading cities, provincial capitals, show communes and factories where the workers are paid better than the rest of the population, cannot be taken as representing the country as a whole. Partial pictures of the huge Chinese mainland gained by visitors cannot argue with the statistical estimates made for the country as a whole in this volume.

The only comparison of the Chinese mainland with other Asian developing nations and regions given in the volume has to do with per capita gross national product in U.S. dollars in 1970 as follows: The Republic of China in Taiwan, $350; the Chinese mainland, $145; Pakistan, $120; India, $100.

The per capita gross national product of the Chinese mainland is therefore obviously very low. However, a comparison of the data on recent rates of growth of GNP and per capita GNP during 1957 to 1970, not given in this volume, would give some idea of the economic potential of the mainland relative to other Asian developing countries and regions with different economic systems.

Among the five countries and regions for which we have the data for 1970, the Chinese mainland ranks the lowest, as follows: In terms of the rate of growth of gross national product in percent per year:

The Republic of China in Taiwan, 9; the Republic of Korea, 8; the Philippines, 5.6; India, 3.6; and the Chinese mainland, 3.1. In terms of the rate of growth of per capita gross national product: The Republic of China in Taiwan, 5.6; the Republic of Korea, 5.1; the Philippines, 2.2; India, 1.1; and the Chinese mainland, 1.0. This is during the period 1957 to 1970.

The Chinese mainland, therefore, did not lead the less developed countries as this volume says; it lagged behind them. It also had the most erratic movement in GNP compared to almost all nations. This lends doubt to the existence of a viable economic base.

Just about the only achievement of the mainland is the attainment of the technical capability to detonate 13 nuclear devices, to launch two space satellites and to build up a war machine of an unknown size. These achievements, however, were attained at a terrible cost in terms of the standard of living and economic growth, as I have just reported.

Regarding the achievement in the technical and military areas, I would like to quote from my earlier report, Mr. Chairman, to your committee in 1967:

* * * the productive capacity of the economy as a whole does not reveal the strength of the nation in carrying out a specific endeavor to which a large concentration of resources is devoted. Thus, the per capita product of the Chinese mainland is low by any estimate and on any standard, but a nuclear and missile program produced successful results in recent years when the economy as a whole was experiencing difficulties. One must not be misled by the low per capita productivity on the mainland to a feeling of complacency regarding her technical capabilities in certain narrowly defined spheres. At the same time, it is equally erroneous to consider the achievement in a specialized field as an indicator of the degree of development of the economy as a whole.

The situation is the same today.

Thank you, Mr. Chairman.

(The prepared statement of Mr. Liu follows:)

PREPARED STATEMENT OF TA-CHUNG LIU

The Joint Economic Committee has made available for the reference of the members of the Committee, the Congress and the general public an *Economic Assessment* of Communist China (hereafter referred to as the *Assessment*) by a group of economists in the Federal Government. The statistics and the estimates presented in this volume are very useful to the serious student of the economy of the Chinese Mainland, whether one agrees with them or not. We in the economics profession are grateful to the Joint Economic Committee, its staff, Mr. John P. Hardt of the Library of Congress, and the authors of the papers for this study.

My comments fall into four categories: (1) The *different* pictures about the economy of the Chinese Mainland as conveyed by the discussions and conclusions in the text on the one hand and by the estimates and statistics themselves presented in the *Assessment* on the other. (2) Some limited international comparisons of the rates of growth of industrial production, GNP and per capita GNP. (3) Some comments on the methods used to estimate GNP in the *Assessment*. (4) Concluding remarks.

(1) THE DIFFERENT PICTURES REPRESENTED BY THE TEXT DISCUSSION AND THE STATISTICS AND ESTIMATES

The impression of the economy of the Chinese Mainland an intelligent but busy reader would get from reading the *Assessment* would be the following: The economy of the Chinese Mainland is now capable of simultaneously meeting requirements of feeding its population, modernizing its military force, and expanding its civilian economic base. (*Assessment*, p. XIV.) During the post-war period, the economic growth of the Chinese Mainland "has been strong but erratic." (*Assessment*, p. 1.) "The image of China as a desperately poor nation with most of its

people living in misery and degradation is an image of the past." (*Assessment*, p. 6.) At the start of 1972, the Chinese Mainland "is by no means an ordinary less-developed country. No run of the mill LDC could boast of the following achievements: The feeding and clothing of an estimated 865 million people; the detonation of 13 nuclear devices; the launching of two space satellites . . .." (*Assessment*, p. 6.) "In the earlv 1970's China almost certainly will be widening its lead over the ordinary less-developed countries and yet at the same time it may be falling further behind the dynamic industrial nations of Europe and, of course, Japan." (*Assessment*, p. 10)

Both in the Summary and in the text, temporary setbacks and partial failures of the Chinese economy have been mentioned; but they have not been given sufficient weight to prevent the general reader to gain the kind of impressions from the text discussions and conclusions mentioned above.

The estimates presented in the *Assessment* clearly indicate that the economy of the Chinese Mainland was not doing well as recently as in 1970; but these indications are either not explicitly brought out in the discussion or are relegated in small print to appendices which only the specialists of the Chinese economy would be likely to read.

The most important conclusions one would get from a careful reading of the estimates and statistics given in the *Assessment* are that the Chinese people on the Mainland were fed less well in 1970 than in 1957,[1] and that it is not certain that they are better clothed in 1970 than in 1957.

1. Per capita food consumption in 1970 was only roughly 94 percent of that in 1957.

One can easily calculate from the estimates given in Table 4, p. 46 of the *Assessment* that per capita food production in 1970 was only 90 percent of that in 1957.[2] However, the export balance in foodstuffs was smaller in 1970 than in 1957.[3] After correction is made for the change in the trade balance in foodstuffs, per capita food consumption was about six percent smaller in 1970 than in 1957.[4] According to the preliminary estimate given in the *Assessment* (Table 4, p. 46.), food production remained the same in 1971 as in 1970 while population increased by perhaps another 2.3 percent. Thus, per capita consumption of food worsened again from 1970 to 1971.

The six percent reduction in per capita food consumption in 1970 [5] from the 1957 level is a very serious matter indeed. The food production index in the *Assessment* was estimated on the basis of grain crops which were assumed to account for 85 percent of all food production. The 1957 per capita consumption of grain crops was none too high, according to the Communists' own figures. The daily per capita calorie intakes derived from grain corps, as implied in the Communist data, were only 1833 for 1957.[6] The hardship caused by a reduction of six percent in 1970 from this low 1957 level is not difficult to imagine.[7] After saying that "The quality, variety and availability of food gradually improved" during 1970–71 in the text of his paper,[8] Mr. Ashbrook finally says in fine print in Appendix C that "Whereas the cumulative impact of the claimed improvements would have meant a substantial rise in well-being over the past years, other evidence shows that the per capita vailability of food and the level of rations is roughly the same in early 1972 as it was 15 years earlier in 1957." [9]

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[1] 1957 is used as the initial year of the comparison because, by 1957, Chinese Communist statistics had gained a degree of respectabiity which was soon lost during the Great Leap Years immediately following. Most of the indices given in the *Assessment* use 1957 as the base year, perhaps for the same reason.

[2] The food production index for 1970 is 117.57 with 1957=100. The population figures are given at 6419. and 836 respectively for 1957 and 1970. It follows that (117.57/836)/(100/641.9) =0.90.

[3] The export balance of foodstuffs in 1970 was about 210 million U.S. dollars (see *Current Scene*, February 7, 1972), and it was about 1.56 billion 1952 yuan in 1957 (see Liu, T. C. and Yeh, K. C., *The Economy of the Chinese Mainland: National Income and Economic Development, 1933–1959*, 1965, Princeton, Table 79, p. 246.)

[4] Following the method used in the *Assessment*, grain represented 85 percent of the food production. Valuing the food production at constant 1952 yuan will result in the same index numbers of food production for 1957 and 1970 as those given in Table 4, p. 46, of the *Assessment*. Subtracting the food export balances from the values of food production of the 2 years and then dividing by their respective population figures, per capita food consumption figures for the 2 years in constant 1952 prices were obtained. The same ratio of 100 to 94 for 1957 to 1970 would be obtained if the computation were done with other constant price weight provided the export balances are converted to the same currency unit properly.

[5] Neglecting the worse situation in 1971, since the estimated food supply given in the *Assessment* for that year is only preliminary.

[6] Liu, T. C. and Yeh, K. C., *The Economy of the Chinese Mainland: National Income and Economic Development, 1933–1959*, p. 52.

[7] According to the estimate of Buck, the per capita calorie intake from grain crops in China before the Sino-Japanese War was 2309. See Buck, J. L., *Land Utilization in China*, Vol. 1, p. 407.

[8] Ashbrook, A. G., Jr., "China: Economic Policy and Economic Results, 1949–71",the *Assessment*, p. 35.

[9] Ashbrook, *ibid.*, p. 50.

If, by his own estimate, per capita food production has declined by more than ten percent during the same period of time,[10] how could the level of rations be roughly the same in 1972 as in 1957?

2. It is not certain that per capita consumption of clothing was better in 1970 than in 1957

From the data given in the *Assessment* (Table B–1, p. 83 and Table 4, p. 46.), it can be calculated easily that per capita production of cotton cloth, the main textile material used in China for all seasons,[11] increased by only fourteen percent from 1957 to 1970, or about one percent per year.[12] Even by 1970, however, per capita production of cotton cloth was only about nine meters (or a little more than nine yeards a year per person). A great deal of cotton cloth was exported, and not much was imported.[13] Per capita consumption of cotton cloth, therefore, could not exceed nine yards per person per year for all purposes (clothing, bedding, etc.), a rather small amount.

What is much worse, is the supply of cotton for padding winter clothing and blankets (the main winter clothing and blankets for most Chinese being cotton padded). As shown in the *Assessment*, (Table 4, pp. 46–47.) cotton production remained at 1.6 to 1.7 million metric tons in 1970–71, practically the same as in 1957.[14] Per capita production of cotton declined by 18 percent from 1957 to 1970; and by 1970 each person had *at most* only 4.4 pounds of cotton to pad new winter clothing and balnkets or mend his old winter clothing and blankets, whereas in 1957 a person had *at most* 5.5 pounds per year for such purposes.[15]

What can one say about the standard of clothing in 1970 as compared with that in 1957? Not much without the data necessary for doing a detailed study of foreign trade in clothing, except that one may probably observe somewhat newer and a greater variety of cotton clothing in the cities, while people have a little less warm clothing in the winter in rural areas and more remote cities. But in the country as a whole, the standard of clothing in 1970 must be very low if the per capita production of cotton cloth and cotton were as low as about nine yards and 4.4 pounds respectively.

3. Partial traveler observations are not representative

Since most food and clothing (including cotton for padding winter clothing and blankets) are the most important consumption items, one is compelled to conclude that, according to the estimates given in the *Assessment*, the Communist regime on the Chinese Mainland has failed to provide adequate food and clothing for its people over a long period of time. The impressions a traveler may get by visiting a few leading cities and show Communes, where the workers are paid better than the rest of the population, cannot be taken as representing the country as a whole. The living conditions in a few provincial capitals may even be a great deal better than the villages and small cities which no foreign visitors could observe. Partial pictures of the country gained by visitors cannot argue with the statistical estimates made for the country as a whole. The state of food and clothing consumption implied in the estimates given in the *Assessment* appears to contradict all the statements on living conditions quoted from the text of the *Assessment* at the beginning of Section (I) of this statement.

4. The growth of the economy is erratic but not strong

It is said that during the postwar period the economic growth of the Chinese Mainland "has been strong but erratic." (*Assessment*, p. 6) The growth on the Mainland has certainly been erratic; during the postwar years no other nation has experienced a drop of GNP in three consecutive years, 1958–61, by 24 percent as the Chinese Mainland did, according to the estimate given in the *Assessment* (Table 4, pp. 46–47). GNP again dropped in two consecutive years from 1966 to 1968. But the growth has *not* been strong. According to the estimates given in the *Assessment* (Table 4, pp. 46–47), during the thirteen years 1957–70, the average annual growth rates of GNP and per capita GNP are, respectively, only 3.1 and

[10] Per capita food consumption declined by 6 percent after the production figures are corrected for trade balances.

[11] Woolen and silk materials are beyond the means of most Chinese.

[12] The output of cotton cloth was estimated at 5,050 and 7,500 million linear meters respectively for 1957 and 1970 in Table B–1, p. 83. Divided by the population figures of 641.9 and 836 million people for the respective years, the per capita output of cotton cloth were 7.87 and 8.97 meters respectively, an increase of 14 percent over the 13 years or about 1 percent per year.

[13] Foreign trade data on cotton cloth for 1970 are not yet available to me.

[14] Imported cotton was mainly for making textiles.

[15] As a great deal of domestically produced cotton was used to make cotton cloth which has been discussed.

1.0 percent. As we shall see, these growth rates are among the lowest in Asia for the same period of time and can in no sense be described as "strong." Except in detonation of nuclear devices and other war engines, it is difficult to see in what respect the Chinese Mainland "will widen its lead over the ordinary less-developed countries" (*Assessment*, p. 6), because we failed to find where the present "lead" is.

(II) SOME LIMITED INTERNATIONAL COMPARISONS

It is clear from the above that the Chinese people on the Mainland have suffered a reduction in per capita food consumption and may have foregone improvement in clothing for the purpose of a more rapid industrialization. A comparison of the growth of industrial production of several Asian developing nations can throw light on the important question of whether the Chinese Communist system has achieved outstanding success. It is disappointing that no such comparison can be found in the *Assessment*.

Within the limited time at my disposal, I have found data for six Asian developing countries and regions for the period 1957 to 1969 or 1970, as shown in Table 1. The Chinese Mainland ranked number five, just below India and not substantially higher than the Philippines.[16]

One often hears the argument that many of the countries received considerable amounts of foreign aid, whereas the Chinese Mainland was a "do-it-yourself" case. This is not exactly correct. In fact, the Chinese Mainland got a greater head start in terms of systematic and basic technical and financial aid from Soviet Russia than some of the other nations in Table 1 got from other countries. This aid was mainly in the form of whole plants, intended as the basis for rapid industrialization. In the summer of 1960, the roughly 1,200 Russian technicians who were in China returned to Russia; but at this time, about half of the scheduled 300 Soviet-aid projects were completed.[17]

TABLE 1.—*Index of industrial production in 1969 or 1970*

[1957=100]

Republic of Korea (1970)	702
Republic of China (in Taiwan) (1970)	600
Pakistan (1969)	307
India (1970)	218
Chinese Mainland (1970)	214
Philippines (1969)	191

Sources: For the Chinese Mainland, the *Assessment* (Table 4, pp. 46–47). The figures are taken from line 12, representing the midpoints of a range of estimates. The other data are from the *Statistical Yearbook*, 1970, the United Nations and the *Monthly Bulletin of Statistics*, May 1972, the United Nations.

Moreover, apart from Japan, no other nation in Asia had as great an industrial base as Manchuria; and we are comparing the industrial development on the Chinese Mainland with other countries since 1957, when the great Manchurian industrial base had long been restored and greatly expanded with Russian aid.

The only comparison of the Chinese Mainland with other developing nations one can find in the *Assessment* is again in fine print in an appendix to the first chapter (p. 43). This has to do with per capita gross national product in U.S. dollars in 1970, as follows:

The Republic of China in Taiwan	$350
Chinese Mainland	145
Pakistan	120
India	100

The per capita GNP of the Chinese Mainland is quite obviously low. However, the data on recent rates of growth of GNP and per capita GNP (in constant prices) over 1957–70 would provide one with some idea of the economic potential of the Chinese Mainland as compared with other countries and regions with different kinds of economic systems. Such a comparison is not given in the *Assessment*. Data for as recent a year as 1970 are difficult to get. Among the five countries and regions for which we have the data to compute the rates, the Chinese Mainland ranks the lowest. (See Table 2.)

[16] The index number for the Philippines is for 1969; that for 1970 may be higher.
[17] See the *Assessment*, p. 21.

(III) SOME COMMENTS ON THE METHOD USED TO ESTIMATE GNP IN THE ASSESSMENT

The estimate of GNP given in the *Assessment* was derived essentially as follows:

First, an index of GNP in real terms was derived, with 1957 as 100, by extrapolating a detailed estimate of GNP for 1957 (at factor cost with value added by origin) on an index of agricultural production and an index of industrial production. A food index was derived first on the assumption that grain represented 85 percent of the value of food production (except the three disaster years 1959–61 when it represented 90 percent). Cotton production was taken to represent nonfood production. An index of agricultural production was then derived by combining the index of food and nonfood indices with 85 and 15 as the respective weights. The midpoints of the industrial index given in the paper by Robert M. Field on "Chinese Industrial Development 1949–70" (Assessment, Table 1, p. 63.) are taken as the industrial index during this period.

A detailed estimate of the GNP at factor cost by industrial origin yields a 1957 total of 99.3 billion 1957 yuan, with agricultural value added at 47.5 billion yuan, industrial value added at 17.6 billion yuan, and the value added by the rest of the economy at 34.2 billion. On the assumption that the rest of the economy supported the two sectors evenly, i.e., 17.1 billion yuan for each of the two major sectors (thus the support of industrial activity was assumed to be considerably greater per unit of industrial activity than of agricultural activity), the ratio of the industrial "constellation" of economic activity to that generated by agriculture is roughly two to one [(47.5 + 17.1)/(17.6 + 17.1) = 64.6/34.7 = 1.86].

The GNP index is then obtained by combining the indices of industrial and agricultural production with respective weights of two and one.

TABLE 2.—RATES OF GROWTH OF GNP AND PER CAPITA GNP, 1957–70 [1]

[Percent per year]

	GNP	Per capita GNP
Republic of China in Taiwan (in constant 1964 prices)	9.0	5.6
Republic of Korea (in constant 1965 prices)	8.0	5.1
Philippines (in constant 1955 prices)	5.6	2.2
India (in constant 1960–61 prices)	3.6	[2] 1.1
Chinese Mainland (in constant 1955 U.S. dollars)	3.1	1.0

[1] For India, the time period is from 1960–61 to 1969–70.
[2] This is the rate of growth of per capita net national product.

Source: Since the 1970 and 1971 editions of the National Income Accounts Statistics of the United Nations have not yet been published, I had to get the 1970 data from colleagues at Cornell and other places who have access to national resources.

Second, the Chinese GNP for 1955 is estimated at U.S. $48.19 billion. This figure was obtained by the familiar method of calculating the 1955 Chinese and U.S. GNP in both yuan and dollar prices; the Chinese GNP was found to be in the range of 6.67 percent to 21.48 percent of the U.S. GNP (or $26.55 billion to $87.48 billion). On the basis of the U.S. GNP price deflator index numbers for 1955 and 1970 and the index of GNP obtained above, the series of Chinese GNP in 1970 U.S. dollars was then obtained.

Third, the estimate of GNP by end use presented is merely expert judgment, and is not in any sense an estimate. (*Assessment*, p. 45.)

The author and his collaborators have the admiration and sympathy of one who has gone through equally painful processes to try to derive some indication of the order of magnitudes of the important economic aggregates of the Chinese Mainland. It is much easier to criticize the weaknesses of the estimates than to make suggestions for improving them, or to make better alternative estimates. The subject matter, however, is so vital that it is important to point out the major weaknesses of the estimate.

1. The much more detailed data released by the Communists for the period 1952–57 indicated quite clearly that there had been significant structural changes during 1952–57, that some of the structural changes had trends which were likely to continue, and that there had been increasing interdependency between agriculture, industry and the other sectors of the economy. The greatest weakness of the estimate given in the *Assessment* is the assumption that the ratio of the industrial and agricultural "constellations" of economic activity remained at the approximate ratio of 1957, i.e., two to one, throughout the long period 1949–70.

One may argue that any other assumption would have no sound basis and would be arbitrary. However, to assume the ratio to be unchanged at two to one is also arbitrary, and is probably the worst assumption during a period of obvious structural change. Moreover, the structural changes revealed in the 1952–57 data do provide one with some basis for making assumptions about later changes.

2. On the whole, the estimates put forth in the *Assessment* are presented with a tone of modesty. Given the poor and scarce data sources, no one who works with Chinese Communist figures can do otherwise. Concerning industrial and handicraft production, however, it is said that "For the years 1949 through 1959, because the Chinese published data on the physical output of a large number of industrial commodities, it was possible to construct an index that can still be used with confidence. The index for these years has not been changed." (*Assessment*, p. 61.) These years 1949 through 1959 include the Great Leap Years 1958 and 1959. For example, it is more than probable that even the Communist regime itself did not, and will never, know what the amount of steel production was during 1958 and 1959. (In the reported figure for steel, how much was pig iron? How much was really steel? How much was useless output from the backyard furnaces? Did the author subtract from the value of the output the rather useful pots and pans people were coerced to throw into the backyard furnaces without getting anything useful back?)

(IV) SOME CONCLUDING REMARKS

As an economist, I am mainly interested in the efficiency and the income distribution of the economy of the Chinese Mainland.[18] Both in an absolute and relative sense, the period of the best economic performance was 1952–57. Since I have reported to the Joint Economic Committee my evaluation of that period quite in detail,[19] I have concentrated on the period 1957–70. This period is particularly important, because it is more recent and it is sufficiently long. Moreover, the estimate of GNP and its components for the initial year 1957 of this period are more reliable than for earlier years, and would serve as a good base for comparison.

From a close look at the statistics and estimates in the *Assessment*, one must conclude that the per capita food situation on the Chinese Mainland deteriorated from 1957 to 1970 and that the per capita clothing situation may not be better in 1970 than in 1957. It is regrettable that practically no attempt was made to estimate the housing situation in the *Assessment*. Provision for shelter has lagged behind other consumption needs in practically all socialist countries, and it is unlikely to be otherwise on the Chinese Mainland. The Chinese Mainland is so large that the living conditions in a few leading cities and a few show projects cannot be relied upon to evaluate the standard of living of the entire country.

The data on GNP by end use (including investment) presented in the *Assessment* (p. 40) are not estimates; they represent expert judgment only. (*Assessment*, p. 45.) Hence, it is difficult to say whether the Chinese Mainland has succeeded in building a viable "civilian economic base." (*Assessment*, p. XIV.) The fact that the production of crude steel and electric power may have increased from 5.4 million tons and 19.3 million kilowatt hours in 1957 to 18 million tons and 60 kilowatt hours respectively in 1970 (*Assessment*, Table B–1, p. 83) is not a sufficient indication of a sound investment program. Due to the insufficient attention given the interindustrial relationships by the Communist regime and other poorly conceived policies, steel and electric production fell respectively by 36 and 38 percent from 1960 to 1962. Much more research is needed before one can have a reasonably useful evaluation of the structure of capital formation on the Chinese Mainland.

Relative to other Asian developing countries, the performance of the economy on the Chinese Mainland is poor. It was the slowest growing region in Asia during 1957–70 in terms of GNP and per capita GNP. It also had the most erratic movement in GNP.[20] This lends doubt to the existence of a viable economic base.

[18] The *Assessment* unfortunately presents no estimate of income distribution, nor are national data available since 1958.

[19] Liu, Ta-Chung, "The Tempo of Economic Development of the Chinese Mainland, 1949–65", in *An Economic Profile of Mainland China*, Joint Economic Committee of the Congress of the United States, 1967 especially pp. 56–68.

[20] In this connection, it is interesting to observe that, in the exploratory estimate I reported to the Joint Economic Committee in 1967, the net domestic product, after the disastrous Great Leap Years, regained the 1957 level during 1962–63. (See Liu, T.C., "The Tempo of Economic Development of the Chinese Mainland", *op. cit.*, p. 50). Thus, in this respect, the *Assessment* is not "less pessimistic than the assessment of the 1967 Joint Economic Committee study". (*Assessment*, p. IX,) For, according to the estimate given in the *Assessment* (Table 4, pp. 46–47), the 1957 level of GNP was regained in 1963.

Just about the only achievement of the economy of the Chinese Mainland is the attainment of the technical and industrial capability to detonate 13 nuclear devices, to launch two space satellites, and to buld up a war machine of an unknown size. However, these achievements were attained at a terrible cost in terms of the standard of living and economic growth.

Regarding the achievement in the technical and military areas, I would like to quote from my earlier report (1967) to the Joint Economic Committee:[21]

". . . the productive capacity of the economy as a whole does not reveal the strength of the nation in carrying out a specific endeavor to which a large concentration of resources is devoted. Thus, the per capita product of the Chinese Mainland is low by any estimate and on any standard, but a nuclear and missile program produced successful results in recent years when the economy as a whole was still experiencing difficulties. One must not be misled by the low per capita productivity on the Chinese Mainland to a feeling of complacency regarding her technical capabilities in certain narrowly defined spheres. At the same time. it is equally erroneous to consider the achievement in a specialized field as an indicator of the degree of development of the economy as a whole."

The same is true today.

Chairman PROXMIRE. Thank you, Professor Liu.

Professor Schwartz, go right ahead, sir.

STATEMENT OF BENJAMIN SCHWARTZ, PROFESSOR, EAST ASIAN RESEARCH CENTER, HARVARD UNIVERSITY

Mr. SCHWARTZ. As a noneconomist, may I, first of all, pay my compliments to the authors of the study "People's Republic of China: An Economic Assessment." I found the study informative, judicious, and thought provoking. The following remarks are in no small measure based on reflections prompted by it.

I have been asked by Senator Proxmire to make some observations on the relationship between the economic capabilities of the People's Republic of China and its military posture. In terms of its economic resources, does China pose a military threat to America? To what extent do security considerations dominate the domestic priorities of the People's Republic?

While I am far from convinced that either the domestic history or the history of foreign relations of the People's Republic can be explained wholly in terms of economic factors, it is, of course, possible to view this history in strictly economic terms. When viewed in this way, one is struck by one overwhelming fact; namely, that while the period of the early 1950's, after the short period of rehabilitation, was marked by an enthusiastic embrace of the Soviet model of economic development, the period after 1955–56 was marked by a growing realization on the part of the Chinese leadership as a whole, in spite of differences on other matters, that given the nature of China's agrarian economy, given the size of its population, China would have to find its own model based on a fresh analysis of Chinese realities.

The Soviet model, as we know, involved a systematic exploitation and neglect of the agrarian sector in the interests of an enormous lopsided investment in heavy and military industry. While this model was put forth as the socialist model par excellence, one of its more prominent attractions was its promise of the speedy creation of vast military power.

Whatever its attractions, however, by the mid-1950's it had become obvious to most of the leadership that from the point of view of

[21] Liu, T. C., "The Tempo of Economic Development of the Chinese Mainland", *op. cit.*, p. 47.

sheer survival, China could not afford to neglect the problem of agriculture or the millions of peasants who constitute the bulk of its population. From the strictly economic point of view, the great leap forward of 1958 may be seen as an effort to cope with the newly perceived enormity and uniqueness of China's agrarian problems even while continuing to pursue Soviet-type goals in the industrial sphere.

Thus, the final shift from the Soviet model was to come only in the early 1960's when the decision was made to put agriculture first, to channel major investments into the agrarian sector, and to rest content with a slower rate of growth in the industrial sphere. The profound differences which emerged within the leadership during the 1960's did not, it seems to me, concern this basic shift in economic model but were concerned with the social strategies to be employee in attaining these new goals, and here, I would say, that noneconomic ideological considerations were to play a great role.

Indeed, it is now clear, after the storms and convulsions of the cultural revolution, that this new economic strategy has remained intact. Thus, if one can speak of economic successes in the last few years, these are successes of modesty, of an economic perspective adjusted to the realities and constraints of China's objective situation.

If the Soviet model held the promise of spectacular and speedy growth in military potential—a promise enhanced by the expectation of direct military support from the Soviet bloc—the more modest new economic strategy must also involve a more modest estimate of China's resources in the realm of offensive military power. To be sure, within the limits imposed by this strategy, a heavy priority has undoubtedly been given to military production and to the attainment of a limited nuclear capacity.

It hardly seems conceivable that this priority will be shifted in any near future in favor of the benefits of a high consumer economy. Yet the general austerity of the economy also places limits on military investment. So long as this economic strategy is maintained, it hardly seems likely that the People's Republic will actively seek a military confrontation with either of the superpowers. It is quite clear that its posture of military confrontation with the Soviet Union is essentially defensive and based on fear. It is even more clear that Peking is not seeking a military confrontation with the United States.

To be sure, if Peking should be inclined to involve itself militarily with the small states on its periphery, or even with India, it probably possesses sufficient economic resources and military power to make its will prevail. It seems to me, however, that the present leadership is well aware of the degree to which military involvement in the affairs of these states might lead to a confrontation with the superpowers.

What has been said by no means negates the reality of Peking's more visionary hopes. The leaders of the People's Republic may still envisage a world in which the poor states will look to Peking as their leader, in which revolutions based on the Chinese model will eventually prevail, and indeed a world in which China's new economic model will win over new adherents.

These hopes, however, are not at present based on any faith in China's limitless economic or military capacities. They are based on certain assumptions concerning the movements of history. History, it seems to me, will be quite as successful in hiding its secrets from China as from all the rest of us.

Chairman PROXMIRE. Thank you very, very much.

Professor Liu, Senator Mansfield gave a series of reasons why we should be quite reluctant about accepting gross national product as a measure of Chinese progress or lack of progress. He pointed to the fact that this is largely a labor economy, that the measures would be quite different if it were applied to a technologically advanced economy such as Japan or the United States.

Furthermore, Senator Scott argued that since the early 1960's—I thought he said this; maybe I misunderstood him—since the early 1960's, there had not been any reliable statistics published or made available by the Chinese Government that we could use very well.

Now, this would seem to bring your analysis of Chinese economic weakness into question. What is your answer?

Mr. LIU. Well, first of all, I was quoting the estimates as given in this volume. Now, even if you just look at the late 1960's, after the recovery from——

Chairman PROXMIRE. Yes, I know.

Mr. LIU. Right.

Chairman PROXMIRE. Again I am undermining our own position. This is our own volume of this committee, and we are very proud of the study we made. So I don't want to appear to be questioning what we have done.

Mr. LIU. Right.

Chairman PROXMIRE. Except that we would like a little reinforcement. The majority leader is an extraordinarily fair and able man; as you know, he is quite a scholar, and I think he does make a point, at least a point which would be quite appealing to many people on the grounds that these are statistics of which we can't be sure.

Mr. LIU. Well, first of all, it is well known that GNP is a hodgepodge, a mixture of many things; but in the production of foodstuffs, the production of food crops is certainly more concrete and there are fairly good estimates of acreage, soil, of the yield, of weather reports. But the most important hard statistics are the foreign trade data, Mr. Chairman.

Now, if you will look at page 343 of your volume, you will see that in the year 1966, the exports of the Chinese mainland are about $2.2 billion; and in 1970, it is $2.005 billion. Now, if the economy has really made a strong recovery with the need for machinery and the capital equipment to build up the economy, and with the eagerness of Japan and some European countries to sell to the Chinese mainland, I do not see why the Chinese mainland would not try to export more if the economy was really doing well to exchange for machinery and capital equipment it very much needed.

Chairman PROXMIRE. Professor Schwartz.

Mr. SCHWARTZ. I think there is a notorious tendency on the part of economic historians to ignore political history.

Now, during this period of the 1960's we did have the turmoil and convulsions of the cultural revolution. I think this undoubtedly brought about a setback, particularly in the industrial sector of the economy, perhaps also to some extent in agriculture and certainly in foreign trade. Since about 1969, there has been a gradual pacification and moderation and a return—more or less—to the previous economic strategy with a consequent recovery in the economy. In fact, I don't think there was ever a serious departure from the strategy which I

have mentioned in my statement although the economy was seriously disrupted.

I do think, as Senator Mansfield has said, that this strategy will not yield spectacular GNP growth figures in our terms as a continuation of the Soviet strategy might have yielded, but I am not sure that that necessarily is the heart of the matter.

Chairman PROXMIRE. One of the problems we found in addition to the turmoil, was the effect of Maoist ideology on economic progress. After all, when you have a situation in which you have a very long period o a productive day given over to discussion, discussion as to whether or not the head of the factory is operating under the doctrine of self-sufficiency when he asks for a missing part and instead of closing down the factory until the missing part could be produced within the factory, he wants to get it rather quickly from some other place so the whole operation is stopped.

Then you have the factor that I mentioned before—you have heard it—the egalitarian factor: why assume responsibility in any system—Socialist, capitalist, or what not—when your reward is almost precisely the same as if you don't assume responsibility and the economists we had testifying—I don't think there were any American economists who testified on this because they had not had access to China—but those Canadian and European and other economists who traveled within China over the last few years, told us that this did seem to have an adverse effect on economic progress, and it was one of the reasons for the cultural revolution, the pragmatists wanted to change the situation, modify it; but the purist ideologies were in control so even though you have a period of stability, it is stability under a system of ideological purity which does not permit the efficiencies to develop, it would seem there might be a logic behind some slowing down.

Did you have any response to that, Professor Schwartz?

Mr. SCHWARTZ. Yes, I agree with that analysis except that I mistrust the word "pragmatic" because I think that even a pragmatic China will in the end probably not look very much like the United States. Its problems are quite different from those of the United States.

I would draw a sharp distinction between the period of adoption this new strategy of placing first weight on agriculture which I think came into being in the early 1960's and the Maoist cultural revolutionary period. Mao, I think, is not primarily an economist and has always been concerned with noneconomic "ideological" goals.

I do think, however, that since about 1969, there has been a gradual retreat from this overwhelming emphasis on the ideological factors back to a more "pragmatic" approach. But as suggested even a more pragmatic approach in China would not look like a pragmatic approach in the United States.

I think China will not be able to evade the problem of the overwhelming size of its population, and the overwhelming need to give priority to agriculture. Thus even a pragmatic approach in China may continue to embody certain Maoist features.

Chairman PROXMIRE. Professor Liu, one other point in connection with your analysis: You seem to put a great deal of emphasis on a simple measure of caloric consumption. Of course, with the recent attitudes in this country, the view is the less you consume the better off you are, the healthier, the stronger. But leaving that aside for the

moment, let me just say there is a possibility, isn't there, they might be shifting to higher quality foods, less emphasis on rice and more emphasis on fish, meat, vegetables, and so on, as occurs in developing countries generally?

Mr. LIU. I would agree with the experts who prepared this volume that supplementary food on the Cinense mainland averaged about 15 percent of their total diet.

Now, it is true that, you know, if you eat too much starch you gain weight and it is dangerous; but if the calories you draw from grain would be only around 1,800, there is no danger of a heart attack, and the 15-percent supplementary food would not make it up to sort of really giving you a healthy diet.

Chairman PROXMIRE. Well, let me shift now into another area. Professor Schwartz, China appears to very the expansionist character of its foreign policy. Would you say that economic crises or economic success would be more conducive to an expansionist policy?

Mr. SCHWARTZ. It seems to me that there have been many crises, internal crises in China, not wholly economic in nature—I would call them economic-political crises. The relationship between these internal crises and the shape of foreign policy is not always easy to define. On the whole, I think, in spite of all these crises, under the present leadership there has been a relatively consistent caution in foreign policy—on the day-to-day foreign policy level—a tendency to deal with concrete situations in terms of what we would call real factors. I would differentiate this day-to-day policy from what might be called the long-term dream of a civilized world.

There was one period during the cultural revolution which was marked by an erratic foreign policy. It is now claimed by Chou En-lai and even by Mao Tse-tung that during this period the Foreign Office had come under the control of extreme radical cultural revolutionaries. You will recall that period when they seemed to be flouting even the ordinary conventional rules of international relations. Personnel of embassies did not seem to be immune from physical attack; foreign embassies were being attacked; people in Chinese embassies abroad were behaving in strange ways. This one small period was more or less of aberration on the whole, I would say, where others can generally explain the day-to-day policies of the People's Republic—in spite of all fluctuations—in rather realistic, cautious terms.

Chairman PROXMIRE. Let me be more specific about this: How would you appraise the priorities for Chinese military programs among the following: (1) Secure the Soviet border; (2) resolve the Taiwan question; (3) extend Chinese leadership over Southeast Asia; and (4) extend Chinese influence over Asia from Indochina to Japan?

Mr. SCHWARTZ. I would say to my mind, No. 1 at the moment has clear priority.

Chairman PROXMIRE. Securing the Soviet border?

Mr. SCHWARTZ. Yes. I think there is a genuine fear—perhaps an unjustified fear—but a genuine fear of Soviet intentions.

On the Taiwan issue, I believe, as Senator Scott and Senator Mansfield have both stated, they are now prepared to let this ride. I think it is a very vital issue to them. They regard Taiwan as part of sovereign China but I think they are not prepared in the discernable future to take military measures to recapture Taiwan.

Now, on Southeast Asia, unquestionably, they want to have a major say in the disposition of affairs in Southeast Asia. I would question whether under the present leadership this would take the form of a direct military intervention. I think they will try to influence policies of various governments in that they will use their massive presence to try to influence policies in Southeast Asia. As for Asia as a whole, one has to look to their long-range dreams. They hope that their revolution will provide a source of revolutionary inspiration to various forces within the countries of Asia; that it will lead to Chinese type of revolutions.

This is, as I say, an article of faith. I am not sure that it is a justified article of faith. It seems to me that the conditions of all these countries are sufficiently different from the conditions of China at the time of its revolution that any notion of a mechanical repetition of the Chinese experience seems to me quite unlikely.

The notion that Peking can simply press a button and create a revolution in India seems to me to be a rather far-fetched notion.

Chairman PROXMIRE. Then you would say their priorities are defensive?

Mr. SCHWARTZ. At the moment.

Chairman PROXMIRE. (1) They are concerned about the Soviet-Chinese border; that (2) perhaps their relationship with Southeast Asia; then they have a much vaguer and more general notion about influencing the rest of Asia and, finally, the Formosan question is one that has been postponed at least for the time being and has a lower priority; is that right?

Mr. SCHWARTZ. Yes, I think they hope to prevail in the end on the Taiwan question.

Chairman PROXMIRE. But without a navy and facing what they face, they cannot take Quemoy and Matsu; Formosa is 100 miles away with a formidable military force and with the U.S. 7th Fleet prospects are impossible?

Mr. SCHWARTZ. Yes, given the present leadership I would guess that no attempt will be made to do so. Of course, the question of leadership is the big sleeper. What we have not discussed so far is the fact that in spite of the tremendous appearance of cohesiveness that many travelers have seen, at the very center of power there is a curious instability.

Chairman PROXMIRE. That is very interesting. Mr. Mao is an old man and the rest of the leadership is old. It could change dramatically within a matter of months, certainly a few years. At the same time, what is the potential here? The potential, it seems to me, for military action is limited. If you look at this study which is what this committee is responsible for, and I just don't see that they have the industrial power, the internal transportation system, let alone the military power; they do have rudimentary nuclear weapons but they are dwarfed, just overwhelmingly dwarfed by the Soviet Union and by the United States.

Mr. SCHWARTZ. Yet, I, like you, would emphasize that factor; that is, the severe limits placed on any leadership by their economic potentialities, and also placed on them by the nature of the disposition of power on the world scene.

Chairman PROXMIRE. Professor Liu.

Mr. LIU. Yes. Well, not being a military scientist or a political scientist, I really cannot comment on your question about the priorities, but because of the political instability that has existed in Peking, it would be difficult for me to think that anybody knows the answer.

For instance, if Liu Shao-chi were in power today the situation would be very different. Now, if Lin Piao were in power today, who was called the most beloved comrade next to Mao, if he were in power today then I think the policy would be totally different.

Chairman PROXMIRE. Totally different? What does that mean though in terms of military aggression or in terms of the effect on this country's foreign policy?

Mr. LIU. I must confess that I cannot—I don't really know the answer. All I am trying to point out is there is no political stability to guarantee any kind of reasonable projection of policy.

Chairman PROXMIRE. I see.

Let me ask Professor Schwartz, in the New York Times this morning there is an article headlined: "China Calls Raid Threat to Border." And the following statement was issued by the Chinese Foreign Minister. They expressed support for Hanoi and said the raids were acts of aggression against the Vietnamese people and grave provocations against the Chinese people.

This is nothing different from the kind of thing they have been saying right along. Does it signify something at all different to you? We are much closer to the Chinese border in our raids. We are in a position that I can see why they could call them provocative. Does this suggest there might be some counteraction on their part?

Mr. SCHWARTZ. I agree with you there is nothing surprising in the statement. We Americans have a weakness, I think, for involving ourselves emotionally in the fluctuations of international affairs; that is, of oscillating between sentimentality or total hostility. The rapprochement between the United States and China is still fundamentally a cool affair on both sides—cool and calculated—The strongest motive on the Chinese side is the desire to have the United States as a bargaining lever vis-a-vis the Soviet Union: it by no means signifies a shift toward a complete trust of the U.S.A. They have made it quite clear that they are uncomfortable with United States military power close to their borders as they have ever been. They still want us out of Indochina. There never has been any change in their view on this matter.

Chairman PROXMIRE. But this does not indicate any likelihood of action on their part, in your view?

Mr. SCHWARTZ. Well, by carrying out bombing raids close to the Chinese border, we may be approaching the tolerable limits. If there should be to many accidents of U.S. planes going over the border, then perhaps we may go beyond this limit; I think that this statement is a signal on their part, that we are getting dangerously close to the border. There is nothing surprising in it, nothing that has not been said in the past.

Chairman PROXMIRE. Nevertheless, you do regard it as a signal. It is interesting and significant?

Mr. SCHWARTZ. I regard it as a signal, yes.

Chairman PROXMIRE. Professor Liu, you note that economic growth on mainland China has not been as impressive as other countries such

as Japan. Japan has surged way ahead of the rest of the world; it is a pre-eminent example. I think Mr. Reischauer told us a couple of years ago if Japan keeps up its present rate of growth through the rest of this century until the year 2000, it will have a gross national product of $6 trillion, in other words, six times the present U.S. GNP. Nobody expects it to continue at that pace, but it is an indication of how extraordinary that immense growth has been.

Nevertheless, if China were entering a period of stability—let's make that assumption—it may be a very far out assumption or it may not be—and there is no more great leap forward or backward, is it possible that they could show a comparable rate of growth to the Japanese or that they could improve greatly their rate of growth, in your view, or is there something endemic that will slow them down?

Mr. LIU. Being trained as an econometrician, we are trained never to make a forecast more than a couple of years ahead of time.

Now, if in a few score years Japan would grow that rapidly then I think the air in Tokyo would be so polluted that everybody there would be dead. I hope not.

So I would not really like to——

Chairman PROXMIRE. Unless you crank into the gross national product statistics the amount they spend on preventing pollution.

Mr. LIU. Well, this is being paid attention but if that is the case, the growth of GNP as conventionally measured will be slowed down.

Chairman PROXMIRE. Yes.

Mr. LIU. Because that would be a negative entry.

Now, we can only speak from our experience and past history.

Now, in making any forecast, if you will make a pure guess then I think there is absolutely no empirical basis.

If you base your guess on the performance of the Chinese economy during the past decade or so, it had more fluctuations; it had more drastic drops than any nation in the world.

Chairman PROXMIRE. Exactly; now I am saying if you could eliminate those drops, let's make some favorable assumptions and see what the potentiality is at least; it may not be a very realistic potentiality, but what the potentiality of growth is, if we can eliminate that erratic quality which, as I understand it, is in part at least connected with political turmoil, that might conceivably level off. Under those circumstances, would it be possible, in your estimation, as a professional economist, for them to grow rapidly?

Mr. LIU. I don't think, Mr. Senator, that would be enough, because you would be willing to invest in the kind of capital equipment that would be producing consumer goods.

Now if you accumulate the capital which would be only for military and other purposes, then GNP would still not be growing.

As I tried to present to you the view that the Chinese Communists have been investing in the field of military areas, they have done so, and there is no evidence that they will stop that and shift investment to more civilian uses in any significant manner.

Chairman PROXMIRE. Is the superior economic performance of the Japanese economy in any significant part in their not having to spend anything to speak of in defense?

Mr. LIU. That certainly helped.

Chairman PROXMIRE. The Chinese spend, I understand, about 10 percent of the gross national product for defense, which is a very heavy burden. The United States and Russia spent 7 or 8 percent.

The Japanese, of course, spent, what is it—1 percent or something of that kind; it is a very, very small fraction.

Mr. LIU. The Chinese Communists may have spent more than 10 percent.

Chairman PROXMIRE. Well, then, that would certainly be a drag on their economy.

Mr. LIU. Very much so.

Chairman PROXMIRE. And I don't see any realistic likelihood they are going to spend less, do you——

Mr. LIU. This I just do not know.

Chairman PROXMIRE. If they feel they are surrounded by enemies, as was indicated—I think Professor Schwartz pointed out they have Japan as a potential enemy at least; they have the Soviet Union; they have our action in South Vietnam or in Vietnam; they have at least the possibility of concern about India, so in all areas it would seem they are likely to have a very, very big, heavy defense burden for the foreseeable future.

Mr. LIU. It seems unlikely that they will reduce their military spending.

Mr. SCHWARTZ. Senator Proxmire——

Chairman PROXMIRE. Yes, sir; I wish you would comment.

Mr. SCHWARTZ (continuing). If I may comment, I am neither an economist nor a demographer, so I am very vulnerable on everything that I will now say. Leaving aside the question of ideology entirely, it seems to me that Japan began its development at a different point in history, and under quite different conditions. One of the main facts about China is the size of its population and the fact that most of this population remains agrarian. The only other country comparable to China in this regard is perhaps India. This fact, probably makes it impossible to think of economic development in these countries in the conventional terms—to put the matter concretely, it is hard for me to think of any time in the very near future when every peasant in India and China can dream of having a Volkswagen, regardless of whatever the ideology prevails.

Chairman PROXMIRE. Professor Schwartz, just think of this element though—I think you raise a very good point. Growth, economic growth, really depends to a considerable extent on where you start. You are right; the Japanese started from a devastation at the end of World War II. At the same time the Chinese start from a point in which 80 percent of their population is in agriculture; 6 percent of our population is in agriculture. Now, if they develop their agricultural potential to anything like the way we do, say they get it down to 20 percent, then they have this enormous manpower reserve which is a fundamental, ultimate economic resource anyway, available for other production, for industrial production and commercial trade, and so forth. So doesn't this suggest that there is perhaps an immense potential here just because they do have so many peasants now who can follow the course of almost all developing countries, of far more efficient agriculture, and a much larger industrial base?

Mr. SCHWARTZ. Yes, although the large population for nonagricultural does indeed suggest labor intensivity to the extent that various projects can be carried on by labor intensive methods, this may be an advantage. If one turns here to the question of automation and the decline in the need for labor in certain branches of very highly developed modern industry, I am not sure that this vast reservoir of

labor power is necessarily an advantage. On the contrary it remains a problem. In fact, unlike the Soviet Union, even during the fifties when there was a tremendous emphasis on high tempo industrial development, one still had the phenomenon in China of people being sent back from the cities to the countryside. The new industry wasn't able to absorb them quickly enough.

Chairman PROXMIRE. Let's face it, compared to this country the Soviet Union is enormously backward. They have seven times as many people on the farms as we do and produce 20 percent less food. There is where our superiority is, right there in the agricultural sector.

Professor Liu.

Mr. LIU. This presently requires a lot of investment in agriculture.

Chairman PROXMIRE. That's right.

Mr. LIU. It is not that you can produce all of a sudden so much from your land without investing so much in it.

Chairman PROXMIRE. An excellent point.

Professor Schwartz, the United States and China have at times shared the view that China should be unified and strong, and I think the majority leader this morning described them as dynamic, strong, and unified. Should we still share this view they should be? Is it in our interest that there should be a strong, unified, dynamic China?

Mr. SCHWARTZ. I am almost inclined to agree with Professor Liu, one should hesitate to predict more than 2 years in advance.

Chairman PROXMIRE. I am not asking you to predict at all. Forget the prediction. All I am asking, is it in our interest to have that?

Mr. SCHWARTZ. By and large, I would say yes, a strong China, but a China that has become enmeshed in whatever web of world order we now have, the more they become involved in the complexities of the world.

I think one of the major benefits of the mild rapprochement that we have had with China is not necessarily a benefit in terms of American-Chinese relations as in terms of bringing China into the world community as a whole. In other words, we are no longer blocking their entry onto the world scene; their increased involvement with the complexities of the world scene.

Chairman PROXMIRE. What do we do to achieve that: (1) China is now a member of the United Nations; (2) the President has visited China, which I would agree, although I am a Democrat and am critical of President Nixon on Vietnam and other areas, I think it has been an excellent action; it has been constructive and useful. The minority and majority leaders have both rejected the notion of most-favored-nation treatment for China; I think it would be unrealistic to do that. I don't think we are going to have an aid program for China. What do you suggest we can do now that has not already been done, or is this a period when we will just have to wait for a few years and gradually move into some other possibility of enmeshing China, as you put it, into the responsibilities and interests of the world.

Mr. SCHWARTZ. Well, our disengagement from Vietnam—quite apart from all the other reasons for desiring it—would also help in this area. Beyond that, there is some merit in not doing certain things. As stated above, the fact that we have ceased obstructing their movement onto the world scene is itself a gain.

I would hope, although my hopes are not wildly optimistic on this score, that we will have some increase in cultural exchange between the two countries within the next few years.

Chairman PROXMIRE. Develop an interest in Ping-Pong as well as acupuncture?

Mr. SCHWARTZ. I don't think we should have wild expectations in this area because the Chinese do not want their society to become contaminated by what they regard as our bad values, so I think that cultural exchange probably will be limited. From the point of view of people who are interested in China, in a scholarly way, we are dreaming of times when it will be possible to go there and study in their archives. It still is not possible as of this moment. What we have brought about basically in shift in atmosphere. I know that Professor Reischauer has said at one point that all that has happened in our relationship with China is a change in atmospherics. I would say, yes, a change in atmospherics but at this point a change in atomospherics is extremely important.

Chairman PROXMIRE. Let me ask you, Professor Liu, China is a nation, as was said, four times the population of ours, with immense resources. If they are unified, dynamic, and strong, regardless of the historical friendly relationship, wouldn't this constitute a potential, enormous threat to us?

Mr. LIU. Well, Senator, I just don't know how one could really conceive of the Chinese mainland as united and strong. When Mr. Nixon visited Peking, it was a country without a constitution, not even on paper, without a chief of state.

Now, Lin Piao's former officers—Lin Piao was leader of the Fourth Field Army—for decades his officers scattered all over the country; who knows what were in their minds. So I think it is a bit too early for us to describe China, the Chinese mainland, as a strong and unified country.

Chairman PROXMIRE. Professor Liu, let me just interrupt at this point, and maybe Professor Schwartz would like to comment on that point, too. I am astonished at that reaction because with many weaknesses China has, and with my many vehement disagreements with Chairman Mao, of course, it seems the one thing they do have is an absolute iron grip on their people, just an enormous discipline of a kind that rarely has been seen in human history in any country of any size; as Senator Scott testified, they seem to be accepting a lower standard of living and liking it; no significant evidence of much revolution or protest; an iron grip by the central government, whether they have a constitution or not, there is no question who is the head of state; it is Mao. He is the god; isn't that correct?

Mr. LIU. Well, both Hitler and Mussolini had their peoples very strongly in their hands. Would you call them unified, really willingly?

Chairman PROXMIRE. I didn't say willingly. Whether it is willing or not, Stalin is another one. But he had a unified, strong, dynamic Russia, and I think that Hitler had a unified, strong, dynamic Germany, vicious, cruel, sadistic—you could apply almost any adjective that is adverse to it; certainly we were absolutely right to fight to the death against it, but nevertheless I don't know how you could describe Nazi Germany as not dynamic, unified, and strong. Yes, I would say both of those were unified. Yes, sir.

Mr. SCHWARTZ. Could I comment? This is a question with which I have been wrestling. I am not sure I have found the satisfactory answer. As of the present, one gets two quite different pictures of China. There is the China of the travelers who all come back with a picture of immense cohesion, of vast collective purpose. Yet if one reads the materials which we receive from China, one has a feeling there is a considerable lack of political stabilization, a considerable flux in the political side. There is a considerable amount of uncertainty about where things are going.

Now, can one reconcile these two pictures? I would put it this way. The impression of cohesion is not due to the fact Mao has "brainwashed" all the Chinese. Nor does the uniformity of opinion mean that there may not be millions of people who are quite discontent with many aspects of things in China.

I would say, however, that probably sufficient numbers of Chinese people have accepted the basic legitimacy of the People's Republic to make it a going concern even with all this instability. There is a kind of will to unity, as it were, from below.

I might illustrate this: A few years ago during the cultural revolution when the center seemed to be disintegrating and power was drifting into the hands of local military commanders, there were many in the West who were predicting a return to the warlordism of the past; China would fall apart and one would simply have a new regional warlordism.

Why didn't this happen? I would assume that even these local military commanders had a kind of a will to maintain the unity of China, that they were not going to allow this to happen, and that they maintained enough lateral unity among themselves to prevent this from happening. So I really do think—and I use the phrase while mistrusting it—that there is a kind of basic underlying will to unity, a will to maintain the unity of the republic.

There is also, I think, a general acceptance of certain of the accomplishments of the regime. Thus, when we talk of growth, we sometimes ignore the morale building factor involved in making an effective and relatively effective distribution of whatever wealth one has. They have, on the whole, been quite successful in this.

One might say one of the strengths of the regime has been evidenced by its ability to survive all these political crises.

I think Professor Liu is quite right. Even now the political system has not jelled into any kind of crystallized constitutional order, and yet I do think there is some kind of common will to keep the concern a going concern. Still, I think that traveler should be somewhat mistrustful that everybody says the same thing. I think they can say the same thing to foreigners, and still have debates among themselves about where China is going in the future.

I don't think I have answered the question.

Chairman PROXMIRE. I think you have, and maybe Professor Liu might have misunderstood me. I didn't mean to indicate any approval; quite the contrary.

Mr. LIU. You said willingness.

Chairman PROXMIRE. I am willing to recognize this is a totalitarian, Communist country that has told us again and again how they are opposed to us. Perhaps they have ameliorated that a little bit in the visit by the President, but by and large they have been vehemently opposed to us. I don't mean any appraisal of China as a country that

is going to be humanitarian and so forth; but I do say that with all that they could—they can be strong, they can be unified; they can be dynamic; and the evidence is that they do have serious economic weaknesses; you have documented that and I am inclined to appreciate your position, and I think that Senator Mansfield had to admit that your analysis seemed to be sound.

Nevertheless, they do have a discipline and an authority over their people which I think is very, very hard not to recognize. Yes, sir?

Mr. LIU. Coercion, I think, is the word that might be used.

Now, I think the Chinese people are no more and no less intelligent than other peoples. Now, if we were told one day that Lin Piao is the most loyal comrade we have, the next day we were told he is the worst criminal in the world there is, I cannot help think that the Chinese would have some doubt about the political system that rules the country.

Mr. SCHWARTZ. May I say something?

Chairman PROXMIRE. Yes, sir.

Mr. SCHWARTZ. I think that that side of the picture must be stressed. It is a strange historic phenomenon here. I do think China may change quite drastically in the next few years, particularly after Mao's death. It is very difficult to tell in exactly which direction it will go and yet I don't think that this picture that visitors get of a kind of a determination to hold together is wholly a case of Potemkin's Village or simply a case of coercion. It is something that probably goes beyond political structures. There is a desire to hold together. I believe there is a deep desire to maintain China as a strong nation. I sense, however, that behind your question was another question—what if China does remain unified will it be a menace to the world?

Chairman PROXMIRE. That is the question that I was basically asking.

Mr. SCHWARTZ. Yes. Let us assume for the moment—putting aside the doubts—that it will remain unified. Here I would point to the constraints placed on China by the world environment in which it finds itself. I think it is always wrong to say that any society is inherently and eternally "aggressive" or "nonaggressive." Any society given a certain turn in history may be aggressive at times and nonaggressive at others. Thus I wouldn't want to make any blanket assertions concerning the distant future.

I would just submit that China is in a world where it confronts other formidable nuclear powers, where it has all kinds of external constraints on it. Unless one assumes a leadership that is wildly irrational—and, of course, that may happen—I would doubt that even a China of 800 million (and 800 million people are as much a problem as an asset) and even a China that is strongly united can easily conquer the world. With a rational leadership I would think that they would realize they were in a world where formidable power continues to reside elsewhere.

Chairman PROXMIRE. Yes, sir.

Mr. LIU. Mr. Chairman, I don't think any regime can really unify the Chinese mainland without being humanistic, without paying proper respect to the better part of the Chinese long civilization; in other words, this is a fairly theoretical question, whether the Communist system as such can ever unite a country.

Chairman PROXMIRE. A very interesting observation.

Mr. SCHWARTZ. All I would add to that——

Chairman PROXMIRE. Let me think of that a little bit, because I think it is a fascinating observation. You say only a humanistic government can unify the Chinese people. I wonder if a humanistic government can ever really unify any people; humanism being the kind of thing which seems to me allows difference and dissent and for a considerable degree of divergence, and so forth.

Mr. LIU. Well, there have been many changes in the Chinese history, of course, many dynasties. The most successful one was the Tank dynasty. Of course, in the first few years it had to fight but after that it followed very humanistic sort of policies and it was still the best, one of the very best dynasties we had so that is a concrete example.

Chairman PROXMIRE. Best in terms of its kindness and decency and so forth?

Mr. LIU. Yes.

Chairman PROXMIRE. Was it effective in unifying that vast and divergent land?

Mr. LIU. Well, because it is humanistic and because it is kind, it therefore succeeded in unifying the country. The famous emperior is Tank Tai Tsung whose policies were really quite benevolent.

Mr. SCHWARTZ. I would add after Tank Tai Tsung had come to power in a sea of blood. I think that this is not a simple question. We talk of a "Communist system" and assume that we are discussing a clear and unchanging entity. I would certainly be prepared to call the present system in China a Communist system; China is still totalitarian but, as I mentioned before, China is in flux. What we now call communism in China is already different in many of its aspects (although the differences may not be attractive to many of us) from the Soviet Union. When we used the term a "Communist system" in the 1940's, what we meant was Stalinist Russia with its specific political organization and its specific economic organization.

As I have tried to indicate in my statement, in the economics sphere—the Chinese leadership has departed most drastically from the Soviet way of doing things. Their political structure remains in flux.

I think there is even hope of their moving in the direction of a somewhat greater relaxation and flexibility in the cultural and educational spheres.

In other words, the "system" may have within it the potentialities for change over time.

Chairman PROXMIRE. Thank you very, very much for your exchanges and responses. They have been very helpful.

The committee will stand in recess until tomorrow morning at 10 o'clock when we will have as our witnesses Owen Lattimore, director, department of Chinese studies, Leeds University; Prof. Joyce Kallgren, deputy director, center for Chinese studies, University of California at Berkeley; and Prof. Yuan-li Wu, University of San Francisco and Hoover Institute.

(Whereupon, at 12:45 p.m., the committee was recessed, to reconvene at 10 a.m., Wednesday, June 14, 1972.)

ECONOMIC DEVELOPMENTS IN MAINLAND CHINA

WEDNESDAY, JUNE 14, 1972

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to recess, at 10:05 a.m., in room S-407, the Capitol Building, Hon. William Proxmire (chairman of the committee) presiding.

Present: Senators Proxmire, Fulbright, and Javits; and Representative Boggs.

Also present: John R. Stark, executive director; Loughlin F. McHugh, senior economist; John R. Karlik and Courtenay M. Slater, economists; Lucy A. Falcone, research economist; George D. Krumbhaar, Jr., and Walter B. Laessig, minority counsels; and Leslie J. Bander, minority economist.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. The committee will come to order.

Our first day of hearings on China was a most productive one. Led off by Senator Mansfield, the majority leader, and Senator Scott, the minority leader, there were a number of points of agreement and some differences in judgment.

Points of agreement were: (1) Although China may continue to bear a heavy defense burden, it will use its capabilities primarily on its own borders. Thus, if we withdraw from Indochina, we may expect little danger of military threat from the People's Republic of China; (2) the major shortrun problem is Vietnam; Taiwan is a longrun problem; (3) trade and exchanges may be modest but are of value; (4) China's major external concern is with the Soviet Union.

Points of disagreement are: (1) Is China strong, unified, and dynamic? (2) Is the present Chinese regime stable? Will the stability continue? If not, why not? (3) Can we assess China's economic performance? Are they doing better outside the defense area? (4) How is China ruled—by coercion or consent?

We feel that not only are United States-Chinese relations changing—which is long overdue—but China itself is changing.

During the course of our study, and increasingly as the hearings progress, we are struck by the need for a thoroughgoing reassessment of China. We are aware that many of the larger questions cannot be definitively answered. But we are making progress. Our new relations with China will help us make more progress.

For those of you who received the hearings announcement, I am pleased to add the name of Col. Angus Fraser, USMC (retired), a distinguished military analyst, to our third day of hearings.

Today we turn first to Prof. Owen Lattimore. We are especially honored to hear from Prof. Owen Lattimore, one of the world's leading specialists on Chinese, Mongolian, and Asian affairs in general. Mr. Lattimore has flown over here from England where he has been instrumental in developing a fine program of Chinese studies at his center in Leeds College.

Once we could call Professor Lattimore our own. Because of the terrible attacks of my predecessor, Senator Joseph McCarthy, in hounding Professor Lattimore unmercifully for views which today are recognized as facts of life, he decided to emigrate to another land.

Professor Lattimore, as Senator from Wisconsin, I want to take this occasion to apologize to you for the indignities you suffered in the ordeal of the early 1950's. I hope it will never again happen to any man. I think it is time, certainly, that we should recognize that whether we agree or disagree on foreign policy matters, we should not question the patriotism and devotion to the fundamental principles of our country of a man who just happens to disagree with us. If there is one fundamental tenet in our democracy, it is the notion that people can express themselves according to their own conscience, no matter how that may disagree with somebody who happens to hold office and to hold power, whether it is senatorial power or executive power.

Despite your protestations of lack of familiarity with the current China scene, we know you are one of the most knowledgeable experts in this field, and we shall gain lasting insights from your testimony today. Go right ahead, sir.

STATEMENT OF OWEN LATTIMORE, PROFESSOR AND DIRECTOR, DEPARTMENT OF CHINESE STUDIES, LEEDS UNIVERSITY, UNITED KINGDOM

Mr. LATTIMORE. Thank you, Senator.

Chairman PROXMIRE. I should say—and I want to apologize again; this is most embarrassing to me with these distinguished witnesses—we did this to the majority and minority leaders yesterday. We have a timer here, and we try to limit your testimony to 10 minutes and then after that go into questions so we can have more time for questions.

Mr. LATTIMORE. Thank you, Senator. Before the timer goes on, may I make just one correction. I was not hounded out of this country. I was engaged in teaching very successfully at Johns Hopkins University and suddenly, quite unexpectedly, from a university which I had never even visited, I received an invitation to go there and found a new department, which toward the end of a man's career is a wonderful opportunity to start something new based on a lifetime of experience and to be allowed to do it your own way. It is a very, very great compliment.

Chairman PROXMIRE. I appreciate that correction. Thank you, sir.

Mr. LATTIMORE. Mr. Chairman and gentlemen, it is an honor to be asked to testify before this committee, but I should point out, before somebody else does, that my qualifications for the honor are limited. Although I spent some 25 years in China, my last visit was 27 years ago and lasted for only about 10 days, including Christmas 1945 and New Year's Day 1946. Unlike a number of other so-called American experts on China—none of us is really an expert—I was not there

during the years of the civil war which ended in the liberation of China by the Communists in 1949.

I have been asked to address myself in the first instance to the "People's Republic of China: An Economic Assessment" prepared by the able staff of this committee, but here again I must be careful not to pose as an authority.

Economics is a branch of mythology which I have never studied. All I can say is that I spent about 6 years as an employee of a business firm in China, rising to be manager of their Peking office. This was the office in which we kept a supply of grease for the palms of Government officials. In those years, which were years of chronic civil war, I also traveled frequently in the interior trying to negotiate passage for goods which had been held up either by corrupt officials or by warring armies. I therefore know something about the economics of corruption, and I can also say that I was a participant in the economics of imperialism in the years when it was breaking down.

While I doubt whether economics exists as a science, the world is full of economic facts and in my opinion the contributors to this "People's Republic of China: An Economic Assessment" have provided us with an admirable collection of facts, useful for a better American understanding of China. They have achieved a higher standard than most American academic studies of China; but then one must remember that the standard of academic studies of China is distinctly lower in America than it is in countries like England, or France, or Russia or Japan.

The merits of this study speak for themselves and will doubtless be made even more clear by questions asked by members of this committee. I shall, therefore, proceed directly to a few points on which, right or wrong, I have strong opinions.

To begin with, I think an historical introduction is desirable. China had what may be called a prerevolution lasting much longer than that in Russia. From 1911 there was always civil war in some part of the country. From 1931 there was a foreign invasion which occupied the richest parts of China. From 1945 there was renewed civil war, made worse by lavish American aid to the losing side. The mere cessation of fighting in 1949, therefore, and the installation of a government that really ruled the whole of China for the first time in nearly 40 years, was a genuine liberation and equivalent to the most massive relief program in China's history.

One should next proceed directly to what may be called the American factor in Chinese politics.

Since President Truman and the beginning of the cold war, it has been a Washington shibboleth that you can't, you mustn't negotiate with Communists except from a position of strength. Yet the stark, staring, naked truth is that today, under President Nixon, America is for the first time trying to deal with both China and Russia from a position of weakness. Only the agile histrionics of the President and Mr. Kissinger distract attention from the fact that the emperor has no clothes.

It is America's growing weakness, and especially defeat in Vietnam, that marks the difference between the great cultural revolution period and the present period in China. The years of the cultural revolution were the years in which Chinese statesmen had to face a real danger that American bombing might be escalated all the way into China,

because of Washington's inability to understand the difference between violence and strength.

The Chinese had to make their choice between major alternatives—centralization or decentralization, large industrial units, making good bombing targets or smaller, dispersed units; reconciliation with Russia and dependence on Russia for heavy equipment, or self-reliance and a more lightly equipped army. That was part of what the cultural revolution was all about.

Today the situation is quite different. Not even President Nixon and Mr. Kissinger are now likely to escalate the Vietnam war into China. The Chinese are now in full command of both the economic and the political factors that shape their destiny and sooner or later we are going to have to deal with Peking on that basis. Our kind of carrot is not needed in China's diet, and our kind of stick will raise blisters on the hand that wields it before it breaks China's bones.

If we consider the American factor in the Chinese equation, we must also take the Soviet factor into account. In so doing there is a danger, it seems to me, of being misled by modes of thinking that have become habitual during the cold war. In frequent visits during the last 10 years to such countries as Mongolia, the Soviet Union, Czechoslovakia, Hungary, Bulgaria and the German Democratic Republic, and in many conversations with professional colleagues in those countries, I seem to have become aware of a certain pattern in Marxist thinking.

I say, deliberately, "seem to have become aware," because not being an expert on communism as such, nor on Marxism in general, it is quite possible that I have gotten off on a false track. I am going to spend a couple of months in China this summer and I shall do my best to check my ideas there.

For what it is worth, the impression I have is that in all these countries, for periods ranging from nearly 30 to more than 50 years, marxism has been the only respectable way of thinking. Some people are considered more expert, more professional in their marxism, but just about everybody counts himself a Marxist. When, therefore, there are disputes about either domestic or foreign policy, these are disputes among Marxists, over differing Marxist interpretations of facts and phenomena which everybody concerned thinks he is judging by Marxist standards. They are not disputes between proponents of rival ideologies.

That being so, when a man is accused of having gone wrong, the thrust of the accusation is that he is judged, by other Marxists, to have gone wrong as a Marxist; and the ultimate court of judgment is the whole body of the Marxists of that country.

I am very much impressed by the fact that in controversies in these countries it is only the leadership of each side that is attacked, and when the Chinese and the Russians quarrel they also attack each other's leadership, never the whole Russian people or the whole Chinese people.

I stress this point because, if I have managed to state the matter correctly, there must be an underlying assumption that below the mistaken or corrupt Marxist leadership there exists a mass following whose natural tendency is toward rational, scientific thinking, since marxism is, by the definition of its adherents, the only scientific method of political and economic thinking.

That being so, the assumption would continue; the Marxist logic revealed by unfolding events will reveal to Marxist minds the difference between erroneous and correct Marxist interpretations, and the misguided Marxist leadership will be thrown out. The conclusion can only be, if one thinks in this way, that neither the Soviet society nor that of China accepts as inevitable what used to be called the "arbitrament of war."

If a society saturated with Marxist thought has a built-in capability to correct its own errors, then why resort to preemptive strikes or massive confrontations? In short, I do not accept the legacy of cold war cliches. I do not believe that Russia and China can be counted on to save world capitalism by going to war with each other for the benefit of the United States.

Nor can I see that either country contemplates, even in its long-range thinking, any policy that directly menaces the United States. Why should they? Both countries have made their mistakes but neither has had to pay the full price for its mistakes because they have been showered with unearned profits from America's mistakes, particularly in Vietnam, from President Truman to President Eisenhower to President Kennedy to President Johnson to President Nixon.

As both the Peking and the Moscow summits have shown, neither China nor Russia needs to sell out Vietnam; nor do they need to fight each other. With Washington recruiting Communists and Communist sympathizers faster than it can bomb them to bits or burn them up with napalm, what Communist government could ask for a more valuable enemy?

Thank you.

Chairman PROXMIRE. Thank you very, very much, Professor Lattimore.

You say you plan to travel to China this summer?

Mr. LATTIMORE. Yes; I expect to spend August and September there.

Chairman PROXMIRE. In which you are going to have an opportunity to bring up to date some of the conclusions you give us this morning. If you could give us—send us a memorandum, a letter, on your trip, we would treasure it; it would be very helpful to us.

Mr. LATTIMORE. Thank you, sir. I will do that.

Chairman PROXMIRE. Fine.

You seem to feel that the prospect of Marxist revolution by force and violence, if necessary, is not coming off because it is not necessary. Our mistakes are so great in Vietnam and elsewhere, as you say, you feel, apparently, we are making a revolution possible by our mistakes; is that correct, a Communist revolution?

Mr. LATTIMORE. I think so, sir.

Chairman PROXMIRE. Well, can you give us a little more thought on how you would document this? Many of us are very deeply and strongly opposed to the Vietnam war. Some of us who supported it earlier changed our position. I am one of those; others have had a continuous opposition to it and think it is a tragic mistake; and I think there may be some effect in helping Communist recruiting.

But I wonder if in countries like Indonesia and others, if there is any real evidence of a turn toward Communism or if there isn't contrary evidence?

Mr. LATTIMORE. Indonesia, sir, is a country I have never visited any more than I have ever visited Vietnam, and I would hesitate to make pronouncements on such a country.

I think, in general, I would say this, that any country has a sovereign right to do everything it can to limit or restrict the spread of Communism. That is not the real question.

The real question is if you adopt methods intended to stop the spread of Communism and find those measures are creating Communists faster than you can kill them, then the sensible thing is to change the policy.

Chairman PROXMIRE. You feel this is taking place, it is one of the evidences it is taking place—in Vietnam this is what is happening? In spite of the application of an enormous military force, we have not been making any military progress for the longest war in American history?

Mr. LATTIMORE. Yes, sir.

Chairman PROXMIRE. So in that area we might very well be making Communists; but outside of that very immediate area are you applying this doctrine elsewhere or are you confining it primarily to Southeast Asia?

Mr. LATTIMORE. Primarily to Southeast Asia. In India, for example, I see no likelihood of a violent revolution.

Chairman PROXMIRE. Has the admission of China to the United Nations and the so-called New China policy of the administration led to changes of policy in Peking, in your view?

Mr. LATTIMORE. No, sir; I think the Chinese are still following their same policy; namely, they think that the tide is running in their favor. What is that saying I think attributed to Chairman Mao himself, that the east wind prevails over the west wind, and that all they have to do is to bide their time.

For example, they never petitioned to get into the United Nations; they simply assumed that the balance was turning in their favor. I agree with what was said yesterday, that the Chinese consider Taiwan a rather long-range problem and I don't see any likelihood of their attempting to take it by assault.

Chairman PROXMIRE. We have reports this morning that Chairman Mao is in very ill health and they seemed to be more authoritative than any reports we have had before. Do you see any change resulting with his departure?

Mr. LATTIMORE. When I heard that news over the air this morning, what instantly occurred to my mind was that in no great revolution have we ever been able to predict what would come after the maker of the revolution, nor has any maker of a great revolution ever been able to designate successfully his own heir. That was true of Lenin; it was true of Sun Yat-sen and, I think, it will be true of Chairman Mao.

Chairman PROXMIRE. Let's get a little notion of the possible parameters of that. Are you saying that with the death of Mao anything can happen, including a——

Mr. LATTIMORE. No, sir.

Chairman PROXMIRE (continuing). Dramatic change in the nature of the Chinese government? Could the Chinese Communist Party be overthrown or could it change so dramatically that it would be quite different?

Mr. LATTIMORE. No, sir; I don't think so.

I was very much impressed by something that Edgar Snow wrote several years ago, that there exist in China several elites; there is the oldest elite of the few surviving founding members of the Communist Party. There is the elite of the veterans of the Long March; there is the elite of those who fought in Korea and now there is presumably a new elite of those who successfully led the Cultural Revolution.

This means that there is, so to speak, no time gap because there is a succession of levels from which future leadership can emerge.

Chairman PROXMIRE. Well, you don't see any fundamental change in the nature of government, that it is going to be a Communist government, it is going to be a government which is very similar to the one that China has had in the past?

Mr. LATTIMORE. Yes, sir.

Chairman PROXMIRE. While there may be some changes in foreign policy—what do you see as the principal obstacle to better relations between this country and China after the Vietnam war is settled, recognizing that is the principal problem now? Is Taiwan the primary problem—the status of Taiwan?

Mr. LATTIMORE. I don't think so, sir. As I understand it, Taiwan is no longer a principal American base. There are a few American troops there, mainly of a service character rather than of an operational military character. In Taiwan, of course, one is talking in terms of the older generation; and if one is listening to rumors about the ill health of Chairman Mao, well, Chiang Kai-shek also is not going to be with us very many years more and there is a problem of succession within Taiwan also which would very likely lead to an upheaval within that island——

Chairman PROXMIRE. What are the problems then that you see as the principal difficulties between this country and China in developing friendship? Senator Scott yesterday was emphatic in saying that the Chinese people have liked us; we have liked them. We have had a natural friendship with the Chinese people that is extraordinary and is historical and is quite firm.

I remember Prof. Nicholas Spykman at Yale, where I had a course in geopolitics in which he argued that we were natural allies of the Chinese because of our geographical position. Do you see any obstacles in the way of this kind of an alliance developing other than the dramatic differences in our form of government?

Mr. LATTIMORE. No, sir; I don't see any likelihood of any preferential relationship between this country and China. I think that Americans have always tended to emphasize the spontaneous friendship between Americans as people and Chinese as people, but my experience always was that—for one thing—Americans tend to say we never were imperialists with regard to China like other nations—Britain, France, and so on.

My experience has always been that the Chinese thought of us as perhaps the principal imperialists. I remember the remarkable book written by Senator Foster, the grandfather of John Foster Dulles; it was called "American Diplomacy in the Orient," and it was written just after the American war with Spain and the occupation of the Philippines, just after the Boxer Rebellion in China; and Senator John W. Foster—ex-Senator, I think, at that time—toured the Far East and he said—he pointed out, for example, that America actually took the initiative in two of the principal features of the imperialistic

age in China; namely, it was the Americans who sponsored the idea of separate, privileged courts for Americans and Europeans, so that they would not have to appear before Chinese courts; and it was the Americans who initiated most-favored-nation treatment, so that while America did not demand concessions from China, it had the right to benefit from all the concessions demanded of China by other countries. And Foster quotes there a British observation that the Americans were getting more out of imperialism than any other nation, but getting it with less opprobrium than other nations.

Chairman PROXMIRE. My time is up.

Senator Javits has taken the initiative on this committee in asking us to inquire into the Chinese economy. He did that 5 years ago, and it was because of his initiative that I think the committee has put together one of the most comprehensive and far-reaching studies of the Chinese economy that has been done, certainly in this country. So we are very honored to have Senator Javits, the ranking Republican member of this committee, here this morning.

Senator Javits.

Senator JAVITS. Thank you very much, Mr. Chairman.

Professor Lattimore, what do you see as the future of mainland China? Do you see it as a great industrial power? Do you see it, as it were, an empire turned in upon itself? Where do you see it going?

Mr. LATTIMORE. The basic facts, Senator, I think, are that China is enormous in area, highly diversified in the raw materials of industry within its own territory; it has the capacity to carry on any form of modern industrial or other activity and, therefore, does not need to turn outward either for the acquisition of raw materials or even for trade.

China is one of the most self-sufficient countries in the world, but I think that one thing that one finds after a revolution, any revolution, in any country, is that the new regime does not want the people to feel that the price of the revolution includes any loss of national territory. Therefore, the Chinese will claim the maximum frontiers ever attained by previous empires or regimes in China; but, traditionally, the Chinese do not have a history of colonial expansion.

Senator JAVITS. Either economic or political and military?

Mr. LATTIMORE. Either economic or political-military.

Senator JAVITS. So do you feel, therefore—is it fair to say—that such economic—using the most polite word—reconstruction or development as can take place in that great Asian hemisphere and in Indonesia and so on, is likely to be sparked, and I use every word advisedly, by Japan rather than mainland China?

Mr. LATTIMORE. Just a year ago, Senator, I was in Japan for a couple of weeks, not only lecturing but also having most interesting meetings with academic groups and with important groups of businessmen; and they were all talking about the pending changes in relations between Japan and the United States, the return of Okinawa, one thing and another; and I found a very strong sentiment among businessmen, too, against making Japan once more an important military or naval power, that they felt that the soundest future for Japan is to apply Japan's high technology to the aid of development in the undeveloped and underdeveloped parts of the world.

One subject of great concern, for example, was can Japan take part in the development of eastern Siberia in such a manner as not to

be accused by China of taking a pro-Russian position? Answer: The only possible method is to try simultaneously to take part in the development of China in such lines of development that Japan cannot be accused of trying to build up China against Russia.

Senator JAVITS. So your answer, I gather, would be in the affirmative?

Mr. LATTIMORE. Yes.

Senator JAVITS. In terms of sparking economic development in all of that part of the world, it is likely to be Japan rather than China?

Mr. LATTIMORE. I think so, although it is really remarkable how the Chinese have been able to find considerable sums to devote to development in other countries. I suppose the most notable one is the great copper belt railway, the Tanzanian railway; but they have also participated in development in other countries, and they have been careful to do it in such a manner that it does not result in a backflow of profits on the enterprise payable to China. This, for instance, is one thing that plagues us all over Latin America, that the return of profits and dividends and so on threatens to or actually begins to exceed the input of fresh aid.

Senator JAVITS. I agree; and, of course, our big challenge is how do you plow it back intelligently with fairness to the people of the United States, too.

One other point: Looking in the same direction and kind of drawing, as it were, on your great experience and study, what do you see between mainland China and the Soviet Union? Do you see it erupting into war inevitably as some tragedy precisely because of the need to assure a nondeprivation of territory, to wit: the whole Mongolian border? Do you see a rapprochement between the two Communist giants, or do you see a modus vivendi?

Mr. LATTIMORE. Sir, I was in Siberia, eastern Siberia and Mongolia, successively, in 1969, 1970, 1971, spending never less than a month at a time, and traveling considerably; and this was at a period when our papers were all excited about frontier clashes and so forth, and yet I never found either country more completely relaxed.

One thing that very few people know about is that in 1964–65, the Mongols and the Chinese carried out a complete resurvey and delineation of their frontiers and signed a protocol on it which includes a mechanism for local settlement of local incidents so that they don't escalate back toward the capitals of both countries, and I asked the Mongol who was telling me about this—I said—of course, Mongolia is a huge country in territory but very small in population, less than a million and a half—I said, "It must be very difficult negotiating such a treaty with a country as powerful as China." And his answer was that, "Of course, it is tough, but because it is tough, if both countries seriously do not want a settlement by war, then because it is tough you can gradually negotiate a settlement satisfactorily to both."

Senator JAVITS. Thank you, Professor.

I have just one other question, with the chairman's permission—I think I have a minute or two.

I noticed with great interest the following statement in your statement:

Yet the stark, staring, naked truth is that today, under President Nixon, America is for the first time trying to deal with both China and Russia from a position of weakness. Only the agile histrionics of the President and Mr. Kissinger distract attention from the fact that the Emperor has no clothes.

It is America's growing weakness, and especially defeat in Vietnam. . .

Could you tell us what you pin that statement on, on substantive facts? What is America's position of weakness and growing weakness, the two key phrases in your statement?

Mr. LATTIMORE. The basic weakness, sir, I think, is the catastrophe of the Vietnam war. The move toward winding down the war by withdrawing American troops and trying to Vietnamize the South Vietnamese Army was obviously a failure and obviously the whole thing would collapse without American air power.

In order to disguise this defeat, it seems to have been thought advisable to put on some theatrical displays in foreign negotiations. I think it is extremely interesting that there is no sign of the Chinese having put out any feelers. It was the administration here that sent a secret emissary to China, and the Chinese attitude was, "Well, yes, we will talk to anybody. Let him come; we will talk to him."

But I think already the gloss is rubbing off there. It was a wonderful opportunity but once more, as the Chinese indicated to Senators Mansfield and Scott, no genuine improvement is possible until the Vietnam war is settled; and the Chinese have not offered to be intermediaries; they have not said a word about discontinuing their aid to Vietnam; they are simply standing pat. "Let America arrange its own defeat as decently as it can."

Senator JAVITS. So the essence of your statement about weakness relates to the Vietnamese quagmire and our inability to get out of it, or, even as you put it, defeat in Vietnam, although I don't accept that because I never considered it our war, rather than some substantive, intrinsic weakness in America's capability to act as a great power?

Mr. LATTIMORE. Of course, our capability to act as a great power is affected already and it is increasingly affected by the poison of the Vietnam war feeding back into our economy and into our society. The return to this country of thousands and thousands of young men who have been trained to violence and to violence which appears to them to be senseless—they come back here and they are turned off by the fact that America is not an ideal country for a disillusioned veteran to return to; thousands of them are affected by drugs.

In the youthful generation of our society this is a terribly threatening phenomenon.

Senator JAVITS. Thank you, Professor.

Thank you, Mr. Chairman.

Chairman PROXMIRE. Can I ask you, Professor Lattimore, if as you say the China and Moscow trips were simply histrionics to take the mind of the world or the country off the Vietnam war, then how do you view what I consider some substantive achievements by the administration which I have praised and which I think we have to acknowledge: (1) the admission of China to the United Nations; (2) an obvious opportunity for more normal relations with China; (3) a whole series of agreements with the Soviet Union—space, health—I am not sure about the arms agreement because we have to examine that pretty carefully; it may result in a further arms race; but it could also be a substantial achievement?

It seems to me to characterize this as histrionics may be unfair to you; maybe that is not all you mean. Maybe I am going too far in saying that is all you characterize these agreements to be.

Mr. LATTIMORE. No, sir; I don't characterize these agreements as histrionics. I think they are sound agreements and very desirable, but they have all been led up to through ordinary channels of negotiation. The histrionics are simply in going to Moscow to sign them as if they couldn't have been achieved without this display.

As for the admission, America's part——

Chairman PROXMIRE. Well, now, let me just pause there.

It seems to me going to Peking and going to Moscow were both very important, and especially going to Peking. The fact that the President of the United States visited mainland China, I think, was an extraordinary action and, it seems to me, it is more than histrionics or show play by the President. The fact he goes there and talks with the Chinese, I think, has had a dramatic effect on the public opinion of the country and the prospects of our achieving an attitude in the Congress and in the public and in the press that makes it realistically possible to achieve better relations with China.

Do you disagree with that? Could we somehow have done this without the President—you think the President was wrong to go to China?

Mr. LATTIMORE. No, sir; I don't think he was wrong, but mutual recognition of this kind could also have been achieved through normal channels, and one must not——

Chairman PROXMIRE. I wonder if they could? That trip, as I say—I have been a critic of the President; I didn't vote for him and I wouldn't vote for him again. I disagree with him deeply in may respects; but it seems to me this was a contribution, a substantial contribution which we have to recognize in fairness to peace in the world and to better relations with an enormously important country.

Mr. LATTIMORE. That is true, sir; but one must also remember the effect, especially on China's neighbors in Asia. For them this is a reversion to the ancient tradition that China is the center of culture and civilization and that foreign sovereigns are admitted to China to pay their tribute to the ruler of China, but he does not have to go abroad to cultivate them.

Chairman PROXMIRE. Well, it is recognized the Chinese do have the largest population in the world.

Mr. LATTIMORE. Yes.

Chairman PROXMIRE. We have had good relations, by and large, with India. The President has visited—has the President visited India? He has not. Well, I think maybe you have a point in that connection. And with respect to Moscow, once again it seems to me that it is true, of course, we could have ratified all this and it could have been publicized, but I think the President's trip dramatized this in a way which achieved a much stronger and deeper public degree of understanding than if he had not gone.

Let me ask you this: Do you feel that China feels threatened by the U.S.S.R., by Japan, by the United States? Why does she have a nuclear program? Here is a country which, regardless of what we may acknowledge in China's size and strength, has enormous economic problems. We had a witness yesterday, an expert witness, who said the statistics are just overwhelming she cannot feed her people as well now as she could in 1957, because of the increase in population.

She can't clothe her people as well as she could in 1957, and yet she has a nuclear program, very expensive. Why?

Mr. LATTIMORE. For several reasons, Senator. One is that if the atomic menace to the world as a whole is to be held back by the so-called balance of terror, then China, as one of the three most powerful countries in the world, at least potentially, is entitled to have its deterrent as well as others, as well as the U.S.S.R. and the United States of America, not to mention Britain and France.

Again, for China, this is a demonstration that the Chinese can achieve, without external aid, the highest levels of technology and science.

Chairman PROXMIRE. Is this also an expression of concern about whom—about the U.S.S.R., about the United States or about both?

Mr. LATTIMORE. Not necessarily concern in the form of fear that they will be attacked but, as I said before, that if there is a balance of terror, then China is big enough to be in on the balance.

Chairman PROXMIRE. Professor Lattimore, your position on the cultural revolution seems to disagree with that of some of the other experts who testified before this committee. They—most of them—regard that as an economic setback. You seem to indicate that you feel the cultural revolution constituted a useful and necessary development in Communist China.

Mr. LATTIMORE. No, sir; I don't know enough about the subject to presume to say that the cultural revolution was either necessary or unnecessary; this is one of the subjects in which I am going to be intensely interested when I go to China; but I think the worst thing that a man like me, with a lifetime association with China, could do is to shoot off his mouth too much in advance of going to the country. I am going there to learn.

Chairman PROXMIRE. I am sorry; I missed that, sir.

Mr. LATTIMORE. I say, I don't want to make weighty pronouncements on the internal condition of China before going there. It is my turn to go there and try to learn something.

I do think that both with regard to the cultural revolution and the great leap forward that there is too much of a tendency, partly because we don't have contact, to oversimplify. Everybody wants to know was it a failure; was it a success; and nobody considers the possibility that it might have been partly a failure and partly a success.

I have on my staff in Leeds—or I did; I am retired now—two or three people who spent a couple of years each in China in the period just before and just at the beginning of the cultural revolution. They were holding Chinese Government jobs. Two were teaching English and one was working as a translator in the Chinese international publishing house; he translated the memoirs of the Manchu Emperor, the so-called Boy Emperor.

Now, one of these people said to me—they all spoke Chinese fluently—that when she was traveling on her regular paid vacation she constantly came to places where she was astonished to find that they had things which she had not anticipated that China could have so early, and she would ask them about it and they would say, "Oh, yes, that was something we learned to do during the Great Leap Forward," which everybody says was a catastrophe. Somehow people

find it difficult when they oversimplify to distinguish between a failure and a shortfall. You can fall short of your total objective and yet gain a great deal.

Chairman PROXMIRE. Senator Javits.

Senator JAVITS. I had just one other point, Professor Lattimore, which came also out of your statement, and it is a counterpart, as it was to the one about U.S. weakness; in which you say:

"Both countries," to wit: the U.S.S.R. and mainland China—have made their mistakes, but neither has had to pay the full price for its mistakes because they have been showered with unearned profits from America's mistakes, particularly in Vietnam.

Now, you have explained America's mistakes, in Vietnam and unhappily and sadly for all of us, I feel very strongly that way, but you have not stated what you consider to be the mistakes of the two Communist giants. Could you tell us that?

Mr. LATTIMORE. In the case of China, they certainly have made mistakes, some of which have been admitted by Chairman Mao, of trying to get to the objective too fast, and their collectivization program and their communes program have had to be modified. But none of the mistakes have led to a permanent dissatisfaction or disillusionment among the people. China still has a Government which is—we don't have statistics—but is visibly supported by a higher percentage of the population than any Government of China in living memory.

The Russians have also made their mistakes. I should say in my personal opinion; I am not an expert on the facts, but my personal opinion would be that the Russians were more drastic than the situation called for both in Hungary and in Czechoslovakia. Possibly the Russians have been drawn into the politics of the Arab world more deeply than they would themselves consider desirable; that is a possibility.

I am not speaking as an expert here but merely as an external observer; but, nevertheless, they have been able to recover.

I think perhaps one of the most dramatic things is that after the extreme hostility toward Marshal Tito's Yugoslavia and Marshal Tito personally, suddenly we have Marshal Tito made a hero of the Soviet Union. It has taken a long time, but they have been able to recover; and I don't think they would have been able to recover so completely if it had not been for America's mistakes.

Senator JAVITS. Now, I notice also immediately preceding this statement, which I have read, another statement by you which interests me in the light of what you have just said.

You say:

Nor can I see either country—to wit: the U.S.S.R. or the People's Democratic Republic of China—contemplates even in its long-range thinking any policy that directly menaces the United States. Why should they?

As a practical matter, don't you regard the very adventure in respect of the Arab countries and the highly extensive domination by the Soviet Union of those oil-producing states as being quite a wanton menace to the United States, to Europe, to Japan, in terms of their fuel supplies—and I say wanton because what would be the reason for it other than just to cause them trouble? The Russians have all the oil they need.

Mr. LATTIMORE. There, Senator, one comes up against the fact that there are a number of countries which are economically badly underdeveloped but have one great raw material resource; namely, their oil and the obtaining of this oil is an international game, and international competition; and ever since the end of the last war a basic attitude of the Russians seems to me to have been that speaking not as Communists but as a great power they are entitled to participate in anything that great powers participate in.

Senator JAVITS. Including international games?

Mr. LATTIMORE. Including such things as access to oil.

Senator JAVITS. The games people play. So you can't yourself think of any better reason for the Russians to dabble around in the Middle East except it is the games big nations play?

Mr. LATTIMORE. Any better reason? It is not necessarily a bad reason, I think, Senator.

Senator JAVITS. Thank you, sir.

Chairman PROXMIRE. Professor Lattimore, I want to thank you once again, and I want to repeat what I said. You corrected me when you said you were not hounded out of the United States by my predecessor, Joe McCarthy, but I do feel you are a distinguished scholar; you have demonstrated that, in my judgment, once again here this morning and we are very grateful to you for the fine record you have made, for your statement, and we thank you.

Mr. LATTIMORE. Thank you very much, Senator.

May I just add one word? I remember lecturing once at Haifa in Israel and the man who introduced me spoke of me as a victim of McCarthy. I interrupted him and said: "Excuse me; you are wrong there. If you survive you are not a victim." And the Israelis appreciated that. [Laughter]

Chairman PROXMIRE. Thank you very much.

Our next two witnesses—and I am going to ask both of them to come forward together, if they would—Prof. Joyce Kallgren, one of the distinguished scholars who earned her doctorate in the Harvard program on East Asia, is currently deputy director of the Center for Chinese Studies at the University of California in Berkeley. Among her publications is one entitled "Quality of Life of the Average Chinese Citizen."

Prof. Yuan-li Wu is in the department of economics at the University of San Francisco and serves as a consultant to the Hoover Institute. Professor Wu was Deputy Assistant Secretary of Defense for International Security Affairs. His doctoral work was completed at the University of London. As with his contribution to the committee's 1967 volume, most of Professor Wu's publications have been on the Chinese economy. Now, however, he is engaged in research on a broader theme relating to the Nixon doctrine and the security of the western Pacific.

Professor Wu, if you would like to go ahead. I think you may have been present when we announced our rules here. I know professors have a 50-minute habit but we have a 10-minute clock and we would appreciate it if you would confine your remarks to 10 minutes so we can then move to Professor Kallgren and then go into questions.

STATEMENT OF YUAN-LI WU, PROFESSOR, DEPARTMENT OF ECONOMICS, UNIVERSITY OF SAN FRANCISCO; CONSULTANT, HOOVER INSTITUTION; AND FORMER DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR INTERNATIONAL SECURITY AFFAIRS

Mr. WU. Yes, sir; I have submitted a prepared statement.

Chairman PROXMIRE. Fine; the entire prepared statement will be printed in full in the record.

Mr. WU. I will merely give you the highlights of some of my comments.

Chairman PROXMIRE. Fine.

Mr. WU. I believe that the recent study on Chinese economy can be best read in conjunction with the two-volume study of 1967. I have no particular quarrel with the general thrust of the evaluation of the papers' expert authors. I have just heard a previous witness say that American experts apparently are not as good as some others, but this is hardly the time or place to debate details.

However, studies like these always have to be read with special care and with the caveat of possible misinterpretation. There is a tendency to make deductions that are not perhaps warranted.

The first point I would like to make is that the time series of output index, such as the GNP index, does not lend itself to easy shorthand international comparisons.

For instance, the GNP series presented in the study is, in my view, really more an index of relative performance over time than a reliable measure of the size of Chinese output in any given year. One can speak thus with much more confidence, for instance, that China's gross national product in 1970, was probably about 20 percent higher than that the Chinese GNP in 1968, was $100 billion and in 1970, was $122 billion. All this has been made quite clear to the reader who painstakingly goes through the step-by-step derivation of the GNP estimates of the study, but not many readers, I suppose, are likely to do that. It is tempting to draw conclusions about relative capability after noting, for instance, that the Chinese GNP per capita for in 1970, was only 3 percent of that of the United States, ignoring the moment the uncertainty surrounding the actual size of the population.

The second point I would like to make has to do with the characteristics of the economy of the P.R.C. I think these characteristics are, as the authors rightly point out, resilience and fluctuations. I believe that the Chinese economy has exhibited a remarkable degree of resilience during the past 22 years, but it is far too early to conclude that the reported improvements in production during 1970 and 1971, constituted a long-term shift of economic policy toward pragmatism or that orderly national economic planning has already resumed in full swing.

It may be more correct to say that a strenuous effort is being made under Chou En-lai to become more pragmatic and to engage in more rational planning. However, the effort has only just begun and it will take more time before the dismantled planning machinery and statistical reporting system and the banished and downgraded planners

and managers of the economy can be brought together to plan and regulate the entire economy with effectiveness. Only then can we hope to discern the direction in which the economy is going.

For the moment, one might speculate that the central authorities in Peking probably control little more than what one would call the commanding heights of the economy, in particular, the heavy capital goods and producer goods industries that are mostly related to defense.

There is a local industry drive and a high degree of decentralization seems to prevail. However, these moves are not just by choice; they may also be a matter of necessity. Ironically, the inability of the central authorities to engage in very rigorous control of the economy may have had the advantage of enabling the population both to produce and to consume more than they would otherwise be able to.

I turn next to the question of resource allocation and especially the matter of investment and defense.

If, as in the illustrative sketch used in the study, 18 percent of the GNP is allocated to investment in any one year, and given the 4 percent long-term rate of growth, there is an implied incremental output ratio of 4.5. The investment of 18 percent would then be just sufficient to provide for an improvement in per capita consumption in the following year at a little over 3 percent, if there is a population growth of 2 percent.

But this is based on an assumed incremental capital output ratio of 4.5. Now, if we were to use a ratio of 3, which is quite common to underdeveloped countries, or 2.3, which is the one derived for China (in 1952–57) from one of the papers of the 1967 Committee study, then even at a 5-percent improvement in per capita consumption the amount of investment necessary for that purpose would not be as high as 18 percent, and there would be a "surplus," so to say, that could be allocated to defense. In other words, defense could then be not 10 percent but easily 13 percent or 16 percent, and so on.

This is to illustrate how the percentage figures could change quite readily and that to assume that 15 percent is perhaps the ceiling for defense may be unwarranted.

But a more important point is whether a rigid and clear distinction can or even should be maintained when we explore the implications of GNP allocations by end use for China's defense effort and future economic development. Is the construction of a plant in any given year for making tanks or weapons carriers that later can be converted to the production of civilian vehicles or other machinery for civilian use an allocation to investment in that year, or is it an allocation to defense? Do we include under the GNP allocation to defense only the current maintenance of the Armed Forces and the production of end items that have no civilian application? How about the construction or expansion of plants for weapons production? Chinese arsenals are not always distinguishable from Chinese machine manufacturing plants, and vice versa. The issue is not purely semantic because it touches on the coordination of China's strategy of economic development with its defense planning.

A defense program that stresses the current expansion of defense plants rather than end items could be simultaneously expanding the potential base of production for the civilian sector in the future. Not every kind of defense spending is at the expense of future economic

growth. How soon China can switch its growing capital stock, expanded originally for defense, from defense orientation to the civilian sector is, of course, a function of Chinese policy in the future.

It suffices in the present discussion to point to two things: that is, the risk of drawing wrong conclusions on the basis of (1) an apparently relatively small allocation of the GNP to defense and (2) the opportunity cost of defense to Chinese economic development if we only look at the end-use allocation pattern very statically.

Next, I would like to note in passing that the assumption that 72 percent of the GNP is allocated to personal and governmental consumption, excluding defense, should not be taken too literally. The actual allocation to personal consumption may be smaller and it can perhaps be reduced, at least in the short run.

In discussing Chinese defense potential, another caveat for the unwary is that the cost of weapons systems should be derived in a manner consistent with the pricing of the GNP estimates. If weapons costs are translated into Chinese terms in one way, for instance, by converting non-Chinese costs into Chinese currency units in some aggregative manner, while the GNP is derived in a different manner in terms of its pricing, we may obtain quite misleading impressions about China's ability to bear the burden of certain sophisticated weapon programs and of force modernization.

If I may just take one more minute to wind up, if Peking can successfully utilize its economic potential to the full, and if it focuses its immediate attention on a small number of objectives, it should be able to expand its nuclear arsenal and modernize its conventional forces steadily. Nor should we overlook the possibility that China may decide to take technological paths in weapons development that bypass some of the stages other nations have traversed. Such an approach would be quite consistent with China's past policy on R. & D.

Finally, this does not mean that China poses a direct military threat to the United States at present. If there is any threat it is more indirect and it is more political.

Thank you.

(The prepared statement of Mr. Wu follows:)

PREPARED STATEMENT OF YUAN-LI WU

The 10 papers brought together in the volume, *People's Republic of China: an Economic Assessment*, contain a fair summary of available information on Chinese economic development since the "Cultural Revolution," especially if they are read in conjunction with the two volume study issued by the Committee in 1967. They provide the reader with an evaluation of the PRC's past record of economic performance, as well as its current economic profile. I have no particular quarrel with the general thrust of the evaluation of the papers' expert authors, and this is hardly the time or place to debate details. However, studies like these always have to be read with special care and with the caveats of possible misinterpretation in mind. They may not warrant deductions that one may be tempted to make.

I. THE TIME SERIES OF OUTPUT INDEX DOES NOT LEND ITSELF TO EASY, "SHORT HAND" INTERNATIONAL COMPARISONS

To begin with, it should be noted, for instance, that the GNP series, as presented in Table 3 (page 5), is really more an index of relative performance over time than reliable measure of the size of Chinese output in any given year. Thus, one can speak with much more confidence that China's GNP in 1970 was probably about 20% above that of 1968 than that it was 100 billion dollars in 1968 (at 1970 prices) and 122 billion dollars in 1970. All this has been made clear to the

reader who painstakingly goes through the step-by-step derivation of the "GNP estimates" in Appendix A (pp. 41–43), but not many readers, I suppose, are likely to do that. Actually, the derivation of the Chinese GNP for any given year involves the use of a geometric mean of two separate estimates, one based on valuation at Chinese prices and the other at dollar prices. One can of course construct a GNP index in this manner, especially if one wishes to arrive at a single value. I am not sure, however, what it means if, for instance, one then compares the 1970 Chinese GNP at 145 dollars per capita with that of the United States, estimated at United States prices and by a different process, at 4800 dollars per capita. We have to remember that we are dealing with orders of magnitude. However, it is tempting to draw conclusions about relative capability after noting that the Chinese GNP per capita in 1970 was only 3% of that of the United States, ignoring for the moment the uncertainty surrounding the actual size of the population. To do so could be quite misleading.

II. TWO CHARACTERISTICS OF THE PRC ECONOMY: FLUCTUATIONS AND RESILIENCE

I share with the authors of the papers what seems to be their general conclusion that the Chinese economy has exhibited a remarkable degree of resilience in the last 22 years. It has successfully recovered from two major setbacks, first from the aftermath of the "Great Leap Forward" and then again from the Red Guard excesses during the more recent "Cultural Revolution." I am not sure, however, that the available data justify the generalization that there is some inherent tendency for the amplitudes of the swings in output to be unfailingly held in check by certain institutional forces that would prevent extreme orders from Peking to be fully carried out in the entire country. This happens, but not necessarily. The crisis brought on by the Great Leap Forward was at least in part a result of the unthinking, but zealous implementation of impractical and extreme orders issued from Peking. During the major setback in the "Cultural Revolution" there was probably less physical damage to capital equipment than there was disruption of production and transportation which reduced current output, but averted long-term damage. However, the "restraint" exhibited should not be interpreted necessarily as progress in the learning process of economic planning. It is also far too early to conclude that the reported improvements in production during 1970 and 1971 constituted a long-term shift of economic policy toward pragmatism or that orderly national economic planning has already resumed.

It may be more correct to say that a strenuous effort is being made under Chou En-lai to become more pragmatic and to engage in more rational planning. However, the effort has barely begun and it will take more time before the dismantled planning machinery and statistical report system and the banished and downgraded planners and managers of the economy can be brought together to plan and regulate the entire economy. Only then can we hope to discern the direction the economy will take.

For the moment, one might speculate that the central authorities in Peking probably control little more than the "commanding heights" of the economy, in particular, the heavy capital goods and producer goods industries that are mostly related to defense. There is a "local industry" drive, and a high degree of decentralization seems to prevail. However, these moves are not just by choice, they may also be a matter of necessity. Ironically, the inability of the central authorities to engage in very rigorous control of the economy may have had the advantage of enabling the population both to produce and to consume more than they would otherwise be able to.

III. RESOURCE ALLOCATION: INVESTMENT AND DEFENSE

While the economic recovery during the last two to three years does not yet justify any definite conclusion about China's long-term economic system and policy and Chinese planners may repeat their errors in areas where their writ runs, it would be a mistake to assume that the Chinese potential is not quite high or that the Chinese defense effort cannot be very substantial both relatively to the Chinese GNP and in the absolute sense. More often than not Peking's economic problem is its inability to utilize all its available sources without sharp disruptions. The potential capacity and resilience of the economy are both quite remarkable.

The potential of the economy, and especially that of the defense sector, can be illustrated with an example. Consider the "illustrative sketch" (p. 45) of the allocation of Chinese GNP to different end-uses. The example given in the study suggests that 70% of the country's GNP may be devoted to personal consumption and 2% to government consumption or administration, excluding defense.

The remaining 18 and 10% are allocated to investment and defense respectively. Let us inquire what would happen if we begin with such an allocation in a given year.

First, if the population grows at 2% a year, personal consumption would have to expand at the same rate in order to keep per capita consumption unchanged. Some additional allocation of output to consumption would have to be allowed if per capita consumption is to improve. In terms of the percentage points of base year output, the following increments would be required:

	Personal consumption and Government administration (in percentage points of GNP of the base year)	
	Total	Increment
Personal consumption in the base year	72.0	
Personal consumption in the following year at 2 percent annual growth of the population:		
Zero improvement in per capita consumption	73.4	1.4
1 percent improvement	74.2	2.2
2 percent improvement	74.9	2.9
3 percent improvement	75.6	3.6
4 percent improvement	76.4	4.4
5 percent improvement	77.1	5.1

In order to produce the increment in the consumption over and above the level of the base year, let us assume that new investment is required and that some of the investment in the base year needs to be earmarked for this purpose. How much depends upon the types of goods produced, the technology adopted, the "construction period" required for new plants, etc. Allowing for a one-year lag between investment and incremental output, the 18% allocation to investment assumed in the "illustrative sketch" and the 4 percent long-term GNP growth rate assumed in the same text (p. 8) would give us an implicit incremental capital-output ratio of 4.5, meaning that for every single percentage point of increment in output, 4.5% points of output must be devoted to investment. On the other hand, we could take other ratios, such as 1 to 2.3, which was developed for China for the 1952–57 period in one of the papers in the 1967 study issued by the Committee (*An Economic Profile of Mainland China*, vol. 1, p. 126), or, say, a ratio of 1 to 3, used sometimes in textbooks on economic development. We can derive in this manner an estimate of the amount of investment required to sustain the assumed increment in consumption at various rates of improvement. If the investment required is then subtracted from the 18% of GNP alloted to investment in the base year, the remainder, or, more precisely, the amount of "allocable surplus" represented by the remainder, would be available for either (1) investment in order to expand the country's productive capacity for non-consumer goods, including defense-related products, or (2) without adversely affecting the supply of consumer goods required during the following year, the production of end-products for defense purposes.

If this process is followed through, we should find that the amount of investment required to provide for the increment in consumption, expressed in terms of percent points of the base year GNP, is as follows:

Incremental capital-output ratio	4.5	3.0	2.3
Investment required in the base year:			
At 1 percent improvement of per capita consumption in the following year (in percent points of the base year GNP)	9.8	6.5	5.0
At 2 percent	13.1	8.7	6.7
At 3 percent	16.4	10.9	8.4
At 4 percent	19.7	13.1	10.1
At 5 percent	23.0	15.3	11.8

It can be seen that if the 18% of the GNP is allocated to investment in the base and if the incremental capital-output ratio is 4.5, the investment would just be sufficient to provide for an improvement in per capita consumption in the following year at a little over 3%, assuming a natural population growth rate of 2% a year. On the other hand, if the incremental capital-output ratio is 3 or 2.3, even at 5% improvement in per capita consumption, an 18% allocation of the GNP to investment in the base year would leave 2.7% points (18–15.3) and

and 6.2% points (18–11.8) respectively as what we have called the "remainder" or "allocable surplus." If this "allocable surplus" is fully assigned to defense, the proportion of defense in the base year GNP would rise from 10% of the "illustrative sketch" to 12.7% and 16.2% respectively. This range is consistent with the 15% suggested in the study (p. 45) although it tends to raise the question whether 15% should be regarded as the probable ceiling in China's GNP allocation to defense.

A more important point is whether a rigid and clear distinction can or even should be maintained when we explore the implications of GNP allocations by end use for China's defense effort and future economic development. Is the construction of a plant in any given year for making tanks or weapons carriers that later can be converted to the production of civilian vehicles or other machinery for civilian use an allocation to "investment" in that year, or is it an allocation to defense? Do we include under the GNP allocation to defense only the current maintenance of the armed forces and the production of end items that have no civilian application? How about the construction or expansion of plants for weapons production? Chinese arsenals are not always distinguishable from Chinese machine manufacturing plants, and *vice versa*. The issue is not purely semantic, because it touches on the coordination of China's strategy of economic development with its defense planning.

A defense program that stresses the current expansion of defense plants rather than end-items could be simultaneously expanding the potential base of production for the civilian sector in the future. Not every kind of defense spending is at the expense of future economic growth. How soon China can switch its growing capital stock, expanded originally for defense, from defense orientation to the civilian sector is, of course, a function of Chinese policy in the future. It suffices in the present discussion to point to the risk of drawing wrong conclusions on the basis of (1) an apparently relatively small allocation of the GNP to defense and (2) the opportunity cost of defense to Chinese economic development if we look at the end-use allocation pattern statically.

One should note in passing that the assumption that 72% of the GNP is allocated to personal and government consumption (excluding defense) should not be taken too literally. The actual allocation to personal consumption may be smaller and it can perhaps be reduced, at least in the short run. In this respect estimates by different authors and for different periods vary. A smaller personal consumption allocation would increase the potential for "investment *cum* defense."

In discussing China's defense potential, another caveat for the unwary is that that cost of weapons systems should be derived in a manner consistent with the pricing of the GNP estimates. If weapons costs are translated into Chinese terms in one way, for instance, by converting non-Chinese costs into Chinese currency units in some aggregative manner, while the GNP is derived in a different manner in terms of its pricing, we may obtain quite misleading impressions about China's ability to bear the burden of certain sophisticated weapons programs and of force modernization.

The preceding comments should not, however, be construed as an estimate of a very large actual Chinese defense program at a relatively low cost to China's future economic development. The comments are intended to demonstrate (1) the many pitfalls in interpreting certain statistics and the necessarily incomplete observable events in China and (2) the possible, even probable, existence of a large Chinese potential. However, the potential may not be fully realized at a given time. Past under-full utilization of resources can perhaps be explained by specific deficiencies in technology, specific shortages in some industries, planning and management errors—often a result of ideological blinkers and political errors—and, more recently, the possibility that the writ of the central authorities does not run in the country as a whole or in every segment of administration, and at all levels of control.

IV. DIRECT VERSUS INDIRECT CHINESE THREAT

If Peking can successfully utilize its economic potential to the full and if it focusses its immediate attention on a small number of objectives, it should be able to expand its nuclear arsenal and modernize its conventional forces steadily. Nor should we overlook the possibility that China may decide to take technological paths in weapons development that bypass some of the stages other nations have traversed. Such an approach would be quite consistent with China's past policy on R & D.

Yet all this does not mean that China will necessarily pose a direct military threat to the United States, at least in the next few years, or as long as the present

level of distrust exists between Peking and Moscow. This conclusion is not based on the assumption that China has turned inward to nation-building. It is based on the belief that China has assigned the utmost priority to the acquisition of effective military and political deterrents vis-a-vis the Soviet Union. For both political and military reasons China simply has to relegate the United States to the role of a "secondary enemy," at least for the time being. The central authorities of China, in my view, do not have the necessary degree of control or the necessary command of resources to do otherwise.

However, there is not only a potential direct threat in the future, but there is an indirect threat at present. The indirect threat lies in the possible misinterpretation by other countries of the policy, current capability, and internal strength of China and especially of United States policy toward China under the Nixon Doctrine. If other nations, especially but not only Japan, should believe that the United States is withdrawing its interest in Asia, conceding a sphere of influence to China, and this because of the deterioration of America's power vis-a-vis that of China, they most likely will seek other options for their own security than relying upon the United States. Some of these options may change the entire political, economic, and strategic environment for United States policy. Such an indirect present threat is quite real.

Finally, one should point out that the state of Sino-Soviet relations is a most important parameter, while assuming that Sino-Soviet distrust will continue for some time at a level sufficient to prevent the adoption, on a broad front, of parallel Chinese and Soviet policies adverse to the United States, one must nevertheless expect changes in Chinese leadership and possible changes in Chinese policy even without personnel shifts. Few people had predicted the breach of the close relations between Moscow and Peking before it actually occured. Few recognized the breach until quite some time after it had occurred. The risk of some mistaken perception of the future must be acknowledged by keeping available other options than the one currently being followed. It is important that the American public be mindful of these uncertainties.

Chairman PROXMIRE. Thank you very much.

Mrs. Kallgren, please proceed.

STATEMENT OF JOYCE K. KALLGREN, ASSOCIATE PROFESSOR OF POLITICAL SCIENCE, UNIVERSITY OF CALIFORNIA AT DAVIS, AND DEPUTY DIRECTOR, CENTER FOR CHINESE STUDIES, UNIVERSITY OF CALIFORNIA AT BERKELEY

Mrs. KALLGREN. I think the Joint Economic Committee has performed an important service in commissioning and publishing the economic studies contained in the "People's Republic of China: An Economic Assessment," and I went to thank you for it.

I would like to offer a few brief comments. Speaking as a political scientist, I do this without criticism but, rather, to highlight some political aspects that are noted but I do not think highlighted in the report.

The first of my comments relates to the grave problem of providing reasonable well-being for China's enormous population.

The problem includes food, clothing, housing, health, and other basic amenities of an increasingly modern society. Its dimensions are indicated, though not defined, by the fact that various sources in this compendium of papers estimate China's population as ranging from a minimum of 750 million to a maximum of 875 million.

Any meaningful discussion of China's prospective ability to cope with this problem requires simultaneous appraisal of China's efforts toward population control, and this was made by John Aird's valuable paper, "Population Policy and Demographic Prospects in the People's Republic of China." He points to evidence that the headway

so far made in declining birth rates is being offset, or more than offset, by declining death rates. He concludes, essentially, that a lowered rate of population increase is not likely to be achieved until the 1980's.

This appraisal may well be correct. It is certainly true that the inertia, conservatism, and low literacy of rural societies have usually acted to limit effective birth control programs. The success of birth control in developing societies has seemed to have correlation with literacy and urbanization. I suggest, however, that China may not fit the normal pattern.

Through a remarkable mobilization of its citizens, China has achieved a degree and intensity of social and political change not found in other developing societies. Effective limits have been intentionally and effectively set to the urbanization that other developing nations have promoted or allowed in their quest for industrialization. Instead, there is taking place a high degree of dispersal of small-scale industrialization into the communes throughout the rural areas. Furthermore, the rural literacy rate has been greatly raised—by near-universal schooling and by the large-scale movement of urban high school graduates to the countryside on a permanent basis.

I suggest, therefore, that the success of family planning is not solely availability and propagation of birth control means, which is important; but in the Chinese case it is necessary to also consider the positive elements in the society that encourage personal compliance with such a policy and so contribute to family planning. These include career alternatives and social rewards and incentives.

The Chinese leadership has pursued policies designed to alter some features of family structure and authority and many of these are quite well known: the Marriage Reform Act; the basic changes in land tenure that have resulted in the development of the people communes; the basing of all personal incomes of commune members—both men and women—on their individual labor contribution; the systematic recruitment of women into the labor force in both city and countryside.

The formal and traditional authority of parents and grandparents has been reduced. The role of the state has been introduced and reinforced.

It can hardly be expected that the effectiveness of these policies has been complete or uniform in geographical extent. But with the passage of time, the establishment of these goals, and their steady reinforcement through the expanding educational system, is likely to bring increasing popular awareness and support, and individual compliance.

These changes, essentially institutional, have been accompanied by social welfare policies and programs. Primarily urban, these have also been effective to a lesser extent in the country. Most importantly, these have included labor insurance, child-care facilities, medical facilities and more rational distribution of their services, modest programs of income supplement for families with insufficient resources. Access to these services has generally been through an organization—factory, school, army, commune production team. Impressive though the progress has been, it must be noted that many of these services are still unavailable to substantial portions of the population.

Furthermore, since 1949 and particularly since the beginning of the cultural revolution, there has been a change of emphasis in the development of careers, educational options and responsibilities for

individuals. The well-being of the Nation is translated into personal terms: the effect for the individual is to reward those who limit or delay marriage. Advanced education, for example, now follows a period of 2 or 3 years' work in factory or commune and requires the recommendation of the individual's unit.

Students now enter universities in their mid-twenties. Early marriage would seem to foreclose on one's hope of advanced education, and the career options that such education might offer.

Similarly, factory employment involves apprenticeship at a low salary but with the opportunity for advanced factory training.

Early marriage is difficult on the low initial salary scale. For cadres—and the activists or ambitious who may seek to become cadres—the options may be even clearer. Success demands not only ideological compliance but positive personal commitment. Delayed marriages and small families are common. Thus some of the individual opportunities in China counterbalance traditional social pressures and enhance the desirability of birth control or delayed marriage. It would be an overstatement to claim that this sort of situation is universally effective, but it must be increasingly influential with the young people brought up in the new China and now in their early childbearing years.

In the early years of the Communist period, there was indecision and controversy over population control. After agreement on its necessity, much of the efforts during the 1960's toward birth control and family planning have been low key and without the more common trappings of a high pressure mass campaign. Recent visitors to China have reported, however, that these efforts have been widespread and effectively understood. They are also closely tied to the recent emphasis on the development of rural medical care.

The real issue for success is whether there will be adequate opportunities for school graduates who can be expected to be disposed toward family planning but are also subject—even in a diminishing degree—to traditional family ties and wishes.

As Professor Salaff of the University of Toronto has pointed out, the key is the provision of incentive reinforcement and career alternatives for men and women. Will the new rural industries develop to offer career alternatives that involve tasks normally associated with urban life? Will the education efforts succeed in raising the cultural level in the rural areas as has been done in the cities?

With the emphasis being put on balanced urban/rural development, it seems reasonable to assume that increasingly large numbers of young men and women will be unwilling to abandon or jeopardize their chances for important and satisfying careers and, consequently, will be willing to delay marriage and/or to limit their families.

In sum, the success of birth-control efforts is intimately linked to party-directed social change that goes beyond experience elsewhere which has relied heavily on urbanization. Therefore, in my judgment, it makes the Taiwan experience somewhat questionable in applicability.

Though both societies share a cultural heritage, the degree of politicization that characterizes the People's Republic of China, and the intimate relationship between the state and society, give a uniqueness to the People's Republic. The priorities and values of these two areas are vastly different and also the means at hand to achieve their goals. Unless the capacity for social change in a large agricultural

population is recognized, we cannot account for achievements in the past; and, we also run the risk of misreading the likely prospects for the future.

Given the magnitude of China's population and its relative youth, a second question seems to deserve comment. This is the dilemma of resources—consumer welfare versus national security.

I do not intend to comment here on the security issue occasioned by present or potential conflicts in Vietnam, Taiwan, and border areas. Obviously the committee has interest in this and perhaps we can discuss it.

My interest is in the increase of consumer welfare demands although I recognize it is difficult to quantify.

As used in this compendium, the term "consumer welfare" seems to lay stress on tangible consumer goods of a possibly luxury nature, such as radios, for example. It appears to exclude a range of items and services closely related to the quality of life that has been continuously emphasized by refugees, by the Chinese press, and by recent visitors to China. It thus unduly narrows our concern.

The social welfare programs of China are discussed in the supplementary statement I have submitted to the committee.[1] These are highly valued and are consistently viewed as achievements of the present leadership. They are designed to enrich the quality of life. But they are linked to social groups rather than to the individual consumer. One's judgment about the record of the Chinese since 1949 is determined largely by whether the individual or the group is regarded as most important.

The provision of a relatively secure though modest lifestyle may be a satisfying experience for the individual Chinese but may not necessarily generate the demands on the national economy that are implicit in the term "consumer welfare" as we understand it. The Communist effort to create a new Chinese idea of citizenship has drawn not only upon Marxist values but also the importance of Chinese national strength. In this, it has had a large degree of success in substituting the group for the individual as the recipient of benefits. There is the distinct possibility, from what we can see, that egalitarianism has been largely satisfying to most segments of the nation. While such a situation does not deny the wish of each individual to improve his own life, it certainly implies a lower level of insistent material demand and a different set of priorities.

There remains, however, the problem of financing. Schools cost money, as do watches. In the 1966 committee hearings, Prof. Audrey Donnithorne, speaking to the question of provincial versus center relations, emphasized the responsibilities of the provinces. The current publication of this committee notes that the Chinese, through thick and thin, have tried to disperse industry and develop additional industrial regions. Since the cultural revolution there has been considerable talk about local products, from aspirin to tiles, from school buildings to the payment of schoolteachers. The emphasis is on local provision and local payment. Unless there is a decision to reestablish economic and political centralization, broad areas of welfare remain for local control and financing and hence dependent upon local capabilities.

[1] See supplementary statement, p. 73.

While this reliance on local resources relieves the central authorities of some of the burdens of financing welfare efforts it leaves unresolved how poorer areas can effectively meet these needs. The Chinese have recognized—and visitors to China have commented—that there are differing economic levels in various economic regions. In the absence of external investment and help, the poorer areas may not share proportionately in the slowly rising standard of living available in more favored communities.

In sum, through the 20 years of Communist China, the rhetoric of Chinese announcements and the radical character of some proposals have engendered outside skepticism over achievement. Over the long term, however, the Chinese have shown an ability to revise and adapt policies to the special requirements of time and circumstances. What successes have been achieved are due, in a large degree, to the social mobilization of Chinese society with its emphasis on egalitarian values. I would expect this mobilization and these values to be relevant to the social policies that promote family planning and contribute to the quality of life.

Thank you.

(The supplementary statement of Mrs. Kallgren, referred to in her oral statement, follows:)

SUPPLEMENTARY STATEMENT OF JOYCE K. KALLGREN ON CHINESE WELFARE PROGRAMS

Social welfare in China means considerably more than income maintenance programs that are frequently implied when one speaks of welfare in the United States. Robert Osborn's chapter on the Soviet welfare concept (*Soviet Social Policies, Welfare Equality, and Community*) is useful in considering the Chinese experience. In speaking of the question of "social wage" he says:

> Soviet authorities have long stressed the importance of forms of income which Soviet citizens receive in addition to money earnings. . . . Few of the individual features of the Soviet wage are unique to the Soviet Union or even to the Communist world. Socialized medicine is not a monopoly of the Communist world nor are comprehensive pension systems and doubtless an international survey would turn up numerous national programs subsidizing day care centers and summer camps for children. (p. 31)[1]

The problem is particularly meaningful in the Chinese setting. If one reads or listens to Chinese citizens describe the ways in which their lives have improved since 1949, the services now available to them or their families, one realizes that the carefully drawn distinction of the social scientist between welfare, "public assistance," might well force the exclusion of services perceived as important by the Chinese and ignore improvements necessarily undertaken in a poor, rural, developing country. Welfare, and specifically social welfare, involves therefore a broad range of programs and services in addition to income maintenance programs.

There is a second aspect to the discussion of "social wage" in China which is especially important, namely the problem of distribution. How are the goods and services which are available in the cities or countryside distributed, on what basis are decisions made? In general, the goods and services may accrue by virtue of salary, status, affiliation, or they may be distributed without regard to the productive contribution of the individual. In some cases, both principles are operative; for example, the use of medical clinics and schools. The need for schools and clinics is related to family status, age, health, to mention only a few considerations. Since there was a desperate shortage of both educational and health facilities, one achievement of any government would have been the widespread construction of hospitals and schools. It is clear, however, that actual use of these facilities, particularly the medical facilities, involves both the availability of clinics and the ability to pay. Where social insurance programs are available to a worker and his family, his ability to use the facility is guaranteed. Employment in a city gives him the opportunity to make use of the services—also more available in a city.

[1] Osborn, Robert *Soviet Social Policies; Welfare, Equality, and Community* New York, 1970

This distinction is not simply a matter of individual concern but also has broad social consequences. In developing societies, urbanization and industrialization interact. When social welfare benefits are tied to seniority, wage levels, place of employment, etc., they merely reinforce the trend that makes urban life, and particularly worker status, more attractive. To the extent that services are distributed on the basis of need, used without regard to contribution, they then can contribute to an equalization process. In general, the path of the Soviet Union, emphasized the modern sector of the economy with benefits linked to the capacity to produce and contribute. In the Chinese case, this was largely true until 1957; between 1957 and 1966, the picture began to change; and since 1966, we have observed a determined effort to equalize opportunities between country-side and city, to eliminate or reduce distinctions between skilled and unskilled, and in essence to raise the standard of living in the entire nation.

With these introductory comments, we proceed in the following order. For organizational purposes, we begin with the urban area where the major post-1949 welfare programs, metabolic and income maintenance policies are in operation. This discussion includes brief references to the role of the labor union (more widely researched in the Chinese field), and more extended comments on the residence committee. It then turns to the rural sector—vastly more important in terms of population and level of difficulty, but much more difficult to document. The rural programs include most of the urban metabolic efforts but also reflect differing organization emphasis.

We conclude with comparison of Chinese characteristics measured against the judgments of Bernice Madison in her study of the Soviet social welfare.[2]

SOCIAL WELFARE AND STATISTICS

Though a constant theme of Chinese publications to their own citizens as well as to the world at large has been the improvement of life over the last twenty years, there is remarkably little data published on welfare efforts. It is simply not possible to find the kinds of statistical support that buttress Bernice Madison's book, *Social Welfare in the Soviet Union*, or R. Osborn's *Soviet Social Policies.*

Surveying the field of welfare, for example, we have no national figures on the total number of citizens eligible for the labor insurance programs, let alone the total figures on transfer payments for various income maintenance programs, the financial contribution of the labor union, the factory, and the national government. We can document trends (e.g., in 1958 the costs of labor insurance payments, particularly medical care, rose rapidly, were criticized in the press, and programs were undertaken to encourage workers to utilize the program only when real need occurred). After 1958 we are without guidelines on the proportion of the total wage bill attributable to services as distinguished from wages, the level of use, and the like. In the countryside, the situation is the same. Since rural China's facilities are largely developed on a local basis, there is an even greater difficulty in generalizing. Given the wide disparity in communes, which are the basic unit for most social services, this is a vexing problem.

There is an additional consideration that occurs by virtue of the Chinese emphasis on self-reliance rather than service. In the interviewing of refugees, for example, there are many accounts of help from the Chinese Communist Party (CCP). If a breadwinner dies or is injured, a job may be found for his son, or wife. Instead of long term payments, where the opportunity permits, the emphasis will be upon a job to meet the need. There is no way of quantifying this practice.

Another aspect of the data problem is worth noting. In the immediate post-1949 years when the Chinese developed labor insurance, we can compare the early draft and the final legislation, we have handbooks explaining different provisions, and technical points of the program. All of this naturally contributes to our detailed knowledge and understanding. Since 1957, we have almost no detailed discussion of provisions, no detailed discussions of how regulations are enforced and interpreted. In the vast rural programs, we have some examples publicized for national study, reports from the stream of visitors in the last eighteen months, but there is very wide divergence determined by local conditions.

The result of these observations is to emphasize the fact that we rely upon trends, single cases, and refugee experience, even though welfare is an area of substantial Chinese achievement.

[2] Madison, Bernice Q. *Social Welfare in the Soviet Union* Stanford, 1968

The cities have been the arena for implementing many of the welfare efforts of the Chinese. Though the problems of the cities of Asia are familiar to students of urbanism in general, the Asian experience is also different from that of Western Europe. As Kingsley Davis writes:

> In the largely industrial nations, the sizeable difference between urban and rural birth rates and death rates required that cities, if they were to grow, had to have an enormous influx of people from farms and villages. Today in the underdeveloped countries the towns and cities have only a slight disadvantage in fertility and their old disadvantage in mortality has not only been wiped out but also in many cases reversed. During the 19th century the urbanizing nations were learning how to keep crowded populations in cities from dying like flies. Now the lesson has been learned. . . . As a result throughout the nonindustrial world people in cities are multiplying as never before and rural-urban migration is playing a much lesser role.[3]

In the Chinese context, this is particularly the case. Lack of population data since 1953 makes precision impossible, but China's urban population in 1959 exceeded 100 million. In other words, China's urban population, alone, is roughly equal to the total national population of Japan; or greater than all but the five or six most populous countries [4] Even assuming the ability to restrict rural migration' Chinese efforts to provide for their urban population must still cope with the reality of population increase. It is by no means clear that efforts at relocation will provide a long term solution. Furthermore, success in transferring population to the countryside will shift the locus but not solve the basic needs.

In policy there has been a pendulum-like shift of emphasis between urban and rural problems; reflecting indecision about the nature and priorities of nation-building and industrialization; but also intimately related to the Chinese quest for an egalitarian society. For their goal, "to each according to his need," the Chinese Marxists must seek to mitigate the privation and suffering that has been the lot of much of the nation, whether the emphasis is upon the rural peasant or the urban inhabitant. There are, however, some unique characteristics of the city that affect the urban problems of China.

Using the definitions of urban specialists Gideon Sjoberg and Louis Wirth, there are two related and yet distinct views of the city. Sjoberg comments the city has "greater size, density, and heterogeneity and [includes] . . . a wide range of non-agricultural specialists most significant of whom are the literati." [5] He emphasizes the "parallel evolution of technology and social organization (especially political organization); these are not just prerequisites to urban life but the basis for its development. As centers of innovation cities provide a fertile setting for continued technological advances, these gains made possible the further expansion of the cities." This definition touches on those problems which may be characterized as metabolic "the materials and commodities needed to sustain the city's inhabitants, at home, at work, and at play." [5a] A number of these needs are met in rather conventional form such as the provision of food, clothing, and the like. But, as some engineers have noted, there are three "whose solution rests almost entirely in the hands of the local administrator . . . these three are the provision of an adequate water supply, the effective disposal of sewage, and the control of air pollution." [6] All are an intimate part of the physical welfare of China's urban inhabitants; toward the solution of at least two of them the Chinese have doveted considerable effort. Transportation and land use policies are additional problems within the same metabolic range.

Louis Wirth emphasizes the social extremes and social pathology associated with urban living. Wirth sees the city as—

> large, dense permanent settlement of unlike groups and derives from these attributes certain likely patterns of interaction and their consequences: impersonality, isolation, the decline of primary group membership and the dominance of formal organization.[6a]

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[3] Davis, Kingsley "The Urbanization of the Human Population" in *Cities* New York, 1966, p. 19.
[4] Population is a most difficult problem. Accepting the figure 89,150,000 for 1956 found in N.R. Chen *Chinese Economic Statistics* Chicago, 1967 p. 127, then, solely on the basis of internal growth, the cities of China must now exceed 100,000,000. Leo Orleans in a personal communication to this author suggested a figure of 125,000,000 for 1969.
[5] Sjoberg, Gideon. *The Preindustrial City Past and Present* Glencoe, 1960 p. 11.
[5a] Sjoberg, Gideon "The Origin and Evolution of Cities" in *Cities* p. 32.
[6] Wolman, Abel "The Metabolism of the Cities" in *Cities* p. 157.
[6a] Greer, Scott *The Emerging City, Myth and Reality* Glencoe, 1962, p. 16.

This view emphazies the negative aspects of a massified society; it provides, however, a realistic base point for those who seek to bring about change and reform. Chinese Communist efforts have been directed toward both the short term and long range problems of China's cities, the metabolic difficulties and social organization.

The sorry conditions in the cities at the time of the Communist takeover were regarded as being largely the result of foreign imperialism and Kuomintang ineptitude. But the Chinese do not seem to have argued that the ruralites are better off economically to remain in the villages rather than moving into the crowded cities. Though CCP policies have always encouraged a return to the villages, it is not on the basis that life there is easier; rather it has been that, though difficult, it is needed for the long-range building of a strong and socialist China.

All views of the problems of the city (whether the larger physical needs, individual requirements for food and shelter, or the personal need for companionship, love and affection), relate to welfare: the capacity of a society and its members to attain and maintain satisfying levels of life and health.

Though the Chinese Communists have consistently proclaimed a commitment to "welfare" and have fostered programs and institutions designed to provide it, at the same time there is a parallel theme in Chinese Communist idealogy; the stress on individual self-reliance. This is, in part, a practical acceptance of financial reality but it is also central to Chinese ideology as they move toward the ideal state. It poses contradictory functional requirements in Chinese life. In welfare the state is responsible; but so too are the individuals and the family. The Party and the state should assist the deprived individual but he also has a positive obligation to seek and participate in productive labour.

This idealogical emphasis on the responsibility for individual effort has undoubtedly helped to mitigate some problems. It also plays an important part in actual welfare policy. There are serious welfare needs, though that cannot be solved in this manner. Here the Chinese commitment to planning is clear.

The welfare complaints of China's urban dwellers have included: the shortage of housing, the frequency of accidents; the dangers to health from polluted water, rats or mosquitos; the stench of garbage, and the problem of sewage disposal. All of these problems have their counterparts in New York, Calcutta, Mexico City, or Tokyo; and any government of post-war China would have had to try and cope with them. There is, however, a difference in the background in which these needs occur, and hence in the analysis of their cause, and the choice of methods for solution.

The ideology of the CCP and its commitment to Party and government activity means that its role in the welfare field is not limited by the marketplace or by a need to preserve the dominance of the family. On the other hand, in both theory and practice some relative priority of tasks has to be accepted. In its widest sense, the Chinese Communist concept of welfare includes public utilities, housing, transportation, medical care, education, and the provisions of facilities for cultural and leisure activities. For those with diminished working power, there is an additional program of financial subsidy to permit them to maintain some minimum level of life.

The first decade of the Communist regime saw a broad attack on the needs outlined above. A major effort was designed to lower the infant mortality rate, extend life expectancy, and control communicable diseases. The methods included improvement of public utilities, mass campaigns against the "four pests," and the development of good public health practices. The wider distribution of medical services and the drastic expansion of training facilities were necessary to raise the pitifully low existing level of medical care. Medical care and education have received great attention from the Chinese Communists and are considered by them as important aspects of their welfare efforts.

A high priority for the Chinese Communists has been these metabolic aspects of urban life. This need is constantly reported—from the earliest takeover of the Manchurian cities through the urban areas as they come under CCP control. Professor Wolman comments on two aspects of this problem: first, that the enormous size of urban problems is often difficult to grasp; and second, that local solutions may be possible for some problems. His words (specifically directed to water supply) are especially applicable to the Chinese experience:

> No general prescription can be offered for bringing clean water to the vast population that still lacks it. I have found in my own experience however, that the inhabitants of communities both large and small can do much more to help themselves than is customarily recognized . . . it is surprising

how much can be accomplished with local labor and local materials and the benefits in health are incalculable.[7]

Some information on national government efforts to meet the needs of urban residents can be found in the charts included in the report *Ten Great Years*. Such data should be judged in terms of prior levels, but this information is not available.[8] This report shows considerable investments in the construction of housing, urban public utilities (particularly water supply and sewage lines), and streets.

> New cities have risen in different parts of the country and old cities have changed their shabby appearances. In the nine years 1950 to 1958, more than 410,000,000 square meters of floor space were added to the urban buildings throughout the country. . . . Urban public utilities have expanded rapidly. In nine years the length of pipes for running water increased by over 8,100 kilometres, the drainage system was expanded over 4,000 kilometres and the city roads were extended by over 7,600 kilometres.[9]

But these totals are small, when viewed in relation to national investment. Construction for public health and welfare was only 1.0 percent of the national total for the period through 1958. Construction of urban public utilities for the same years represented 2.5 percent. Public health and welfare was, in fact, the smallest category, and public utilities the third from the bottom. These are national investment figures, to be sure, and thus reflect the demands of industrialization as well as the needs of rural China. The national figures for yearly state expenditures are not comparable to the categories above. However, there are totals for "Social, Cultural, and Education" that range from a low of 10.6 percent in 1958 to a high of 16.0 percent in 1957. These national figures should of course be supplemented by local government expenditures, which are unfortunately not available. It is clear, in any event, that in meeting welfare needs the state—on both national and local levels—was confronted by the dilemna of competing claims.

The situation was met by a mixture of alternatives. Some pressing social needs of urban inhabitants were more or less ignored. In some cases, local initiative renovated or improved existing facilities; in others, subscription by participants supplemented municipal expenditures.

The general need for public utilities has been of continuing concern to the Chinese. The preferred solutions, however, have changed. The elements which have characterized Chinese efforts (namely, the interest of the Party and the government, the responsibility of local administration, and the self-reliance and ingenuity of the masses) have persisted. But the actual solutions to concrete problems have changed over time, with the differences reflecting the changing orientation of the CCP.

During the early period, achievements in public health, and particularly sewage and water supply, were emphasized for their own merit rather than as a function of street organization. The largest number of complaints and requests in the cities centered upon these problems, sometimes with a successful outcome. On some occasions, the needs apparently were unmet. On others, the problems were solved but in less acceptable manners; namely through coercion:

> Some individual street activist adopted coercive methods. For instance, after the street meeting announced the welfare fund would be subscribed, a . . . team member just increased water fees per unit. . . . Another team member charged every household 10,000 yuan as garbage fees plus 5,000 yuan for dancing troupes. If a house refused to pay the sums of money, the team member threatened that the garbage would not be removed.[10]

In the above examples, the emphasis is on the solution of a concrete problem. Judging by newspaper reports, the largest number of individual city requests occurred: (1) during the early years of the regime; (2) then late 1954 and 1955 when the street resident committees were formalized; and (3) in 1957. The number was substantial. In Tientsin, for example, more than 35,000 requests were received and most of them apparently concerned water supply, electricity, public toilet construction, cultural and political studies, labor employment and job transferences.[11] In Chungking, water pollution was a problem and the resident committees were able to get the government to take action. In most cases, the emphasis in the reporting is upon the appropriateness of the tasks (as well as the efficiency) of the resident committee.

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[7] Wolman, *op. cit.* p. 167.

[8] One potential source of data which might provide some useful base of comparison may be in the files of the International Labour Organization in Switzerland. The notes to Jean Chesneaux *The Chinese Labor Movement 1919–1927* Stanford, 1968, suggest this possibility.

[9] *Ten Great Years; Statistics of the Economic and Cultural Achievements of the People's Republic of China.* Compiled by the State Statistical Bureau, Peking 1960 p. 53.

[10] Shanghai, *Chieh-fang Jih-pao* (Liberation Daily) July 10, 1951.

[11] Peking, *Kuang-ming Jih-pao* (Bright Daily) Dec. 12, 1954.

On the eve of the Second Five Year Plan, a case history suggests that the solution had changed. In May 1957 an account in the *Chengtu Daily* deals with a familiar problem.

> The masses in Tung-ch'eng district felt that the government did not concern itself enough with residents welfare problem. For example, many streets have not been repaired for years, many ditches are blocked up and are stinking, electric lights and water supply equipment need to be installed in many places.
>
> The district peoples committee called the heads of the various street offices for a meeting on May 20. It was decided that the masses should be mobilized to solve these problems which are within their ability to overcome. The government will give support to the problems with which the masses are unable to cope.

Out of this discussion came a solution that differs from some of the examples of earlier years.

> The 1000 households in Ying-i street along the river did not have wells. They used to draw water from the unsanitary river for daily use. After discussion, the street office and resident committee had decided to increase the number of water sterilization stations. Poor residents with labor abilities were mobilized to carry water from the river, sterilize it and sell it to the masses at the price of one cent per pail.[12]

The solution utilized those in need of work and provided employment as well as water.

Concern with the problems of public health, and particularly its manifestations in urban public utilities, can be documented up to 1966. The limited references suggest, however, a shift away from the personalized accounts of the first decade and a more direct emphasis upon improved techniques, efficiency, and the ancillary uses of urban sewage. Thus on May 18, 1964, NCNA reports a new sewage method that permits the cleaning of sewers with less labor and continued effectiveness. In April 1966 the same source criticized western methods for treatment of sewage and lauded Chinese sanitation engineers who had developed a method whereby human and industrial sewage is properly mixed to provide needed fertilizers to nearby rural communities.

Next to food, housing ranks as an important need for the individual in an urban community. Housing shortages seem to be a common occurrence in most societies. Between 1953 and 1956 the urban population in fifteen Chinese cities increased 28 percent, apparently due in large measure to rural urban migration.[13] A number of urban centers had their difficulties compounded by the fact that rural-urban migration produced squatter communities. These circumstances mean not only substandard housing but the additional problems of water, sewage, and the like with their ramifications for health. What were the various ways that housing was provided?

Some urbanites received new or better housing through their jobs. For instance, the Kirin Chemical enterprise built housing for its workers with provisions for tap water, electricity and central heating.[14] In some cases, housing was provided by a municipal or joint municipal-national funding and built in a central portion of the city without reference to specific employment. The development of housing in the Chapei district of Shanghai, for example, was specifically designed for the needs of surrounding factories and offices [15] to replace previous squatter sheds. Surburban development also occurred. In Tientsin a housing estate was developed which constituted a town within itself having a population of over 100,000 and its own services including schools, hospitals, movies theatres.[16] Obviously, such large scale efforts have been limited.

Some local building seems to have occurred through the work of resident committees, but the major committee efforts were devoted to repair and renovation. This activity, which can be documented since 1949, was carried out by resident committees as well as labor unions.

China's large cities suffer from a transportation shortage. Refugees in Hong Kong frequently commented on the long rides to their enterprise or government office. Many Chinese employees in the larger factories were regularly provided with an additional stipend because of transportation costs, or free transportation service to designated spots in the city. At the same time, there were continuing

[12] *Ch'eng-tu Jih-pao* (Chengtu Daily) May 29, 1957.
[13] See Sjoberg's chapter (1966) based on the data of Leo Orleans which compares the Chinese experience with other nations. pp. 237–238.
[14] New China News Agency Sept. 15, 1964 (hereafter NCNA).
[15] NCNA Apr. 29, 1964.
[16] NCNA Aug. 18, 1964.

efforts to reduce private costs. The cutting of trolley and bus fares in Wuhan was reported with considerable pride in 1966 and it was indicated that all-night service for workers had been added. Another transportation problem in China has been the high incidence of accidents. Apparently the urban resident committees were the focal points for safety talks by representatives of the local police station.

Up to this point, the discussion of welfare needs has been oriented toward those requirements that arise primarily, though not exclusively, by virtue of city life. The need for transportation, housing, and the like, grow out of the physical environment of the city. There is, however, another range of welfare needs that naturally effect urban residents as well as those in the countryside. These problems arise from economic need occasioned by special problems of the individual.

In the immediate post-1949 years, China's cities and countryside contained men, women and children who were the war victims, often miles from home, frequently infirm, wounded, who needed attention. In addition there were the aged, disabled soldiers, and those who could not find employment. Here was a population in immediate need of income. When the urgency of these pressures receded, China, as every nation, has continued to face segments of the population who lack earning power because of some factor whether age, training or motivation. Some have fared well, others not.

In the first five years, much of the aid was piecemeal, random and often unpredictable. Some street organizations provided transportation funds for a return home. Some companies had welfare programs for their employees and help came from here. The labor insurance regulations (established in 1951 and revised in 1953) [17] provided those in covered employment with modest incomes linked to their work history, labor union membership, and political outlook.

The Chinese Communist military veterans and the so-called dependents of martyrs then and now seemed to fare well. Within the military itself there were specific committees to handle problems of education, medical care, disability, jobs and the like. Since most were from the countryside, their problems were generally absorbed into the rural areas. The cities frequently have special municipal offices to deal with problems and daily needs or difficulties were handled in the street committees.

What about the unemployed? Until the mid-1950's when unemployment was declared abolished, the cities maintained modest programs of direct aid to the unemployed. This included a number of intellectuals as well as those whose prior occupations had been related to the foreign presence or the evils of pre-liberation life, as for example the prostitutes. The impression from interviewing and newspaper accounts is that these people had very modest resources available to them from the government. Sometimes the grants were in kind, i.e., oil, grain; and sometimes they were in cash. In light of the concurrent program controlling prices and ending inflation, the value of the grants was safeguarded. Furthermore, many men and women were protected through the "fixed supply" system; that is, cadres of the government received fixed allotments of food, clothing, housing, and a very small stipend. The system was tied to local standard of living indexes. It only gradually disappeared.

Cadres of the government, whether national or local, such as teachers, government clerks, bank workers, etc., were not eligible for labor insurance. In the 1950's this group slowly developed programs of pensions, medical care, vacation leave. When interviewed about the program, these people will say the matter was handled by their unit or organization (*tan-wei*). The programs and services available to these people varied widely; in the cities they might include schools, and housing. In the provinces, the services and benefits were more limited or absent altogether.

Those who fared least well (excluding individuals classified as politically tainted) were men and women whose work did not bring them into these large scale units: the workers in small stores, the barbers, the small scale factories worker. Though the lives of these people have improved over the twenty years, they have not kept pace with the advantages of larger scale enterprises. In part, this must be understood to be the problem of organization. The financing of welfare benefits, the use of the labor insurance principle, all of this has been longer in coming, more modest in amount and scope of coverage. Since the national government does not invest in this area, there is financial difficulty. In interviews of this group, one will find stories of continued reliance upon family ties, where that is possible.

[17] The most complete collection of labour insurance regulatoins is Chung-yang *Lao-tung Fa-ling Hui-pien* (Collection of Labour Laws and Regulations of the Central Government) Peking 1953. A brief collection of relevant documents is in Foreign Languages Press Collection *Important Labour Laws and Regulations of the People's Republic of China* Peking, 1961.

There is an additional income maintenance program administered by the labor unions and apparently (primarily through refugee sources) also available through other organizational units. As many have noted, the salaries in China are uniformly low; furthermore, the range between low and high is modest when compared to other countries. This might well be expected given the emphasis on "equalization of income" stressed in ideology. Consequently, there are necessarily cases where the income is either temporarily (due to accident, health, or special need) or permanently (because of the size of the family) insufficient for the number of dependents. In these cases, there are apparently cases of income supplement: small amounts given to a worker when the total family income is insufficient. This program is administered by the labor union or organization. The labor union members carry out the home visits to determine need; the list of grants is publicly posted. There are also loan provisions similarly administered and apparently made public. The emphasis, according to refugees, is upon finding more permanent alternatives; e.g., a nursery so the wife could work, employment for an older child, and other alternatives. This is not always possible and consequently continual income supplement has been a possibility, although its occurrence was rare.

ADMINISTERING WELFARE IN THE CITY

The development of welfare administration in China has been an interesting and instructive process. It has at all times been linked to other goals of the government, has frequently been subservient to other purposes, and in all cases has been a mechanism not merely for the transferal of economic aid to the citizens but a means for raising the political consciousness of the citizens.

There are two major administrative mechanisms: (1) the labor union (in which are included the administrative units that provide the very similar pension plans of teachers, government cadres) and (2) the street resident committees.

The role of the trade union is most clear and its functioning perhaps the best understood. The major development of labor unions occurred in the post–1949 period when the Party of the proletariat finally returned to the cities. The rapid development of the labor unions from Manchuria throughout the rest of the country was aided by the fact that the level of labor insurance benefits was linked to labor union membership. The labor unions furthermore administered the pensions and disability payments. The initial payment for medical care was handled by the plant or factory, but when determinations of disability were made, or when retirement occurred, it was the labor union officials who arranged payments. Furthermore, it was through labor unions that loans were arranged; labor unions cooperated to build sanitariums, hospitals, and administered the access to them. Though the GPCR suggests that some trade union leadership did indeed develop a separate indentity and allegiance to the workers, the evidence for this special status is by no means clear. It is clear that the trade unions had the potential for creating a special "class" and that in the post–1958 period, the pension program and medical benefits were not equally distributed, especially to those classified as temporary or contract workers. In the government ministries, in the schools, and in banks or other economic organizations, similar though not identical organizations functioned.

The earlier discussion of welfare problems has suggested there were a range of welfare problems, needs and services outside of direct income costs. For many Chinese citizens, the effective unit for these other problems was the residence committee (*chü min wei yuan hui*).

The operation of the street or residence committee has been commented on by a number of scholars, primarily in terms of its function to organize mass support for Party policies or for the surveillance of individuals. Refugees will comment upon anxiety when a street committee member visits. But as one refugee said: "I suppose that those who received favors liked them, and those who were only under surveillance feared them." In this paper we emphasize their welfare work, though it is clearly to be remembered that their tasks involved political propaganda, participation in mass movements and security work as well as the welfare function. These tasks were carried on simultaneously, though not with equal emphasis.

In the various discussions of metabolic needs, there was emphasis upon self-help, and mutual cooperation. The welfare decisions of the early years—for example, where shall water stands be established? electricity lines placed? who shall be given access to the limited neighborhood school? how are aged looked after? what about invalids? the bed-ridden and the like?—were often made by the street residence committee or with their assistance.

In the immediate post-1949 years, there were enormous problems in administering the city government of China. The emphasis was not only on the establishment of formal organizations, that is the municipal bureaus and the like, but also in developing mass organizations which could organize the population and deal with some of the simple but important problems we have mentioned above. The organizations that emerged were the street committees alongside the formal street offices (the lowest level of the formal government apparatus). The cities of Tientsin and Shanghai serve as excellent examples of this process.

In Tientsin, a report gave considerable detail on the close relationship between the welfare needs of the people and municipal work:

> Tientsin has a big population, municipal work is complex. After the district government had been reduced, they had not been able to sufficiently and broadly reflect and solve the needs of the broad masses of city residents. At the present time, the most urgent needs of our city residents which have to be solved are building of houses and sewers, consolidating public sanitary work and expansion of elementary education and other public welfare enterprises. . . . Under such circumstances, the municipal government of Tientsin had decided last month to establish district people's congresses and to enlarge district offices.[18]

When similar problems occurred in Shanghai, the development of mass organizations by the street residents resulted. "These organizations played a certain role in solving resident's welfare problems, in implementing government policies and decrees . . . ".[19] This was not an isolated occurrence.

Tientsin published provisional regulations for the establishment of street offices and committees, which reflected the welfare responsibilities of the organs. The street office was the designated work organ of the district people's government. Its first task was to organize and lead residents in political and cultural education, public health, relief, pensions, and other social welfare work. The resident committee was organized on the basis of the "natural living conditions in residential and mixed residential commercial and industrial areas but not for the time being in the district government organs, and large-scale commercial and industrial enterprises were concentrated."[20] The work of the resident committee was, first, to propagandize government policies and, second, to deal with security, prevention of fire, culture and recreation, public health, pensions and relief.

At the end of 1952, a general summary of work on street organization in the cities discussed the organizational problems and principles of the group, noted the proliferation of organs (that later was to become a serious problem), and then concentrated on the welfare achievements, specifically in public health.

> Many ditches and drains which have been blockaded for sixty years now are through again . . . The number of flies, mosquitoes and rats have been greatly reduced . . .
>
> In regard to social relief work, the relief groups not only assist the district people's government to investigate proverty, evaluate the amount of relief needed and distribute cash, blankets and loans without interest they also mobilize the masses to donate.[21]

For most of the next two years, the urban experiment in organizational development continued as the resident committee evolved. After the publication of the provisional regulations, the actual work to establish and select resident committees, street offices, district congresses and people's government was carried out. There are some features especially relevant here. First, resident committees were designated the mass welfare organization under the leadership of the government. Their function was to handle all kinds of mass welfare work. In addition, they were also to assist in government work and to organize the residential population.

A second interesting feature of the Tientsin report was its reflection of problem-solving during the six months of organization and consolidation. The masses proposed some 53,000 actions. At the time of publication, some 23,000 (40 percent) of these had been acted upon. Of the total number of proposals, 66 percent concerned the people's subsistence and welfare problems—including the installation of water supply, electric lights and street lamps, building and dredging sewers, building public toilets, refuse disposal, repairing streets, and housing. The emphasis was on urban public utilities, relief needs, and free medical care.[22]

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[18] *Nan-fang Jih-pao* (Southern Daily) August 10, 1950.
[19] *Chieh-fang Jih-pao* May 28, 1951.
[20] *T'ien-chin Chin-pu* (Tientsin Progressive) October 21, 1952.
[21] *Ta Kung Pao* December 27, 1952.
[22] *T'ien-chin Jih-pao* (Tientsin Daily) May 31, 1953.

The details of the Tientsin experience are important because they have counterparts (though less detailed) in reports from Luta, Canton and Wuhan.[23] These reflect the same organizational difficulties, as well as similar welfare needs, as in Tientsin.

In 1954, the multiplicity of organizations was seen as contributing to chaotic and inefficient conditions in municipal administration. This situation was to be corrected through consolidation: "Resident committees have a big function in solving livelihood welfare problems of the residents." Regulations of the urban resident committees were passed in the fourth session of the Central Committee of the National People's Congress on December 31, 1954. The tasks of the resident committee were:

(1) To handle matters concerning residents' public welfare.

(2) To reflect residents' opinions and demands to the local people's committees or their designated organs.

(3) To mobilize residents to support the government and to observe laws.

(4) To lead mass security defense work.[24]

The news media described the resident committee in a series of questions and answers:

Question: What kind of organization is a resident organization?

Answer: A resident committee is an autonomous resident organization organized by committee members elected by the masses of residents. It is not a basic level governmental organ. The primary task of a resident committee is to deal with the daily public welfare enterprises of the masses of residents and to mobilize the residents to support the government policy.[25]

The import of this answer seems clear. Whatever the other functions of the resident committees, they were centrally involved in the welfare process. The substance of regulations and political summaries can be supplemented by reference to the actual work of resident committees. In many of the illustrations which have been cited in the previous section to demonstrate the breadth and scope of Chinese welfare needs, it was the resident committee that appealed to the authorities for aid, or the resident committee activist who sought subscription payments from individuals.

To summarize, the urban resident committee in Chinese cities emerged as an effective organization for solving the welfare needs of the city. This organization had major responsibility in seeking and allocating welfare goods and services.

Certainly as the years have passed, the daily tasks of the resident committee have changed. The special needs that characterized the immediate post-civil war period have largely been resolved. The role, for example, of the resident committee in obtaining public utilities has apparently disappeared. Close relations with the local police station developed, and this relationship undoubtedly contributed to the suspicion with which the committee has been viewed. Furthermore, as alternative organizations have developed, and as the individual's enterprise became the avenue for access to schools, medical care, movie tickets, or whatever, the people more directly touched by the street committees, or specifically dependent upon it for service, has narrowed. Since the resident committee, with some exceptions, does not give money grants, its activity in terms of welfare has narrowed. On the other hand, the committee remains a means for providing personal services particularly to the nuclear family. Where the work affiliation because of size or function remains unable to provide the full range of services that can be found in major industrial enterprises, the resident committee remains a potential substitute, though limited in the kinds of benefits to which it can make referrals.

WELFARE IN THE COUNTRYSIDE

Welfare programs in the countryside, obviously the most important in terms of population and problems, remain the most difficult to judge and the most elusive to study. The very vastness of the topic permits only generalities and characteristics illustrated by example.

The metabolic problems of the cities were, of course, problems in the countryside, compounded by the land tenure system, and the wholesale destruction which accompanied the civil war. Consequently, the efforts made toward establishing minimal public health facilities to restrict and mitigate the effects of long time

[23] *Kuang-ming Jih-pao* December 10, 1954 The article likens the experience of Luta, Canton, Wuhan and others to the Tientsin experience. This includes an extended discussion of services and underlines the necessity and quality of the allocation decisions.

[24] *Jen-min Jih-pao* (People's Daily) January 1, 1955.

[25] *T'ien-chin Jih-pao* July 4, 1956.

pervasive problems of smallpox, water supply, and sanitation must rank as of major importance in the first decade. It was not simply a matter of bringing about a distribution of the available medical facilities but of the rapid expansion of medical personnel.

At the same time, the problem of income distribution was obviously an important consequence of the land reform program and even more of the movement toward collectivization which followed redistribution. Although modern social legislation represented by marriage reform were implemented, the traditional means for meeting welfare, namely the family, has remained, though not as powerful as in pre-1949 days. It is clear, for example, that even in the 1970's sons and daughters provide for their parents, and parents provide for sons and daughters. Though reliance upon the traditional Chinese philosophy is not the ostensible reason, interviewing suggests that the financial aid to parents or parent help to the families of sons and daughters (while modest) remains. In the countryside when parents are assigned to some remote or distant post, or are unable to care for a child, grandparent or relatives serving as a parent surrogates is not uncommon.

In the period after land reform, when ownership remained possible, one group aided was that of the aged, infirm or disabled who could manage to survive through payments for produce on the land and cooperative working. Even in the initial establishment of collectives, payments were made for land contributed as well as for work. When this possibility disappeared in the Advanced Producers Cooperatives (APC) and later in the communes, it then became necessary to substitute other programs. The *wu-pao* system of the APC was the solution. Prior to the commune, the APC provided the so-called five guarantees, that is, food, lodging, education, clothing and burial, to those who could not engage in active production. When the commune system was established, this system was no longer necessary. The commune, which became the lowest formal level of government, also was to assume welfare functions. With the establishment of the commune, we see homes for the aged, clinics, schools, and specific provision for a welfare fund at the commune level for the construction of these facilities or renovation of old temples, former landlord houses and the like to serve as the necessary facilities. It must be remembered that there is wide diversity in the availability of these services.

Besides the provision of services, however, there of course remains the income problem. The disparity between the family's productive members and its dependents is a difficulty in the countryside, particularly in view of the low standard of living and the differing situations of each commune. In the commune itself, the production team was responsible for helping the families of soldiers whose earning power was reduced because of the absent men. In addition, since agricultural tasks were divided, the possibility of assigning the aged to child care or the less physically taxing jobs reinforced the emphasis in China upon seeking a productive means for meeting need rather than the establishment of simple grants. Though there is no question that homes for the aged do exist for those without support and family, it is also certain that both preference and economic conditions preclude this from being a large-scale alternative.

The most difficult aspect of welfare in the countryside is the fact that it implies, essentially, determining who is poor in a society which is poor as a whole. Given the fact that there are areas of endemic poverty derived from problems of land quality, overpopulation and the like, and that the emphasis is upon the commune as the fundamental unit with minimum reliance upon Central government assistance, it is clear that formal efforts of social welfare support are rare and widely discrepant in their effectiveness.

This discrepancy in size is not nearly so important in the provision of services as it is with the provision of income. One of the aims of the relocation of Chinese youth, the development of rural medical facilities in such programs as the "barefoot" doctors, is to remedy the lack of facilities while relying on the local population and resources to do so. For example, in the transfer of middle school graduates to the countryside, their presence is subsidized for perhaps a year while the youth gains the expertise necessary to support himself, but the intent is not that the government should permanently assume this burden. In the post-GPCR development of rural schools and medical facilities, the professional is paid in the work points of the commune where he works. This is designed to raise the political consciousness of the person so assigned, but it also makes financing the responsibility of the commune. The commune workers designated for the training as "barefoot" doctors receive their training in nearby cities or towns; their services are, however, managed by the commune where they are paid. Their availability at the very local level (where assignment of a doctor is not possible) represents another manifestation of the emphasis on local needs and support.

The social welfare legislation of the cities, such as pensions, leave, maternity care and the like, do not have exact equivalents in the countryside, though refugee accounts as well as Chinese reports indicate efforts to provide similar benefits. Provision of maternity care and emphasis upon the children as the coming generation is wholesale throughout China but in the countryside, the pregnant mother is more likely to have the child at home or in a modest medical clinic than in a hospital; leave is more likely to be without work points rather than with salary as in the labor insurance regulations of the factory worker. The nurseries and the child care facilities have long existed, but they are more often temporary, less formal, and reflect arrangements within the geographic living unit rather than the more well-established and higher standards of the city. Presumably the presence of the middle school graduates may eventually raise the level of services available.

WELFARE ADMINISTRATION IN THE COUNTRYSIDE

Welfare in the countryside of China is a local matter. It is carried out informally, is subject to the general standards of the commune itself and administered by part-time assignment. Though the Ministries in Peking develop methods and standards and the public health workers sent to the countryside in the pre-1965 days could provide some expertise, the economic realities of the day as well as the ideology of the Party precluded centralization. Since the Cultural Revolution, the emphasis has been upon the practical learning from the masses with peasants and workers to be intimately involved in all aspects of life. This ideological viewpoint coupled with the trend since 1949 to reduce to the lowest level possible resources diverted to so-called "non-productive" labor has made administration a part-time occupation.

Welfare in the countryside remains essentially in the hands of the commune committee for general direction and development of facilities. It is in the hands of the production teams for the ad hoc arrangement of temporary nurseries and the income maintenance programs. Furthermore, on the basis of refugee reports, the conservativism of the countryside and economic limits remain to make the family unit still an important part of welfare.

ECONOMISM AND UTOPIANISM—WELFARE IN CHINA AND THE SOVIET UNION

Bernice Madison in the concluding chapter of her book makes a series of extremely interesting observations on the development of social welfare in the Soviet Union. This analysis concludes by using seven of her points as indicators of important similarities and differences in the Chinese programs. As political scientists have noted in the years, since the Sino-Soviet dispute erupted, the clash between these two socialist countries is much more than the power struggle of two nations. The contrast in ideology is particularly striking in the values and directions represented in the Chinese welfare programs. Though Soviet advisors were instrumental in the early years though provisions of the basic labor insurance legislation, the child care programs, and similar developments all draw upon Russian advice, today twenty years after the establishment of the People's Republic of China, it is clear that the Chinese path to social protection has some basic differences with contemporary Soviet practice. China is still a revolutionary society. Though the success of that revolution is far from clear, the determination to adhere to differing values and to experiment with programs implementing these values cannot be denied.

Professor Madison begins by noting the following major advance:

(1) "Steadily broadening the category of those with a LEGAL (emphasis mine) right to comprehensive income assistance and firm establishment of public responsibility for income maintenance". The basic commitment to welfare is found in the general guarantees of the Constitution of the People's Republic of China and the various pieces of legislation adopted in the first five years of the People's Republic. Since that time, though there has been a steady attempt to broaden the scope of welfare and to raise the level of aid for various segments of society, these efforts have not been framed in legal terms. Instead, the betterment of life has been a feature of the slow developmental process of the country, continually contrasted with the difficulties of pre-1949 years. A reliance on "legalism" rather than the personalized leadership of Mao Tse-tung and the CCP falls within the crimes of opponents of Chairmen Mao. Welfare is an evolutionary process that naturally requires regulations for enforcement, determination of benefits and the like but is more properly understood as a communal effort of the society as a whole rather than the specific passage of legislation and the periodization that such legislation implies. The general responsibility of the state for welfare

has always been acknowledged, the limitations of current programs are not resolved by new legislation but rather by working together for higher national economic standards which will be translated into welfare

(2) "Creation of new social services, steadily extended to wider segments of the population and differentiated in accordance with individual need." This observation is accurate for both the Soviet and Chinese experience. The Chinese are distinguished from the Soviets by their early insistence upon raising the level of services available in the countryside, and positive attempts to limit and reduce the disparity between countryside and city. Where the Soviets emphasized the urban community, closely allied with their industrial development, the Chinese, though not neglecting industry, have for the past decade been particularly attentive to the needs of the countryside. It is true that the rate of progress has been slow. There is no question of the advanced levels of the Soviets, but the Chinese have not been willing in industrial development nor in welfare programs to continue the heavy urban emphasis of the first ten years. Furthermore, it has been a cardinal feature of welfare in China that individual need be demonstrated.

(3) In social welfare administration "all major social welfare functions have become part of the ongoing responsibility of state organs, are included in planning budgets and are allotted resources on a regular basis. Social welfare agencies have come to occupy a permanent place within the structure of government." The difference between the Chinese and Russians is again important. The Chinese emphasis, with some exceptions, is upon local organizations. Both rural dominance in terms of need, plus the ideological commitment to "learn from the masses" reinforces this tendency. That there are budgets in local units, however primitive, cannot be doubted. But whether considering the decisions of local production teams to award work points to the families of veterans or the establishment of worker nurseries, the emphasis is upon local initiative, and local financing. In the first decade, the central ministry's were more active than at present, but even in those early years, there is evidence of the importance of local enterprises, communes, and organizations. Professor Madison comments upon the characteristic of permanence in the Soviet Union. Naturally in China, there has never been a question of the firmness of the government's commitment to welfare, but the mechanisms for transmitting that help are always subject to reconsideration, within the ideological lines of the Party. Furthermore, there is no activity in China that can properly be called that of a "social worker". The social work profession is still seen as an imperialist effort to control China or at best, the work of perhaps well-intentioned people who did not perceive the relationship between the economic system and the individual needs of the citizen. Social work remains tied to charity in China and neither Chinese nationalism nor Chinese Communism will permit the evolution of such a profession.

(4) "There is no doubt that Soviet welfare effort has been strengthened and advanced by the guidance it has received from science and its decreasing reliance on improvisation." Implicit in this comment is a conflict between science and improvisation. The Chinese view would be to reverse the statement "There is no doubt that Chinese welfare effort has been strengthened and advanced by the guidance it has received from the masses and its increasing reliance on improvisation." In short, this is a welfare statement of the "Red and Expert" argument that has been a hallmark of the Chinese political scene. Particularly since the GPCR, the emphasis has been upon the masses and not upon the expert, the specialist. In all avenues of life, from acupuncture, to machine tools, to the schools, stress is upon the knowledge of the masses and its basic wisdom. In the field of welfare, the reliance upon science represents a dehumanization and a willingness to adopt foreign standards which often result in the hardship of Chinese people.

(5) "Tied to the scientific approach is an emphasis upon prevention," is the judgment of Professor Madison. Yet it is equally true that prevention represents the common sense attitude of the Chinese. In China, along with many other developing countries, there is the clear attempt to draw upon the simpler, less costly, methods for meeting needs and problems whether it be the use of historically popular drugs in the countryside or the development in children of the proper attitudes and experience for a life in the countryside. Certainly, much of present day knowledge about the control of public health hazards is drawn from the advancement of science, but it is equally true that the application of local remedies, or the study of their basic scientific value represents a lesser cost in such a poor country. In the Chinese view, with its assumption about the maleability of men, the establishment of mass organizations, and the proper outlook, many of the problems of society both industrial and agricultural are amenable to reduction or elimination.

It is true for both China and the Soviet Union that—(6) "social services by a responsible agency are not available at all for those confronted with certain kinds of social problems . . . Welfare services are not uniformly available throughout the country." The primary difference between the two countries though is based both upon the levels of industrial development and the perceptions of what constitute social problems. Limited as they are by the present industrial level and the overwhelming nature of contemporary problems, the Chinese welfare system does not consider the more sophisticated problems of an advanced industrial society.

The basic difference between the two countries is well summarized in the comment (7) "The Soviets have failed in their struggle to deal with 'social anomalies' . . . Why the same conditions of life affect people differently and are perceived differently . . . the recognition that more is required to return some people to a productive life than recourse to the rational elements in behaviour, as expressed in the educational value of work, socialization, group pressure, and self-control." Here is the nub of the difference between the two systems. China remains today a revolutionary society. The differences between people are still explainable in the ideology of the revolution, on the remnants of past economic classes, and the subversion and betrayals of leaders. The possibility of utopia is still real in Chinese ideology, and in its name, the leadership and the Party direct, draw upon, and interpret the contributions of the masses. Rejecting "economism" that is the emphasis upon rewards, the Chinese stress the internal development of the Chinese man and reduce the economic symbols and privileges upon which much of the Soviet welfare program is based. Though the pensions and certain aspects of welfare in China still rest upon wages, though the ability to distribute "according to need" and not "production" has not yet been achieved, it is in this direction that the Chinese leadership would move.

Professor Madison notes that the Russians have not yet dealt with the full implications of the theoretical Marxist requirement of "to each according to his need" and wonders if the industrialized Soviet Union will finally seek to actively implement this theorem. In light of this experience, the prospects for the People's Republic remain equivocal. Up to now, there has been a common sense combination of theory and practice, melding individual responsibility and societal concern. But the realities of scarce resources remain, the emphasis upon egalitarianism is not total and it is still not certain that "to each according to his need" is compatible with success in building an industrial state.

Chairman PROXMIRE. Thank you very much.

You bring a very rare combination of qualifications to the committee as a witness, Professor Wu. You are a Chinese scholar; you are an eminent economist; you have a knowledge of the military problems, expecially of the military problems with respect to Asia; and you have made a fascinating analysis here.

Making the most favorable assumptions possible for the Chinese economy in terms of growth, in terms of population stability, in terms of consumption, is it conceivable that the Chinese could build an air force, a navy, with nuclear power capable of threatening any nation except those that share a contiguous border with China, such as Southeast Asian countries, possibly Korea, possibly India and Pakistan?

Mr. WU. I think the Chinese for the time being at any rate are not aimed at using their——

Chairman PROXMIRE. Wait a minute. I am not talking about what they may be aimed at; I am talking about making all the assumptions we want to make; I want to state my thesis very clearly: I have become convinced in these hearings and the hearings we had before that given every possible break and given the most militant kind of Chinese government, and we don't know what kind they are going to have with Mao very ill and with a change impending, that they still simply don't have the economic muscle, they don't have the capacity, to constitute a threat. They can't take Quemoy and Matsu that are 2 miles off their shore; they don't have a navy that could possibly

challenge the 7th Fleet or any part of our Navy or any of the navies of the world. They have a rudimentary air force; they have a beginning nuclear power but far from developing anything that would not be dwarfed overwhelmingly by the Soviet Union and the United States and, consequently, I have felt that this has been a myth, that we have spent billions and billions of dollars on the notion we have to combat some kind of threat China can mount, and there are no assumptions on when she can develop it.

Now, knock that down for me.

Mr. WU. I think if you are talking about capability rather than intention——

Chairman PROXMIRE. I am talking about capability now.

Mr. WU (continuing). And especially in the neighboring areas——

Chairman PROXMIRE. Well, now, I say she could constitute a threat obviously in Korea and she did, especially there, possibly in Southeast Asia, possibly to her west, in Pakistan and India, but that is it; isn't it?

Mr. WU. But you are thinking also, Senator, of the Taiwan Straits, for instance, are you, or of the United States?

Chairman PROXMIRE. Yes, she has to have a navy to do it. She has to have the capability of a naval air force to support surface ships and she has to build it; and she has to have a steel industry and the fundamental economic strength that any nation has to have to build that that kind of military muscle, doesn't she?

Mr. WU. If you are thinking of a threat to the United States, Senator——

Chairman PROXMIRE. I am thinking of a threat to anybody; I am thinking of a threat to Indonesia and to the Philippines, any place out of the area I have defined.

Mr. WU. I would think that Chinese capability could be much larger than we had assumed. I don't know how large an air force or how large a navy they could build within a certain time frame but I think we may, under all these assumptions, be underestimating their potential in that respect.

Chairman PROXMIRE. Well, those are generalities. You are a scholar; you have given us some excellent specific analysis here, making assumptions with respect to their growth. Assume they grow not at 2.3 or 3 percent or 4 percent; assume they grow at 5 percent, aren't they so far behind? They do have a GNP less than Italy's; they have a GNP one-eighth of ours. They have a fantastically huge population to feed, to clothe, to house.

Now, where do they have the margin that is going to enable them to develop any kind of a military threat?

Mr. WU. My point is that maybe the weapons' cost isn't as large as it may appear to be otherwise. Maybe we are going about it, estimating it, in the wrong way.

Chairman PROXMIRE. Well, I think we learned in Korea they are an enormously dedicated, powerful force when we fight them in a land war in Asia.

What I am saying is in this modern world don't you have to have a great deal more than just people no matter how many tens of millions or hundreds of millions you have to constitute a threat over the ocean, overseas, outside of their borders?

Mr. WU. But you can't really separate this entirely from the way they would use such weapons. If they aim only at developing up to a

point of deterring other countries from using certain weapons in which they are inferior, then they could pose a conventional threat—and I think they may be able to reach that deterrent stage when they feel they have sufficient deterrence—more easily and more rapidly than we give them credit for, expecially if we make the favorable assumptions.

Chairman PROXMIRE. Well, if you would want to expand on that when you correct your remarks, I would be happy for you to do so, because this is a question we have to raise with respect to our own policy.

One of the reasons why we have expended enormous sums is to defend against what William Randolph Hearst developed as a threat of China back in the early part of this century and which has persisted, in my view, as a myth.

Mrs. Kallgren, you make an excellent analysis, the best I have seen, I think, of the reasons why China may be getting its population under control.

In your view, do you conclude that they can work a permanent—develop a population zero situation and are they aiming at that in in your view?

Mrs. KALLGREN. You know, that is a very fair question but it is impossible to answer. I am making here the positive case. I think that Mr. Wu, quite properly, points out the problems in that article.

I should say that ZPG—I think that is the term used for it—is not in the foreseeable future at all. The real issue, is whether or not the Chinese can come to terms with their population increase in terms of increasing the well-being of its citizens, and I am impressed with the degree to which they have done it and the degree to which they have done it in a way that is outside—I am not a demographer—but in a way that is outside the normal patterns that have been done elsewhere.

Chairman PROXMIRE. We had a witness yesterday, a very distinguished economist from Cornell, who told us that the Chinese, since 1957, have suffered because of the increase in their population, an actual per capita drop in caloric consumption; that is, in food consumption—No. 1. No. 2, they have less clothing available, less cotton fibers available, which is the heart of their clothing problem, so they have not advanced; they have retrogressed.

Do you disagree with that view?

Mrs. KALLGREN. I am afraid I do. I know the professor to whom you refer and he is a very able man and I speak as a political scientist: But it seems to me, if you are going to take the argument and say, the Chinese are not as well off as they were before—and I am not talking about the situation of those originally poor, but in the middle and late 1960's—it seems to me that if the Chinese were worse off you would have some pretty clear evidence of it. The fact is that I have done interviewing in Hong Kong and in Taiwan, and you would think that people who had left China for political reasons or to better themselves economically would report this kind of fact.

There is no question that in 1961-62, things were grim indeed. But it seems to me that all the evidence since then indicates a very substantial increase in the general quality of living in China. The standard of living still has a long way to go and I don't doubt that some people have suffered in the course of this process. I don't think progress is always even—I don't think it is distributed equally in China.

Some Pakistani visitors went to China and visited all sorts of communes and they came back with some very interesting statistics about the income differences of a man or family living in China. There is no question that the Chinese have very poor areas indeed. But if you go on the basis of what refugees say, of what visitors say about China, and of what the Chinese publishes, it seems to me that the obvious fact is that the Chinese are better off in the quality of living.

Chairman PROXMIRE. Let me try to put these two together.

Is there an effective or can an effective consumer demand develop which could take some of these resources otherwise which might go to investment, and might go to the military, and simply demand as it seems to have been to some extent in Russia, to divert these into consumer consumption?

Mrs. KALLGREN. Well, I would be inclined to say that the degree was substantially less than in the Soviet Union.

Chairman PROXMIRE. It is so far, of course, that is, acknowledged—I am talking about what you foresee as this society develops.

Mrs. KALLGREN. As I forsee this society developing, and barring all sorts of really very possible substantial changes, it seems to me that the emphasis the Chinese have placed on local financing precludes this. I was impressed with the continuity between your reports in 1966, and this current study where both agree that the Chinese have stuck to this stress on local control and local financing. So I would say, barring centralization politically and economically—which is something that most of your Government reports do not speak of—the Chinese have within the local areas this ability to draw on the local areas for the more normal quality of life items. I mentioned aspirin as an example; but that is a good example, as a matter of fact.

Chairman PROXMIRE. Lots of headaches?

Mrs. KALLGREN. Yes.

Chairman PROXMIRE. Senator Fulbright.

Senator FULBRIGHT. Mr. Wu, do you feel that the GNP, as we use it in this country, is a useful criterion in judging their relative economic strength and ours?

Mr. WU. I think it is useful in the sense of looking at how they do from one year to the next and so on, comparing over time; but for comparison between how they are doing and what they are doing with how we are doing and what we are doing, I would think that the data as now constituted are not particularly helpful.

Senator FULBRIGHT. Do you think our GNP is useful to us in estimating the quality of life in this country?

Mr. WU. Well, if one digs into the way the GNP is arrived at, there could be certain questions; yes.

Senator FULBRIGHT. What are the questions? I mean, is it a useful or is it a misleading criterion?

Mr. WU. It is useful.

Senator FULBRIGHT. What is it useful for?

Mr. WU. It is still misleading in some ways.

Senator FULBRIGHT. What is it useful for?

Mr. WU. If you want to know how output is growing or not growing.

Senator FULBRIGHT. But output of what—of military? We have enormous military expenditures and this increases the GNP, doesn't it?

Mr. WU. Output of goods.

Senator FULBRIGHT. Military goods—doesn't it just as much as something useful?

Mr. WU. It goes down to the way of how you value your particular products, if you value them at market price or what.

Senator FULBRIGHT. But it is the kind of products. When we have more crime in Washington and have to put on an extra thousand policemen, this increases the GNP, doesn't it?

Mr. WU. Right.

Senator FULBRIGHT. So the more crime we have the more prosperous we are [laughter], the more garbage we have to collect, the more prosperous we are, aren't we? If you use the GNP as a criterion of well-being, is that not true or isn't it?

Mr. WU. That is correct; it is correct.

Senator FULBRIGHT. So if you have no garbage disposal program then you are poorer? [Laughter.]

If you don't have any crime, you are poorer, aren't you?

Mr. WU. The problem has to do with the way certain sectors are measured.

Senator FULBRIGHT. That's right.

Mr. WU. And it is a problem.

Senator FULBRIGHT. And it seems to me it is a very misleading tool to use. It irritates me very much for people to cite an enormous GNP when so much of it is accounted for by an increase in crime, garbage, pollution, gambling, leisure travel—none of which seem to me to contribute very much to the inherent strength of a society. Would you agree with that or not?

Mr. WU. Well, in that sense, yes.

Senator FULBRIGHT. Well, in what sense do you think it does help?

Mr. WU. Well, if you disregard certain types of activity and certain products which you think are not useful intrinsically, you do need a measure of the total level of activity, and you need some measure, and that is your problem.

Senator FULBRIGHT. They have rung the bell; I have to go vote now. We will have to recess. I have 5 minutes to go to make the vote.

(Recess.)

Chairman PROXMIRE. The committee will come to order. I apologize for this delay to the witnesses. These rollcalls are something that we have to abide by. I haven't missed a rollcall since 1966.

Professor Wu, what are the purposes served by the military capability of the People's Republic of China? Whom do they consider a threat?

Mr. WU. I think at present the primary threat is from the north, the Soviet threat.

Chairman PROXMIRE. And what other—do they consider the United States a threat?

Mr. WU. Only an amorphous kind of threat, distant, potential.

Chairman PROXMIRE. Have they deployed any forces to meet the threat of this country?

Mr. WU. Are they what?

Chairman PROXMIRE. Deploying any forces, say, on the Korean border or Vietnamese border to counter a threat developing with our participation?

Mr. WU. I don't know of any deployment but they must have border forces.

Chairman PROXMIRE. In your view, is their emphasis on the nuclear deterrent primarily in response to the Soviet or in response to us?

Mr. WU. I would say that at the moment, or at least for the last 2 or 3 years, the nuclear program has been accelerated and perhaps adjusted in response to what they perceive is the nature of the Soviet threat.

Chairman PROXMIRE. I understand the President of the Soviet Union is now on his way to Hanoi, stopping off at Calcutta. He has been quoted as saying that the war in Vietnam must be stopped fast, the bombing halted. Do you see any hint here that there has been some kind of agreement reached in the Moscow talks between the United States and Russia with respect to the Vietnamese war?

Mr. WU. I have no basis to speculate, no.

Chairman PROXMIRE. I just received that and I thought you might have an observation on it.

Is the military solution of the Taiwan question an imminent possibility?

Mr. WU. The military solution by the P.R.C.?

Chairman PROXMIRE. That's right.

Mr. WU. No; I don't think so.

Chairman PROXMIRE. They don't have the naval capacity?

Mr. WU. I think they would have to have naval and air superiority locally in order to be able to have ground superiority, and they perhaps could do that, could achieve that, if they mustered all their forces together; but given present conditions in the north and with the political situation in the world, they wouldn't do it.

Chairman PROXMIRE. Mrs. Kallgren, along the same line I was asking before—this is a little different—many studies imply extreme austerity has been an economic policy of Chinese leaders; that is, really squeezing the consumer, consumption sector of the economy. Do you find this to be the case or do you see a qualitative change in the life of the average Chinese?

Mrs. KALLGREN. That is not a contradiction, really.

Chairman PROXMIRE. Well, they could be easing the squeeze?

Mrs. KALLGREN. Oh, sure. A couple of things seem to be relevant. First of all, it is very useful to keep in mind—and I certainly try to do it myself—the enormous diversity of China. It is very difficult to resist the temptation to speak of "China". If there is anything that has come out of both what the Chinese say, or the reports of visitors to China—whether they are Americans or British or Japanese or, anyone who has been to China—it is that the more remote you are from Peking, the more remote the village, town, the more these differences may be apparent. Some of the areas of China are really very, very poor; and there is no question, for example, that up to now you are better off in a city——

Chairman PROXMIRE. There is economic diversity isn't there?

Mrs. KALLGREN. Sure.

Chairman PROXMIRE. They have much less diversity than we have in the United States in a sense, at least they have a racial homogeneity that we don't have?

Mrs. KALLGREN. That is true.

Chairman PROXMIRE. We have a population that is black, white, yellow, and red?

Mrs. KALLGREN. That is true.

Chairman PROXMIRE. We have, of course—we are a melting pot—people from various other nations who have settled here and have been here a very short time. They do have the homogeneity there. Would you say they have a difference of standard of living which is very substantial?

Mrs. KALLGREN. Well, you know, sir——

Chairman PROXMIRE. From low to very low, apparently?

Mrs. KALLGREN. Yes, I think so. I think, for example, if you compared the standard of living in Appalachia and the standard of living—I don't know—of Southern California, I think you would find some very important differences.

Chairman PROXMIRE. Maybe this is one of our problems with respect to the visits by the President and by the majority and minority leaders; obviously, they wouldn't—I know they tried hard; they are very honest, very able people, all of them, but there would be a tendency to go to the areas where the people are relatively better off——

Mrs. KALLGREN. That's right.

Chairman PROXMIRE. Not to the areas where they are desperately poor, so that the notion that we get of a relative improvement in the Chinese living standard may be distorted; is that correct?

Mrs. KALLGREN. Well, I think if——

Chairman PROXMIRE. We are talking about getting to see 850 million people. No matter how hard you try, you can't see more than an insignificant fraction of that many?

Mrs. KALLGREN. I think you are correct. I would want to give you an example. When I was in Hong Kong in 1970, I had an amah who watched out for my children, and she visited her family in Canton or in the Canton region. She had visited them over a number of years and had been asked each time she came back what were the differences. The most recent time she commented; well, the difference was there was electric light in the village, and the local cadre had invited her to tea and that this had never happened before.

Now, my point is simply—as your report, as a matter of fact, said—that it is a question of whether the glass is half full or half empty. It seems to me I am taking the argument that it is half full, and that that is a very substantial achievement.

Chairman PROXMIRE. Was the increase of local power in China during the cultural revolution, the increase of local power a conscious policy or a result of the disruptions of central control? I am just wondering whether central control returned to the precultural revolution level? Is this a Chinese form of a new federalism?

Mrs. KALLGREN. I don't believe that—I think some central control has been reasserted in the last year or thereabouts as the party is being restructured and is coming back as a viable force, but I think there is a very substantial degree of local control in China. It has worked. I suggested that one area is welfare; I think another is in agricultural production. I think there are—there still remain—substantial degrees of local adaptation, the ability to take a central directive which is pretty vague and then work it out in the local areas as to how you go about, in fact, learning from the local masses.

Chairman PROXMIRE. I would like to ask both of you this question: I want to know about the interaction of Chinese domestic and foreign

policy, and I am wondering whether economic growth would tend to facilitate an improvement in United States-Chinese relations, or would it be more likely to confront us with a powerful, more powerful adversary?

Mr. Wu.

Mr. WU. Offhand, I would say that it has no necessary immediate relationship; economic growth could give them more military capability and make them more hostile, but not necessarily. That depends upon other things, I believe.

Chairman PROXMIRE. Does it depend in any way at all on what we do, in your view, in our trade and our interchange of people and so forth? Can that have any influence, or is it likely not to be big enough to be significant?

Mr. WU. I would think that the really most important factor at the moment is the Sino-Soviet relationship.

Chairman PROXMIRE. How about the Vietnam war as far as our position is concerned? Isn't that as long as that is going on, aren't we sure to have an adversary relationship? Isn't it likely that any economic development under these circumstances would be adverse, and absent the Vietnam war that it might be constructive?

Mr. WU. I don't think it is being allowed to influence Chinese policy too much, primarily because of their other concerns. Obviously, if there were no war in Vietnam, it couldn't but be somewhat better.

Chairman PROXMIRE. I just wonder about that. Vietnam is right on their border—North Vietnam. We have concentrated a fantastic amount of military power, dropped more bombs in those two little countries than in all of the countries in the world combined, twice over in World War II. We seem determined to establish a government in South Vietnam that is sympathetic to our views. Doesn't this constitute a basis for hostility on the part of the Chinese?

Mr. WU. This may be in the past; I would think that Peking probably believes that given the U.S. force reductions—"The Americans are going to leave so why don't we let them leave, and then one could try to take over if one wanted to." So as Peking sees it, this is the tail end of the story and there is no need to get excited over it.

Chairman PROXMIRE. Mrs. Kallgren.

Mrs. KALLGREN. I would be inclined to say that the ending of the Vietnam war is a necessary but not a sufficient condition for improvement, or any practical improvement, with the People's Republic of China. I think that I would agree with Professor Wu, that the President's trip to Peking, which I might say, I thought was an historic event, could not have occurred in the absence of Chinese belief that the Americans were withdrawing.

Chairman PROXMIRE. Would you disagree with Mr. Lattimore who says this was kind of a posturing, as I understand it, just a way of getting the minds off the Vietnam war?

Mrs. KALLGREN. Yes, I do disagree; I think I understand Professor Lattimore's view, and I have a great deal of respect for him. I think that argument in another version has been made by George Ball—that the visit could have been done by Mr. Kissinger or Secretary Rogers or someone. I think the public educational value of that trip was just enormous, and I don't believe it could have been done by anyone else, even though there were some startling lapses in information that I am

sure China watchers like myself chortled about in the course of the trip; but I think that it required the trip of the President.

Chairman PROXMIRE. How about the basic question—Chinese improvement is going to constitute a threat or can be, is more likely to be constructive?

Mrs. KALLGREN. Well, to the first, I would agree with Mr. Wu that by itself it is a neutral fact. It ties in more with the political aspirations of the Chinese leadership. It seems to me that the possibilities of increased development for China requires the ending of the Vietnam war which would then open the possibility of improved American-Chinese relations. But I think Taiwan is likely to remain a very serious issue, not in terms of an immediate threat but simply as an issue we have put on the back burner which will be a lot longer in resolution—that, and the defense treaty with Japan.

Chairman PROXMIRE. What changes do either one of you see or both of you see in the Chinese policy as a result of the passing from the scene of Mao? We have the information this morning that he does seem to be seriously ill.

Mr. WU. I think that Chou En-lai, for instance, who is a very able man, an experienced administrator, still needs Mao's authority so that he could say this has the chairman's approval and so on. If Mao should pass from the scene, that would disappear and Chou alone, as of now, I would doubt has the authority to take over completely, to assume that position.

Chairman PROXMIRE. Very interesting. What happens? Would they lose a very important unifying force that constitutes an element of serious strength with Mao's passing?

Mr. WU. Yes, I think they would, in the immediate future then, try to rule by some sort of committee, but I would doubt that committee—the composition of that committee—could be very stable; and we just don't know.

Chairman PROXMIRE. There has been a history of divergence and conflict in China, certainly over the last 100 years or so prior to Mao's ascendancy, hasn't there?

Mr. WU. And especially as a result of the cultural revolution and the postcultural revolution purges in the central committee. I would think that with that background and that atmosphere there could not be very much mutual trust, and the confidence of people in one another on the same committee would be very questionable.

Chairman PROXMIRE. Mrs. Kallgren.

Mrs. KALLGREN. I think that one of the characteristics of revolutionary societies is the transition crisis, which I don't doubt would be very difficult for China. I would concur with Mr. Wu about a collective leadership.

I think it would be a time for great restraint by the United States and other countries in their relations with the Chinese because I think that the one thing that is universal in China is a strong sense of nationalism. Many countries have used the external threat, whether actual or not, as a way of keeping unity. I would hope in that transitional period—which might be very lengthy, that pressure on the Chinese, perceived by the Chinese or actual, would be minimal. I think that decisionmaking would be much in abeyance for some period of time. So there might be little change of progress in our relations for the short range, in any case.

Chairman PROXMIRE. Senator Fulbright.

Senator FULBRIGHT. Well, I don't know. I hate to detain you too long, but I would like to ask you what incentive the Chinese have for planning to attack the United States? Mrs. Kallgren, do you think that is their purpose?

Mrs. KALLGREN. No.

Senator FULBRIGHT. Do you, Mr. Wu?

Mr. WU. Beg your pardon, sir?

Senator FULBRIGHT. Do you think the Chinese are planning, assuming they become strong, to attack the United States?

Mr. WU. Now, no.

Senator FULBRIGHT. Well, at any time? What incentive would they have?

Mr. WU. I cannot see any at this time, but who knows in the future?

Senator FULBRIGHT. Well, that's right. You can only judge it from what you see now. I wonder what purpose would they have?

Mr. WU. I would see no particular purpose, no.

Senator FULBRIGHT. Do you think there is likely to be trouble; that is, military trouble, between China and Russia?

Mr. WU. That is a very difficult question. I think as every day passes the chance of military trouble lessens between the two. I would, however, say that there are certain critical times that could happen, especially if these critical times happened soon and that is at the time Mr. Mao passes from the scene or if there is some internal trouble after that event. That could be a very critical period.

Senator FULBRIGHT. I didn't get to finish my very tentative discussion about the GNP which you use and which all American economists seem to use. It seems to me it is a very untrustworthy way to try to compare two different economies such as ours and theirs is quite a difference in the items that make up those GNP's; isn't there? They really have very little relevance, it seems to me. To say China's GNP is one-eighth of ours, I don't think it means that the life of people in China is measured in that fashion in any very significant way. Do you think it does?

Mr. WU. That is precisely one of the points I was making, that this kind of international comparison——

Senator FULBRIGHT. They are very faulty, whether it is China or any other, or nearly any other country, except that perhaps you can find one—I don't know where it could be—as extravagant as we are. I am not sure whether you could find one or not.

Well, is it a fair question to ask you if there has been any change during the last 10 years between the strength and influence of the United States and China? Have we become stronger or less strong compared to China? Is that a question that is feasible to ask you?

Mr. WU. Well, that, too, is very difficult to answer.

Senator FULBRIGHT. Yes, it is.

Mr. WU. Because stronger or not——

Senator FULBRIGHT. The reason I ask, I have the feeling that due to our misguided policies we are much less strong and influential in the eyes of most of the world than we were ten years ago. That isn't just relative to China. Our difficulties and our problems, particularly in the domestic field have grown so in the last 10 years that we are in greater difficulty than our people are willing to admit. This is the

reason why I am some Members of the Senate have urged a change in policy, because it hasn't been beneficial to our own strength and influence as a community.

Would you have any comment, Mrs. Kallgren, on that, or is that not a fair question?

Mrs. KALLGREN. No, I think it is a fair question. I think that the changes that have occurred in our relations with China date perhaps from 1970–71, and I think they are all, by and large, for the better. I believe that many of the developing countries do see in certain of the Chinese experiences potential lessons for themselves. The fact is that very few countries have made the kind of modernization leap that is represented in Japan, and many of the Chinese lessons appear to be transferrable.

Now, I would hope—whether it is in Africa, as a spinoff perhaps of the Tanzanian Railroad, or in some areas of Southeast Asia (which is one of the areas where Chinese trade might develop, by the way, in the next decade or thereabouts)—I would hope that those countries would adapt, as the Chinese have suggested, their lessons from China to their own culture and to their own experience. I would think in this respect that there may well be some in the Chinese leadership who perhaps have some questions about the present tactics that the North Vietnamese Government has pursued: for instance, in abandoning the Chinese style of how wars like this might be fought. So I don't think that all of the Chinese lessons, or experiences, can be translated. But many of them now are being experimented with. For countries not geographically close to China, it is easier to experiment since there is perhaps less problem in terms of political relationships.

Senator FULBRIGHT. You mentioned in your testimony that you were a China watcher and had been in Taiwan and in Hong Kong. Have you been in China itself?

Mrs. KALLGREN. As a child, I was raised in China.

Senator FULBRIGHT. I mean recently?

Mrs. KALLGREN. No, sir. I hope to go someday.

Senator FULBRIGHT. Well, we have had two Members of the Senate, as you know, plus staff people, in addition to a number of witnesses before the Foreign Relations Committee, who have been there in recent months. I think they generally were rather surprised by what they saw. It may be that they were given a guided tour and didn't see very much, but what they saw they were quite favorably impressed with—the progress, which is consistent with what you, I thought, said with your interviews——

Mrs. KALLGREN. Yes; I think that is true, sir.

Senator FULBRIGHT. Senator Mansfield—well, you know about it—and Senator Scott, but in addition to that, some of the staff people and others got beyond the officials and were not as confined to official circles, and some of them did travel about the country. All seemed to report that there was a feeling of, well, certainly not of alienation, if not of real enthusiasm for their lot in life. Most of them said the people they saw on the streets had the appearance of being well fed and reasonably happy; that is, their expressions were not too unhappy, not like you see when you walk in New York City. [Laughter.]

How do you interpret this? What does it mean to you?

Mrs. KALLGREN. I think, sir, it represents the fact that there has been progress.

Now, I suppose the question that I find so hard is to appraise how much of the progress is due to Chinese qualities and how much is due to the Chinese Communists. It seems to me that any government would have made efforts in the aftermath of World War II, much as the present leadership has, to provide a more rational distribution of limited resources. I think that many people, the Chinese included, find a sense of equity, of justice, to be a very important matter of life, and I think there is a very substantial amount of that, though it is not the whole picture.

Senator FULBRIGHT. Don't you think most people appreciate justice if they ever come in contact with it?

Mrs. KALLGREN. Yes, that's right.

Senator FULBRIGHT. So it isn't peculiar to the Chinese; that would affect nearly everybody if they felt they were living in a society that had respect for justice and equity?

Mrs. KALLGREN. Yes, that is true, sir. But I think if there are only x number of band-aids available, and they really go to the people who need band-aids, rather than to those who happen to have money, and whether or not they are sold at a moderate price—that is an important aspect of Chinese society.

I wouldn't want to ignore the fact that people leave China, you you know. We do have the fact that 20,000 people, more or less, swim out into Hong Kong. I have interviewed some of them. You ask: "Why did you leave?" The reply usually is: "On one hand, there are many things that I liked in my home; but on the other hand, I personally left for better options."

Senator FULBRIGHT. Did you see the recent Gallup poll? I believe the poll estimated that of American young people between the ages, I think, of 18 and 29, some 30 percent of them would like to leave if they could.

Mrs. KALLGREN. No, I didn't see that.

Senator FULBRIGHT. You haven't seen it?

Mrs. KALLGREN. I have not seen it, no.

Senator FULBRIGHT. Well, I don't advise you to see it. It is much better not to think of those things. [Laughter.]

Chairman PROXMIRE. You don't have to swim away. [Laughter.]

Senator FULBRIGHT. Well, they don't have the fare, apparently. They said they would like to leave if they could. They don't know how they could go if they wanted.

Nearly all countries have people who are dissatisfied. It is a matter of degree. The history of China is no secret; they had no place to go but up from 1945, at least they couldn't get much worse.

Mrs. KALLGREN. No, that is true.

Senator FULBRIGHT. So they are bound to show some improvement.

There is no reason for us to have any other than a sympathetic interest for China for having participated in a relatively minor degree in the decimation of the country. We played a small part in 1839–40; we weren't the leaders, but I think we certainly bear a certain responsibility for it. On the other hand, I think it would be to the advantage of this country and all other countries if China did make progress. I don't see how it would contribute if she was torn with internal dissension or was threatened by internal aggression, if there is anybody thinking about it. And I don't know that they are.

Mrs. KALLGREN. I would concur, sir; but I do think one other aspect of it is that that development occurs in conjunction with her neighbors, the divided Koreas and with Japan, and I would be, I think, remiss if I didn't say I could imagine some difficulties there in the short run.

Senator FULBRIGHT. Yes. My time is up.

Chairman PROXMIRE. Go ahead.

Senator FULBRIGHT. This is very interesting. You say you were born there?

Mrs. KALLGREN. Yes, sir.

Senator FULBRIGHT. Where?

Mrs. KALLGREN. No—not born; I was born in San Francisco, and I went there when I was 6 weeks old and stayed there until I was 6 years old.

Senator FULBRIGHT. Where did you live?

Mrs. KALLGREN. In Shanghai.

Senator FULBRIGHT. Did you know Mr. Service?

Mrs. KALLGREN. Yes, sir; I have known him.

Senator FULBRIGHT. Where did you know him from?

Mrs. KALLGREN. In the Center for Chinese Studies.

Senator FULBRIGHT. You know his views?

Mrs. KALLGREN. Yes, I do.

Senator FULBRIGHT. And you are familiar with what his views were? He was there last winter.

Mrs. KALLGREN. Yes, he was.

Senator FULBRIGHT. He was one of those—there were several others there. Professor Galston and two or three others who came back, and our own physician, Dr. Pearson, the Capitol physician. I talked to him the other day about it. He seemed to be quite impressed by what he saw, recognizing the physical differences in certain aspects, but he thought that it was quite impressive, in his area of medicine.

I agree with you about the significance of the President's trip. I certainly applaud it and I hope we can follow through and that it will enable us to establish better relations, improving relations. I don't really see any good reason why we shouldn't. I can't see why we should be suspicious of their purposes.

I don't see why, unless they feel really threatened by Russia, they would devote an enormous amount of their efforts toward military equipment. I can understand the nuclear thing. All of them are afraid of nuclear weapons but to amass great quantities of tanks and bombs and guns doesn't seem to me to make much sense for China unless they think the Russians are going to attack them.

I wouldn't see why the Russians would attack them. So you see any reason why they should? The question of land remains there and they quarrel about that, indefinitely, because Russia did take an awful lot of land from them, but I doubt that that will be solved by arms.

Mrs. KALLGREN. I would distinguish between should and would. I certainly defer to Professor Wu but it would seem to me that if one turns to the should or would, we then have to confront those clashes in the north on the Ussuri River and those were serious. You know, it wouldn't be the first time that nations have perceived this interest in such a way that a clash occurs; but I would concur with Professor Wu that as every day passes the likelihood of it decreases. I think that the recent trip of the President, the recent trip to Moscow—I heard comments that were on TV—commenting on the fact that Russian

views of China had moderated in the last few years. Speaking with Russians, say, 3 years ago, they tended to be very paranoid about the People's Republic of China. But this time—and this was a newspaper person's comment—it was a much more rational discussion about China, which is so much the better.

Senator FULBRIGHT. Well, I can understand Russia's paranoia because they feel guilty having taken some of their land and they don't want to give it back. I don't expect they will, but with nuclear weapons these old-fashioned quarrels over a little land don't make much sense any more—if they ever made any? With either or both having nuclear weapons those types of conflict don't really make any sense at all do they?

Mrs. KALLGREN. Well——

Senator FULBRIGHT. Any more than our war in Vietnam makes any sense. It is just inconceivable to me what they are fighting about now, why we are killing people. Do you have any suggestion on that, that could enlighten us?

Mrs. KALLGREN. I don't think so; I don't think so. I do think that the Vietnam war does pose certain problems between the Russians and the Chinese, and I would take some of the Chinese statements, the most recent ones, as not having only ourselves as an audience but the Russians as an audience. The same might be said about Podgorny going to Hanoi. I would think that is an issue we would want to take into account, as well as the Chinese national security purposes.

Senator FULBRIGHT. Take into account what purpose? This all has, I suppose, a relation to our own policy. How do we take that into account?

Mrs. KALLGREN. Well, I think it is perfectly true that the Chinese have heightened the language with which they are commenting on American—on the renewed bombing. But I would think that the timing of that statement, tied into the visit of Russian leadership to Hanoi, would simply be to bring to the fore the fact that the Chinese are very much behind Hanoi at a time when negotiations are obviously going on in Hanoi both on terms of aid and a variety of other matters.

Chairman PROXMIRE. Could I just say that I want to take at least partial issue with the chairman of the Foreign Relations Committee and with the majority leader, both of whom downgraded the significance of GNP. I would agree with respect to quality of life the GNP is an unsatisfactory measure. You can only sleep in one bed; you can only eat three meals a day; you can only wear one suit—somebody has five or 10 or 15 suits; he doesn't have 15 times the happiness or 15 times the opportunities, really, to enjoy life. But I think the GNP has immense significance as far as our relevant foreign policy considerations are concerned. It does measure much better, not precisely, but much better, the military potential of the Chinese economy and I don't think we ought to ignore that or downgrade it.

The fact that they have a far smaller gross national product than we have, I think, does represent to some extent their capability to threaten this country and to threaten their neighboring countries. Furthermore, we have so much fat from which we can draw to increase our military; we found that in World War II; we just stopped building automobiles and started building tanks. We led a more austere life.

The Chinese are already leading a more austere life; they can't squeeze it down considerably anymore, so these are important considerations in that respect.

I think Senator Fulbright and Senator Mansfield are right; we can't measure whether they are happy; we can't measure whether this is a satisfactory life for them. We can't measure that kind of thing.

I would like to ask Mr. Wu once more, because I think this is so central, and you are a scholar I respect and you have worked in this area in the Defense Department and elsewhere:

The basis on which we could consider China even a potential threat to this country—let me indicate one of the things that is in the back of my mind. We had the Defense Department appear before my subcommittee of the Appropriations Committee asking for funds for our military mission in the Philippines, and I said now who is really threatening the Philippines?

After all, who has got a navy that would threaten the Philippines? The Chinese couldn't possibly represent any kind of a threat. They don't have the economy to build a navy to do this.

So, once again, I would like to ask you, Mr. Wu, because I do respect you, if you can give me not a generalization about how sometime in the future they may represent a threat outside of contiguous border countries, but any kind of hard evidence that with such a much more primitive industrial development they could represent a threat to the United States of America that would justify our expending the billions of dollars we do to prevent this so-called peril?

Mr. WU. I would like to make three points on this:

First, I don't think that there is a direct military threat to the United States or there could be a direct threat in the foreseeable future, given Chinese capability, et cetera.

Secondly, I think that the threat that China poses is more indirect in the sense that other countries may believe that China is powerful, is able to do certain things, that the U.S. position has deteriorated and it is losing interest in Asia and so on and because of that perception of theirs, whether correct or not, they may choose certain policy options which would then alter the entire environment within which our policy could be implemented. That is a very potential thing and that is right there now.

The third point I want to make——

Chairman PROXMIRE. On that point, however, isn't it true that our military action in Vietnam is a negative factor, our display of enormous power under these circumstances is alienating the people in Asia rather than encouraging them?

Mr. WU. I would say that that depends upon whether we are talking about the entire history or particular acts or particular periods.

Chairman PROXMIRE. Right.

Mr. WU. Let me make my third point.

Chairman PROXMIRE. All right.

Mr. WU. The third point is that whatever Chinese capability can get to, it is hard to define and to estimate, that, we may underestimate Chinese potential capabilities because we may overestimate Chinese weapons' costs; to them the cost may be much less. Secondly, Chinese R. & D. has always adopted the policy of bypassing certain steps and you may have completely unexpected turns; and, fourthly——

Chairman PROXMIRE. Well, on weapons' costs you still have to have the steel industry; you have to have the electrical industry; you have to have the fuels; you have to have all kinds of things for which China has not developed the kind of economic potential and is unlikely to for some years, if you compare it with the Soviet Union and the United States.

Mr. WU. My last point is that the potential capability of China in the military area is more limited, if it is limited by specific constraints, than by general constraints in terms of GNP proportion and financial resources. The crucial question is whether specific things like certain types of steel, certain types of computers and so on are available or not. It is that kind of constraint.

Chairman PROXMIRE. Well, I thank you very much. Do you have anything further?

Senator FULBRIGHT. Just this last question: If you assume, of course, that the differences of view and conflicts among countries are going to be solved by military means, as in the past, all of this is very significant; but it seems to me with the development of atomic power that this really is an obsolete way to regard it. The real challenge from China or from other countries could be not so much a military threat but there is a real challenge if she should succeed in creating a just society that you referred to, Mrs. Kallgren. If people did feel that they had achieved a degree of equity in their relations among themselves, and with their government; if they do achieve a minimum of corruption among their leaders and in their society, on which we are told they have made progress; or a minimum of crime, filth and all the things that plague some of the more industrialized societies, this will create a real challenge in that the real danger to traditional society is in this area more than their capacity to build Tridents and B-1's and atomic bombs. Applying the traditional method of settling differences to a nuclear age seems to me to be quite a false way to approach it. I think the challenge comes in this other way—if they are really making the kind of progress that some have suggested, among them, Mr. Service. Do you think that has any validity? If that is true, then we should consider very carefully responding to every request of the Pentagon not devote so much of our efforts to that area which may not be on the target at all.

Chairman PROXMIRE. I might say either way, either way, take either your assumptions or mine, and I think your assumptions are much superior; I think there is no question that the real challenge of China is they may develop a just society which has great appeal throughout the world in terms of honesty, in terms of egalitarianism and so forth.

Senator FULBRIGHT. Much more likely.

Chairman PROXMIRE. Even if you ignore that, even if you take it on their grounds, is my point; if you view China as a nation that is determined to attack us militarily and to pour everything they can into the military, that kind of threat is still a myth. It is a myth; we are wasting our money; we are throwing it away.

Senator FULBRIGHT. I would certainly agree with that.

Chairman PROXMIRE. Either one you take, you can just take your choice. You don't have to assume China is going to develop into a—some kind of a idealistic society; even if it is the worst, we are still throwing our money away on the William Randolph Hearst nightmare.

Senator FULBRIGHT. I would agree with that, but, nevertheless, that is the current policy in most respects. We give the greatest emphasis to the military, more than anything else in our society.

Chairman PROXMIRE. That's right.

Senator FULBRIGHT. Whatever we may assume about their capacity; even if they had the capacity, I think they are too intelligent to go down that road. [Laughter.]

Don't you—wouldn't you agree, Mrs. Kallgren?

Chairman PROXMIRE. You asked me first. [Laughter.]

I don't think it is a matter of (a) intelligence. We were told by one witness this morning, Professor Lattimore, that nobody knows what is going to happen in China. He said the one thing you can't predict is what happens in a revolution when the revolutionary dies. We don't know. We can't make any assumptions. They can go either way.

I say either way they go, we shouldn't—and people, our society, instead of rebuilding our cities, instead of providing the kind of resources we need to correct pollution and improve our health and education, we tragically err by building an enormous military arsenal to confront a threat that is not there.

Senator FULBRIGHT. I agree with that. We are in agreement on that.

Chairman PROXMIRE. I am sorry, Mrs. Kallgren.

Mrs. KALLGREN. I agree with you, sir.

Chairman PROXMIRE. It is a happy note on which to end our hearings this morning.

Thank you very much. You both have been excellent witnesses with fine statements and excellent responses. The committee will stand in recess until 10 o'clock tomorrow morning.

Our witnesses tomorrow will be Prof. William Dorrill, chairman, Asian studies program of the University of Pittsburgh; Prof. Harold Hinton, Institute of Sino-Soviet Studies, George Washington University; and Colonel Fraser, U.S. Marine Corps.

(Whereupon, at 12:35 p.m., the committee was recessed, to reconvene at 10 a.m., Thursday, June 15, 1972.)

ECONOMIC DEVELOPMENTS IN MAINLAND CHINA

THURSDAY, JUNE 15, 1972

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to recess, at 10:05 a.m., in room S–407, the Capitol Building, Hon. William Proxmire (chairman of the committee) presiding.

Present: Senator Proxmire.

Also present: John R. Stark, executive director; Loughlin F. McHugh, senior economist; John R. Karlik and Courtenay M. Slater, economists; Lucy A. Falcone, research economist; George D. Krumbhaar, Jr., and Walter B. Laessig, minority counsels; and Leslie J. Bander, minority economist.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. The committee will come to order.

Today we conclude, for the time being at least, the present set of hearings on the economy of China. We held these hearings to review with independent experts the committee's compendium "People's Republic of China: An Economic Assessment."

All seven of our first 2 days' witnesses said that fear of her neighbors was the most compelling feature governing the Chinese military posture. Vietnam and Soviet Russia are the principal focus of China's concern, and the sooner our military presence in Southeast Asia is ended, the more likely we are to achieve real peace in that troubled area.

Our first witness this morning is Prof. Harold Hinton, professor of international relations and member of the Institute of Sino-Soviet Studies, George Washington University. Professor Hinton did his doctoral work at Harvard University. He has an impressive list of publications, particularly emphasizing Chinese foreign relations: "China's Turbulent Quest," with recent emphasis on Chinese-Soviet relations: "The Bear at the Gate."

Prof. William Dorrill, director of the Asian Center and Asian studies program, and chairman of East Asian languages and literature at Pittsburgh University, also received his doctorate from Harvard, as did several other witnesses. Incidentally, gentlemen, I have been working on that Harvard doctorate since 1946, completed all my requirements, and I have been trying to write my dissertation ever since, 25 years on that dissertation, but haven't gotten past the first chapter.

Professor Dorrill has made a definitive study of the early formative years of Chairman Mao's political career. He has contributed to many

books and journals, the most recent entitled "The Cultural Revolution in China."

Col. Angus Fraser, U.S. Marine Corps (retired), served as a planning officer, a combat officer, in Korea and China, and as an analyst of Asian affairs in the Institute for Defense Analysis.

I think we have a very well balanced and expert panel this morning, and I am delighted to see you.

Professor Hinton, go ahead.

STATEMENT OF HAROLD C. HINTON, PROFESSOR OF POLITICAL SCIENCE AND INTERNATIONAL AFFAIRS, INSTITUTE FOR SINO-SOVIET STUDIES, GEORGE WASHINGTON UNIVERSITY

Mr. HINTON. Thank you, Senator Proxmire. It is a privilege for me, as a China watcher, to present my views to this committee on the interrelationship between economics and politics in the People's Republic of China and its implications for U.S. interests.

Chairman PROXMIRE. Let me just interrupt to say, and I apologize once again—we had to do this for the majority and minority leaders and everyone who appeais before us. We have a clock that runs for 10 minutes and buzzes. If you abbreviate your prepared statement, we will put it in the record.

Mr. HINTON. In addition to writing on Chinese foreign policy, especially Sino-Soviet relations, I have tried also to follow domestic Chinese political developments, on which more evidence is available than is generally believed.

During the past 3 years, changes of great importance, of which the invitation to President Nixon is only the most conspicuous, have been occurring in the domestic and foreign policies of the People's Republic of China. Since change is an intelligible process only if considered in relation to the starting point, I must go back a little into the past in order to make my meaning clear.

For roughly the decade before the current changes began, the most prominent feature of Chinese domestic politics and foreign policy was a particular version of the thought of Chairman Mao Tse-tung that for convenience I shall label the dual adversary strategy. During that period, Mao's most consistent high level supporter was Defense Minister Lin Piao, and it was in part as a reward for that support, although even more because he seemingly controlled the army at a time when it alone could hold the country together, that Lin was made Mao's heir apparent in 1966–67.

The foreign aspect of the strategy was basically in effect during the whole of the decade prior to 1969. The domestic aspect, which trod on a larger number of powerful Chinese toes and had sustained a major setback through the failure of the Great Leap Forward—1958–60, encountered more difficulties and only prevailed as the Communist Party apparatus was destroyed at the initiative of Mao and Lin, with the support of Premier Chou En-lai, in the early stages of the Cultural Revolution.

The domestic aspect of the thought of Mao Tse-tung, including its dual adversary phase, emphasizes the use of Maoist ideological slogans, such as "Politics in Command," and indoctrination, more than the incentives and organizational devices traditionally favored

by the Communist Party apparatus, as the basic means of maintaining social control and maximizing economic output in all sectors, agriculture in particular.

In its foreign aspect, the dual adversary strategy has emphasized simultaneous political and ideological confrontation with military overtones but short of war, with both the United States and the Soviet Union. In order to prepare China to fight a "people's war" on its own soil if necessary and to generate revolutionary momentum abroad through the force of China's example, the conventional forces were guerrillaized to a degree in organization and tactics and much propaganda publicity was given to the budding Chinese nuclear weapons program, particularly in statements issued at the time of nuclear tests.

The Soviet invasion of Czechoslovakia in August 1968, which occurred just as the Cultural Revolution was beginning to be deescalated, followed by Soviet pressures on Romania and the proclamation of the Brezhnev doctrine, evidently stimulated within the Chinese leadership a policy debate as to whether the dual adversary strategy should continue to be applied. Lin Piao held that it should, and that it should be the political keynote for the forthcoming Ninth Party Congress, at which he was to be enshrined in the party constitution as Mao's designated heir.

Mao accordingly authorized in the fall of 1968, as a kind of replacement for the Cultural Revolution, a radical domestic program including large-scale population transfers from the cities to the countryside and a restoration of some features of the Great Leap Forward.

Abroad, Peking in February 1969, canceled, with much abuse, a scheduled session of the Warsaw ambassadorial talks with the United States and prepared for a border clash with the Soviet Union to demonstrate that China was no Czechoslovakia and to enhance Lin's political stature as the defender of the country. It was probably assumed, although wrongly, that the Soviet Union was too preoccupied with Central Europe at that time to retaliate. But Moscow appears to have read the signs in Peking correctly, or perhaps to have reasoned that China would be more vulnerable to pressure now that it had cut its ties, tenuous though they were, with the United States. In any event, Soviet Forces along China's Far Eastern frontier intensified their patrolling in late February 1969.

There is reason to believe that Chou En-lai was opposed to a continuation of the dual adversary strategy under post-Czechoslovakia conditions. He evidently favored, for the time being without success, a modification of radical trends at home and a normalization of China's foreign relations, including a "tilt" of sorts in favor of the United States, whose new administration he tentatively believed to be committed to winding down the war in Indochina and improving Sino-American relations. In addition, he probably wanted to eliminate Lin Piao and his following, both to enhance his own position and to decrease the influence on policymaking of the advocates of the dual adversary strategy. But for this he needed at the minimum Mao's support, and Mao needed to be convinced.

The process of unravelling Lin Piao's position and the dual adversary strategy appears to have begun shortly after March 15, 1969 when Soviet forces retaliated with devastating effect for a Chinese ambush of March 2. If the Russians, unlike the Americans since the

death of John Foster Dulles, could not be challenged and provoked with relative impunity as the dual adversary strategy tended to assume, then the entire strategy was suspect and the man who had just endangered China's security through blind and selfishly motivated adherence to it was politically vulnerable.

It is probably no coincidence that the month of March 1969, saw the winding up of the radical domestic policies previously in effect. Even though the Soviet Union began before the end of that month to propose negotiations instead of war, the menacing Soviet military buildup near the Chinese border continued.

On the other hand, President Nixon began in March to convey privately to Peking, at first through President de Gaulle, the genuineness of his interest in improving Sino-American relations and visiting Peking. Even though the Ninth Party Congress, which was held in April 1969, after a 2-week postponement probably occasioned by the border crisis, showed no overt sign of a decline in Lin's position, Chou now had what he needed in order to get to work. He was helped by various further gestures from Washington, including the announcement of the Nixon doctrine and the U.S. Government's private discouraging of the Soviet Union from attacking China's nuclear installations, both in the summer of 1969. From some remarks by Mao to Edgar Snow in December 1970, we know that Chou had Mao's full confidence by that time, and there is no reason to think that that confidence has diminished since the overthrow of Lin Piao and his immediate supporters in September 1971.

Meanwhile, under Chou's leadership, the normalization of China's domestic situation and foreign relations had progressed to the point where it had become possible to extend a series of increasingly firm, although until April 1971, private, invitations to President Nixon to visit China.

Without question since Lin Piao's fall and progressively for about 2 years before that, Premier Chou has been in effective charge of policymaking in Peking. He has many serious problems to cope with: at home, the chaotic legacy of the cultural revolution, the strains generated within the armed forces by the purge of Lin Piao, continuing control of the provinces by the army and, of course, China's persistent backwardness; abroad: the problems posed by the Soviet threat, American disengagement from Asia and the resurgence of Japan, in particular.

The first requirement for Premier Chou is to reestablish and maintain national unity and the responsiveness of all power centers and citizens to the directives of the new national leadership. To this end he has exploited to the full all available assets, including Mao's support and the glamour of the Nixon visit. He evidently relies mainly on a new, streamlined party apparatus over whose reconstruction he seems to have been personally presiding, on a revived and strengthened public security system, and on a complex game of factional politics played with the armed forces.

Some of China's senior military men, probably a sizable number both at the center and in the provinces, agree with him on principle and have therefore given him active support. Others are capable of being won over and are therefore being bargained with using various resources and rewards that are at Peking's sole disposition.

Chou apparently hopes, not to displace the Army completely from its political role in the provinces which would be impossible, but to integrate the politically crucial elements of its leadership into the new, nationally oriented party that he is building. He also hopes to shift the emphasis of the Army's activities away from politics, at least of the self-generated kind, and in the direction of tasks directly related to national defense. For this purpose he has found the Soviet threat a useful atmosphere, although a man of his intelligence must inevitably also regard it as a genuine threat to be managed with the utmost caution.

It appears that Chou has already had considerable success with his domestic program and that military leaders sympathetic with it are gradually tending to displace others in key positions and provinces. Like all human undertakings, however, the program is unlikely to be completely successful, and China may never again be as effectively centralized as it was during the decade preceding the Cultural Revolution. On the other hand, there is no necessary reason why, even after Mao's death, the Chinese leadership should be in turmoil to the degree that prevailed during the Cultural Revolution.

Chou has been making even more obvious progress in the external aspects of his game plan. By now China has gone far enough toward creating, with little publicity, a minimum nuclear deterrent and toward normalizing, with maximum publicity, its external relations, so that the Soviet Union is effectively restrained from attacking it under any likely circumstances.

The present tense relationship with the Soviet Union is likely to seem unviable to Chou as a long-range condition, however, and he may hope to defuse the dispute and put Sino-Soviet relations on a more normal footing. For this purpose he probably needs some Soviet concessions on the border issue, if not on the broader territorial question, much as he needs further concessions from the United States on the Taiwan and Indochina questions if he is to put Sino-American relations on a more stable footing, as I believe he would like to do. To date, at least, there is no convincing evidence that the reescalation of the war in Vietnam resulting from the North Vietnamese invasion of South Vietnam at the end of March 1972, has gone any further than the escalation of 1965, in complicating Sino-American relations or toward pushing Peking and Moscow closer together.

The current Chinese leadership may believe that China's major long-range external problem will be not the United States or the Soviet Union but Japan, even though Chou realizes that Japan is not now the threat that Chinese propaganda for various reasons paints it as being.

The essence of current Chinese policy toward Japan appears to be to give Tokyo, via a liberal application of stick and carrot, a sense of greater stake in improved relations with China than in a unilateral forward Asian policy designed to fill whatever partial vacuum may be created by American disengagement under the Nixon doctrine. In this, Peking is having considerable success, but it has been less fortunate in the economic field. Like some other Asian countries, China has become uncomfortable about Japan's share in its foreign trade, which has passed the one-fifth mark and is still growing. Here lies the main hope for at least a modest growth of Sino-American trade, mainly in the field of high technology American products.

As far as can be seen now, China will succeed in maintaining at least a viable level of political unity and effectiveness, will develop its civilian economy at a modest rate without either a collapse or a breakthrough, and will give its conventional and nuclear military capabilities a somewhat higher priority and improve them at a more impressive rate. China's overall economic backwardness will not prevent it from generating advanced sectors of great sophistication.

Current American policy is based on the assumption that China, if not threatened itself, will not be a serious threat to Asia, or to American interests in Asia, even given the reduced American military presence in the region visualized under the Nixon doctrine. Although this is a reasonable assumption on the basis of the record, it is only an assumption.

The record was written when China did not have a nuclear deterrent of its own. The assumption is one that Moscow appears unwilling to accept; the Soviet buildup along the Chinese frontier began to occur at its maximum rate after the announcement of the Nixon doctrine, a fact suggesting that one of the buildup's purposes is to pin China to the border and discourage any possible Chinese effort to take advantage of American disengagement.

Whether an active threat to Asia or not, and whether continuing to be preoccupied with the Soviet menace or not, China will continue to be a major problem for and influence in Asia by virtue of its size, its potential power, its political dynamism, and the simple fact that it is and always will be "there." Assuming that this projection is approximately correct, and assuming that no two of the other major powers combine against it, China will probably play an active and effective role in the multilateral balance of power in Asia which it is one of the aims of current American policy to foster. Although China will probably be less of an adversary of the United States than it has been in the past and will probably engage in some cooperative undertakings with it, especially in the commercial field, Sino-American relations are not likely to take the form of wide-ranging cooperation or any form of alliance.

Thank you.

Chairman PROXMIRE. Thank you very much, Mr. Hinton.

Mr. Dorrill, please proceed.

STATEMENT OF WILLIAM F. DORRILL, DIRECTOR, EAST ASIAN CENTER, UNIVERSITY OF PITTSBURGH

Mr. DORRILL. Mr. Chairman, I am honored by your invitation to appear before this committee which has made such an important contribution in its hearings and publications to our understanding of contemporary China.

As one who is engaged in the scholarly study of contemporary China, I am appreciative of and have a great admiration for the recently published compendium of economic assessments of the People's Republic of China. I think this will not only enlighten the American people but also make interesting reading for Peking officials as well.

There are three questions I would like to focus on in this statement, and I must say that as a professor traditionally timed for 50 minutes, I approach the time limitation with trepidation.

The first is, "How should we evaluate economic policies and performance?" Second, "How can we assess future P.R.C. economic trends and priorities?" And, third, "Is the People's Republic a threat to the United States?"

Now in dealing with these problems, I shall be primarily concerned with the interaction of noneconomic with economic factors so as to place these very excellent analyses in a broader social and political context.

How should we evaluate P.R.C. economic performance? It seems to me that the desirability of going beyond the purely economic dimension is particularly necessary in attempting evaluations of this sort. Over the past decade my impression is that outside assessments of the Chinese economy have tended to understate its accomplishments, in part, because these evaluations were too narrowly confined to Western economic criteria such as the assessment of per capita income growth. Seen in these terms, of course, the Great Leap Forward and Great Proletarian Cultural Revolution were viewed as irrational or, as one of the authors described the former, a "mad policy" full of "hair-brained" schemes.

But how do the Chinese actually view these policies, since it is, after all, their expectations that have to be fulfilled if the system is to function effectively?

I think we have to recognize that the Chinese under Mao have deliberately rejected the classical Western pattern of industrialization. While seeking to develop a modern socialist state, they are determined to avoid what they call the three great differences that have arisen in Western societies during the process of industrialization—that is, the differences between rural and urban life, between industry and agriculture, and between mental and manual labor.

Mao and his followers are very fearful that economic growth and technological advance and mass production will come to be objects in themselves, that they will dominate the thinking and motivation of their society, leading to increasingly sharp divisions of labor and to a surrender of the decisionmaking power to a new class of technocrats, much as they think has happened in the Soviet Union.

Thus the regime leaders over the past 20 years have resorted to periodic mass campaigns. I think there has been some opposition to this strategy, perhaps in the case of Liu Shao-chi and others or at least some foot-dragging, but essentially these campaigns have been designed to stimulate ideological fervor, insure equality of participation by all elements in society—especially the peasantty—and to foster a political order able to provide for material needs but guided essentially by moral rather than material incentives.

The result of this permanent revolution which I think has been waning since mid-1968 and probably is in long-term decline, obviously has not been to maximize the "production possibility curve" that Mr. Ashbrook has set forth in his paper.

However, P.R.C. economic policies operating within these constraints have permitted an impressive growth in industrial production—11 percent annually if we take the whole period 1949 to 1970—and also a gradually rising standard of living for the population as a whole.

More important, from the Maoist viewpoint, these policies have dramatically affected the quality of life in China, broadering political

participation, promoting economic, social and cultural equity and lessening the differences between urban elites and peasant masses.

This has also been accompanied by a spread of basic technology (including things like public health), continued growth in agricultural output, expansion of small-scale industries, the acquisition of a nuclear capability and a strengthening of China's international finance and trade position.

I think it is even possible that the Chinese have developed an experience that may be applicable in some respects to more advanced industrial societies—for example, in keener sensitivity to the problems of human displacement and environmental pollution and in seeking to relate economic growth to the overall enhancement of the quality of life.

Now, in acknowledging these achievements it is not my purpose to minimize the costs which have been very high in terms of intellectual and cultural freedom, not to mention maximizing per capita gross national product. Rather, I want to suggest that our criteria should measure economic policies and performance against a broader spectrum of political and social as well as economic objectives.

If we are going to further recent trends toward a normalization of relations, I believe our policies must be better informed as to how the Chinese view their own economic performance and as to the extent of their overall achievements whatever the shortfalls in this or that sector.

For too many years American policies were predicated on the false assumption that the Chinese masses were seething in discontent and ready to roll back the Communist regime at the first opportunity. In this prevailing negative mood we often underestimated its accomplishments and sometimes exaggerated its failings. Worse still, we continued to magnify the Communist military threat to the U.S. long after the Sino-Soviet rift and internal preoccupations in the P.R.C. had begun a fundamental alteration of our strategic relationship.

Now, perhaps, the danger is that our perceptions of China will become captive of a pendulum swing in the other direction toward overestimating their achievements, minimizing their failures and ignoring the basic differences in philosophy and purpose which still separate us and which, in combination with external pressures and internal frustrations, could lead again from cooperation to confrontation.

The second main question I am posing today is "How can we assess the future economic trends and priorities in the P.R.C.?" Here, to summarize briefly, I am simply trying to make a case to urge that longer-run forecasting be attempted in the economic field.

Practically all of the papers make excellent and very reasonable short-term trend projections but I think that, even in the short-run, extrapolating from present events a trendline can be extremely hazardous. Moreover, I think in terms of our long-range policy planning, and especially in terms of defense outlays and military expenditures in the future, we need longer-range forecasting.

Perhaps the method that Mr. Aird used in extrapolating a range of alternative future population models or scenarios could be usefully applied to the Chinese economy as a whole, although this would, of course, involve a complex series of noneconomic as well as economic assumptions.

Whatever the validity of this long-range forecasting approach, it does seem to me that Chinese policies will be shaped by broad economic factors which can be fairly clearly foreseen.

As Ashbrook suggests, the food-population balance will almost certainly be the most critical of these, and since fertility reduction policies are not likely to give much relief from population pressures, the regime's ability to raise productivity in agriculture will be absolutely essential to maintaining this balance.

But to go beyond that, although agricultural output will obviously be affected by economic factors like the import of foreign technology and competition of the military for scarce resources, I believe the noneconomic or institutional factors might play a more decisive role. Will the political leadership remain unified and stable and will it maintain a general policy orientation that is pragmatic and functionally rational whatever the rhetoric? Will moral-ideological incentives be sufficient to provide motivation for the producing masses and, at the same time, limit their consumption to an amount that can be sustained by a level of agricultural output which leaves significant savings for investment in industry?

We urgently need more concentrated and systematic research on these complex and long-range issues even if there is no guarantee that conclusive answers can be found.

I would like to skip in this prepared statement now down to the third point, whether China constitutes a present and future threat to the United States.

While the state of the economy can have a pronounced effect—I don't think that economic circumstances determine intentions in a particular situation. I see no correlation in previous Chinese behavior between domestic economic success or failure and external policies of cooperation or hostility.

Similarly, while P.R.C. foreign and military policies are influenced by Chinese reaction to perceptions of external threat—for example, fears of a hostile U.S. encirclement from the Pacific or of a pre-emptive Soviet attack on the north, I believe Peking's international goals and strategies have been developed independently and, except for tactical fluctuations, remain basically unchanged. In other words, I disagree with those who feel that Chinese policies have been merely reactive to fears of the outside.

Peking aspires first, I believe, to defend China's territorial integrity.

Chairman PROXMIRE. You have 2 minutes left.

Mr. DORRILL. Fine.

The P.R.C. still aspires to maintain its territorial integrity and unify the nation; it still aspires to a role in Asian and world affairs commensurate with China's size and historical prominence; and it still intends to support world revolution by means of "wars of national liberation," but the speed and intensity with which these goals are pursued will depend on the general orientation of the prevailing leadership at a given time.

Peking's strategy has never been overtly expansionist and has been in practice cautious and prudent in execution.

Thus, briefly, in the short run, I don't think that China is a threat. In the long fun, however, I see certain problems relating to its behavior as a nuclear power and its dedication to support of wars of national liberation which I feel will be with us for some time to come.

It is possible that China will eventually come into competition with us for raw materials available through international trade, increasing the prices we have to pay for supplies and perhaps vying with us for control of access to supplies.

Perhaps the most important challenge for the U.S. in dealing with China over the long-range future will be to develop at least tacit rules of international behavior acceptable to both sides that will allow for the peaceful competition of their diverse political systems in the Third World while defining the limits of support for armed revolutions. Perhaps the greatest threat to either of us in the long run is going to be the failure to establish an international system with sufficient dynamism for internal modernization and reform and, at the same time, with sufficient strength and stability to assure the pacific settlement of international disputes.

Thank you.

(The prepared statement of Mr. Dorrill follows:)

PREPARED STATEMENT OF WILLIAM F. DORRILL

Mr. Chairman, and distinguished members of the Joint Economic Committee' I am honored by your invitation to appear before this committee, which has made such an important contribution in its publications and hearings to our understanding of the economy of China.

At the outset of these remarks, I should like to offer a sincere expression of admiration and appreciation for the excellent compedium of papers recently published by the Committee on the *People's Republic of China: An Economic Assessment.* These studies provide a wealth of timely data and present an impressive array of sophisticated and objective analyses which will be of great value to all who are engaged in the scholarly study of contemporary China. Not only will they enlighten American opinion, but I daresay they will make informative reading for officials in Peking.

In this statement I shall focus briefly on three questions suggested by a reading of the compendium: 1) How should we evaluate PRC economic policies and performance? 2) How can we assess future PRC economic trends and priorities? 3) Is the PRC a threat to the U.S.? In the course of this discussion I shall attempt also to address questions raised in Chairman Proxmire's letter of invitation concerning China's future economic priorities, her external perceptions and concerns, and the potential threat posed by the PRC for the United States. In dealing with these problems I shall be primarily concerned with the interaction of economic and non-economic factors, so as to place the economic analyses, so ably presented in the compendium, into a broader social and political context.

Question 1. How Should We Evaluate PRC Economic Perjormance?

Answer. The desirability of going beyond the purely economic dimension is particularly necessary, I believe in attempting to evaluate the PRC's economic policies and performance. Over the past decade it is my impression that outside assessments of the Chinese economy have tended to understate its accomplishments, in part, because evaluations were too narrowly confined to Western economic criteria, such as the assessment of per capita income growth. Seen in these terms the Great Leap Forward was, of course, a "mad policy" full of "harebrained" schemes (*Ashbrook*, p. 21)[1] and the Great Prolitarian Cultural Revolution, while less permanently damaging, was essentially "irrational". But how do the Chinese view these policies—since it is their expectations that must be fulfilled if the system is to function effectively?

We must recognize that the Chinese under Mao have deliberately rejected the classical Western pattern of industrialization. While seeking to develop a modern socialist state, they are determined to avoid the "three great differences" that have arisen in Western societies in the process of industrialization, i.e. the differences between rural and urban life, between industry and agriculture, and between mental and manual labor. Mao and his followers fear that economic growth, technological advance, and mass production will become dominant objectives, leading to increasingly sharp divisions of labor in society and a surrender of

[1] Underlined references in parentheses refer to authors and pagination of papers in *People's Republic of China: An Economic Assessment.*

decision-making power to a new class of technocrats who will shape China's development primarily according to technological requirements. Thus, regime leaders—with varying degrees of enthusiasm (and, perhaps, outright opposition in the case of Liu Shao-ch'i)—have resorted to periodic mass campaigns to stimulate ideological fervor, insure equality of participation by all elements in society (especially the peasantry), and to foster a political order able to provide for material needs but guided essentially by moral rather than material incentives.

The result of this "permanent revolution," which has been waning since mid-1968 and probably is in a secular decline, obviously has not been to maximize the "production-possibility curve" (*Ashbrook*, p. 48). However, PRC economic policies operating within these political constrainst have permitted an impressive growth in industrial production—11% annually, 1949–70 (*Field*. p. 62)—and a gradually rising standard of living for the population as a whole. More important, from the Maoist viewpoint, regime policies have dramatically affected the quality of life in China, broadening political participation, promoting economic, social and cultural equity, and lessening the differences between urban elites and peasant masses. Moreover, this has been accompanied by a spread of basic technology (including public health), continued growth in agricultural output, widespread expansion of local small-scale industries, the acquisition of a nuclear military capability, and a strengthening of China's international finance and trade position. It is even possible that the PRC experience in developing what is frankly described as a "relatively backward economy" may suggest directions for improvement in more advanced industrialized societies: e.g. in keener sensitivity to problems of human displacement and environmental pollution, and in seeking to relate economic growth to the overall enhancement of the quality of life.

In acknowledging these achievements and potential contributions it is not my purpose to minimize the costs, which have been extremely high—in reduced intellectual and cultural freedom as well as per capita GNP, but rather to suggest that our criteria should measure economic policies and performance against a broad spectrum of political and social, as well as economic, objectives. If we are going to further recent trends toward a normalization of relations with the PRC our policies must be better informed as to how the Chinese view their own performance and as to the extent of their overall achievements whatever the losses in one or another particular area. For too many years U.S. policies were predicated on the false assumption that the Chinese masses were seething in discontent and ready to "roll back" the Communist regime at the first opportunity. In this prevailing negative mood we often underestimated its accomplishments and sometimes exaggerated its failings. Worse still, we continued to magnify the Chinese military "threat" to the U.S. long after the Sino-Soviet rift and internal preoccupations in the PRC had begun a fundamental alteration of our strategic relationship. Now, perhaps the danger is that our perceptions of China will become captive of a pendulum swing in the other direction, toward overestimating their net achievements, minimizing their failures, and ignoring the basic differences in philosophy and purpose which separate us and which, in combination with external pressures and internal frustrations, could lead again from cooperation to confrontation.

Question 2. How Can We Assess Future Economic Trends and Priorities in the PRC?

Answer. Attempts to forecast future economic or other policies by means of linear projections of current trends are hazardous, even in the short-run. Nevertheless, planning requires estimates of the future situation and it seems to me that several of the papers in the compendium have done an excellent job in forecasting near-term economic trends within the limits of this methodology. Indeed, the study of demagrpahic prospects has been able to go much further, on the basis of a more sophisticated methodology, to project a range of population growth models for the next twenty years (*Aird*, pp. 327–331). I believe that this method of extrapolating a range of alternative future models (or scenarios, as some would prefer to call them) could be usefully applied to the Chinese economy as a whole, although this would involve complex series of non-economic (e.g. political) as well as economic assumptions.

Whatever the validity of this more ambitious approach to long-range forecasting, it seems to me that future PRC policies will be shaped by economic factors which can be fairly clearly foreseen. As Ashbrook suggests (p. 39), the food-population balance will almost certainly be the most critical of these. Since fertility reduction policies are not likely to give much relief from population pressures (*Aird*, pp. 330, 331), the regime's ability to raise productivity in agriculture (e.g. through increased application of fertilizers and herbicides, improved seed-strains,

mechanization, etc.) will be absolutely essential to maintaining the balance and allowing future economic development. Although agricultural output obviously will be affected by such things as ability to import foreign technology and the competition of the military for scarce resources, I believe that non-economic—or institutional factors—may play a more decisive role. Will the political leadership remain unified and stable and will it maintain a general policy orientation that is pragmatic and functionally rational whatever the rhetoric? Will moral-ideological incentives be sufficient to (1) motivate the producing masses and (2) limit their consumption to an amount which can be sustained by a level of agricultural output which leaves significant savings for investment in industry?

We urgently need more concentrated and systematic research on these complex, long-range questions even if there is no guarantee that conclusive answers can be found. The results will at least be more informed than the superficial guesses that are usually left for the policy-maker today. It may very well be the case that for the near future economic "growth requirements" will "encourage a continued return to pragmatic policies" under Chou En-lai (Jones, p. 58), but why should we assume that a militant Mao will not again challenge the planners (ibid., p. 55)? And who is likely to succeed him as Party leader? Granting that a moderate "new strategy" for agriculture was adopted after the Cultural Revolution, how far into the future can the "new trend line" for output (Erisman, p. 142) be confidently projected?

Do past economic fluctuations and oscillations between political and economic goals represent a cyclical pattern of radicalism and moderation which is inherent in the system? My own hypothesis is that these periodic fluctuations in policy orientation are short-term manifestations of a still-militant post-revolutionary regime adjusting its revolutionary "vision" to the harsh, stubborn realities of a mundane environment. A highly ideational leadership is fighting a bitter struggle against secularization but is gradually losing its commitment to violent transformation of Chinese society and the world. If so, we can only take comfort in the long-range trend, for in the short-term radical shifts can still occur, often with little or no warning, as the continuing struggle over orientation is translated periodically into a power struggle for leadership. In my own view this is what brought about the purge of Lin Piao, although the exact circumstances remain obscure. In sum, there undoubtedly are conflicts from time to time over specific economic policies (e.g. the debate between electronics and steel priorities in 1971, or the continuing debate over rapid agricultural mechanization), but these only reflect more basic disagreement over the extent to which ideology on the one hand, or economic considerations on the other, will be allowed to determine policy priorities.

Question 3. Is The PRC A Threat to the U.S?

Answer. Chinese foreign and military policies are also a product of this broader decision process. While the state of the economy can have a pronounced effect on military capabilities, it does not determine intentions on particular external situations. I can see no correlation in previous PRC behavior between domestic economic "success" or "failure" and external policies of cooperation or hostility. Similarly, while PRC foreign and military policy are influenced by Chinese reaction to perceptions of external threat (e.g. fears of a hostile U.S. "encirclement" from the Pacific or of a pre-emptive Soviet attack from Central Asia), I believe that Peking's international goals and strategies have been developed independently and, except for tactical fluctuations, remain basically unchanged.

Peking still aspires to defend China's territorial integrity and unify the nation (including Taiwan) under its control; it still aspires to a role in Asian and world affairs commensurate with China's size and historical prominence; and it still intends to support world revolution by means of "wars of national liberation". As always, however, the speed and intensity with which these goals are pursued depend on the general orientation of the prevailing leadership in Peking, and at present that leadership is distinctly pragmatic and moderate in tone. PCR military strategy has never been overtly "expansionist" and, despite verbal bellicosity, has been cautious and prudent in execution. On the other hand, the Chinese Communist remains dedicated to the idea of world revolution and will almost certainly go on supporting "national liberation movements" abroad by direct economic aid, training, equipment (including conventional arms for terrorism and insurgency), psychological warfare, and, not least, the inspiration of Mao's own revolutionary success. Moreover, PRC military capabilities probably will continue to improve over the long-run future, as the Chinese are able to deploy a credible nuclear force (including both manned bombers and missile systems) and more advanced conventional equipment

Do these goals and capabilities add up to a threat to the U.S.? I do not see how an unqualified answer can be given to this question, although in the past many Americans have been satisfied with a categorical "yes" or "no". The immediate outlook, of course, is for a peaceful, outward-looking China, less interested in supporting external revolutionary movements than in improving relations with "bourgeois regimes" (Tansky, p. 380), both to counter the USSR—now seen as a greater threat to China than the "imperialist" U.S.—and to promote China's national interests—increasingly defined in economic rather than ideological terms. Given this orientation, we have little to fear from the PRC, especially at a time when we have chosen to limit our direct interests and reduce our military profile in Asia. With the further "lessening of tensions in the area" we have agreed to withdraw our forces from Taiwan, thus removing an old irritant to Peking and eventually, perhaps, opening a way to political reunification of China. Moreover, a growing web of person-to-person contacts, trade and cultural relations has begun to reinforce the official moves toward a Sino-American detente.

In these circumstances the need for large PRC military outlays to defend against U.S. "encirclement" or to deal forcefully with the Taiwan issue would seem greatly reduced. On the other hand, a high level of military expenditures could still be justified to counter the massive Soviet forces to the North as well as Moscow's efforts to organize an anti-Chinese collective security systems among several Asian states. In any event, if the outcome of the recent "electronics debate" is an accurate indicator (Reichers, p. 90), the present Chinese leadership is unwilling to allow security programs to override the requirement of the civilian economy for balanced development of industry as a whole.

So much for the immediate future. What of China's longer range external needs and priorities? In this perspective our uncertainties as to the orientation of the successors of Chou and Mao, their patience or haste to realize revolutionary objectives, and their willingness to make economic sacrifices or to take military risks in pursuit of those goals are greatly increased. The present competing demands for limited resources will become intense—possibly explosive—as population pressures grow, consumer expectations rise, agricultural production continues to have difficulty meeting the demands placed on it, and the costs of advanced weapons and even convential military equipment soars. And even if these internal demands can be successfully accommodated, there is no guarantee that a strong, industrialized China will easily shed its xenophobia and dissatisfaction with the international status quo to join in building a peaceful world order.

There would seem to be relatively little likelihood of a surge of Chinese military expansion into other parts of Asia to secure surplus food and mineral resources because of the costs of invasion and occupation as well as the minimal assistance these could possibly afford in solving China's immense needs. However, it is possible that the PRC will eventually come into competition with the U.S. for raw materials available through international trade, increasing the prices we must pay for supplies and perhaps vying with us for control of access to supplies. This is not to suggest that an economically weak and politically fragmented China would be easier for the U.S. to deal with. Quite the contrary, such a regime in failing to meet the needs and basic aspirations of its people would remain a chronic source of international instability and would threaten to precipitate a dangerous new competition of Great Powers for spheres of influence.

Perhaps the two most serious areas of potential Sino-U.S. conflict in the future will be over PRC behavior as a nuclear power and as a sponsor of revolutionary movements. Already the acquisition of a small nuclear capability has strengthened Peking's claim to Great Power status (e.g. in arms control discussions), imposed new constraints on her adversaries (e.g. Russian fears of retaliation against Siberian cities for any attack on China), and increased PRC leverage in dealing with smaller Asian states which are increasingly uncertain about the strength and value of ties with the U.S. Nevertheless the transition from a small deterrent capability to the deployment of a second-strike-invulnerable force could prove perilous both domestically (e.g. if escalating costs of series production triggered serious internal rivalries and splits) and abroad (e.g. if it induced Japan to go nuclear). Finally, the PRC's support for revolutionary movements, if pressed to a militant degree in the future, could become a permanent source of alienation and a serious obstacle to the establishment of a peaceful world order. Perhaps the most important challenge for the U.S. in dealing with China over the long range future will be to develop at least tacit rules of international behavior acceptable

to both sides that will allow for the peaceful competition of their diverse political systems in the Third World while defining the limits of support for armed revolutions. Perhaps the greatest threat to either the U.S. or China in the long run would be the failure to establish an international system with sufficient dynamism for internal modernization and reform and, at the same time, with sufficient strength and stability to assure the pacific settlement of international disputes.

Chairman PROXMIRE. Thank you.

Colonel Fraser, go ahead. You have a longer prepared statement. We will put it in full in the record, and you go ahead and summarize in any way you wish.

STATEMENT OF COL. ANGUS M. FRASER, U.S. MARINE CORPS (RETIRED), MILITARY ANALYST

Colonel FRASER. The purpose of my prepared statement is twofold: First, to comment on the "Economic Assessment" as it informs and guides our thinking about the People's Republic of China; and, second, to examine some broader questions whose answers are significantly affected by this study.

I intend to deal with the People's Liberation Army in its several aspects as a fighting entity and to avoid as much as I can the close, detailed political analysis of its activities which characterize the field today.

I think, first, we must look at the beast. What is the People's Liberation Army? It emphasizes ground forces very heavily. There are some 140 divisions, of which 110 are infantry and 20 various types of artillery. Their improvement plans are conventional and look toward incremental improvement of the sort of function that one associates with infantry divisions—improvement in firepower, improvement in mobility, and some very striking improvements in communications and electronics.

Their sea forces are impressively single minded; they are defensive. There are some 30-odd submarines, all acquired from Russia, built from Russian components in Chinese yards. They are diesel powered, relatively short legged and noisy; and aside from the fact they have apparently three nuclear-powered submarines somewhere on the way, they are not building any further in this area.

They seem to be building one destroyer; they have built a squadron of hydrofoil patrol boats, but everything they have is defensive and close in and one cannot see, particularly in terms of amphibious capability, any signal that they propose to launch any extended operations beyond their own shores.

The air force, of course, is the blue-eyed darling, as necessarily it would be. Air defense does not accept second-rate substitutes. The Chinese have about 3,000 aircraft. They are now building the Mig–21. They are building their own version of the Mig–19 which they are exporting to some of their assistance clients. They have now somewhere between 80 and 100 native designed and constructed high-performance mach II air defense fighter aircraft called the F–9; and its follow-on, the F–9F, is in the testing stage.

The only major offensive long-range capability we see are some 30 to 35 TU–16 bombers which have recently been turned out in China, and these one can associate with the nuclear strike rather than anything like a major bomber fleet.

The nuclear program has been interesting. Since October 1964, they have run 14 tests. One was underground; one was carried by a rocket that flew somewhere between 600 and 1,000 miles; the rest were tower shots or drops from the TU-16.

Yield has gone from something under 20 kilotons to 3 megatons. The rocket range has been very, very active in firing dummy vehicles, and at least one test a couple of years ago was represented to be the test—at reduced ranges, I would say—of an intercontinental-type missile.

They have launched two satellites which imply some ability to put heavy loads into long flight, and there appears to be some evidence they are instrumenting a range which involves perhaps some construction on Everest, an instrumented ship in the Indian Ocean, and some shore stations on the east coast of Africa, to monitor and meter the firing of an intercontinental missile test. But that has been on and off, and sounded as an alarm so often that I am becoming quite skeptical about it.

What can these forces do? Well, they can defend the homeland of China with great effect. They are deployed so that any invader runs into a series of barriers, where he is passed over the shoulder of one defender and on to the next.

The mobility and firepower that has been acquired under the improvement programs that one deduces from the economic assessment will further improve their ability to fight either People's War, the Maoist classical strategy, or, when necessary, to stand and fight.

The political divisions and differences between, say, regional forces and strategic forces would tend to blur and even disappear if they were coping with an invader.

As soon as they start attempting operations beyond their borders, the Chinese run into very serious problems. The extended line of communications (which they did cope with, of course, in Korea, supporting some 900,000 troops there) become a little more tenuous in light of the increased demands of their new firepower and the fuel requirements of their mobility system. They also expose themselves to a neutral or perhaps hostile populace, and they can no longer be assured that their entire line of communications, even back to the producing plants, is free from interference by the enemy, so one can say they could attack over their border and they could reach a fair distance, but that the dangers and the inhibitions are indeed great.

When we look at the PLA as an invasion force, it becomes remarkably clear very quickly that their capacity to operate over discontinuous lines of communications is very low indeed. Their amphibious force consists almost entirely of a group of U.S. landing ships and craft which they acquired from the Nationalists or otherwise, World War II vessels. You can imagine what sort of shape they are in at the moment, and there is no sign of any significant building to expand or improve the amphibious fleet.

Neither do they have the air or combat vessels to support such a landing. This is equally true of airborne assault. They could mount and support perhaps an airborne drop of one and a half brigades, maybe of two-brigade strength as far as the Plain of Assam in India. The air defense they would confront would, however, effectively forestall such an effort.

So one has to say that the concept of invasion over discontinuous lines just does not occupy Peking's strategists at the moment.

So far as nuclear uses are concerned, they can only at this moment look forward to a hostage strategy in which some U.S. ally like Japan is held under threat, which is exactly what the Russians did in Eastern Europe before they acquired a long-range capability. They can hope whatever force they develop has a certain deterrent effect. But so far as developing a large and effective nuclear program, what they are doing now doesn't indicate that they even are thinking of this. They are trying to acquire that level which gives them a ticket to the meeting when these things are discussed and deters any rash or foolhardy sanitizing of the interior of China.

What are they then afraid of? Well, the United States is still an enemy. There is no doubt in my mind they do not think of the United States as benign or particularly well intentioned, but they are quite willing to move toward some sort of accommodation, as we have seen.

Taiwan does not represent a threat. In the physical sense, it would not be possible, unless China were heavily occupied in some other place, for a cross-straits operation to take place.

Japan has been assailed frequently as a resurgent military power but Chou En-lai has admitted in some of his conversations and interviews this is a future and potential thing rather than an immediate threat.

They are afraid of the Soviet Union. During the last year the Soviet Union has increased its troops along their common border by eleven divisions, bringing this to 44 divisions. In addition, they have their very best tactical nuclear weapons and their best tactical aircraft in the area. One million Russian soldiers can lean on you pretty hard, so if this is sort of a Siberian game of "Chicken," it is getting pretty dangerous. The fact is the forces are there; the forces are poised and the Russians have been rather careful, I think, to let the Chinese know just how vulnerable they are.

Professor Hinton referred to the Czechoslovakian affair and the incorporation of the idea behind that into the so-called Brezhnev doctrine. The collective security efforts in Asia were taken by China as a Russian attempt to encircle her; the Warsaw Pact nations, some of the more eager ones, at the time of the initial confrontation, talked vaguely about sending troops to Asia to support the Soviet Union. One of the more eminent military writers in Russia wrote a devastating piece in which he pointed out to the Chinese that their concepts of people's war and protracted war, as developed in combat with the Japanese in 1940 and onward, were remarkably primitive and cannot stand up for a moment to the modern, sophisticatcd forces that Russia could place against her.

The treaty with India was certainly upsetting. Russia's effective help to Bangladesh was upsetting; Russia's client won and China's client lost.

So the physical presence, the nature of the discourse, while it does not argue for an immediate assumption of hostilities, certainly points to the Soviet Union as the real, visible, and immediate physical menace at which the Chinese must look.

Do I have 2 minutes, sir?

Chairman PROXMIRE. Yes, sir.

Colonel FRASER. I was asked three questions: Even with its recent economic successes, does China have the resources to mount a major threat to U.S. interests in Asia or elsewhere? A qualified yes. To field and support in combat, say, a quarter of a million men would eat seriously into the gains China has made since the Cultural Revolution. I can see only two conditions under which China would accept the risks involved in making a direct attack on a major U.S. interest: One is a perception on their part that they were seriously menaced by some physical American presence or act or, (2) the imminent prospect of the destruction of the government in Hanoi. Short of those two, I simply cannot see the Chinese undertaking a major attack on U.S. interests.

The second question: With the resources available, do China's priorities dictate attention to their security concerns over the Soviet border and the status of Taiwan, rather than other ventures concerning the U.S.? I would like to go further into that at some point but I think we can see very plainly the U.S. is moving away from hostility; Taiwan is pretty ineffective, and Japan is frozen in a military posture which, at the moment, has no menace. Russia, and Russia alone, has the power and will to inflict massive, indeed unacceptable, physical damage on China.

Finally, the last question: Are economic growth, consumer welfare, and other domestic priorities likely to override security programs in Chinese development?

One gets the general feeling from the economic assessment that the guns and butter necessary to maintain domestic stability and progress, while at the same time continuing the steady force improvement program that one discerns as developing further a major defensive capability, are not going to run into conflict. If they do, I think China's leadership has demonstrated its ability to inflict austerity and other measures of deprivation, and I cannot see the military program now in existence suffering in any way.

Thank you, sir.

(The prepared statement of Colonel Fraser follows:)

PREPARED STATEMENT OF COL. ANGUS M. FRASER

The purpose of this paper is twofold: first to comment on the "Economic Assessment" as it informs and guides thinging about the military condition of the People's Republic of China; second, to examine some broader questions whose answers are significantly affected by the study. This discussion addresses military conditions and prospects as they affect, or may be affected by, the conditions portrayed in the report. This will involve some regard for the Chinese strategic view as we may interpret it, granting that such interpretations are, to some degree, subjective. The specific functions of interior political considerations and of foreign policy in determining military programs and actions may safely be left to others. It will, however, be necessary to touch on Peking's interpretation of the military threat she faces and the reaction of the leadership to it. It will be necessary, in the beginning, to describe briefly the forces actually in being in the PRC and the programs for their improvement, since these matters are the primary conditioners of the demands that the military make in the national resource allocation process. The facts and figures used here are drawn from open sources whose history demonstrates a good measure of reliability.

FORCES IN BEING—PEOPLE'S REPUBLIC OF CHINA

Ground forces in the People's Liberation Army concentrate heavily on infantry and artillery divisions—around 110 of the former and 20 (of various types) of the latter. There are also thought to be 5 armored divisions, 3 cavalry, and 2 airborne.

Families of equipment tend to be earlier generations of Soviet items or, in some cases, home-produced items. These latter include a good tank, a range of basic weapons, and artillery. Mobility and firepower have been steadily improved, although they are still inferior to Soviet or US capabilities. The mobility of these troops within the boundaries of China has been enhanced by the increases in road and rail transport described in the "Assessment."

The ground army has always played multiple roles in the Chinese Communist system. Mao has often described it as a political force and a work force, in addition to its job as a defense force. The Great Proletarian Cultural Revolution involved much shifting of units in patterns that had nothing to do with strategic posture. It also diverted troops to tasks that previously were the province of party and government officials, leaving no time for training or basic military work. In a more permanent sense, there is a continuous division between forces that are essentially under the control of regional leaders and those commanded by the central authorities. This raises doubts about the effective use of some units in places or causes not acceptable to their commanders. Although there was some effort to keep selected strategic forces free of other involvements, it is possible that as much as one-third of the ground strength of the PLA may not be available for regular duties.

The naval forces of the PRC are clearly focused on the close-in defense of the homeland. There are thrity-odd submarines, all diesel-powered Soviet types. They were assembled in China, using Russian components, including one "G" class boat, built in Dairen in 1964. The "G" class (another of which has been under construction for some time) is configured to fire a Soviet-type cruise missile of 400 mile range. The navy mans 4 destroyers and about 20 smaller escort types. There are 10 or more milsile-firing craft of the "Osa" and "Komar" types and substantial numbers of patrol, attack, and mine force vessels. A mixed lot of landing ships and craft of US World War II vintage provides a very modest amphibious capability. Despite Chairman Mao's statement that "we will have a strong navy," the force does not impress in anything beyond a modest defense role.

The air force of the PLA is a mixture of the old and the new, but it is not surprising that a great deal of attention focuses on its modernization. Although the program has produced Tu–16 (roughly equivalent in performance to the US B–47) emphasis has been given to high-performance air defense fighters. In January, 1972, the monthly magazine of the French Air Force reported the following strengths:

80 F–9 fighters (mach 2, Chinese design and manufacture); 1,700 Mig–17; 100 Mig–15; 1,000 Mig–19 (now being produced in China); 30 to 35 Mig–21 (supersonic; this number represents the original Soviet grant. The aircraft is now being produced in China and the number is probably much larger); 100 Tu–2 bombers; 300 Il–28 bombers; and 25 Tu–16 bombers (Tu–16 is now being made in China and the number could be much higher).

The air force also has modest transport and utility capabilities. It could lift and support an airborne force of about infantry brigade size.

The Nuclear Program.—China has detonated 14 nuclear devices of which one was never acknowledged and is generally thought to have been a failure or an accident. Of the remaining 13, one was underground, one was delivered by a 600–1000 mile Soviet-type rocket, and the rest were either tower shots or drops from the Tu–16. Five tests were in the 20 kiloton range, five were in the 20–500 range, and four were measured at three megatons. More explicit details have led analysts to believe that the PRC was experimenting variously with tactical weapons for battlefield use, aiming at early achievement of an MRBM capability, or perfecting a warhead for ICBM. There are also cases that can be made for IRBM development and for perfection of a bomb for delivery by the Tu–16. It is not impossible that all these concepts have been entertained. There have been a number of firings of rockets at various ranges, including at least one that may have been a reduced range test of an intercontinental vehicle. An instrumented ship has been fitted and it has been suggested that a test will soon be fired into the Indian Ocean. Meantime, the Tu–16 is in operation.

The Chinese have consistently avoided discussion of their program except in political terms. A typical statement followed the 12th test in November, 1971:

". . . one of the necessary and limited nuclear tests conducted by China for the purpose of defense. The Chinese Government declares once again that at no time and under no circumstances will China be the first to use nuclear weapons. The Chinese Government and Chinese people will, as always, strive together with the other peoples and peace-loving countries in the world for the complete prohibition and thorough destruction of nuclear weapons."

Earlier, in July of that year, China had rejected the Soviet Union's proposal for a five-nation nuclear disarmament conference on the ground that *all* nations should participate. The PRC statement also repeated the usual Chinese claim that she was developing weapons only for defense and to break the imperialist monopoly. In the absence of any firm assurance, it is prudent to think that the PRC program has a high political content, but that it also has the ability to move in any of several directions.

FORCE IMPROVEMENT PLANS IN BEING

The "Assessment" notes that military programs command roughly one-tenth of China's GNP and that the military burden on the economy may rise sharply in response to escalating weapons costs in the nuclear program, force expansion, and modernization to meet perceived threats or for other policy reasons. It is conceivable that the leadership could raise the costs of arms programs past endurance, but experience cautions that the Chinese people can tolerate deprivations and a level of austerity that would be unacceptable in many other societies. Whatever the case at the moment may be, the press has recently reported that the PRC has delivered to Pakistan substantial quantities of new military equipment including 60 Mig–19 aircraft and 100 tanks as part of a new $300 million aid agreement. In addition, while we do not know the actual numbers, or be able to perceive variations in flow, there does appear to be continuous progress in force modernization.

The ground forces have appeared to concentrate on steady and unspectacular improvement in combat effectiveness. They are producing an armored personnel carrier of their own design and have made a modest increase in truck inventory. Access to the larger number of trucks now operating in the civilian sector and the use of expanded railway capacity will further add to the tactical and strategic mobility, particularly within the borders of Mainland China. Firepower improvement proceeds along conventional lines, with attention to artillery and anti-tank weapons.

Programs in progress in the naval forces seem to aim at upgrading current capabilities rather than the acquisition of new ones. At least one squadron of hydrofoil patrol craft is in operation. One "G" class submarine has been under construction for some time. Recent intelligence reports indicate that as many as three nuclear-powered submarines may be on the way. It is likely that these vessels will be attack rather that missile-firing types, since the latter require technology beyond current Chinese ability. The general ship-building function has recently gotten more attention, with the result that home production has increased, but a 15 thousand ton tanker is the largest and most sophisticated vessel reported to date, with the prospect of an indigenous destroyer rumored.

In the air force, the production of the Tu–16 may be seen as the acquisition of a new attack capability, but more likely in the nuclear role rather than as a conventional bomber. With this exception, air force modernization focuses mainly on air defense. In addition to the home designed F–9, mentioned earlier, the next generation is being tested in the form of the F–9F, a faster, higher-flying version of its parent. Surface-to-air missile production seems to be settled on Soviet types, although the extensive rocket program and work on infra-red weapons is probably occupied with some forward-looking research. The air force has a large share in the product of the electronics industry, as will be seen.

We learn from the "Assessment" of impressive progress in the Chinese electronics industry. The list of new or improved items for military use is formidable: early warning radar; ground control intercept; missile guidance and control equipment; naval radars and sonar; laser range finders: electronic countermeasure devices; infra-red homing devices, and computer equipment. In addition the PRC produces field radio and communications gear of superior portability and durability. Air defense is being improved by the availability of radar to support all-weather flying. It is true that the PRC is now, and for some time will be, substantially behind the US and the Soviet Union in technology, but it is clear that the PLA has been able to maintain impressive progress in improving military functions that depend on electronics.

The Nuclear Program.—Improvements in nuclear capabilities are more difficult to gauge, since the whole program has been experimental or developmental. Some observers credit the PRC with an active, deployed force of 80–100 MRBM, with the movement toward IRBM being expedited as a major priority. The program continues to be varied and, for that reason as well as others, probably quite expensive. There have been two launchings of satellites that apparently

used rockets suitable for delivering heavier warheads. Work on solid fuels has been reported, which would produce faster-response, more stable weapons. The present condition of the PRC nuclear weapons program may be described as still exploratory, still undecided as to the actual physical capability being sought.

A number of references have been made to the "steel-electronics" controversy in China, drawing on some internal Chinese documents as evidence of an internal struggle over the allocation of resources to military programs, particularly to nuclear weapons. A letter emanating from a group within the Ministry of Metallurgical Industry recalls Mao's inspired injunction to develop industry "with steel as the key link." The mistaken notion that "electronics be taken as the center" is attributed to that all-purpose villain Liu Shao-chi. An involved argument supports the concept of heavy industry and associated extraction and service functions as the key to progress and then proceeds to repeat the classical Maoist point that "Compared with economy, politics cannot but take the first position." Electronics is dismissed as a processing industry. This controversy has been interpreted as a policy statement repudiating those who seek a more sophisticated, accelerated nuclear program at too-great resource cost. Since we do see impressive progress in *both* steel and electronics industries, it is reasonable to believe that there are concealed signals and purposes in the letter. It could very well relate to a dispute over the general thrust of military development in the PRC; equally, it could be some expression of a difference between regional and central authorities, or between strategic and regional forces. However interpreted, there is still a convincing body of evidence that Chinese industry is, at least for now, performing well in support of military modernization.

SECURITY FUNCTIONS OF THE PEOPLE'S LIBERATION ARMY

Quite apart from its performance of important interior duties, the PLA functions as a national defense entity with capabilities and weaknesses that may be assessed against military standards and requirements. From such an examination it should be possible to draw some logical inferences that help in understanding Peking's interpretation of the threats China faces and their view of the appropriate military responses. The military tasks facing the PLA may be categorized under three rubrics: defense of the realm; operations over continuous lines of communication beyond national borders; and operations over discontinuous lines, requiring seaborne or airborne forces. It is not suggested that the PRC contemplates and exterior undertakings; rather it is intended to attempt some judgment of the ability of the Chinese to meet certain challenges.

Any attempt to conquer China by conventional action with ground forces faces some formidable tasks. The size and population of the nation are impressive simply as numbers. The militia of China may number from one to ten million, depending on classification criteria, but there exists a substantial body of people with some ability to use firearms and explosives and to do sabotage. This is augmentation to the regular forces already described. These forces would be at their most efficient in general defense of the homeland, since the differences—whatever they may be—between local garrison troops and strategic units would tend to be less important. Air and naval forces are, in general, under a greater degree of central control and their management somewhat easier. Airfield location and new construction relate only indifferently to and fixed preconception of the source of danger and can rather be seen as supportive to a wide range of operations. There have been some troop movements since the triggering events of March 1969 along the Ussuri River, but there does not appear to have been any massive positioning of troops immediately along the border. What is known now of Chinese dispositions suggests strongly a concept of defense in depth, passing the invader through zone after zone of conventional resistance, guerrilla harassment, and isolated attacks on any separated unit—in effect, an application of the classical Maoist strategy of Protracted War, updated by improved firepower and mobility and the ability to stand and fight more conventional battles when it is necessary to do so. Should an invader elect to enhance his odds by the use of nuclear weapons, the Chinese would not only suffer greater damage, but they could also very quickly become badly disorganized. Given the demonstrated nature of the Chinese, it is quite likely that a long and nasty period of partisan warfare would ensue.

Should the PRC elect to send her forces over her borders into adjacent territory, there would begin almost immediately some degradation of combat effectiveness. Logistics problems, serious enough to the Korean setting, would be greatly magnified by the demands of the modern weapons and vehicles of the improved

forces. The important support of friendly and involved civilians would disappear at the border and, in some cases, be replaced by active hostility. The Chinese also face a difficult decision over the numbers of troops that they might want to deploy abroad in any particular venture. If, as many think, the regional forces are not immediately and completely at the disposal of the central command, some difficult choices and delicate balancing acts would be required. There is also the abiding possibility that a foe on one flank might see an opportunity to act while China was elsewhere occupied. In a number of possible situations the PRC might not enjoy the security of a sanctuary and interference with lines of communications would reach back into the homeland, inevitably influencing her ability to sustain sizeable forces for an extended time. Having said this, there is still the lesson of Korea. The Chinese maintained an army of almost one million men under increasingly adverse conditions. Given the conditions of today, it is reasonable to say that operations over the border by PLA forces are still possible, but their cost should give pause to all but the most desperate planners.

When the PRC comes to onsider operations over water or from the air, they face immediately the problem of adequate transport. It simply does not exist. The amphibious portion of the navy is hopelessly inadequate and obsolete. There is no indication of a significant building program. To attempt an invasion of, say, Taiwan would require the gathering and movement of a motley fleet of small commercial ships, junks, and a few merchant vessels of the 10-thousand ton range. It would then be necessary to establish air superiority and control of the sea. The first would be terribly expensive and, unless it were done, the second would be well-nigh impossible. Under such conditions it is difficult to imagine the PRC force crossing the 100 mile Taiwan Strait and landing against resistance. The cost of such a venture becomes completely prohibitive when the Seventh Fleet becomes involved under the terms of the US treaty with the Republic of China.

Airborne attack offers equally small prospects. Even by drafting the new additions to the civil air fleet, the PLA could not land and support a very light scale division for any length of time without opening a supplementary line of supply overland. The air defenses of any prospective target effectively forestall such an effort.

For purposes of measurement, Taiwan was examined as the target for amphibious assault, and the plain of Assam in India as a likely location for an airborne assault. There are other places, of course, but these examples make the point about the extremely limited capability of the PRC in these sort of ventures.

There is one more function of armed forces that is not purely that of fighting. Nor does it appear as the sort of political or social action that often associates with the PLA. This is the role of the "force in being." As the PRC moves more into a broader role in the affairs of a significant world system, it will develop and refine the part that armed forces play in negotiations, in arms control and disarmament, and in general creating the aura of power and influence appropriate to the nation's view of its place in the world. Since China is menaced most seriously by the one major nation with which it has a defense agreement, it is not likely that she will take the course of Japan. Any continuing assessment of the military goals of the PRC must include some evaluation of the role that exterior political factors and influences have in shaping the size and capabilities of her forces.

CHINESE PERCEPTIONS OF THE MILITARY SITUATION

It is dangerous to assume that logic can adduce or explain the Peking view of the threats that menace her physical security. There is, nevertheless, some basis for speculation on this subject. Experience since taking power in 1949, the lessons of battle, and the intensity of their differences with others should combine to shape the actions that the rest of the powers see as embodying the Chinese view of the world. On this basis an attempt will be made to rank her foes as China sees them and then to relate these perceptions to what we know of her military programs.

The Soviet Union must now rank as the PRC's most immediate and dangerous foe. The differences go back far beyond the border disputes of 1969, but the physical encounters of that time provide a starting point for the current phase of relations. Earlier, Russian action against Czechoslovakia had made it starkly clear that the Soviet Union would not avoid physical action against a fraternal socialist state when the issue was important enough. The embodiment of this concept in the so-called Brezhnev Doctrine reinforced Chinese fears over Russia's behavior. Without attempting to fix the sequence of initiatives, the Soviet forces

did, during the series of publicized armed clashes in 1969, take several occasions to chastise local PRC forces in well-planned and executed small encounters. As relations grew more tense, the Soviet Union played on China's fears. There was a rumor that Soviet diplomats were sounding those of other nations about how they might react to a pre-emptive nuclear strike against the PRC. Some of the Warsaw Pact countries seemed to toy with the idea of sending forces to Asia to support Russia. An authoritative military writer in Moscow wrote an article that ridiculed the idea of "People's War" as an adequate defense, pointing out to Peking that the victories they enjoyed over the Japanese twenty-five years ago meant nothing in terms of the powerful, mobile forces of the Soviet Army today. Proposals for collective security arrangements in Asia were seen by China as Soviet attempts to encircle her. Last year's treaty with India, and subsequent heavy and effective aid to India in the Bangla Desh War were further blows to Chinese prestige and to her sense of security. Underscoring all that had happened before, the Soviet Union has during the last year added 8 divisions to its forces along the Sino-Soviet border, bringing the total now to 41. The Soviet forces also include the most modern aircraft and nuclear rocket units, and the Chinese may be sure that longer range strategic weapons are trained on metropolitan China. War is by no means inevitable, but the Chinese do not seem to be too sure of what the cost of avoidance may be and Moscow is making it clear that it can make the cost of conflict very high indeed. Putting aside consideration of the ancient animosities between them, and leaving the political and ideological content of the quarrel to others, the current military situation and balance between the two nations clearly constitutes the largest and most immediate threat to China.

The Vietnam war and the Taiwan situation identify the United States as a major foe of China. Nevertheless, the totality of the American threat to China must be seen from there as decreasing at a steady rate, almost phased with the increase in the Soviet menace. The general application of the Nixon Doctrine, the attempts to wind down the war in Indochina, and the major shift exemplified in the Presidential trip to China convey a tone, or temper, that strongly suggests a lessening of the likelihood of an American attack on China. There is by no means a warm trust and confidence in the relation. Peking reiterates her standard charges and complaints, but the physical situation can only be seen as one in which the US is not going to attack the PRC and, unless there is some radical deterioration in the relation, may be sympathetic to some of China's efforts to improve her condition.

There has been a cycle of complaint in Chinese propaganda over what is said to be a resurgence in Japanese militarism. On occasions Chou En-lai has described Chinese concern in the matter as being over future rather than present conditions. An examination of current plans for Japanese Self-Defense Forces and their equipment confirms their *defensive* character. The Japanese themselves have had a fierce parliamentary fight over the few items that might conceivably have some offensive capability. What then is the Chinese concern? It is not difficult to believe that the Chinese have a deep and abiding distrust of Japan, derived from three-quarters of a century of experience. In the current setting there are a number of factors that would support the Chinese rationale. First, Japan, peaceful as she may be, has the resources to build formidable offensive forces (nuclear and conventional) in very short order. How such forces might be used is a question of legitimate concern. The Japanese alliance with the US is also seen as menacing. The Nixon Doctrine is interpreted as exploiting the alliance to develop the use of Japanese soldiers instead of Americans in the service of imperialism's aims in Asia. Finally, the incumbent Prime Minister is seen as too close to the US and too friendly to Taiwan. The improvement of relations with China has been set as a goal by some of Mr. Sato's opponents and this would surely take some of the menace out of Japan's likelihood of making herself a military force to be reckoned with.

India, Korea, and Taiwan all have some degree of military impact on the PRC. India is not likely to attack in any major sense, although some incursions in the interest of the ongoing boundary dispute cannot be ruled out. During the Bangla Desh War India maintained some six divisions in the high passes, so any Chinese idea of creating a diversion in the interest of Pakistan was inhibited. In a larger, long-term sense New Delhi is a political and ideological competitor with Peking and some military expression of this is necessary. Korea could become a military embarrassment to the PRC should either side openly attack the other. China last year signed a new military assistance agreement with North Korea, but its content is not known. Meantime, since 1965, the Soviet Union has carried out an impressive assistance program that has included such items as 90-odd Mig–21 air-

craft and a good number of modern tanks. Both Peking and Moscow have recently stressed their desire to see a peaceful settlement in the Korean Peninsula. Their concern probably rises from the wish to avoid complicating further an already difficult situation. The geography of the border areas among the three nations would be significant in any conflict and if the ROK chose to act against the DPRK when the latter's sponsors were engaged with one another, a much wider conflict would become possible. Taiwan does not seem seriously to occupy Peking as a target for attack, the latter apparently being reasonably confident that ultimately they will prevail without war. How Taiwan might behave if the PRC were heavily occupied elsewhere is another problem. Taipei more than once has openly stated that it might take advantage of turmoil or difficulty on the mainland to reassert its claims by force. The balance of forces would under ordinary circumstances forbid such an attempt, but major conflict on the Sino-Soviet border would write a different scenario.

The concern over an attack from Taiwan while engaged elsewhere only particularizes a general problem seen by the PLA. A "two-front" (or multi-front) war would impose serious burdens on transport and the total logistics system, as well as on fighting resources of all kinds. Militarily, the provision of the forces necessary to face a major threat on two separate fronts is a problem of such magnitude that Peking simply cannot face it at this time. The alternative seems to lie in careful management of affairs to minimize the prospects of such a contingency. What useful measures might be available is beyond the scope of this study.

There is very little in the open record that permits precise or detailed conclusions about the Chinese view of their situation in a nuclear war. It is obvious that whatever sort of nuclear force emerges in China, it will be keyed to deterrence. Initially at least shorter range weapons will lead to a hostage strategy, similar to the first-stage Soviet posture in Europe in which allies of the US were the primary targets for retaliation should the US attack Russia. Japan, the Republic of Korea, and Taiwan are all vulnerable in such a case. Against Russia it would be logical to concentrate on the Maritime Province and industrial sites in Asian Russia. On the passive side, there have been many reports of extensive digging in Chinese cities and of the dispersion and duplication of key facilities. It is apparent that Peking does understand its vulnerability to nuclear attack from any quarter and is moving to forestall it and to minimize its effects should it come. At the same time, it would be useful to note the apparent absence of panic or undue haste in China's preparations.

SOME GENERAL QUESTIONS

The foregoing description of China's military posture and discussion of that posture's "fit" with Chinese perceptions of threats to her security have been developed with a view to answering three general questions that arise from the picture of economic-military relations and conditions presented in the "Assessment."

1. Even with its recent economic successes, does China have the resources to mount a major threat to U.S. interests in Asia or elsewhere?

A major military adventure in Asia could be undertaken, but it would arrest, or even reverse, the general flow of progress in the PRC. The resource cost of fielding and fighting a force of, say, 250 thousand men would probably absorb most of the gains made in primary industry since the end of the Cultural Revolution. This does not consider the costs of damage that might be suffered by plant and communications within China under air attack.

A reasonable answer to this question must therefore be a carefully qualified "yes." Physically, China could undertake such a venture in mainland Asia. The costs are high and the outcome, in Chinese eyes, dangerously uncertain. It must be concluded that the risks and costs would be accepted only if China then saw military action as absolutely necessary to protect her own position. Alternatively, China might feel obliged to pay the price of intervention in Indochina if the complete destruction of the communist leadership and total loss of the war appeared to be the only reasonable outcome in a deteriorating situation. With the possible exception of action in behalf of Hanoi, the PRC would be looking over her shoulder at the Soviet Union if she became heavily engaged elsewhere. In summary, the PRC, at some significant sacrifice, probably could mount a major threat to some major US interest in Asia, but it is hard to visualize the conditions that would make the venture worthwhile, short of a clear and immediate threat to China's security or the imminent total defeat of Hanoi.

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2. With the resources available, do China priorities dictate attention to their security concerns over the Soviet border and the status of Taiwan, etc. rather than other ventures of concern to the United States?

China can only view her present situation as precarious. The immediate menace of the US has clearly been reduced. The Taiwan question, although not yet solved to her satisfaction, is certainly not generating any great physical danger. Japan, at least for the time being, is frozen in a military posture of little threat. Three potential adversaries, while not disarmed, seem disinclined to aggression—but no matter what gains may have been registered elsewhere, the Soviet Union remains. Moscow seems willing and able to inflict terrible punishment on the PRC. Whatever gains China can make in her military capabilities must be added to the balance sheet with Russia. It is along the northern border, and only there, that a major and immediate danger exists. Some observers hold that the Soviet Union would find it very difficult to fight a war in Asia and that China would do much damage to Soviet Far Eastern territory. This may be so, but it is equally true that most of China's hard-worn industrial base and infrastructure would vanish in the process. Given the level of resources that Peking is apparently willing to assign to military use, and looking at the Soviet forces now physically present in the Far East, it must be concluded that China has, at the moment, one overriding defense priority and that she is working very hard (and effectively) to avoid the diversion of military resources to any other tasks. One possible exception is the demonstrated willingness to maintain military assistance to some clients who are politically important.

3. Are economic growth, consumer welfare and other domestic priorities likely to override security programs in Chinese development?

The "Assessment" gives a very clear picture of progress on a broad front within a closely-controlled economy. The ability to produce weapons and military equipment grows in step with other activities. The types and, where we know them, the numbers of things being produced for the PLA testify that there has been careful thought and consensus in relating resource allocation and use to strategy. Whatever the differences between rival groups and factions may be, it nevertheless appears that there is some central and controlling view of defense and its necessities. The economy does, however, face some uncertainties. While arms supply requirements will probably not make any concessions to consumer welfare, there could arise conditions in which changing perceptions of the threat produced increasing demands for more sophisticated weapons which, added to the normally growing costs of military production, would produce real strains on the system. Under such conditions there could again be serious internal debate over security policy and priorities, but probably not at the level of intensity that has characterized some earlier controversies in the political-military life of China. Considering the changed external environment, questions of the reality of the threat and the sources of assistance or support would no longer occupy the foreground. Without a radical change in Soviet attitudes and actions, it does not seem very likely that general economic progress or consumer interests could override security programs, even if there should be some increase in the military budget's claim on the GNP.

AN AFTERTHOUGHT

The "Assessement" presents a picture of relations between the economy and defense production that argues convincingly for the idea that internal problems have not had critical effect on the development of forces to support a consistent and rational strategy and that the economy has interposed no significant barriers to military programs. The future, while it has some uncertainties, seems generally to promise continued progress. The quality of research and economic analysis reflected in the "Assessment" helps refine understanding of what it is that this mysterious and secretive nation is aiming at.

Chairman PROXMIRE. Thank you, all of you gentlemen, very much.

Gentlemen, in reading your prepared statements, I have been struck by the situation as it must look to China vis-a-vis the United States.

In a sense, we have encircled China. We have, on the one hand, Korea where we have a very massive, expensive military assistance program. We have withdrawn some troops; we are going to withdraw more; but we have had a military operation up there now for more than 20 years.

To go a little further down, you have Japan which is, it is true, demilitarized but has a fantastic economic potential for military development, thanks largely to American efforts, and Japan does seem to be our ally versus China.

Formosa—which is the beneficiary of another massive military assistance program by the United States.

Southeast Asia where we are pouring in literally billions and billions of dollars to help South Vietnam and Cambodia, Laos, in opposition not to China but to North Vietnam and China just once removed.

Pakistan and India—where we still have a program of military assistance.

Now, I am chairman of the Appropriations Subcommittee on Foreign Operations, and 80 percent of our military assistance—that is, of the $6 billion of military assistance, most of which is not, incidentally, under my jurisdiction but under defense appropriation jurisdiction—but about 80 percent of it is in this area involved in encircling China.

All of this is to defend against some kind of a threat which China, in my view, mythically represents.

My question is, in view of the action on our part to provide military assistance, in view of the deployment of the world's largest navy in the Southeastern Asia area right now, the world's most powerful air force in that area, isn't there some understandable basis for China's feeling that we have been their adversary and that we constitute an encircling threat?

Let's start with Mr. Dorrill and move across.

Mr. DORRILL. Senator, as I indicated in my testimony, I think that this has been an influence but, after all, if we go back in history, in a sense we have also been reacting to the Chinese. The relatively hard-lined chinese foreign policy stance announced immediately after the People's Republic was established in——

Chairman PROXMIRE. No question their rhetoric has been at a higher level than ours, period. Is there anything except rhetoric we have been reacting to? Do they have a Chinese soldier in Vietnam? Of course, they put some equipment in.

Mr. DORRILL. We did fight a war prior to the Vietnam war——

Chairman PROXMIRE. The Korean war?

Mr. DORRILL. The Korean war was the largest scale military combat we had engaged in after World War II, and we have to remember that this was happening in a very different world from the world after the Sino-Soviet rift. In a very real sense there was a Sino-Soviet bloc up to the mid-1950's.

Chairman PROXMIRE. It was a war fought virtually on their border and thousands of miles away from us and separated by the blue Pacific with a massive American Navy and virtually no Chinese Navy, no threat to us, perhaps a threat to them.

Go ahead.

Mr. DORRILL. I would like to make another point that I tried to bring out at the very end. Rightly or wrongly, and consciously or unconsciously, I think we were trying to build a collective security system. I think that the lesson of Korea was that you don't march across international boundaries with impunity.

Chairman PROXMIRE. That is a good point; that's right.

Mr. DORRILL. Now, I think where we have faltered in applying this concept——

Chairman PROXMIRE. We had the United Nations in Korea to back up that in a significant way.

Mr. DORRILL. Where we faltered was in dealing with a subtle, indirect kind of aggression, and I use the term with some trepidation because it is so hard to define and get a consensus on a definition of the term "aggression."

In other words, what we are trying to evolve and what both sides in a way are groping for is a system in which we can compete politically—we have very different political and social systems—and, at the same time, maintain some degree of stability.

How can we achieve peace and order without at the same time imposing a static, nondynamic, nonmodernizing society in the Third World. It is a terribly difficult problem.

I think that where we got off the track was in our involvement in Vietnam, because we had to go beyond that. Instead of "assisting," by 1965 we had begun to carry the whole burden.

Chairman PROXMIRE. Yes, but you see the thrust of my question is, and I didn't make this very clear, I am afraid, with the assumption we get out of Vietnam, does it make sense for us to try to hold the lines and against a theoretically aggressive China elsewhere at enormous cost and expense to our taxpayers and drain on our resources at a time when we have massive domestic problems that require more attention here?

Mr. DORRILL. I don't even think the Chinese would like to see us withdraw in great haste from places like Korea, Japan, and even Southeast Asia.

On the other hand, the assumptions have changed, and I think that with the announcement of the Nixon doctrine and its implementation to reduce our military profile, I think U.S. policy is moving in the right direction.

Chairman PROXMIRE. Well, the Nixon doctrine, as the administration insists on explanining it to us, is withdrawing our troops and making up for that with weapons, advisers, in the same area.

Mr. DORRILL. But the burden is on the local government.

Chairman PROXMIRE. That's right; but it is still a posture of military hostility, of encirclement with respect to China.

I am wondering in view of the fact—I want to get on with you other gentlemen, too—in view of the limitations of the Chinese economy, we can talk about how the gross national product is not a fair—as Professor Hinton does—reflection of the quality of life or their ability to achieve certain socialist values or humanitarian values, but it is a good, hard, tough measure, it seems to me, a rough measure of their military potential.

This is a country with a gross national product—let's face it—of less than Italy's. They have 800 million people to feed and clothe with that pitifully small gross national product compared to ours. It is true, as Colonel Fraser has so ably and in the best detail I have heard yet explained they do have a military force, very powerful in defending China, Mainland China, period. They don't have the steel industry; they don't have the internal transportation system; they don't have the military, economic military potential to constitute any kind of a

threat to us. How can they build a really big, modern air force, a really big, modern navy, a really big nuclear, strategic power compared to what the Soviet Union and the United States have done? If they can't do that, aren't we wasting, as I say, wasting a tremendous amount of resources on the old "yellow peril" that William Randolph Hearst talked about at the beginning of the century—this mythological notion that because they have 850 million people, that means they are four times as powerful as we are? Actually, it is like building a tremendous force against Mussolini. It seems to me just in terms of a threat to the United States or anything that is separated from Mainland China by 2 miles of water like Quemoy and Matsu there is nothing there. It is true that the contiguous border countries—Korea, Southeast Asia, perhaps Pakistan and India—there is some degree of challenge which I would hope we can meet through the United Nations and through collective action.

But as far as any American overseas threat is concerned, hasn't it been exaggerated? I may be overstating the other side, and I probably am, but I just wonder if we can justify this colossal, extravagant expenditure of resources we are pouring into this area. That is the burden of my question.

Mr. DORRILL. I don't want to monopolize the conversation.

Chairman PROXMIRE. No; but you go at it. You might want to respond to that.

Mr. DORRILL. Part of the present expenditure, of course, rests on historical assumptions which are no longer, perhaps, true, and I think we are trying to make adjustments in policies to make up for the changed assumptions.

I would like to distinguish though, Senator, between an attack, a direct Chinese attack, say, on the continental United States or on U.S. property or forces.

Chairman PROXMIRE. On Indonesia, on the Philippines or on Japan or, unless they can swim, they have millions of swimmers thanks to Mao, but they don't have a navy or the kind of air force necessary to pose a genuine military threat.

Mr. DORRILL. I think there is a difference between a direct attack on U.S. interests, which I, too, would tend to minimize, and a coming into conflict with U.S. interests which, in the interplay of political forces, could lead to direct combat, but would not necessarily do so. It might simply compromise U.S. interests, such as the loss of allies; and I consider, for example, the U.S.-Japan alliance a very important thing that should be preserved. I would not like to see that damaged.

It is in this latter sense rather than in the sense of a direct threat of Chinese attack on us that I think we are concerned.

Chairman PROXMIRE. Mr. Hinton.

Mr. HINTON. Senator, I agree with you every time I pay my taxes, but this is not one of those times. I am trying to speak as a political scientist, and I have very mixed feelings about this extremely important question you have raised. I think there is no question that the United States has over-reacted militarily in terms of the aid program. The stationing of the American forces and so on, in Asia, with the idea, of course, of coping with the Sino-Soviet alliance, and fighting the Korean war and then preventing another Korean war—I think there is no doubt that this syndrome was the main thing that led us, as I would say, to overmilitarize the war in Vietnam.

On the other hand, since this country operates largely on the basis of a pendulum phenomenon, I think now there is the opposite danger. Whether the expenditure figures show it yet or not—of course, you would know it far better than I—I think there is a long-term danger of swinging to the other extreme of overdisengaging from Asia, with very serious political effects.

One thing I think is important in this connection is that whatever one may say about the presence of U.S. ground forces overseas in terms of their possible involvement in actual combat and other things, they have—they can have at least a remarkably stabilizing effect that the presence of U.S. air and naval forces in a given area simply does not have.

Chairman PROXMIRE. Let me just ask at that point, how long does that stabilizing effect work? We have had—we have tried that stabilizing effect in Europe; we have had our troops there now 27 years; that is a whole generation. Are they going to stay 100 years?

Mr. HINTON. They may very well have to.

Chairman PROXMIRE. This is incredible to me. These countries—I know this is irrelevant to our subject here—but these countries in Europe have greater population—Free Europe—than the Soviet Union has; they may have more productive economies. I would agree we have to provide a nuclear umbrella and naval and air support and substantial troop support, but 320,000 forever? Can't we ever expect these countries that have these strong economies, that are devoting far less of their resources to defense than we are, who have the direct responsibility of defending their own countries, can't we expect those countries to do more? And the same thing is true to a lesser extent, I would agree, in a different way, I should say, in Asia, where you have a Japan which has immense economic potential, and other countries—Indonesia and other countries—Formosa—that have substantial economic strength. Do we have to expect our troops to be stationed over there?

And then you look at what is happening to our troops. Not only do we have a drug problem and a crime problem and a morale problem in Vietnam, we have it in Europe.

Mr. HINTON. We have it here.

Chairman PROXMIRE. We have it wherever troops have to sit on their tail forever and do nothing; it just goes against nature. They are away from their women; they are away from their families; they are away from their homes. It is a very demoralizing, destructive kind of a situation, and I would agree that this isn't a Sunday-school world; we can't walk away from this all at once, but I would hope through the U.N. or some kind of agreement with our allies, and if our allies are unwilling to take part in this, maybe we ought to reexamine our own assumptions.

Mr. HINTON. Well, of course, every action is going to have very serious costs, and one has to balance out to see the costs of alternatives.

It seems to me that any small country, whether you are talking about a West European country or an Asian country, looking at its much bigger neighbor—the Soviet Union or China—and realizing this is going to be a long-term relationship, realizing that other country is not only far stronger militarily than it is but also has certain objectives with respect to its own part of the world that are not altogether encouraging or friendly, is going to have some serious morale problems,

a problem of political morale over the long term. And the classic case that keeps being cited is, of course, Finland, which has been reduced not to a total Soviet satellite certainly but to a country which makes no important move, even in internal politics, without checking with Moscow. Moscow is able to veto its policies. This is a situation we should try to avoid.

Chairman PROXMIRE. You are not implying that there is no hope for Germany or Italy?

Mr. HINTON. In the long term perhaps. In the long term I think it is a distinct possibility.

Chairman PROXMIRE. Really?

Mr. HINTON. I know Europeans who think that, too.

Chairman PROXMIRE. Why don't they put their money where their mouth is? Why don't they put some of their resources——

Mr. HINTON. It is a very good question. Maybe it should be addressed to them. Obviously it should, and in the long run there may be no hope of avoiding Finlandization in 25 or 30 years; it is a serious problem and one that a lot more attention should be addressed to than is, and the answer is not to increase our ground forces here and now or pull them out here and now but to think in long-range terms. I frankly have no answer, but I think the stampede to get our troops out is not the answer.

Chairman PROXMIRE. I am not saying a stampede; I think I would like to see a stampede out of Vietnam. I think we ought to have been out yesterday.

Mr. HINTON. I think the Chinese want us out of the mainland of Asia and the immediate periphery now before the Soviets or Japanese can fill the vacuum, and whatever balancing role we need to play in their eyes with respect to the Soviet Union we can play with our ICBM's.

Chairman PROXMIRE. Is there no stock at all to the argument we have received from some witnesses that we made such mistakes in moving into Vietnam with this enormous bombing and direct involvement with American troops; that we are making Communists out there? It is almost incredible that the most powerful nation militarily in the world, with the air power we have and the terrific power we have in Vietnam, is on the losing side against a fifth-rate power? Secretary Laird has said the Russians and Chinese have been approaching it the right way; they have not been putting any of their troops in; they have not been giving one-fourth of the military aid in arms and equipment that we have given South Vietnam. Why? Because when the white man gets in, when Big Brother gets in, when Uncle Sugar, Uncle Sam gets in the way we do we create terrific animosity. Everybody is always for the underdog and little guy and it is understandable and it seems to me that our participation under these circumstances has a very, very powerful counterproductive force that we overlook.

How about that?

Mr. HINTON. Well, I wouldn't go that far. In the first place, the Chinese and Soviets have done well because they have been backing stronger sides to begin with.

Chairman PROXMIRE. How stronger? They have the same population on both sides; why should they be stronger?

Mr. HINTON. North Vietnam's population is smaller.

Chairman PROXMIRE. About 17 million north and 17 million south, roughly.

Mr. HINTON. I beg your pardon; the North Vietnamese are larger, but this is not a significant difference. The point is organization——

Chairman PROXMIRE. That's right.

Mr. HINTON. Yes, above all political organization and these kinds of things, and then experience in this type of warfare, which in the case of the North Vietnamese goes way back. They would have had the whole of French Indochina in 1945 if the British had not moved into the south and Chinese Nationalists into the north as occupation forces.

Chairman PROXMIRE. What difference would it have made?

Mr. HINTON. Probably not a great deal.

Chairman PROXMIRE. Was it worth 50,000 dead Americans, 250,000 wounded and $200 billion?

Mr. HINTON. Of course, what I am saying, this was in 1945 and this was part of that highly organized strategy on the part of the Communist movement. In other words, their successes are not attributable to American mistakes in the south.

Chairman PROXMIRE. To get back to the relevant point—it is my fault that we got away from it. Don't you feel that any actions taken in Vietnam have been because we have had in the back of our minds a fear that China was going to somehow overrun Southeast Asia, and that we have learned, if we have learned nothing else in Vietnam, the Vietnamese are tough people who don't like the Chinese; they have been resisting them 1,000 years and probably would be able to resist them if we don't destroy and enfeeble their country?

Mr. HINTON. I agree with you; we have been worried about, in the West, about China overrunning Southeast Asia. We don't do that now about the Chinese overrunning Hanoi and we have even gotten some help from the Chinese and Russians to manage Hanoi; we are not yet there but we are getting there.

Chairman PROXMIRE. We will end up with the Chinese, just letting Vietnam fall into their lap because of what we have done. What irony. My point is, we are now teaming up with Russia and China to get some kind of settlement there.

Mr. HINTON. Right.

Chairman PROXMIRE. We have bombed and blasted North Vietnam so fantastically, when you think we have dropped twice the tonnage of bombs in Vietnam dropped in all countries throughout World War II, so destroyed and damaged their country that we may have enfeebled them to the point where they would be a ripe target for China.

Mr. HINTON. I think it is very unlikely. There is no indication as of now that their political will is in any way impaired.

Chairman PROXMIRE. I think it is a possibility.

Colonel Fraser, this is a kind of a military question and we come to you last.

Colonel FRASER. There are two ancient military cliches which I think we ought to look at here. One is the theory of the attraction of the vacuum; and the other is the idea that the weapon does not care who it kills. Both of these apply in our thinking here. I am not defending this, I am simply trying to put this forward as the background against which we must work.

I said earlier that China sees us as hostile. They do not see us as friends, allies, or beneficiaries.

The question before us is the nature and intensity of Chinese evangelism. How far will they go, and in what directions, to assert some level of control, hegemony, if you will, over anything contiguous to them?

Chairman PROXMIRE. Well, Colonel, in view of what you have told us, wouldn't it be logical to expect that the Chinese military thinking is almost entirely defensive now that in addition to all the massive encirclement I have talked about—80 percent of our foreign military assistance program is directed at China, also we have an active military effort in Vietnam directed in part at China; also 1 million Russians in addition on the north, as you say, a tremendously powerful force threatening them on the north, wouldn't the Chinese military effort, which as you point out is not insignificant, this military effort probably be designed to simply defend their own country?

Colonel FRASER. I was about to say——

Chairman PROXMIRE. Overwhelmingly——

Colonel FRASER. I was about to say, sir, that I did not think that the Chinese would attempt to assert whatever it is they want to assert over their neighbors by the use of military force. However, there is again, as I said, the ancient cliche of the vacuum. For 25 years or longer we have made clients and dependents of a number of Asian nations with strong support. We have given $2.5 billion in military assistance to the Republic of China on Taiwan. These people have become clients; they have become alined with us; they have become completely tied to us.

Now, granted that the military presence of the United States, massive U.S. forces on the ground, is not an essential—one could argue with Professor Hinton about this. There still is the question of what would happen should we suddenly not just withdraw our physical support but also, by abdicating the Nixon doctrine, abandon these people, leaving them with a very sharply, rapidly diminishing military capability. Does this tempt anyone, or does this make the country that much more vulnerable to whatever it is the Chinese want to do?

Chairman PROXMIRE. One way or another, we have to get out of there. I think that all evidence and testimony I have seen is, as I say to the effect that it is counterproductive.

It does not build any strength in South Vietnam; it enfeebles it; it weakens it.

We are told South Korea has a bigger army than North Korea. We are told in Formosa they have a very formidable military force. I don't see why we can't pull out of those countries, why they wouldn't be reasonably safe.

Colonel FRASER. Well, if you want to——

Chairman PROXMIRE. Reasonably secure, and if they wouldn't be secure I am just not sure it is worth this endless commitment on our part.

Colonel FRASER. You have to take this, I think, country by country and in some detail, Senator. For example, I would agree with you that Taiwan has, with a modest modernization input, just about everything it needs to defend itself from any conceivable attack now or in the immediate future.

Korea is still afraid. They have the physical border; they have daily contacts; they also are looking at a North Korean force which while not perhaps as big as theirs has undergone an extensive modernization since 1965 and no matter——

Chairman PROXMIRE. So have the South Koreans.

Colonel FRASER. Sir?

Chairman PROXMIRE. So have the South Koreans, haven't they?

Colonel FRASER. That is the point I was trying to make. We—when we first mentioned reducing our forces in Korea—got a cry of pain from Seoul, and they demanded something like a $5 billion modernization program before they could contemplate the withdrawal of our equivalent forces. We have bargained this down to something under $2 billion now, but I think we are pretty much committed to a 5 year major modernization plan and our withdrawal is contingent upon executing this.

Now they couldn't stop us, but this is where we have agreed.

Chairman PROXMIRE. Do you think there is any realistic possibility of a Russian preemptive nuclear strike against China, recognizing the Chinese are building up a nuclear capability, and that right now the Russians have overwhemlming nuclear superiority?

Colonel FRASER. When I was recounting the pressures that the Russians have exerted on the Chinese, I left out one, Senator.

Chairman PROXMIRE. That's right.

Colonel FRASER. And that was the trial balloon that was floated in a number of European capitals where it has been reported—this was never confirmed officially—that Russian diplomats here and there were rather casually asking diplomats coming from third countries how they would react to a preemptive or sanitizing strike against China's nuclear plant.

I find it very hard to believe—Mr. Hinton and I were working rather closely together at the time of the first incident along the Ussuri River and I said, March 3, 1969, that Russia and China were not going to engage in major war. Now, this is a very dangerous position to take. For a little over 3 years I have been right but I could be wrong tomorrow.

Chairman PROXMIRE. They have engaged in skirmishes, of course.

Colonel FRASER. That is not what those million men can do, Senator.

Chairman PROXMIRE. I understand.

Colonel FRASER. I think that both——

Chairman PROXMIRE. At the same time it seems to me in any kind of a conventional war China would have a far better chance than they would in a—it would be very tempting, I would think, for the Russians to use this immense nuclear superiority they have, having an inferiority in manpower.

Colonel FRASER. I think it would be sheer folly for the Russians to engage in a conventional ground war with China. It is giving all the chips to the other fellow.

Chairman PROXMIRE. Right now if they would engage in any kind of war, I would think it would be nuclear.

Colonel FRASER. I cannot see anything else, really.

Chairman PROXMIRE. Do you differ with that, Mr. Hinton?

Mr. HINTON. No; I think if the Soviets did get into a major war with China, they would have to go nuclear at some point, at least tactically nuclear.

Colonel FRASER. I would like to add one thing: The fact that the nuclear weapons would be necessary in the scenario, I think, acts as a further inhibitor on action. It tends to keep things within closer limits.

Chairman PROXMIRE. Mr. Hinton, can you place the Podgorny visit, which we just learned about yesterday, to Hanoi, along with his statement that the bombing must stop very quickly, and Kissinger's visit to Peking in perspective? What is the significance?

Mr. HINTON. Well, I would have to know more about what went on in Moscow when President Nixon was there to give that a good answer.

I will speculate a bit: We are not the only ones who are annoyed at Hanoi. Clearly, the North Vietnamese offensive, while it may have appealed to some elements both in Peking and Moscow, did not have the general support of either the Chinese or Soviet leadership or at least doesn't have it anymore; and I think most, well, the three of us, the Big Three, would like to somehow defuse this entire crisis. There is no question that the North Vietnamese are extending themselves very badly and that this is really the only reason why we are bombing them. In other words, a withdrawal of the invasion, and a cessation of the bombing ought to be arrangeable. I would assume that is one of the reasons Podgorny is going to Hanoi and Kissinger is going to China, to sound out the Chinese on these things and be sounded out by them. Beyond the obvious things like that which come to one's mind, I can't say anything beyond that.

Chairman PROXMIRE. Would Mr. Dorrill or Colonel Fraser like to comment on that?

Mr. DORRILL. I think it is difficult to say. It is a matter of intense speculation among China watchers. All I can say is that I hope fervently—I hope the visit will produce some sort of conference and eventually settlement.

If I might, Senator, I would like to come back to one question you asked earlier of Colonel Fraser: "Isn't Chinese military thinking strictly defensive?" Or course, the military thinking of all nations, they would say, is strictly defensive—that is, if we define military thinking in terms of the deployment of large-scale forces.

Chairman PROXMIRE. Let me change that to say isn't their thinking confined to defense of mainland China?

Mr. DORRILL. I think it depends on what kind of military forces we are talking about, and here is a very important point. When they look at military forces they are viewing a whole range of possibilities, not just the deployment of divisions and battalions but also the use of paramilitary forces, the use of training and economic and small arms assistance, very modest amounts of assistance to revolutionary movements in other countries, and I think we have to look at that as well as the large-scale deployment of forces.

Clearly, their strategy is defensive, if you are looking at the deployment of major contingents; but with regard to the other applications of force that they have at their disposal, and other offensive uses of their resources, then I think we are trying to grope, however imperfectly, toward countering that sort of thing.

I don't believe it is necessary for U.S. forces to be stationed in Asia indefinitely. I think we are trying to pull them out. I think probably it was a mistake when we did become overcommitted to the positioning of combat forces, ground troops, on the continent of Asia. On the other

hand, I do believe that for some time to come we are going to have to work toward rules of the game in which the Chinese are competing with us—in which there is a tolerable give and take on both sides.

Chairman PROXMIRE. Compete with us in what area—militarily, in trade, in what way?

Mr. DORRILL. In terms of "influence," and this for the Chinese means activities over a whole spectrum from small-scale arms and the supply of insurgents overseas to economic assistance and trade policies and to political propaganda and psychological warfare.

Chairman PROXMIRE. Mr. Hinton, you seem to feel that Chou En-lai is the de facto ruler of China; I got that from your statement. We were told by other witnesses that he was enormously strengthened by his ability to say that what he proposed has the support of Mao, that Mao was the real god and Mao was the effective force.

Senator Mansfield and Senator Scott, Mansfield particularly, testified that China is unified, dynamic, and strong. Much of this may depend on what they have been able to do in building up this god figure in Mao. Now, Mao is reported to be on the verge of death; of course, that has happened before, but this seems to have more authenticity. In the event of his death, do you think Chou would still continue to have this kind of power in China? Or do you think there would be likely to be a division and some degree of weakening because of the struggle for succession?

Mr. HINTON. Well, this is a notoriously tricky field to make predictions in, as I am sure you understand, but since you pin me to the wall, I will do it.

I think Chou En-lai by now has things lined up as well as humanly possible with exactly this contingency in mind. I think he has done it with Mao's approval, Mao realizing there is really no alternative to Chou as his successor. As a matter of fact, Mao in a secret speech he made in early 1957 named Chou as the man—at that time—as the man he would like to see succeed him, although he did not make it official at that time, and I think Chou has the support by virtue of his ability, his knowledge of both domestic and foreign politics and his connections, and so on, of a large number of Chinese both civil and military, who share his general outlook. In fact, it would be astonishing if there were not a great many Chinese who respected and shared his outlook.

We know he built up a great deal of support among the provincial military leadership during the cultural revolution because he talked with them all the time about their local problems and displayed great knowledge of them.

So barring his death or incapacitation, I would think that he is going to be able to make it, at least as a transitional figure.

Chairman PROXMIRE. When you say "make it," you think China will continue to be unified?

Mr. HINTON. I think so.

Chairman PROXMIRE. To the extent it is——

Mr. HINTON. The Chinese, as a result of their historic experience over the last 75 years or so, have become convinced that national weakness and disunity bring all undesirable results, including possible foreign enemies and possible invasion, and they don't want to go that route again. This is one of the great assets of Chou En-lai.

Chairman PROXMIRE. Do you all agree with that?

Colonel FRASER. Yes.

Mr. DORRILL. Not exactly. I take some exception to the analysis of the role Chou played in his presumed struggle with Lin Piao. I am not entirely convinced Chou was on the offensive or that Lin Piao was consciously sticking to his strategic view of a "dual adversary" through this period. Chou is certainly one of the great political survivalists of all times. He really has been a "cat of nine lives" politically and probably will go on being as long as he lives.

However, we have to remember he is not a young man. He is in the same revolutionary generation with Mao Tse-tung; therefore, in the event that Chou succeeds Mao—and I would agree that is likely under present circumstances—he won't remain for all that long. The problem then is who will succeed him, and here the Chinese regime, even with the cultural revolution, has not advanced a strong cadre of potential successors to positions of top leadership.

The central leadership is extremely small today in Peking, and rather thin. So I think there is a great deal more potential instability in this situation than would appear from the surface.

Mr. HINTON. Could I add something to that?

Chairman PROXMIRE. Yes.

Mr. HINTON. Chou has put, not Mao himself, but the Maoists on the shelf. He has disposed of the Lin Piao team at the top level and is now producing his own team, some of whom are significantly younger than he is. In other words, he has thought about this problem, and so far as I can see, in all major fields, the security, political field, party apparatus, he is in a position to begin fielding a second team that will be in position to take over when he departs.

Chairman PROXMIRE. Colonel Fraser, what is the relative influence of the military in China today as compared with the end of military rule in 1969?

Colonel FRASER. That is a question which I wish I could refer to Professor Hinton or Professor Dorrill. It is contended by some serious scholars in the field that the military regional commanders have become quite powerful and also have become quite responsive to competing schools of political thought, and that some have allied themselves with Chou En-lai who, in turn, is paying them off in terms of equipment, prestige, status, and this sort of thing.

I would say that since the end of the Cultural Revolution, we have seen a refocusing of the power balances, but we are looking at a situation wherein the military still exercises essential physical control, but not under the sort of military sponsorship, if you will, not under the aegis of the People's Liberation Army but, rather, as participants in the total political process responding to Chou En-lai.

Chairman PROXMIRE. Is that pretty well agreed to?

Mr. DORRILL. I think that——

Chairman PROXMIRE. Mr. Dorrill has a little trouble with that?

Mr. DORRILL. Only the trouble I have with all questions which get answered fairly briefly; China is such an enigma and we know so little and there is so much room for speculation, most of us who labor in the vineyard like to qualify, and perhaps overqualify.

It seems to me that while we don't have the situation of regional warlordism developing, we do have a situation in which a great deal of the ordinary functions of government are retained at the local and regional level. So that also contributes to a very different pattern

than we would normally think of in dealing with a great power like China which we would assume, exercised highly centralized functions down to the grassroots. Centralized, yes, in terms of foreign and military policies—deployment of major military forces but not necessarily deployment of military forces for internal security tasks. And Colonel Fraser points out that one-third of their strength is devoted to those tasks as well as overseeing the operation of factories and schools and various other units of their society.

Chairman PROXMIRE. Mr. Dorrill, you have given a lot of thought to the economic aspects of this and, of course, this is the Joint Economic Committee, and the economic aspects are an important part of our contribution to the extent we can make one to the Congress.

What policies do you think we can follow—trade policies, policies of providing information perhaps in technological areas, that would help China make economic progress and to help them improve the lot of their people which is still poor compared to ours and compared to that of other industrialized countries, without giving them a large and substantial military capability?

One of the areas that occurs to me is the agricultural area where I understand they still have what—80 percent of their people concerned with producing food which, of course, is an enormous drain on their society, and we had one witness testify that since 1957—not 1949, not your figure, Mr. Hinton, of 1949—they had a decline in their caloric consumption which dropped 10 percent, 6 to 10 percent, depending on how you calculate it. They may have less food on a per capita basis.

Mr. DORRILL. I would seriously disagree with that.

Chairman PROXMIRE. This is based on the statistics in the compendium.

He also argues they have less textile production, less cotton production per capita, so therefore, they have less clothing, so they are not better off. This was Mr. Liu from Cornell, a man who has devoted considerable time to this and a respected scholar, and his analysis was that population has increased more rapidly than either food or fiber.

My fundamental question is, what can we do to assist China in improving its economic situation without endangering ourselves or other countries?

Mr. DORRILL. I guess I see the problem a little differently. I don't see it in terms of a dilemma, that if we help China, China becomes strong and threatens us. Rather, to me——

Chairman PROXMIRE. Let me repeat what I said earlier, that Lenin is alleged to have said—among many other things—that when the Communists are ready to hang the capitalists, the capitalists will sell them the rope, the idea being, of course, if we build up China's technological capability and industrial capability, she could use that to confront us militarily someday.

Mr. DORRILL. I think perhaps the most important and fundamental consideration is the opening of China to new ideas, to a more accurate picture of the rest of the world and its intentions vis-a-vis China; and that is far more important than any short-term strengthening in the technological or economic sense.

As I tried to point out earlier, I don't see any correlation between prosperity in China and aggressiveness in foreign policy at all; there

has been no consistent pattern. They have had "hard" foreign policy lines in periods of extreme weakness and "soft" lines in periods of relative prosperity. Rather, I think rapprochement is to our long-term advantage, and I would urge that we view our policies whether trade, military expenditures, information, or what have you, in the long term.

Chairman PROXMIRE. Would you share the Reischauer view that because our trade—say there was an equal amount of trade, a half billion dollars' exports and imports to China that this could have a significant effect on their attitude but would have a relatively small effect in this country, inasmuch as it would be a far smaller fraction of our imports and exports. It would constitute a very large proportion of theirs because they have a smaller trade operation and, therefore, that we have almost everything to gain in terms of influence and very little to lose by greatly stimulating and increasing our trade with China?

Mr. DORRILL. Certainly.

Chairman PROXMIRE. Would you share that view?

Mr. DORRILL. Certainly; the maximum potential for trade would not be such as to make us economically dependent on the People's Republic. I think it would always remain a fairly small fraction. Estimates vary widely as to the potential for trade. Some Japanese trade agencies have estimated as early as a year or so from now it could, if all systems were go, amount to as much as $200 million flow each way. I would say that is much too rosy.

Chairman PROXMIRE. I was thinking not in terms of a couple of years; I was thinking in terms of a decade or so.

Mr. DORRILL. In terms of what they have to export to us, and what we have that they want, I just can't see trade amounting to that large a fraction.

Chairman PROXMIRE. Well, they have many things that we would want, I presume. They certainly would want what Russia would want in trade that is beginning to develop; they would want the machine tools, the farm equipment, much of our technological apparatus.

Mr. DORRILL. Yes, but they have been unwilling to forego a policy of self-sufficiency; they have been unwilling to accept large-scale foreign credits; but they could modify that policy and begin to purchase whole modern industrial plants.

Chairman PROXMIRE. I was talking about what they need.

Mr. DORRILL. They have followed a very conservative fiscal policy, refusing to obligate themselves for more than they could immediately pay and cut into their financial resources. I think they have reserves estimated at about $800 million.

Chairman PROXMIRE. So then you would, I take it, contend that the economic effect would be rather small, maybe insignificant, but the cultural effect of doing business with them and visiting their country on trade missions and so forth might be more significant and more substantial?

Mr. DORRILL. Yes; exactly. Of course, I wouldn't advocate immediately making available to them the more sophisticated electronic equipment for fitting out military aircraft or other things of a strategic nature. I don't think that is necessary, but I think we should apply the same rules applied to the Soviet Union, on an equitable basis.

Chairman PROXMIRE. Mr. Hinton, how do you feel about it?

Mr. HINTON. At the recent Canton Trade Fair the Chinese made it clear to some of the Americans who were there that, in the first place, the Chinese do seriously intend to trade with the United States—one of the major reasons for this is to reduce the Japanese role in Chinese economic relations—and that China wants to balance its trade with the hard currency nations as a whole, including Hong Kong, which means that they would not mind running an adverse balance with the United States; and they made it clear that their priorities are in the field of transportation and agriculture.

If I could go back to the Chinese food production, the Chinese only publish statistics on grain production which is relatively insensitive to short-term cycles other than weather. It is grown on the commune sectors of the people's communes and subordinate parts. What really, to my mind bounces up and down sharply in response to official policy are other things, vegetables, fruits, poultry, and the like, and we don't have any figures on that.

But the Chinese themselves eat them, whether or not they are reported and I think it is pretty clear their overall food consumption is in fairly good shape.

Chairman PROXMIRE. How about textiles?

Mr. HINTON. Textiles—I can't comment; I have no knowledge. I am quite pursuaded their food situation is perfectly tolerable by Asian standards at the present time.

Chairman PROXMIRE. Colonel Fraser, isn't the nuclear program likely to go into an escalating cost production phase in the near future?

Colonel FRASER. Most certainly, sir.

Chairman PROXMIRE. And will pose a difficult problem for the Chinese to develop the kind of refined, sophisticated nuclear power that even approaches that of the United States and the Soviet Union?

Colonel FRASER. Indeed, that is the case, sir. This is one of my reasons for suggesting that they are really not going all out to achieve the sort of——

Chairman PROXMIRE. It also implies there wouldn't be much sense in the Soviet Union attacking them because they are not going to become the kind of nuclear threat to the Soviet Union, let alone to this country, that——

Colonel FRASER. They will become this sort of nuclear threat eventually, I suppose. As an Australian scholar put it to me, if they had 25 ICBM's which could attack the west coast of the United States, what President of the United States would hazard 25 United States cities in a quarrel with China? But this is the sort of hostage strategy which I think will set the limit of their construction. I see nothing like the massive number of weapons——

Chairman PROXMIRE. Let's pursue the implications of that; it is fascinating.

If they had 25 ICMS's, you say, hostage strategy—in other words, they would be in a position to negotiate from greater force and strength because the President of the United States would feel that otherwise we might endanger some of our cities?

Colonel FRASER. They would have, as I said earlier, sir, a ticket to the meeting wherein——

Chairman PROXMIRE. How would that give them any real kind of ticket? On the one hand, they might be able to attack or might not be

able to attack, and destroy some of our cities. If they did, we would be in position to pulverize China; there would be nothing left. It would be an ash heap.

Colonel FRASER. Of course, this is true, but, on the other hand, to pulverize China would be considerably inhibited if they had, say, 25 intercontinental weapons of 25 megatons each.

Chairman PROXMIRE. Well, I just wonder——

Colonel FRASER. Can you see the President of the United States——

Chairman PROXMIRE. If I were President of the United States, that kind of bluff would have no effect on me at all, none.

Colonel FRASER. I don't think it is a bluff.

Chairman PROXMIRE. After all, what can they do? They could threaten we are going to take care of some of your cities; although we know if we do that, there won't be anything left of our country; we would enlarge the Pacific Ocean by the size of China; it would be just a great big hole. Isn't that what would happen?

Colonel FRASER. That was not my concept of the strategy involved. I was not thinking of the 25 Chinese ICBM's as an initial or first strike force; I was thinking of it as a deterrent and as an inhibitor——

Chairman PROXMIRE. I know.

Colonel FRASER (continuing). To keep the United States from firing at China.

Chairman PROXMIRE. Why would that be a deterrent if it is so unbelievable? It would be so utterly ridiculous. Anybody can do anything, of course, any irresponsible nut, any maniac who has his finger on the button. Any Lavelle, General Lavelle, can apparently start a nuclear war; that can happen and unfortunately and sadly there is not much we can do about that; but as far as negotiating, if they said, "Now, we expect a ticket to the club, we expect to be on a parity basis; we have enough to wipe out some of your west coast cities," it seems to me we are in a position where we have to talk with Moscow on this basis but not with China.

Colonel FRASER. The discussion, I suggest, sir, would turn about what the Chinese have always stated as their goal, the total and thorough destruction of all nuclear weapons. Obviously they feel menaced. Obviously they are in the fix of the swift runner of Zeno's second paradox.

Chairman PROXMIRE. You left me at the post.

Mr. DORRILL. I hope you have something more comforting to offer than Zeno's paradox.

Chairman PROXMIRE. We are getting into the Greek-Turkish aid program? Zeno's second paradox?

Colonel FRASER. The illustration is the very swift runner who starts behind the very slow runner and with each stride closes half the distance between them; but since there is always an increment of one half, he never catches him. No matter how fast the Chinese move, they are in the same paradoxical position.

Chairman PROXMIRE. Whoever figured out that paradox was not talking to a jogger because I find that zeno is wrong. You catch up or fall behind. [Laughter.]

Mr. HINTON. Zeno was not a jogger.

Colonel FRASER. Zeno was not a jogger; that is only one of eight paradoxes; you might try some of the others.

Seriously, Senator, I obviously muddied up my own argument. I am not suggesting the Chinese would build an intercontinental force of 25 missiles and say, "Now, do as we suggest, or cooperate with us, or we will clobber you," because the price is China; however, they could then afford to be a little more carefree or a little more straightforward in their planning about dealing with us if they had a second strike capability which would be used if the United States attacked China.

Chairman PROXMIRE. Well, I can see how a nuclear capability might result in a situation with respect to Japan; it might change the situation quite dramatically if Japan does not develop nuclear power, or with a situation in respect to South Korea, but not to this country and Russia because, as I say, our nuclear power is just overwhelming; retaliation would be just absolutely destructive.

Colonel FRASER. I am not talking about retaliation.

Chairman PROXMIRE. But what would we have to talk about?

Colonel FRASER. I am not talking about retaliation; my basic premise is they would never fire first.

Mr. HINTON. Colonel Fraser is talking about a situation of mutual deterrence.

Chairman PROXMIRE. That is what I mean. I don't have any mutual deterrence with respect to Joe Frazier; I couldn't go up to him and say, "Joe, unless you are going to talk with me, I am going to give you one on the chops." I might give him a little tiny shiner, but that would be the end of Proxmire, and I think this is the problem that China has with respect to the United States and the Soviet Union.

Colonel FRASER. This is exactly why I suggest that China does not realistically seek to develop any massive nuclear power, that some sort of array which—the right words are mutual deterrence—is about all they can hope for.

Your original question asked me where I thought they were going. They have not faced the expense of the program yet.

Chairman PROXMIRE. My original question was based on the fact that a much greater expansion would be very expensive for China. The cost of nuclear development would be prohibitive for her relatively limited economy.

Colonel FRASER. On expense—they have not gone into serious production, so far as we know, on any significant force. This is where the costs lie. You have to put together the assembly lines and technical facilities to make a whole string of weapons, to do the necessary proving and proof testing and this sort of thing. You run into a new order of costs; and the Chinese have not faced those yet.

Chairman PROXMIRE. Well, gentlemen, I want to thank all of you. This has been kind of a rambling interrogation and I apologize for that, but you are so competent and your presentations have been so solid that I think you have made an excellent record today. I think your responses have been most helpful to me and the committee.

As I indicated earlier, the distinguished majority leader of the House, who is a member of this committee, will soon make a 10-day visit to the People's Republic of China. He has most graciously offered to provide this committee with a statement setting forth his observations and conclusions about economic matters upon his return. This would be a most desirable addition to our inquiry and I ask, without objection, that we keep the record open for submission of the report.

(The report, in letter form, was subsequently supplied for the record:)

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
OFFICE OF THE MAJORITY LEADER,
Washington, D.C., July 10, 1972.

Hon. WILLIAM PROXMIRE,
Chairman,
Joint Economic Committee,
Congress of the United States,
Washington, D.C.

DEAR MR. CHAIRMAN: I have, as you know, just returned from a 10-day visit to the People's Republic of China. This journey was undertaken with Representative Gerald Ford, the House Minority Leader, and it was intended to aid our understanding of China and to contribute toward the normalization of relations between our two countries.

Progress toward that goal was one of the objectives agreed to by both sides in the Joint Communique issued in Shanghai on February 27, 1972 during the President's China visit.

We departed for China on June 23, 1972, and therefore we were fortunate to have had the benefit of this Committee's excellent study entitled *People's Republic of China: An Economic Assessment*, released late in May as well as to have had the benefit of the Committee's three days of hearings concerning that report held in June. We furnished copies of the study to a number of Chinese officials. I was also pleased to have accompany me to China Mr. Eugene Theroux, Special Counsel to the Committee, who proved a valuable aide.

In addition to reports to the President and to the Congress on my mission to China, I have assembled here for the use of the Committee and of others interested in China some thoughts and findings concerning the outlook for Sino-U.S. Trade.

A substantial portion of my discussions with Chinese leaders, including talks with Premier Chou En-lai, was devoted to the matter of bilateral trade. The Joint Communique last February set the stage for such discussions in these words:

"Both sides view bilateral trade as another area from which mutual benefit can be derived, and agreed that economic relations based on equality and mutual benefit are in the interest of the peoples of the two countries. They agree to facilitate the progressive development of trade between their two countries."

Great enthusiasm was generated in the United States among persons interested in closer trade relations with the Chinese following the President's journey, but my experience in China suggests that some Americans may be excessively optimistic as far as any very significant increases in bilateral trade in the near future are concerned. Certainly no dramatic increases are likely until the process of normalizing state relations progresses measurably further than it has at present. At least this is the impression I received in my talks with Chinese political leaders and with officials of the China Council for the Promotion of International Trade (CCPIT) in Peking.

CURRENT OBSTACLES TO TRADE

While I believe that progress toward normal state relations with China is a condition precedent to any dramatic increases in the range and volume of goods traded, this is not to say that some significant trade cannot occur before an exchange of Ambassadors. Obviously, some trade can itself play an important part in bringing about diplomatic ties, and in this context the RCA satellite ground station purchase, the more recent negotiation for purchase by China of ten Boeing 707 Aircraft, and the private U.S. purchases made in Canton this past spring are good examples.

But trade events, even major ones, can go only so far in laying a basis for more general high volume trade. Before too long, if trade relations are to improve, progress will have to be made in resolving the conflict in Indochina; the status of Taiwan and our relationship to it must eventually be resolved; current tariff and non-tariff barriers to trade between our countries must be reduced—and this of course raises the question of Most Favored Nation status for China; a start must be made on resolving the current disagreements between our countries—over private claims of U.S. citizens for property seized by China and over Chinese assets we froze at the time of the Korean war; the U.S. must follow a reasonable policy respecting export licensing and end-use requirements in order to permit U.S. business to compete effectively for the Chinese market; the U.S. should remove legislative restraints on several kinds of fur skins insofar as they discriminate against China and reciprocal mechanisms must be worked out for trade promotion.

Some other obstacles to increased U.S.-China trade are evident from a speech delivered by Chou Hua-min, China's Vice Minister of Foreign Trade and Head of the Chinese delegation to the April meeting of the United Nations Conference on Trade and Development in Chile. Addressing the plenary meeting of that conference on April 20, Vice Minister Chou charged that "in international economic and trade relations, the United States has all along pursued a policy of expansion and plunder and of profiteering at the expense of other countries." It is instructive to note that this expression of Marxist views follows, not precedes, the hopeful expression of the Joint Communique, and demonstrates that whatever improvement in bilateral contracts between the U.S. and China occurs, will not be at the expense of the ideology of China.

This is not at all to say that the Chinese are uninterested in pursuing trade with the U.S. But it is important for us to keep in mind that the Chinese are very sensitive to the possibility of exploitation, and they are striving to be self-sufficient. In that same speech, the Vice Minister of Trade sounded a theme which I heard repeatedly during my visit, namely that "international trade should be based on equality and mutual benefit." In view of the experience of China in matters of trade with the West, these are understandable concerns.

TRADE POSSIBILITIES

China's trade policy rests on three fundamental points: First, that trade should be conducted on the basis of the principles of equality and mutual benefit; Second, that its trade must complement its domestic objective of national self-sufficiency; Third, that trade should be kept in balance—export proceeds being used to purchase needed imports.

These points do not rule out trade with more developed nations. So long as China believes it can accelerate technological development by trade, for example, it will use foreign exchange gained in exports to purchase sophisticated technology. While it seeks a balance of trade, and can achieve such a balance by State planning, a trade imbalance with one nation will apparently not be unsatisfactory to the Chinese so long as the imbalance is made up elsewhere. This is, of course, one of two ways China can remain the cash customer it seeks to be and still purchase such expensive items as advanced aircraft. The only other way for China to have high-cost—high technology imports is to accept long-term credit—and I found no indication that the Chinese have significantly altered their vigorous resistance to debt financing.

In view of China's production objectives in industry and agriculture, there are a number of areas in which opportunities exist for U.S. exports of China. Obviously, these include the items in which China has already made its interest known by actual purchase, namely advanced aircraft and communications satellite technology. In addition, the U.S. has advanced the state of the art in other areas which coincide with China's plans for development. These include farm machinery and techniques; steel production; mineral oil and gas extractive methods; chemical fertilizer production; food processing technology; chemical production; computers; electronics; improved breeding stock; and so forth.

An important point for the U.S. to bear in mind as far as exports to China are concerned is that there are few items even in the category of advanced technology which China cannot obtain from any one of a number of sources: Japan, Germany, France, Britain and the Soviet Union. The U.S. must therefore be sufficiently competitive to gain Chinese business. On the other side of the ledger, China is of course, not without goods which have a market in the United States. These include a variety of foodstuffs, handicrafts, light manufactures, minerals and soft goods. It seems probable that in any expansion of trade, the U.S. will enjoy a favorable balance of trade with China; the high cost of advanced technology to the Chinese very likely cannot be financed with the proceeds from sale in the U.S. of the current range of Chinese exports.

RECOMMENDATIONS

As far as specific recommendations respecting trade are concerned, I believe the following deserve attention:

1. *Commercial Commission.*—On last May 26, during his visit to the Soviet Union, the President concluded an agreement establishing a U.S. USSR commercial commission whose responsibilities include negotiation of such trade matters as reciprocal Most Favored Nation treatment, credits, business facilities for trade promotion, and so forth. I believe a similar commission with a similar

function could be established to begin serious work toward improved U.S.-China trade relations. Until we have more normal State relations with China, an effort of this sort could be undertaken in the same way that such an effort produced improved trade relations between China and Japan—namely utilizing some quasi-public body in each country to review and lay the basis for further accord in such matters as:

Most Favored Nation treatment; export licensing; end-use restrictions; commercial arbitration; shipping and port facilities; reciprocal trade fairs; patent protection; exchange of trade missions; extension of credit; and elimination of discriminatory import restrictions on Chinese goods.

2. *Frozen Assets/Foreign Claims.*—Negotiation on the matter of frozen Chinese assets and U.S. private claims should be pursued, if possible, through existing channels of communication between our country and China. A resolution of these problems can be an important step to improved commercial relations, and can be undertaken in the spirit of the language of the Joint Communique which calls for the facilitation of the development of trade. If existing channels are unsuitable or inappropriate for this purpose, a special negotiating team should be constituted to begin work.

BACKGROUND

The future of U.S.-China Trade must be viewed in light of past trade relations between our countries. We should understand that the PRC has quite a different view of these relations from our own. We must therefore take into account the views from their side. It is the PRC view that the history of the trade relations between China and the United States for the century or more preceding World War II has not been a chronicle of mutual benefit and equality. Since early in the 19th Century, America viewed China as a nation in continuous turmoil, incapable of successfully coping with foreign affairs because of her domestic inadequacies. The United States, like other western powers, began over a hundred years ago to mold China policy to take advantage of a nation not capable of advancing it own interests. Great Britain, and later France, Germany, and Russia, expressed outright colonial ambitions for China's territory.

By the time that the United States emerged as a srrong potential trading partner in the 20th century, China's experience with a century of Western imperialism manifested itself in vigorous anti-foreignism. The tension and resentment produced by the general Western presence in China, therefore, has inevitably affected U.S.–Chinese relations. While China has never represented a vital part of American trade, the United States in the past has viewed the Far East as a great potential market. The history of Sino-American trade relations, however, stands as basically unstable and weak, often resting as much upon mutual suspicion as upon genuine amity.

Its traditional view of trade immediately placed China at a disadvantage in its dealings with the West, for a policy that deemphasized business could not compete with the mercantilistic spirit of America and Europe. Traditionally, Chinese society rested upon agrarian economy engaged in crop production rather than in trade. The Confucian ethos exalted the gentry class and acknowledged the peasant as the backbone of society, but it relegated the merchant to inferior status. Chinese officials, regarding the business class as non-productive and parasitic, maintained a firm check on its wealth and power. Consequently, Chinese merchants sought investment in land and in the scholarly pursuits of the gentry rather than in trade. Furthermore, the traditional ethic stressed the notion of limited wealth; businessmen sought advancement by competing with each other for available resources instead of by developing new markets.

The imperial governments in China presented a formidable barrier to private enterprise because all large scale industry lay in imperial hands. Officials relied upon the manipulation of government monopolies to control the activities of the merchants. In all business ventures, the government demanded adherence to a policy of merchant management and government supervision that encouraged imperial profit while stifling private initiative. In such a system, social privilege overwhelmingly favored the gentry-bureaucracy. Chinese businessmen failed to break away from their dependence upon officialdom to create an independent industrial and entrepreneurial power.

Finally, the traditional Chinese foreign policy offered no place to a vigorous trading partner. The tributary system stood as the model for imperial policy: China not only insisted upon recognition as the West's cultural and economic superior, but also denied any need for foreign goods. The Chinese, then, were unequipped to handle aggressive Western traders who came to the East schooled in the traditions of mercantilism.

Through most of the 19th century, the imperial government tried to limit trade to a few coastal ports and restricted business activity to dealings with the special class of compradors and hong merchants. But this policy could not withstand the entrepreneurial onslaught of Western traders whose influence and power eventually reduced China to a subordinate position in trade relations.

This unhappy experience with Western traders has not been forgotten in China. Vice Trade Minister Chou at the UNCTAD Conference reminded the delegates that:

"For over a century, the imperialist powers . . . divided China into their spheres of influence, interfered in China's internal affairs, backed the reactionary authorities, subjected the Chinese people's revolutionary struggle to bloody suppression, engineered civil wars among warlords, controlled China's customs, shipping and insurance, manipulated China's financial and monetary affairs and extorted privileges of running mines and factories, building railways, inland navigation, etc. They flagrantly plundered China's resources, fleeced the Chinese people and seriously disrupted the national economy of old China. As a result, its rural areas were on the brink of bankruptcy and its industry of its own. Even major necessities like grain and cotton had to be imported in large quantities. Its entire foreign trade was in the hands of imperialists and their running dogs."

American firms became involved in the external trade with China in the early 19th century, frequently associating with established British associations and participating in the lucrative tea and opium trade. Despite official American denunciation of the opium traffic because of the destructive effect of the drug upon the population of China, many private U.S. firms engaged in the trade.

From the mid 19th century until World War II, China also suffered in its dealings with the West under the burden of a series of unequal treaties. America eagerly participated in this program too; not to seek colonial gains, but to share in favorable commercial benefits.

America's first commercial treaty with China was conducted in 1844, Treaty of Wanghia, which granted to the United States concessions similar to those won by the British two years earlier in the Treaty of Nanking. The Treaty of Wanghia granted extraterritoriality to American citizens, limited Chinese tariffs on American goods to 5%, expanded trading rights to five ciastak ports, branded opium as an illegal article of trade, and guaranteed to the United States the "preferred nation" status that England had already gained. This clause automatically assured the United States of all commercial benefits awarded European nations in other treaties. These unequal treaties, wrung from a China weakened by imperial governments preoccupied with internal problems, shackled China economically. The Western powers eventually penetrated all Chinese trade barriers by establishing low duty rates and obtaining favorable concessions for their own goods while refusing to negotiate reciprocal rights for Chinese products. The West made such powerful inroads into the Ch'ing Dynasty's economic sphere that China could not withstand recurring pressures for treaty revision which progressively reduced her position of inferiority. In the Treaty of Tientsin in 1858, the Chinese allowed the United States direct audience with the Imperial court and some access to the interior of the country. Not surprisingly, perhaps, the American trade with China trebled during this period.

After the Civil War, however, the United States appeared to lose interest in her trade with China. By 1894, China constituted only 1.75% of the foreign trade of America, while in 1860, 3.15% of American foreign trade had belonged to China.

Despite a comparative lull in Sino-American commercial relations that prevailed until the end of the 19th century, the United States continued to take advantage of the concessions granted to other powers. In accord with the Most Favored Nation clause, the United States benefited from Japanese gains of the Treaty of Shimonoseki of 1895, which authorized the introduction of foreign machinery for manufacturing purposes and permitted foreign presence throughout the interior of the country. These new gains revitalized American business interest in China. However, unlike its European rivals, the United States sought commercial advancement solely through trade and investment. England, France, Germany, Russia and Japan, advocating outright colonization, fought to extend their territorial spheres-of-influence.

At the turn of the century, the United States used a period of growing instability in China to win further concessions for itself. The Treaty of Shanghai in 1903 expanded the Most Favored Nation privilege in extraterritoriality and inland transportation. The China Trade Act of 1922 sought to aid American firms in the Far East by offering them special tax exemptions and establishing a uniform code of laws under which business would operate.

America was slow in recognizing the inequities of the treaty system it had promulgated for almost a century. China did not receive tariff autonomy until 1929; the United States did not relinquish extraterritoriality until 1943. Even in treaties negotiated after World War II, particularly the Treaty of Friendship, Commerce, and Navigation of 1946, America maintained its special privileges without corresponding benefits accorded to the Chinese. This treaty called for the elimination of discriminatory trade practices, but only nominally extended equal rights to Chinese corporations in the United States. The unequal treaty system, then, prevailed even after its formal abolition. Although the United States exploited China to a lesser degree than did most of the other powers, American eagerness to profit from an essentially prostrate China earned this Chinese resentment which has yet to be overcome.

Another important development in the late 19th century had an impact upon Sino-American trade relations. In the 1880's the United States passed the first in a series of exclusion acts designed to limit Chinese immigration into America. This move produced deep bitterness in China, climaxing in a boycott of American goods in 1905.

The development of the Open Door, the policy first enunciated in 1899 by John Hay that evolved into the dominant American policy for China until World War II, is another fundamental basis for Chinese suspicion of American motives. The original Open Door notes of 1899 sought solely to protect American trade interests from the fierce competition of the European and Japanese powers carving out spheres-of-influence in the Chinese interior; no mention of the defense of Chinese territorial integrity appeared until 1900. The Open Door ultimately incorporated the two main tenets of equal treatment of all foreigners in China and preservation of Chinese integrity. Yet these aims were not stated in legal form until 1922 in the 9-Power Treaty signed at the Washington Conference. After a century of exposure of persistent demands for special privileges, China naturally resented the reluctance of the West to respect her sovereignty. Furthermore, despite America's earnest espousing of Chinese "territorial and administrative integrity," the United States did little concretely to defend this doctrine. Instead, America concentrated primarily upon the defense of its own business interests in China.

By the end of the 19th century, China represented the great challenge to the American spirit of enterprise. To the business community of the United States, China beckoned as the world's largest untapped market and therefore, America's most promising potential customer.

The Open Door policy, in fact, emerged as a response to American business pressure to pursue a more vigorous course of action in the Far East.

After the promulgation of the Open Door, the United States sought to exert influence through investments and loans. This policy, actively begun in 1950, received the nickname of "Dollar Diplomacy" during the administration of President Taft.

In this period, American firms managed to secure very favorable investments in development of mines and railroads in China, and to gain important stakes in Chinese government loans.

In announcing the Open Door, America had called for international support not only to guarantee free trade, but also to preserve China's territorial integrity. By the early 20th century, however, as China faced Japanese aggression, America consistently declined to fight for Chinese territorial integrity, thus indicating that the territorial integrity of China was a distinctly subordinate American concern, well behind U.S. commercial interest in China.

While America did oppose colonialism in China, and while the Open Door did reflect the American humanitarian ideal of "territorial and administrative integrity", the policy of the United States in practice served commercial ends almost exclusively.

The history of Chinese-American trade relations from the 1830's to 1949, then is one in which commercial dealings were developed against a backdrop of mutual suspicion; Chinese resentment of the general Western presence on its territory manifested itself in a violent anti-foreignism; America expressed its insensitivity to the Chinese in a series of humiliating exclusion laws.

It is a period in which a great policy dilemma underlay the actions of both countries: economic conditions forced China to turn to America for trade although the Chinese desperately sought to avoid a reliance on loans from the United States. It is a period in which a dichotomy existed between America's word and deed in its dealings with China. The nature of the economic relations between the two countries at any given time, of course, heavily depended upon each nation's

internal and international concerns. In short, a strong, coherent pattern of Sino-American trade relations never emerged in the period from the mid-19th century to the mid-20th century.

Given the history of U.S.-Sino trade relations, and given current Chinese policy regarding independence, self-reliance and mutual benefit, we can expect the Chinese to be extremely cautious about reopening the channels of trade with the U.S.

It is not surprising, therefore, to hear the Chinese Vice Minister of Foreign Trade reiterating his country's international economic and trade views as follows:

Countries, big or small, should be equal. Big nations should not bully smaller ones and strong nations should not bully weaker ones. All countries, regardless of their social system, should handle their relations with other countries in accordance with the Five Principles of mutual respect for territorial integrity and sovereignty, mutual non-agression, non-interference in each other's internal affairs, equality and mutual benefit, and peaceful coexistence. We maintain that all international economic and trade relations should be guided by the above-mentioned basic principles.

These are principles which fair-minded men can support, and I know the United States subscribes to them. Consequently, the long-term projects for Sino-U.S. trade should be promising.

In conclusion, let me repeat my appreciation to you and the Committee staff for initiating the publication *People's Republic of China: An Economic Assessment*, and for convening the valuable hearings related to that document in June. Both the study and the hearings will be immensely valuable to scholars and others interested in the historic process of normalizing diplomatic and commercial relations with China.

Sincerely yours,

HALE BOGGS, M.C.
Majority Leader

Chairman PROXMIRE. The committee stands adjourned.

(Whereupon, at 11:40 a.m., the committee was adjourned, to reconvene subject to the call of the Chair.)

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