A Background Note

Faced with embargo imposed by the West after taking over the reign from the Nationalist government in 1949, China’s communist leaders relied on the former members of the Warsaw Pact. Among the Warsaw Pact nations, the former USSR was the nation that China most relied on for military assistance and economic relationships. Soviet advisers were quick to oblige China to model its economic system after that of their own. China’s policy for foreign economic relations, therefore, patterned closely after that of its “big brother,” the former USSR.

The command system adopted by China was based on centralization of resource allocation, output targets, and budgets that took into account needed imports and exports for a given year. Until reform began, China’s foreign trade policy was premised on three decrees issued by three different state administrative and policy offices. The first decree, which appeared in September 1949, was titled “Implementing Trade Controls and Policy for Protecting Foreign Trade.” It stipulated “centralized sovereignty” by the state in foreign trade. The second decree titled, “Provisional Administrative Regulations for Foreign Trade,” was promulgated in December 1950. That same month, the Bureau of Foreign Trade issued the “Provisional Implementation Details Governing Foreign Trade.”

The regime wasted little time socializing all means of production. First of all, privately owned enterprises became “jointly owned” with the state. Fanned by propaganda and frightened by being labeled “capitalists,” all former owners of productive assets “willingly and proudly” ceded their ownership rights to the state. Furthermore, the state’s foreign trade agency exercised full control over all imports and exports. Trade volume soon
after was determined by the state’s Five-Year Development Plans (FYDPs). These FYDPs assigned production quotas of export-destined goods to state-owned productive entities. Most of the planned exports had to originate from the primary sector. Given food shortages and needs for minerals in the former Warsaw countries, primary products became exportable commodities from China. As a result, the state assigned export quotas to China’s collectivized farms and state-owned mines. Ironically, the state itself did not produce. The state did, however, plan, mandate, and manage the entire process, from assigning production quotas to exchange and distribution of imports.

The Soviet advisors recommended planned import items. Emphasis was on heavy industrial and reproducer goods. Production quotas were assigned to primary good producers, while imports were allocated to industrial goods producers. As prices for goods and services were state-determined, there were no objective measures for gains or losses. Inflated prices for industrial goods with undervalued consumer goods rendered measurement of gains or losses meaningless. Furthermore, since trade was the state’s monopoly, it was the state that supposedly reaped all the benefits or sustained whatever losses.

Political decisions dictated enterprise operations. The entire system was “command” by definition. Efficient resource allocation premised on the market’s pricing system was absent. Measurement of success was on fulfillment of plan-dictated quotas, not on efficiency. Motivation on the enterprise level was therefore irrelevant.

China’s foreign trade declined drastically in the late 1950s and early 1960s for two reasons. First, Mao’s development strategy witnessed dismal failures, which were the most pronounced in the farm sector. Farm collectivization and communization led to a severe grain shortage between 1959 and 1961. Mass starvation followed, costing an estimated 30 million deaths. In addition, China did not have sufficient exportable commodities for imports. Second, with Mao’s open quarrel with Khrushchev in 1961, economic cooperation agreements between the two countries were nullified. The episode deepened China’s distrust of foreign powers. Mao called for self-reliance and self-sufficiency. Import substitution was the result of self-imposed isolation from external economies. Focus of central planning was shifted onto domestic supply and demand. Foreign trade suffered a further setback in the late 1960s during the “Cultural Revolution.” Extreme leftist ideology supported by Mao called for a cessation to foreign economic relations. Foreign trade was frowned upon as acknowledging superiority of foreign producers. After the tumultuous years of the late 1960s, the administration of Premier Zhou Enlai began efforts at restoring some semblance of normalcy. Limited foreign trade began.