

The Chinese Economy with Dr. Michael Kulma (Part 1)

John Major: Joining me now is Dr. Michael Kulma, who is an expert on the economy of China here at Asia Society in New York. Mike, thanks for being here.

Michael Kulma: Thank you, John.

Major: If you look back at the time of the Republican Revolution in 1911, journalists at that time began to referring to China as the “sick man of Asia.” What does that mean?

Kulma: Well, I think as you look at the end of the Qing [Dynasty], all this stems from the 1800s, coming out of the issues of the Opium War with the British, the unequal treaties that the Chinese experienced as a result of the loss in those wars, and the war between China and Japan. This was an era in which there was not a great degree of modernization as a result of these interactions with the outside world and also as a result of things that were going on in the Qing Dynasty. I think people have made the argument that the Qing Dynasty, unlike the Meiji Restoration in Japan, was not nearly as interested in trying to move the process of modernization along within China. So you have China coming out of a difficult situation internationally, as a result of its interactions with the outside world in the 1800s and a period of revolution and a period of war with the Japanese, followed by a period of revolution at the beginning of the twentieth century, to a situation where there were great difficulties in the Chinese economy moving forward. So they were far behind where, let’s say for example, the Japanese were in their economic development and in the modernization process.

Major: How did that start to change? What elements fed into the beginnings of modernization of the Chinese economy?

Kulma: Well, I think you saw a little bit of it during the course of the 1800s, but not a lot. Then, as you moved into the Republican Period, there were efforts by the government to move toward some degree of modernization. But I would say that even as you move towards the end of the Republican Period, which stretches from the 1911 to 1949, we are still in the situation where the Chinese economy is largely agriculturally based. But during that period, there were efforts towards industrial modernization; however, it was disrupted by any number of different things. There was a great degree of political instability for the entire period from 1911 to 1949, first from 1911 to 1926, when you have a period of consolidation of political power, but great difficulties in trying to consolidate that power. That led to a period of warlordism in China from about 1926 – 1936, during which time different parts of China were controlled to a great degree by warlords in different areas, even though there was a national government. There were two more periods: the first beginning in 1936, when really World War II began for the Chinese, against the Japanese, until 1945, and the second from 1945 until 1949, the Civil War in China. So I think you see a situation where, yes, there was some degree of modernization, and industrial modernization, within China during that 35-year or 38-year period. But at the same time, there were such difficulties in trying to come up with cohesive policies and cohesive strategies that could be done on a national scale that it was very difficult for China to be in that situation and completely modernize.

Major: Wasn’t it also true that a lot of the industrialization was essentially owned and funded by outsiders? That it was really a kind of extractive economy rather than a contributive one?

Kulma: Right. I think a lot of that comes as well out of the 1800s and the unequal treaties that were put into place, whether it was the British who benefited, or the Germans, or the Japanese, or the United States. But I think as we move into World War II, foreigners were largely in control of China’s manufacturing and industrial capacity. The figures

I've seen are that something around 40% of the capacity in China was controlled by foreigners as we move into the middle of the 1930s.

Major: What was the effect of the war itself? Was there substantial damage to the industrial base?

Kulma: Yes, I was thinking of another way to go about that, but the short answer to that question is yes. I mean what was left or what little existed prior to that time was largely destroyed by the war, to the extent that as you move into the post-war periods and the Civil War period, you see major drop-offs in the capacity, whether it is the industrial capacity or agricultural capacity. I think the number is around 75% in 1949. So after World War II and the Civil War, China was operating at about 75% at its peak performance prior to these wars.

Major: When the communists finally triumphed in the Civil War in 1949, they were almost in the position of starting over and rebuilding a Chinese economy from scratch?

Kulma: It was, to a large degree, and in some ways certainly welcomed by the people. If you look at the numbers coming out at that time—let's say beginning in 1936 through to 1949—about 35% of the economy could be said to exist in this kind of modern industrial sector. A great proportion of the economy was still really in the agricultural fields. It's really rural production, agricultural crops and what not; so, yes, a clean slate. People were also extremely weary. I mean if you look at what I just described from 1911 to 1949 (and this is the very quick and easy history on these time periods and much could be said about these things), there was a great deal of upheaval. People were ready to start anew. So there were a lot of things, when the communists came into power, they suggested they were going to do to improve the livelihood of people. At the same time I think people were in some ways prepared for this. The communists and nationalists, while they were fighting World War II against the Japanese, were fighting each other for control of the mainland. You see these efforts by the communists, led by Mao Zedong during this period, to espouse the kind of principles that they would then try to enact as they move past 1949. So that people were paid in the areas they controlled. People were paid the same. Soldiers went out and did the work that everybody else was doing. The idea, at least, of egalitarianism was already beginning to put itself into places as we move to the time when they actually declared the establishment of the People's Republic of China in 1949.

Major: Well, they had an unbeatable slogan. The idea of land to the tiller is as good an appeal to the Chinese population as you can possibly make. Land was the basis of wealth in China; agriculture was regarded as the central activity of society. The idea that every farmer or every farm family would own its own land was immensely appealing. That didn't turn out to be exactly as advertised though, did it?

Kulma: Right. As you suggest, certainly land reform was one of the things that was suggested to happen over the course of time, one of the things, when the communists came to power, that was going to be one of their main focal points. It has been suggested that even by the early 1950s, only a few years after the communists came to power, a great amount of the land had been redistributed. It was as you suggested: landlords were overthrown. There were many problems that existed with the landlords, but a lot of it [the land] had been redistributed. However, as they [the communists] move into really consolidating their power in the early 1950s, they began these series of five-year plans for the economy, during the period from 1953-1957. You see agriculture becoming the focus of that as well and, as part of that, a communal and/or collectivization of the agricultural process. So, as you suggest, it wasn't about giving every person their own plot of land and here it is and do with it what you will. It was really about making these communes and collectives for people to work together on these plots of land.

Major: Do you really see a sizeable recovery of the agrarian sector during the 1950s?

Kulma: You do see a decent degree of recovery, at least as you move into the 1950s, in the 1953 to 1957 period. Now it may not have been on the scale that you might have seen in other countries, but considering what China was coming out of, I think you do begin to see a decent amount of growth, not only in the agricultural sector, but also you begin to see some growth as well on the industrial side in the manufacturing capacities for China as they moved into a concentration of heavy industry and things along those lines.

Major: Well, that's very much part of the Soviet model and the Stalinist model of industry: cement, steel, ball bearings, and heavy trucks, an emphasis on heavy industry as the basis of a modern economy.

Kulma: During that time period, their greatest outside resource was the Soviet Union. So, in some sense, it certainly makes sense for them to concentrate on these areas because the guidance and/or the advice that the Chinese were receiving during this time period, at least from the outside world, was coming from the Soviet Union. Certainly the case could be made of, course, not only with the Soviet Union but with other communist or socialist economies in the world that China was doing a lot of its interaction with. As you move into the 1950s, there is also the Non-Aligned Movement, which the Chinese were engaged with and which, in some sense, they still feel they are involved with today, with the Non-Aligned Movement of developing countries in the world. So there was a decent degree of interaction on those sides. But if you take a look at their general interaction, at least on an economic side, with the United States and Western Europe and the main market economies in the world, the interaction—I won't say it is a complete blank slate—but the majority of their interaction was with the previously mentioned areas and or countries.

Major: Now, just at that time you get the beginnings of the so-called Great Leap Forward¹. I think it is interesting to look at the economy of China in 1958. It was still quite small. The total output was way, way down the list of industrial and modern countries. Part of what the Chinese said they wanted to do in the Great Leap Forward was to catch up to Great Britain and they were going to do that in three years. How was that going to happen?

Kulma: Well, as you suggest they wanted to try and overtake the British in steel production, and to do that they were going to mobilize the people. You know, this is a people's revolution that had happened in 1949, so [China's leadership set out] to mobilize the people, in their spare time to undertake steel production in any capacity and in any way that they could possibly do it. What you saw were what were called the "backyard furnaces." People would build a furnace in their back yard and try to produce steel so that the Chinese could overtake the British over the course of a couple of years. There were many problems associated with this, not the least of which, and why this ended up in being a failure, is that the steel that was coming out of these backyard furnaces was incredibly low-quality steel and really couldn't be used for much of anything as far as moving China along in the industrial capacity or in the manufacturing sectors. It wasn't something they could use to modernize in the cities and things like that. At the same time, all of the people's extra efforts and maybe even beyond the extra efforts and into the regular time that the Chinese people had as far as their work capacity was concerned, you see a lack of concentration in the agricultural sector. You see a series of famines in China to the extent that there were huge losses, both of life and in production capacity within China. It's pretty safe to say that the Great Leap Forward was really a great leap backwards.

Major: I gathered, too, that it even took a while for the effects of this to be known in Beijing because at the local level cadres were reporting what they were expected to report. It was a planned economy; you have a production target, so

¹ For more background on the Great Leap Forward, see the BBC:

http://news.bbc.co.uk/1/hi/english/static/special_report/1999/09/99/china_50/great.htm; For visuals, see Stefan Landsberger's collection of Communist era posters at <http://www.iisg.nl/~landsberger/glf.html>.

everyone is saying yes, yes we exceeded the production target. The cumulative effect of that falsification was pretty disastrous.

Kulma: Certainly, and this is a point that we can make for the rest of the period before we start to move into what would be more considered a market economy in 1978: this is a problem of what are the reports saying, who's saying it, and why are they are saying it. As you suggest, people making the reports up the chain of command are telling people [the leaders] what it is they want to hear. And this is not only the case for why you then have a series of problems that come out of the Great Leap Forward that extend beyond not just the 1958 to 1960 time period, but this is the case throughout. One of the issues that comes, of course, with a planned economy is people reporting the kind of numbers and the kind of reports people [in power] want to hear. It's one of the problems when you run into in system like this.