

# The importance of foreign economic relations to the economy of the People's Republic of China from 1949 to 1976

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**Abstract.** From 1949 to 1976, the economy of the people's republic of China is constantly affected by its foreign economic relations. However, economic historians have been arguing about how vital foreign economic relationship is to China's economy. This paper aims to demonstrate that China's foreign economic relations were essential to its economy from 1949 to 1976. The Cobb Douglas function will be used to analyse how foreign economic relations influence the Chinese economy. And the Chinese economy's performance is measured by real GDP per capita and total industrial and agricultural outputs. The importance of foreign economic relations to China's economy during this period will be assessed firstly by how the Soviet economic conceptions, mainly Stalinist, influenced the Chinese domestic economy. Secondly, by the different trading partners China held and how they affected its economic performance.

**Keywords:** China; Soviet Union; Cobb-Douglas function; Stalinist; plan; aids.

## 1. Introduction

The foreign economic relations of the People's Republic of China has always influenced its domestic economy from 1949-1976, but there is a dispute in Chinese economic history around how important foreign economic relations are to its domestic economy. William.C.Kirby believed that China's economy from 1949-1966 was primarily affected by its relationship with the Soviet Union and its Stalinist economy[1]. American scholar Shuguang Zhang proposed that the USSR's aid to the PRC determined the rise and fall of the Chinese economy before the 1970s[2]. Russian historian Sergey Radchenko forwards Zhang's idea by showing that the Chinese economy was facing difficulties after losing aid from the USSR[3]. Moreover, Zhang's colleague Guangqiu Xu argues that the detente between China and the West in the 1970s was important for China's rise[4]. This essay argues that China's foreign economic relations were essential to its economy from 1949 to 1976. China's foreign economic relations underwent three stages during this period. From 1949-1958 China adopted Soviet-style economic planning, which helped China recover from the civil war and which achieved excellent results in the First Five-Years Plan. Between 1958-1966, the Chinese-Soviet relationship deteriorated, which pushed the Chinese economy into a downturn. From 1966 to 1976, China began to remove itself from the western embargo, which was crucial to its economic development and completely changed its foreign economic relations. The importance of foreign economic relations to China's economy during these three periods will be assessed firstly by how the Soviet economic conceptions, mainly Stalinist, influenced the Chinese domestic economy. Secondly, by the different trading partners, China held and how they affected its economic performance. The Chinese economy's performance is measured by real GDP per capita and total industrial and agricultural outputs.

## 2. Cobb Douglas function

The importance of foreign economic relation to the Chinese economy(Y) is decided by its impact on N (population), E(technology) and K (capital). The Cobb Douglas function will be used to analyse how foreign economic relations influence the Chinese economy.  $Y = K^{\alpha}[E * N]^{1-\alpha}$

### 3. Post war economic construction and First Five-Years Plan

Firstly, the importance of foreign economic relations will be assessed by detailing how Soviet-style economic planning improved the Chinese economy between 1949-1958. Throughout 1949-1952, for China to quickly recover from the Chinese civil war, the Soviet's Fourth Five-Year Plan was translated from Russian to Chinese[5]. Chinese president Mao Zedong visited Moscow several times from 1949 to 1952 to consult its leaders for Chinese economic development, and Mao expressed his willingness for China to receive advice from the USSR [6]. Between 1949-1952, with reference to the Soviet's Fourth Five-Year Plan, the Chinese economy was made Stalinist with total party control and mass production. By 1951's end, the public sector accounted for "80 percent of heavy industry, 100 percent of oil production, 98 percent of iron and steel production, 82 percent of the machine-tool building, 76 percent of electrical power and 70 percent of the cotton textile industry [7]." Table one shows that industrial and agricultural output nearly doubled within three years from 1949 onwards.

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year	Total industrial and agricultural output value in hundred million with respect to 1952 price level in RMB
1949	466
1952	827
1957	1388

Figure 1 shows that China's real GDP per capita rises simultaneously, which marks Stalinist planning's success, helping the Chinese economy recover from its civil war and providing a solid foundation for its First Five-Year Plan (FFYP).



Figure1 Real GDP per capita of China

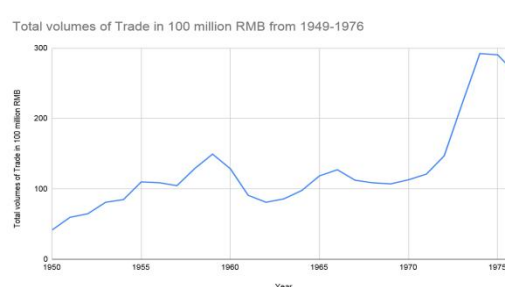


Figure 2 Total volumes of Trade in 100 million RMB from 1949-1976

In 1951, the USSR introduced its nationwide planning to China and sent economic experts to help China design its FFYP. From 1953 onwards, with advice from the Kremlin, China launched its First Five-Year Plan (1953-1958), which entailed mainly Stalinist economics such as state ownership, mass production, and heavy industrial development. With Soviet-style state ownership, China solved most short-term structural problems such as hyperinflation and unemployment by the end of its FFYP. China achieved spectacular economic and production growth during its FFYP, where "National income grew at an average annual rate of 8.9 percent (measured in constant prices), with agriculture and industrial output expanding annually by about 3.8 and 18.7 percent, respectively, life expectancy rose from 36 years in 1950 to 57 years by 1957." As seen in table 1, total industrial and agricultural output values reached 1388 hundreds of millions of RMB in 1957,

which is four times larger than in 1949. Similar evidence is seen in figure 1 that China's real GDP per capita in 1957 reached its highest level in the 1950s.

#### **4. Foreign economic relations within socialist economy**

In addition to Soviet-style macroeconomic planning, the importance of foreign economic relations can be seen from China's trade in the world. When China became a socialist nation in 1949, its international economic relations were defined within an international socialist economy. As part of the socialist group, China signed trade agreements with "USSR, Czechoslovakia and the German Democratic Republic in 1950; Poland, Hungary and North Korea in 1951; Romania and Bulgaria in 1952; Mongolia in 1953; and Albania and North Vietnam in 1954". More importantly, even though China was never formally admitted as a member of Council for Mutual economic assistance (Comecon), China routinely attended the Comecon's standing commissions, and the trade agreement between China and the Comecon nations was similar to the trade agreements between the members of the Comecon. China's total foreign trade value increased from 41.6 billion RMB in 1950 to 128.8 billion RMB in 1958. Through these transactions, China obtained advanced technology and equipment. Relating to the Cobb Douglas function above, machines account for K (capital) and technology accounts for E. The rises in K and N will produce a rise in Y (production), so Chinese economic relations within the socialist economy were essential to the rise of production in its FFYP.

#### **5. Soviet Union's aid**

The importance of trade to the Chinese economy is also highlighted by the effect of financial aid and technological support China received from the USSR and other eastern European nations for its economic development. In February 1950, the Treaty of Friendship, Alliance, and Mutual Assistance was signed in Moscow between China and the USSR. The Kremlin provided 300 million loans in U.S. dollars to China over five years at only one percent annual interest, which was crucial to the Chinese economy since the Chinese real GDP per capita was only 799 U.S. dollars in 1950. During the FFYP, the USSR committed to helping China with 156 projects. During the construction, the USSR provided "the design, technical assistance, advice on construction and installation, as well as machinery and equipment." Throughout the 1950s, thousands of Soviet industrial designs were transferred to China and "About 10,000 Russian specialists worked in China during the decade, prospecting and surveying geological conditions, selecting factory sites, supplying technical data, and training Chinese personnel[10]." In June 1951, with a request from China, three crop-dusting aircraft with Soviet agricultural experts arrived in China to contain the plague of Asian locusts, which successfully minimised Chinese agriculture production loss. The USSR also helped China obtain aid from other Eastern European communist nations, which were responsible for constructing 116 completely equipped industrial plants and 88 partially equipped plants. The aid was increased in 1954 since Nikita Khrushchev decided to provide another long term loan worth 520 million rubles, and more than 4000 inventions and technical advice were transferred from Eastern European nations to China. Although aid was not free, most of the aid was conducted by bartering, giving China great advantage since, as Feng-Hwa Mah says, "Where else in the world could China get five tons of steel products for one ton of frozen pork[11]?" China was only charged for physical machines and not charged in terms of patent rights and foreign engineers' wages. More than 50,000 Chinese students studied in the USSR and other Eastern European nations to learn advanced industrial knowledge. In 1959, during the conversation with Soviet and other socialist nation ambassadors, Mao pointed out that "all of you are our teachers, but the most important teacher is the Soviet Union." So, Mao ascribed part of China's success in economic construction to Soviet assistance.

## 6. Sino-soviet split

The importance of Soviet aid was demonstrated further through the Chinese economy's contraction after China lost Soviet aid. Krushchev succeeded Stalin in 1956 and launched his destalinisation scheme. Krushchev was dissatisfied with Mao's adherence to a Stalinist economy which resulted in the Sino-Soviet split: On July 16 1960, the USSR required all Soviet experts to leave China, and the Kremlin aborted the dispatch of 900 experts to China. Simultaneously, the USSR broke 12 agreements related to economic aid and suspended more than 200 technological projects[12]. The deterioration of the relationship with the USSR resulted in a decline in trade between China and all the socialist nations. The total trade volume between China and the Soviet Union in 1959 was 7.15 billion yuan. By 1966, it was only 840 million yuan. The total trade volume between China and Poland, Czechoslovakia, the GDR, Hungary, and Bulgaria also dropped from 2.2 billion yuan in 1959 to 540 million yuan in 1966. Figure 2 demonstrates that the total volume of trade dropped massively and did not return to the 1958 level until 1970. From the Cobb-Douglas function, the loss in Soviet experts will decrease  $N$  (human capital). Also, since the USSR stopped providing advanced machines to China,  $K$  (capital) declined. Figure one shows that China's real GDP per capita declined in 1960; at the same time, China lost aid from the USSR.

## 7. Easing relations with the West

Finally, the impact of trade on the Chinese economy is seen from Chinese economic performance from 1966 onwards. After the Sino-Soviet split, China began to ease the intense relationship with western nations to compensate for the loss of the USSR as its ally. By 1970, China's imports from Western Europe reached 780 million U.S. dollars, accounting for 33% of China's total imports that year. Even the United States announced on December 19, 1969, that it would allow U.S. companies to conduct non-strategic commodity transactions with China, and finally lifted the trade embargo policy against China in April 1971 [13]. After American president Richard Nixon visited China in 1972, the number of nations trading with China rose dramatically, and 70 nations in the world established an economic relationship with the PRC in the 1970s. Total volumes of trade rose sharply as in figure 2, and so did the average real GDP per capita in figure 1. Moreover, according to figure 3, 67.1% of the variation in real GDP per capita can be explained by the variation in trade which reiterates the arguments that foreign economic relations are essential to the Chinese economy.

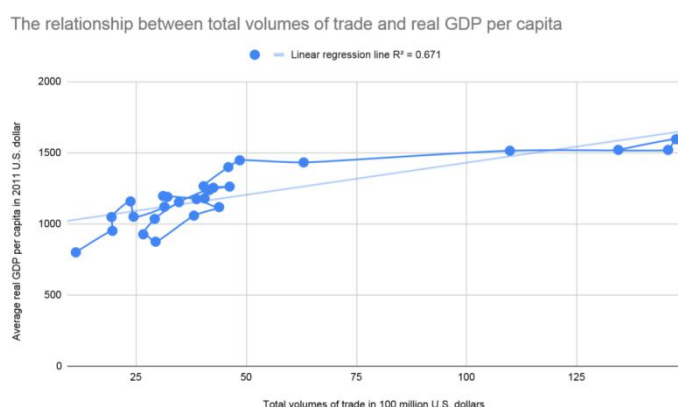


Figure 3. The relationship between total volumes of trade and real GDP per capita

## 8. Conclusion

According to the discussion above, Chinese foreign economic relations were vital to its domestic economy from 1949-1976. The utilisation of Soviet economic planning in China, especially Stalinist, was a determining factor to the Chinese economy's recovery since Mao's economic

policies towards China were based on Stalinist methods. Besides, China's trading partners accounted for the Chinese economy's rise and fall because trade promoted technological advancement, and technology is key economic performance. Before 1966, China only traded within socialist nations, which were relatively poor nations compared to the U.S. and western Europe. So, the change in foreign economic relationships provided more advanced technology and a large amount of money for China, which brought the rapid development of the Chinese economy in the 1970s.

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