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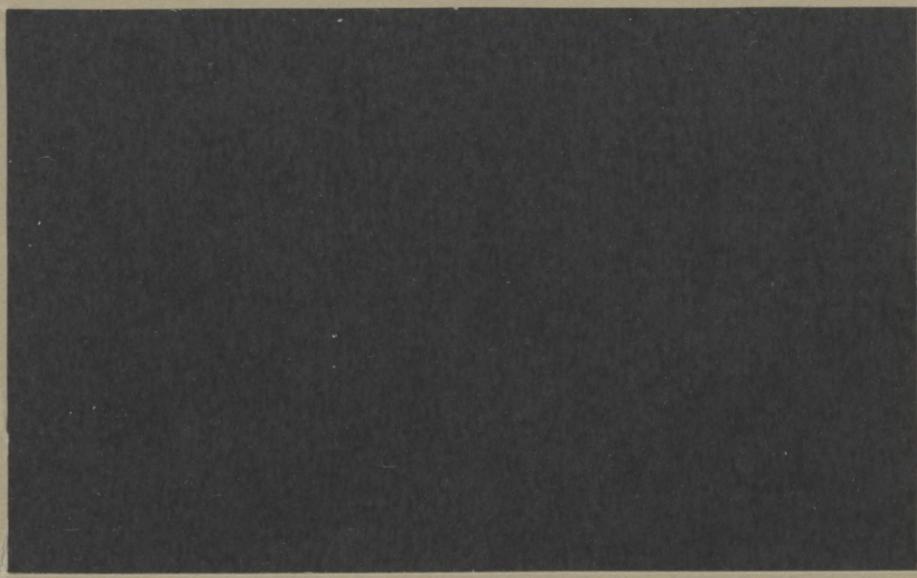
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# WORLD EMPLOYMENT PROGRAMME RESEARCH

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WORLD EMPLOYMENT PROGRAMME RESEARCH

Working Paper

DISARMAMENT AND EMPLOYMENT PROGRAMME

Working Paper No. 14

EMPLOYMENT IMPLICATIONS OF DEFENCE  
CUTBACKS IN CHINA

by

C.Z. Lin

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## Preface

The ILO has sponsored a series of studies relating to the employment consequences of disarmament in both market economy and planned economy countries.

In this study Dr. Cyril Zhiren Lin of St. Anthony's College, Oxford presents some first hand and so far unavailable information on defence cutbacks and on disarmament measures in China. The change in political orientation decided by the Chinese leaders in the late 1970s brought with it important defence cutbacks, linked to the reorientation of military strategies, objectives and organisation. The basic purpose of the cutbacks was the rechannelling of resources from the military to the civilian sector. China's military forces were cut by one million men, or by an estimated 20-25 per cent. The large defence industries which had been built in the remote southwest region of the country, have been converted to serve civilian needs. In spite of the drastic reduction of military spending, the specific characteristics of China's economic and military system enabled the potential unemployment and recessionary impact to be minimised, in particular through direct labour planning and reallocation.

In the short run, the social and financial costs of demobilisation and of defence industrial conversion were considerable. But, the conversion of the large military industries to civilian production has freed important resources for economic development. In the long run, the immediate difficulties and costs of conversion should be outweighed by the faster growth of consumer goods output, as well as by a rise in productivity and a greater employment generation in the civilian industries.

Peter J. Richards

## INTRODUCTION

This paper offers a preliminary assessment of the employment implications of cutbacks in Chinese defence spending. Given the sensitivity of matters related to defence in China, it is not surprising that the quantitative data necessary for a proper treatment of this issue is scarce or altogether unavailable. At the same time, it is surprising that this issue to the best knowledge of this author has never been studied in the West. This means that secondary sources and guess-estimates of the employment implications of China defence cutbacks are similarly unavailable<sup>1</sup>. Nevertheless, rough and broad figures exist for certain items of information which permit an indirect and preliminary quantification of the scale of certain aspects of the subject matter. Aside from the direct impact of demobilisation on employment, the scaling down and reorientation of military-related industrial activities (for which some data is available) also allow an assessment of some of the indirect impacts. Finally, our knowledge of Chinese economic institutional arrangements, systemic characteristics and policies also provide a framework for evaluating the overall implications of defence cutbacks for the economy more generally.

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<sup>1</sup> Nor has there any Chinese studies published on the subject so far as the author is aware of (an impression confirmed by recent discussions with some leading Chinese governmental and academic economists).

## 1. The Context of Defence Cutbacks in China

The end of the Maoist era in 1976, and the reascendancy of Deng Xiaoping in particular, resulted in a fundamental reappraisal by the Chinese leadership of the country's economic situation and of international security trends.

On domestic issues, the Party leadership repudiated the so-called "ultra-leftist" economic strategy and institutions pursued since 1958 and their underlying ideological premises. It reintroduced with a vengeance the Four Modernisation programme (modernisation of agriculture, industry, science and technology, and national defence in descending order of priority)<sup>2</sup>. The relaunching of the Four Modernisations in the late 1970s was accompanied by a recognition of the inadequacy of previous patterns of economic performance which had been characterized by extensive growth, slow technological progress and deteriorating economic efficiency<sup>3</sup>. To enhance economic efficiency and redress slow consumption growth, the decisive 3rd Plenum of the 11th Central Committee of the Communist Party of China (CPC) in December 1978 introduced fundamental changes in the development strategy and market-oriented systemic reforms.

Both these measures had important implications for defence spending as well as for reforming military strategies, objectives, organisation and personnel. The new development strategy, in contrast to the previous obsession with maximizing the growth rate of producer goods output, stressed structural balances and consumption in investment and production planning. This entailed not only an attempt to reduce the accumulation (investment) rate, but also sectoral reallocations of resources away from the producer and the defence-related goods sector to

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<sup>2</sup> The Four Modernisation programme was first proposed in 1964 by Zhou Enlai but was postponed due to the Cultural Revolution in (1966-76). In 1974, Zhou again relaunched the Four Modernisation programme but it was again preempted by intra-party disputes caused by the so-called Gang of Four.

<sup>3</sup> Extensive growth refers to growth derived primarily from growth in factor inputs rather than from growth in factor productivities or "intensive growth".

consumer goods. In the process, a significant proportion of defence industries was forced to reorient its production towards meeting civilian needs. At the same time, market-oriented systemic reforms were introduced to promote greater economic efficiency. The defence sector consequently faced increasingly severe budgetary restrictions and was required to rationalise its operations and structure. Like every other sector and unit in the Chinese economy, it had to promote revenue-generating, profit-oriented market activities to meet shortfalls in budgetary allocations.

The low priority attached to defence modernisation was in part compelled by a desire to promote a peaceful international environment within which China could concentrate on economic development and participate in the international division of labour (i.e. the "Open-Door Policy" announced in 1979) necessary to raising its technological levels and productivity. But it was largely a reflection of changes in China's assessment of international security trends.

In the 1950s, China "leaned to one side" by forming an alliance with the Soviet-bloc in the face of hostilities from the Western powers. At this time, the United States was considered as the principal enemy. Following the Sino-Soviet split in 1960, China saw itself as surrounded by the "twin evils" of U.S. "imperialism" and of Soviet "social imperialism". With Nixon's visit to Beijing in 1971 and the rapprochement with the West thereafter, China singled out the Soviet Union as the principal threat and the U.S. as a secondary threat. This gave rise to an implicit "united front" with the West against Soviet "hegemonism". In the late 1970s, however, talks with the Soviet Union commenced on normalisation of relations. But this process of rapprochement with the Soviet Union was interrupted by the Soviet invasion of Afghanistan and by the Soviet-backed Vietnamese invasion of Kampuchea. Nevertheless, by the early 1980s China had abandoned its policy of implicitly "leaning to one side" in favour of the United States and instead announced its principle of equi-distant relationships with the two superpowers.

These developments were paralleled by fundamental changes in China's defence thinking in the 1980s. Since the 1960s, China's

defence strategy was guided by Mao Zedong's aphorism that there was "great disorder under the heavens" and that the contention between the two superpowers would lead inevitably to a nuclear war sooner than later<sup>4</sup>. Accordingly, China's defence strategy was to prepare for "an early war, a large-scale major war, a nuclear war". In line with this policy, China undertook a major programme of expanding and locating new industrial and ordnance production capacity in the remote southwest region of the country where greater protection from aerial and nuclear strikes was afforded: the so-called Third Capital Construction Front<sup>5</sup>.

This strategy held valid well into the 1980s despite the full rapprochement with the West and the commencement of improvement in relations with the Soviet Union. In June 1985, however, at an extended meeting of the Central Military Commission, Deng Xiaoping announced a major shift in Chinese strategic perceptions. Deng announced that

"The danger of war still exists. Because of the two superpowers' arms race, the factors of war will continue to grow. However...the growth of the forces for peace in the world will outpace the growth of the forces for war... It is possible large-scale world war will not break out for a relatively long-time..."<sup>6</sup>.

This effectively meant that in the Chinese perception war was no longer imminent or inevitable. With this reevaluation of international security trends, Deng announced that China would reduce its military force by one million men (or by an estimated 20 to 25 percent)<sup>7</sup>.

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<sup>4</sup> Mao's view was that war would break out between the two superpowers as a result of their conflict of interests in the West European theatre, and that Soviet tensions with China (eg., the border conflict with China in the Ussuri and Amur Rivers in 1969) were a camouflage -- "feint in the East, strike in the West" as Mao put it.

<sup>5</sup> Cf. our discussion of this programme below.

<sup>6</sup> Cf. Deng's speech in FBIS China, 12th June 1985, pp. K1-2.

<sup>7</sup> For descriptions and analyses of changes in Chinese military policy, cf. Ellis Joffe, " 'People's War Under Modern Conditions: A Doctrine for Modern War", and Paul H.B. Godwin, "Changing Concepts of Doctrine, Strategy and Operation in the People's Liberation Army, 1978-87", both in China Quarterly.

## 2. The Scope and Scale of Defence Cutbacks

The demobilisation of one million men was only part of a larger and wide-ranging programme of cutbacks in Chinese defence spending.

In line with the subordination of defence to economic development, the cutbacks also entailed major organizational streamlining, the promotion of better-skilled and more professional staff, enhancing cost-effectiveness, and a major reorientation of the army's resources to serve civilian needs. These elements, together with the reduction in the size of the country's standing army, had the dual and inter-related objectives of reforming (modernising) the military as well as reducing its burden on the economy simultaneously<sup>8</sup>. One initial consequence was a reduction in the absolute levels of defence expenditures. Subsequently, the relative share of defence expenditures as a percentage of both total budgetary expenditures and GDP has either been reduced or kept constant.

One Chinese source states that from 1949 to 1985, military expenditures accounted for an average of 23.48 percent of total state budgetary expenditures while another Chinese source gives a different figure (for 1950-85) of 16.6 percent<sup>9</sup>. The figure of 23.48 percent was argued to be excessive, because "international experience" suggested 12 percent to 20 percent as the "appropriate" range. In light of China's economic underdevelopment, the authors proposed that military expenditures should range between 8 percent to 10 percent, and that China

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112, December 1987, pp. 555-571 and 573-590.

<sup>8</sup> Cf. Robert G. Sutter, "The Military Modernisation of the PLA and the PRC's International Security Policy", and Hammon Rolph, "The Long Road to Modernisation", both in Richard H. Yang (ed.), SCPS Yearbook on PLA Affairs, 1987, Kaohsiung (Taiwan): Sun Yat-sen Centre for Policy Studies, 1988, pp. 15-26 and 51-70.

<sup>9</sup> Wang Pufeng, Wang Zengquan, Li Yunlong and Chen Fang, "Economic Construction and Army Building in the New Period" in Jiefangjun Bao (Liberation Daily, in Chinese), 31st January, 1989; and Liu Dizhing, "'Third Line' Relocation, Renovation Stepped Up", in China Daily, 20th October, 1988.

should display patience in army building until further economic progress can allow the figure to be raised to 12 percent<sup>10</sup>.

The attempt to achieve a more "appropriate" and lower ratio of defence spending actually began in 1980 (cf. Table 1). There was a sizeable increase in defence spending in 1979, occasioned by the border conflict with Vietnam earlier in the year, when defence expenditures accounted for 17.5 percent of total budgetary expenditures. For the next two years, defence spending fell both in absolute terms and as a percentage of budgetary expenditures. There was a slight acceleration in the annual percentage increase in defence spending in 1985, 1986, and 1987. This was apparently caused by the substantial short-run, once-and-for-all costs associated with the demobilisation of a million men<sup>11</sup>. Nevertheless, the ratio of defence spending has fallen considerably. With major economic growth following the introduction of economic policy changes and systemic reforms, the economy grew by an average of about 10 percent (in GDP terms) in 1980-87. The rate of increase in absolute levels of defence spending since 1982 was significantly lower than the growth in budgetary expenditures and in GDP, such that by 1987 defence expenditures (20.98 billion Rmb or about US \$5.6 billion) was only 8.6 percent of the former and about 2.5 percent of GDP when calculated according to official statistics. The CIA estimates that actual Chinese defence spending is about twice the official figure when calculated according to Western formulae, but admits that even so it still represented less than 5 percent of GDP to maintain the world's largest standing army. Since the figures given in Table 1 are in current prices, this means that Chinese defence spending in real terms has fallen dramatically<sup>12</sup>.

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<sup>10</sup> Wang Pufeng et al., ibid.

<sup>11</sup> Jiefangjun Bao, 31st March, 1987.

<sup>12</sup> Other estimates are given in Yung-chuan Wang, "PRC's Military Expenditure and Arms Transfer 1975-86", in Richard H. Yang, op. cit., pp. 169-182; and Ed Parris, "China's Defence Expenditure", in JEC (US Congress), China's Economy Look Toward The Year 2000, vol. 2, Washington D.C.: U.S. Government Printing

Given the paucity of reliable data, it is impossible to determine exactly how cutbacks in defence spending have been achieved. According to Yu Qiuli (then head of the PLA's General Political Department), total investment in military projects was cut by 170 million Yuan in 1987, on top of drastic cuts in 1986 compared with 1985<sup>13</sup>. Since the decision by the Central Military Commission in 1981 to subordinate defence to economic construction, the PLA has already reduced defence-related capital construction investments by 44 percent or 2 billion Yuan, with most of the money saved used to build barracks and improve living conditions for personnel<sup>14</sup>.

As a result of defence cutbacks, the Chinese have stated that China, with one-fifth of the world's population, spends only one-250th of total arms spending in the world which in 1988 amounted to US \$900 billion<sup>15</sup>. They have also pointed out that in 1989, China had 0.3 soldiers for every square kilometre of territory, or 2.83 soldiers per 1,000 population, which is low by international standards. Put differently, China's army accounts for 10 percent of the world's armed forces, but its defence expenditures account for only 1.59 percent of the the world's total. Thus, the world's average cost of maintaining one soldier is equal to the cost of maintaining 20 Chinese soldiers<sup>16</sup>.

Together with the demobilisation of one million men and cutbacks in defence spending, there has been a significant streamlining of the Chinese military structure. The number of military regions have been reduced from eleven to seven, and 4,054 regimental and divisional units, and 31 units at or above the army corps level, have been disbanded. The number of personnel in the organs of the three PLA General Departments had

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Office, 1986, pp. 148-168.

<sup>13</sup> Xinhua, 31st March, 1987, in FBIS-CHI, 3rd April, 1987, pp. K/9-10.

<sup>14</sup> Report in Pravda, trans. in FBIS-Sov-88-180, 16th September, 1988.

<sup>15</sup> Beijing Review, vol. 31, no. 45, 7th-13th November, 1988.

<sup>16</sup> Wang Pufeng et. al., op. cit.

been reduced by 50 percent with corresponding reductions in the size of the air force, navy and Second Artillery Corps.

Servicemen in "most" military (administrative) departments have been cut by half, and 2,000 civilian defence departments at the county and city level have been placed under (civilian) local government jurisdiction<sup>17</sup>.

The various elements comprising Chinese cutbacks in defence expenditures have various direct and indirect impacts on the economy. A priori, one of the most important of these impacts would be on employment: the demobilisation of one million men, as well as the scaling down of military-related industrial activities, came at a time when unemployment has, for the first time since the mid-1950s, re-emerged in serious proportions.

## 2. Demobilisation and Force Reduction

The decision announced in June 1985 to demobilise one million men was perhaps the most important in Chinese history but it was not the first (excluding the post-Korean war demobilisation in the early 1950s). In the early 1970s, a highly controversial demobilisation, estimated to have numbered in the hundreds of thousands, occurred under the alleged auspices of the now discredited Lin Biao. In 1975, upon his political rehabilitation, Deng Xiaoping had already criticised the "swelling" of the Chinese army and stressed the need to reduce the size of the country's standing army in line with economic and budgetary realities<sup>18</sup>.

A second major demobilisation occurred in the early 1980s, following Deng Xiaoping's reascendancy to power. The exact size of this demobilisation is unknown, but Western sources estimate the size of the Chinese armed forces in 1981-82 and in 1984-85 at

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<sup>17</sup> Wenwei Bao, 29th April, 1987. Cf also China Quarterly, Documentation, no. 115, September 1988, p. 513.

<sup>18</sup> Cf. Selected Works of Deng Xiaoping, Beijing: Foreign Language Press, 1984; p.11. There is no evidence that action was taken to demobilise at this time, presumably because Deng fell into disgrace shortly afterwards and did not return to power until late 1977.

4.75 million and 4.0 million respectively<sup>19</sup>: this suggests a demobilisation of about 750,000 men over a five-year period<sup>20</sup>.

The demobilisation in the early 1980s coincided with, and must have contributed significantly to, serious unemployment which at that time was officially acknowledged and publicised widely by the Chinese authorities. It has been estimated that urban unemployment at that time amounted to over "10 million" annually<sup>21</sup>. Other estimates of urban unemployment range between 12 million and 16 million<sup>22</sup>. Official figures only give the rate and number of people in the urban areas "awaiting jobs" (cf. Table 2). This category refers to unemployed people who have registered with state employment agencies; in such cases, the state guarantees job placement but the job-seeker has little or no choice in the type of employment. The number of people "awaiting jobs" represents therefore only a subset of the actual total unemployed. For the latter total, we have to include those who have decided not to register with state employment agencies (because they are seeking specific types of employment) or are ineligible for registration<sup>23</sup>. Thus, another Chinese source

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<sup>19</sup> Cf. Military Balance 1981-82; 1984-85; London: International Institute of Strategic Studies. Other estimates of the Chinese armed forces in 1981 range from between 4.75 million to 5.0 million to 5.6 million men; cf. June T. Dreyer, "The PLA: Demobilisation and Its Effects", in Issues and Studies, February 1988, Taipei: Institute of International Relations, pp. 88-89). The fact is that there are no reliable Western estimates of the size of the Chinese armed forces.

<sup>20</sup> Yang Shangkun, secretary-general of the Central Military Commission, acknowledged in 1985 that "minor cuts" in the size of the army had been in previous years (cf. T. Dreyer, ibid., pp. 102-3).

<sup>21</sup> Beijing Review, vol. 31, no. 43, 24th-30th October, 1988; p. 25.

<sup>22</sup> Field interviews by the author in China in the summer of 1982 at the Chinese Academy of Social Sciences, State Planning Commission, and various central and local (provincial and municipal) government economic departments.

<sup>23</sup> Only people registered as resident in a particular town or city are eligible to register with the state employment bureau in that town or city. Many rural migrants to the cities are illegal or extra-legal, and as such can not avail themselves of

acknowledged that "real" unemployment totals and rate "may be higher" than that given by the "rate of people awaiting jobs"<sup>24</sup>. The scale of the employment (unemployment) problem is indicated by official statistics showing that nearly 50 million people were given work between 1981 and 1987<sup>25</sup>, while another set of official figures show that the employed force grew by about 90 million over the same period (cf. Table 2). According to the former set of statistics, the urban unemployment rate was 5.3 percent in 1978, fell to 4.9 percent in 1980 and to 2.8 percent in 1985. Since then, the rate has been around 2 percent<sup>26</sup>. Yet another indirect indicator of the scale of the unemployment in China is the employment rate given in official statistics (cf. Table 2) which shows that about 20 percent of the country's total labour force is unemployed<sup>27</sup>.

The unemployment problem is also exacerbated by the phenomenon of serious overstaffing (overmannning) or disguised unemployment in the Chinese economy. According to a survey of Shanghai's industries, 78 percent to 98 percent of state enterprises were overstaffed, with redundant labour amounting to between 14 percent to 25 percent of the total workforce. Calculations by state labour departments estimate that there were about 20 million redundant workers and staff in state enterprises nationally<sup>28</sup>. In addition, various Chinese reports have

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any of the services (eg., food coupons, housing, etc.) provided by state agencies without proof of residency registration for the particular locale.

<sup>24</sup> "China Sees Some Unemployment", in Renmin Ribao (People's Daily, in Chinese), 29th July, 1988.

<sup>25</sup> ibid.

<sup>26</sup> Beijing Review, vol. 31, no. 43. Note that this rate differs from the "rate of people awaiting jobs" given in Table 2, which is taken from the official statistical yearbook.

<sup>27</sup> This rate, obviously, can not be taken to mean that there is a 20 percent unemployment rate in the country: on one hand, the total employment figure excludes those, say, in the armed forces, and on the other hand, not all unemployed are seeking employment.

<sup>28</sup> Renmin Ribao, 29th July, 1988.

suggested that there would be as many as a 100 million surplus labourers in agriculture attendant upon comprehensive mechanisation of the sector.

Unemployment in the early 1980s resulted from two principal sources: first, the government's reversal of earlier rustication policies and its allowing the return to cities of youths sent to the countryside during the Cultural Revolution period; secondly, the systemic reforms designed to enhance economic efficiency entailed a reduction in over-manning and surplus labour in state enterprises. The second factor would have posed particularly serious obstacles to the absorption of demobilised soldiers into the civilian economy.

The decision in June 1985 to demobilise one million men, or about one-quarter of the country's standing army, therefore came at a particularly difficult stage in the Chinese economy. 1985 was the final year of the 6th Five-year Plan (1981-85). The demobilisation of one million men was to be phased-in over 1985-87, which overlapped with the first two years of the 7th Five-year plan (1986-90) when it had been estimated that over 6 million youths in the urban areas needed to be found employment each year, and when reforms and reorganisation of state enterprises would shed over 10 million redundant workers who needed to be found alternative employment<sup>29</sup>. This is perhaps one reason why the original timetable of implementing the demobilisation over two years had to be prolonged over three years instead. Thus, it was only in April 1987 that Xu Xin, deputy chief of staff of the People's Liberation Army (PLA), was able to announce that the demobilisation of one million men had "basically" been completed<sup>30</sup>. Some Western analysts question whether the demobilisation of one million men had in fact been completed even by mid-1988<sup>31</sup>.

The actual nature of demobilisation may have alleviated the

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<sup>29</sup> Cf. China Quarterly Documentation, No. 103, September 1985, p. 562.

<sup>30</sup> BBC SWB, FE/8537/C1/1.

<sup>31</sup> Ibid.

adverse consequences of such a large-scale demobilisation on the economy. Some Western analysts have speculated that the demobilisation of one million men was achieved largely through transferring various non-combatant units of the PLA to civilian control<sup>32</sup>. For example, there was an organisational transfer of the military's 500,000 strong Railway Corps, as well as of its Capital Construction Corps, to civilian administration. Apparently, other PLA units engaged in internal security duties were also transferred more or less en bloc to civilian control through the creation of the People's Armed Police Force, thus removing the PLA from normal internal security responsibility. Chinese sources have also reported, as mentioned earlier, that 2,000 civilian defence departments had been transferred to civilian control. It is not clear, however, whether these organisational transfers were counted by the Chinese authorities as part of the demobilisation of one million men or were supplemental to it. On one hand, since 1985 there have been frequent and extensive reports in the Chinese press of the resettling and re-employment of hundreds of thousands of newly demobilised soldiers which clearly suggest an actual demobilisation rather than just organisational changes in control; on the other hand, the PLA annually demobilises nearly a million men as part of its routine turnover, and this may account for the numbers although it should be pointed out here that the press reports usually refer to demobilisation in the context of the June 1985 decision to demobilise a million men.

These reports also reveal the kinds of programmes available for resettling demobilised soldiers and for their reintegration into the civilian economy. In principle, those demobilised are to be resettled in their home towns or places where they originally enlisted. This is aimed at preventing the concentration or localisation of unemployment, resettling costs and other problems in regions where the demobilised personnel had been serving. Thus, of the 450,000 officers demobilised or retired by early 1988, about 88 percent were able to return to their hometowns or places of original enlistment where local

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<sup>32</sup> Cf. T. Dreyer, op. cit.

governments assisted in their resettlement and job placement<sup>33</sup>. The return of demobilised soldiers to their hometowns has the further benefit that their family and relatives can help the reintegration process and provide temporary accommodation. This is particularly important in the Chinese cultural context where members of the clan have a group responsibility, and where personal relations are important in securing jobs<sup>34</sup>. About 80 percent of soldiers are of peasant origins and come from the countryside: this means that while such a policy may succeed in dispersing nationally the impact of demobilisation, in practice the rural sector would bear most of the burden of re-absorbing demobilised soldiers. Consequently, many demobilised soldiers are encouraged to relocate in the remote, backward and underdeveloped parts of the country to take part in the economic construction of these regions. To encourage such a move, the authorities often offer higher salaries, better housing facilities and other amenities. To ease re-integration into civilian life, some demobilised personnel are eligible for sizeable lump-sum payments to meet the costs of house building. For longer serving officers and other personnel, there is usually the reluctance to retire because of the loss of a number of fringe-benefits; to compensate for any loss, some retirees are given pensions amounting to their full salary and other benefits<sup>35</sup>.

The responsibility for placement of demobilised personnel was transferred from the PLA and placed under the supervision of the Ministry of Civil Affairs in 1979. Under a State Council decree, all localities were required to set up agencies for "assigning placement work according to departments and instituting a placement responsibility system" in resettling demobilised personnel. Under this responsibility system, the local authorities would sign contracts with enterprises, administrative and other units located within its jurisdiction to

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<sup>33</sup> BBC SWB FE/0088 B2/5.

<sup>34</sup> It is usual practice for Chinese enterprises to give priorities in employment to children of current or retired workers.

<sup>35</sup> June T. Dreyer, *op. cit.*, pp. 98-99.

employ an agreed number of demobilised personnel each year. The vast majorities of cities, towns, counties, townships and villages have also established "service centres" for serving and utilising retired or demobilised servicemen. The types of job placement for demobilised soldiers in China are indicated by a report which stated that under this scheme, 320,000 ex-armymen had been utilised in 1987, with 50,000 allocated to jobs in town and village (rural) enterprises, 4,200 appointed to fill "cadre" (i.e. governmental or party administrative functions) posts at or above the township level, another 17,000 filling cadre posts at the village level, 9,000 taking up jobs in "integrated economic establishments" and 12,000 working in "specialised households" (farm households specialising in specific farm or subsidiary production)<sup>36</sup>. In addition to job placement, local authorities and the service centres in particular also help resolve housing problems for demobilised soldiers by providing funds and building materials. The same report, for example, stated that in 1987 local governments appropriated funds totalling 11.58 million Yuan, provided 23,000 cubic metres of lumber, 2,500 tons of rolled steel, 20,000 tons of cement and many other building materials to assist ex-servicemen build new houses with a total of 35,000 rooms and solved housing problems for 38,000 homeless (ex-servicemen) families and for 67,000 other families living in crowded conditions.

To facilitate the return to civilian employment, the PLA and local government authorities provide specialised (re)training for demobilised personnel. In 1985, 85 percent of army cadres transferred to civilian work were given specialist training and successfully resettled<sup>37</sup>. By the end of 1986, 410,000 personnel had been demobilised, a considerable number of whom were either retired or transferred to civilian jobs. It was reported in early 1987 that the authorities had retrained and provided jobs for 1.2 million demobilised soldiers and resettled 21,000 retired officers in 1986. For officers, the state had also built over

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<sup>36</sup> Xinhua report, in BBC SWB FE/0037/BE/5.

<sup>37</sup> BBC SWB FE/8385; China Quarterly, Documentation, No. 107, September 1987, p. 581.

31,000 apartments and set up 900 sanatoriums. Of those demobilised, 250,000 took up "leading" (i.e. cadre posts) at the rural grassroots (village, townships, counties) level; another 260,000 were employed in rural factories and 110,000 were working as individual farm and non-farm labourers. According to the report, a total of 2 million demobilised soldiers had been retrained and resettled in civilian work since 1979<sup>38</sup>.

In job placement, preferential treatment is given for disabled servicemen or those who won first or second class merit citations during their service. Similiar treatment is given to those who have served in hardship posts or on aircraft or submarines. Retired officers are usually given jobs in government organisations, especially posts in judicial and economic supervisory departments in industry, commerce, taxation, banking, insurance and auditing. In 1987, for example, over 100,000 PLA officers were retired; of this total, over 70 percent were found jobs in these types of posts<sup>39</sup>.

While the precise number of personnel actually demobilised is unknown, there can be no doubt that the scale of demobilisation and the constricted time period over which it was implemented would have serious repercussions on an economy already confronting severe unemployment problems. However, the peculiarities of the Chinese economic system is such that the absorption of a million men into civilian employment is relatively more readily implemented than in a market economy. Despite major progress in economic liberalisation attendant upon market-oriented reforms since 1978, the Chinese economic system is still in many respects a centrally planned system of the Soviet-type. In the absence of labour markets, it is the state's responsibility to guarantee employment through reliance on direct, administrative methods of labour planning and allocation. This principle applies also to demobilised personnel. Consequently, the reintegration of demobilised servicemen in

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<sup>38</sup> BBC SWB FE/8496/BII/5, 19th January, 1987. These numbers presumably include those routinely demobilised or retired.

<sup>39</sup> BBC SWB FE/8597.

China has been achieved relatively smoothly through quasi-compulsory directives to local governments, and through them eventually to various state production and administrative units, to provide jobs for demobilised personnel.

The paucity of data prevents an estimate of the social and economic costs of demobilisation. Only very few indicators of direct financial costs are available. In June 1985, following the announcement of the decision to demobilise one million men, the Chinese authorities stated that 1 billion Yuan would be made available for rehousing demobilised personnel<sup>40</sup>. Shortly afterwards, the government provided another 1 million Yuan to set up special committees to help resettle and reemploy demobilised personnel<sup>41</sup>.

The Chinese authorities have not revealed the financial savings resulting from the demobilisation, but a rough estimate can be attempted. In 1988, a Chinese article discussing the possibility of further cuts of 300,000 men in the defence forces between 1988 and the year 2000 mentioned that financial savings would only amount to about 10 billion Yuan, which, according to the author, would not even be sufficient to build a modern aircraft carrier<sup>42</sup>. If this figure was based on actual 1985-89 experience, then it would suggest that the demobilisation of one million men must have saved 33.3 billion Yuan in defence expenditures (in operational budgets). Against this estimated figure, should be offset the unknown total short-run costs of resettling the demobilised soldiers.

#### 4. The Re-orientation of Defence-Related Industries

There is another important feature of the Chinese economic system which determines the overall impact of defence cutbacks and demobilisation on the economy in general and on employment in particular.

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<sup>40</sup> Xinhua News Agency Bulletin, 23rd June, 1985.

<sup>41</sup> Beijing Review, Nos. 25 and 32, 1987.

<sup>42</sup> Hao Si, "The Idea of Implementing 'One Army, Two Systems' in Practice", in Zhongguo Tongxun She, in BBC SWB FE/0226 B2/7, 10th August, 1988.

The PLA, like its counterpart in the Soviet Union and other socialist countries, is not only a consumer of goods and services but is also a major producer. The military in most western market economies engages in R & D but procures most of its required hardware and services from the civilian (private) sector through purchasing orders and contracts. In Soviet-type centrally planned economies, however, the preponderant share of ordnance and other requirements are produced by enterprises directly under military control.

The presence of a large defence-related sector in China has both positive and negative implications for the economy undergoing defence cutbacks. Normally, defence cutbacks in western economies result in reduced defence orders for the civilian economy and hence in severe recessionary and unemployment pressures for defence-related industries and for the economy more generally. In other words, defence cutbacks in western economies result in reduced aggregate demand. But in Soviet-type systems where the level of economic activities is essentially supply-driven rather than demand-determined, and where chronic shortages of consumer goods prevail as a result of the diversion of resources away from consumption ("butter") towards defence ("guns"), a reduction in defence expenditures, and demilitarisation generally, would not have (or would have fewer of) such deflationary consequences. In these countries, there is structural excess demand for civilian products which can now be better satisfied by reallocating existing resources and defence-related productive capacity towards civilian needs. Where existing defence-related productive capacity is re-oriented towards civilian production and where the aggregate level of economic activity is not reduced, unemployment problems need not be exacerbated and may in the longer term be solved. Indeed, from this point of view, the potential problem of unemployment consequent upon defence cutbacks might be greatly ameliorated if defence-related industries were simply to convert their lines of production instead of closing down altogether. Increased supplies of consumer goods would also alleviate structural inflationary pressures and enhance workers' incentives, thus raising productivity and promoting sectoral balances in the

national economy. Overall, therefore, the net social and economic result of defence cutbacks can be expected to be positive.

In China, the potential gains resulting from defence cutbacks are proportionate to the size and scope of military-controlled or defence-related productive capacity and resources available for conversion to civilian production. The size and scope of military controlled industries in China is in fact immense.

In China, the PLA engages in a very wide range of productive activities, from agriculture to machine building, which are normally not the competence of the military in western economies. In part, this aspect of the PLA's activities followed from the wholesale replication of Soviet economic and military institutional arrangements during the 1950s. But it is in large part a result of distinctive and indigenous Chinese policies that the range, volume and importance of such activities in China are arguably much greater than in other socialist countries.

From the late 1950s onwards the Chinese sought to depart from the Stalinist development strategy by pursuing an indigenous one in which self-reliance was stressed. The problems confronted by the Chinese in replicating highly centralised Soviet-type command planning led them, amongst other things (eg., decentralisation of economic planning and management), to promote regional and sectoral self-sufficiency as a means of reducing the central planners' task in integrating and balancing inter-sectoral and inter-regional flows of goods and services. During the Cultural Revolution in particular, the Chinese sought to set up a "cellular" economic system in which each and every productive unit was to be as self-contained and self-sufficient as possible under the slogan "small yet comprehensive, large yet comprehensive". This meant that each unit tried to be as highly integrated vertically and horizontally as possible in its production process. Thus, Chinese industrial enterprises often produced their own inputs in addition to their normal range of output, leading to extremely low levels of functional specialisation in the Chinese economic structure. The Chinese

military had to adopt such a policy with even greater force. A cardinal principle in Chinese military strategy was that each military region and unit should be self-contained and self-sufficient in order that its fighting ability would not be impaired by the destruction of other parts of the economic or military structure.

The extent to which this principle was pursued in China is unprecedented in the world and truly astounding<sup>43</sup>. Although this basic principle derived from the experience with fighting a successful guerilla war in the pre-1949 period and had already been applied during the 1950s, it was only in the mid-1960s that it was enacted upon in remarkable proportions. Immediately following the Gulf of Tonkin incident which preceded a major escalation of U.S. involvement in the Vietnam war in 1964, the Chinese government launched a major programme of building and relocating a vast number of military-related industries in the remote, backward southwest region of the country -- the so-called Third Capital Construction Front<sup>44</sup>. The Third Front programme was intended to develop a large, comprehensive self-contained and self-sufficient industrial and economic system which could survive a nuclear strike and prosecute a major war by relying entirely on its own resources and food and ordnance production. For this purpose, industries and plants were deliberately sited in the most remote and inaccessible locations, often dug into mountain side and underground facilities so as to be able to withstand a nuclear strike.

The scale of the Third Front programme was so vast, and its importance in the economy generally so great, that an evaluation

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<sup>43</sup> This section is based on a major study which the author has engaged in for the past seven years. The findings of this research will be published as a monograph co-authored by a Chinese specialist.

<sup>44</sup> The First Front (line of defence) comprised the coastal provinces facing Taiwan and the East China Sea where it was believed that any sea-borne invasion by enemy forces would most likely be directed; the Second Front were the inland provinces immediately adjacent to the coastal provinces which would serve as a line of defence to draw enemy forces into Chinese territory where guerilla-type "people's war" could be mounted.

of the impacts of defence cutbacks on the Chinese economy, and on employment in particular, can only begin with an appreciation of the scale, scope and nature of the programme itself.

The scale of the 3rd Front was immense. Its geographic coverage encompassed one major municipality and eight provinces or autonomous regions: Chongqing municipality, the western regions of Henan, Hubei and Hunan provinces and all of Guizhou, Yunnan, Sichuan, Shaanxi and Gansu. The area covered amounted to nearly one-quarter of the country's territory. The foci of the programme, however, centred on two main key areas: (a) Sichuan province (in turn centred on the city of Chongqing and the Panzhihua integrated iron and steel works), Guizhou, Yunnan and part of Gansu which comprised the principal raw materials, intermediate product and defence industry infrastructure; and (b) the southern parts of Gansu and Shaanxi, and the western parts of Henan, Hubei and Hunan, which were developed as bases for weapons manufacture and assembly, machine building and other major manufacturing industries. Unconfirmed reports also indicate the siting of nuclear material processing and weapons manufacturing plants within the 3rd Front area.

The scale and overwhelming importance of the 3rd Front can be seen from the vast amount, both in absolute and in percentage terms, of national resources that was poured into the region. In the period immediately prior to the 3rd plan period (1966-70), the 3rd Front area accounted for 31.5 percent of total national (capital construction) investments (cf. Table 3). The figure shot up dramatically to 43.9 percent during the 3rd plan, dropped to 34.9 percent during the 4th plan (1971-75) before returning to normal levels in the 5th plan period (1976-80). Sichuan's share of investment alone was greater than the combined total of Beijing, Tianjin and Shanghai (5.4 percent of total investment) and was only marginally less than the combined total (14.3 percent) of the six provinces of Liaoning, Jilin, Heilongjiang, Zhejiang and Jiangsu which constituted China's industrial base<sup>45</sup>.

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<sup>45</sup> Calculated from figures given in Statistical Material on China's Fixed Asset Investments (1950-85), Beijing: China Statistical Press, 1987, p. 51.

Annual time-series investment data given in Table 4 show even more clearly the scale of the 3rd Front programme. Investment in the 3rd Front areas shot up from 27.1 percent (of national total) in 1964 to 43.0 percent in 1965 and to nearly 45 percent in 1966. Except for Hunan, Hubei and Henan, all other provinces (or autonomous regions) within the 3rd Front witnessed major increases in their investment shares, with those for Sichuan and Guizhou doubling within one year. After declines in 1967 and 1968 due to the disruption of the Cultural Revolution (when investment nationally fell sharply), the 3rd Front's share of investment reached a peak of nearly 50 percent in 1970 and stayed high at around 40 percent or over in 1971-2.

It is presently impossible to calculate precisely the total investment in the 3rd Front programme<sup>46</sup>. A significant amount of investment was allocated to or undertaken by the military for which statistics are neither available nor included in the civil capital construction data. Various Chinese sources have stated that investments totalling 200 billion Yuan (US \$52 billion at current exchange rates) went to the 3rd Front since the mid-1960s<sup>47 48</sup>. Over 1,000 key industrial enterprises

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<sup>46</sup> The figures given in Tables 3 and 4 do not give an accurate account of the actual amount of investments in the 3rd Front programme: they are provincial investment totals which include expenditures (e.g. agriculture, etc.) that were not associated with the 3rd Front. Moreover, our investment totals for Hunan, Hubei and Henan overstate the amount going to the 3rd Front since only parts of these provinces were included in the programme. They do, however, indicate the trends and scale of 3rd Front investments: if we assume that the 3rd Front provinces' share of national investment during the 3rd and 4th plan period had remained similar to the average of the 1st and 2nd plan periods, then the difference between the actual and the expected averages can be imputed to the 3rd Front. This would mean that 61 percent and 26 percent of total investments during the 3rd and 4th plan periods respectively were associated with the 3rd Front. Against these figures must be added investments undertaken by central government ministries which were regional or supra-provincial in character, such as railways, which would not be captured in the provincial investment data.

<sup>47</sup> Renmin Ribao (Overseas edition), 7th November, 1987, p. 1.

and a large number of ordnance bases were built. Third Front industries in the early 1980s accounted for 25 percent of the nation's total industrial output, 75 percent of nuclear industrial output capacity, 60 percent of aeronautics, 50 percent of space technology, 60 percent of electronics and 50 percent of armaments output<sup>49</sup>.

The overwhelming importance of the 3rd Front investment programme can also be seen from the share of new large and medium-sized projects located within the region. Prior to the 3rd plan period, the region's share of such projects ranged between 20 and 25 percent of the national total (cf Table 5). But during the 3rd and 4th plan periods, the region's share rose to 44 percent and stayed high (at 35 percent) even during the 5th plan when the scale of the 3rd Front programme was being reduced. Nearly 30,000 enterprises were constructed in the 3rd Front region<sup>50</sup>. Altogether 2,200 large and medium-sized enterprises were constructed in the 3rd Front region, accounting for about 28 percent of the national total; by the mid-1980s, the region's newly-created fixed assets exceeded 140 billion Yuan<sup>51</sup>. This

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<sup>48</sup> Capital construction investment from 1964 to 1983 totalled 700 billion Yuan nationally; cf. State Statistical Bureau, Statistical Yearbook of China 1984; Hong Kong: Economic Information and Agency, 1984, p. 301.

<sup>49</sup> Liu Dizhong, op. cit.

Investments in the 3rd Front programme took two forms. One was new capital construction, technical renovation and expansion and the creation of new productive capacity; the other was the literal dismantling of equipment and complete plants in the developed coastal region and their relocation in the 3rd Front region under the so-called policy of yi fen wei er ("one becomes two" or cloning). The latter form of "investment" was particularly used in the machine building industry where investments in the 3rd Front alone amounted to a third of total investment in the sector during the entire period post-1949. 240 new machine building plants and R&D facilities were constructed in the 3rd Front region which by 1985 accounted for about a third of all machine building plants in the country. The overwhelming share of the new and more technologically advanced plants in the machine building sector were built in the 3rd Front region since 1965.

<sup>51</sup> Renmin Ribao (Overseas edition), 7th November, 1987, p.1.

massive investment created an industrial system comprising producer goods, nuclear industry, metallurgy, aerospace and aeronautics, electronics, chemical industry, machine building. In the early 1980s, the region accounted for 50 percent of the nation's productive capacity in military-related industries. Workers and staff within the region amounted to about 16 million, or about a third of the national total. It also enjoyed a higher ratio of scientists, technicians and skilled workers than anywhere else in the country.

Defence cutbacks in China since the early 1980s inevitably involved a restructuring of Third Front industries. A decision was taken around 1979 to re-orient the majority of Third Front enterprises to serve civilian needs as part of the overall policy of subordinating defence to economic construction. A special State Council office was established in Chongqing (capital of Sichuan province) in the early 1980s to administer the restructuring. About 150 million Yuan (or US \$40 million) was allocated by the government in 1988, or 40 percent more than in 1987, for the purpose of re-orienting Third Front enterprises' production for exports of civilian products. The state had also allocated 2 billion Yuan to relocate about 100 Third Front factories to nearby small or medium-sized cities, with the first phase of relocation to be completed within two years. Under the restructuring policy, a third of ordnance factories was to shift completely to civilian production while the remainder was to produce both military and civilian goods<sup>52</sup>.

With defence subordinated to economic construction, a significant proportion of military facilities have been reoriented towards civilian needs. In the past few years, aside from switching over 10,000 lines of defence industrial technologies and production to civilian use, 59 airfields, over 300 special railway lines, 30 special telecommunications lines, 29 docks, over 100 repositories controlled by the military for its exclusive use were opened up to serve local economic

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<sup>52</sup> Liu Dizhong, op. cit.

development<sup>53</sup>. All army hospitals have also been opened up to civilians, treating 43.24 million patients in 1985-87. The army has also initiated over 2,000 farms (with an annual grain output of 500 million kilograms) and runs over 1,600 small mines and factories (with an output value of 700 million Yuan and tax and profit contributions of 130 million Yuan to the state) for purely commercial purposes<sup>54</sup>. In the province of Guangdong alone, the army has established over 1,000 PLA-related economic entities, producing nearly 4,000 lines of products. The PLA trading organ in Guangdong, the Jia He United Development Company, already engages in running hotels and in the production of electronic components, building materials, vehicle parts, agricultural produce, etc. It is also engaged in a joint-venture with the UK-owned Standard Chartered Bank to build a hotel for foreign tourist to be managed by Ramada Inn<sup>55</sup>. Even the Shenyang Aircraft Factory, makers of one of China's most advanced fighter jet aircraft (the F-8), has now converted part of its assembly lines into producing sewing machines and rubbish compactors; other ordnance factories are now producing fertilizers and refrigerators, while factories previously making military uniforms are now turning out teddy bears and T-shirts for the domestic and export markets.

The share of civilian consumer goods production in military factories doubled between 1978 and 1983 to one-fifth of the total output value of military factories; this share is reported to have reached 50 percent in 1987<sup>56</sup>. This share is expected to increase to 70 percent by 1990. To reorient military production to serve the civilian economy, major organisational changes in military administration were introduced in the mid-1980s. The

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<sup>53</sup> Interview with Zhu Yunqian (deputy director of the PLA general political department) in Jiefangjun Bao, 19th August, 1987.

<sup>54</sup> Jiefangjun Bao, 29th June, 1987.

<sup>55</sup> Economist, 14th May, 1988, p. 91.

<sup>56</sup> Zhang Aiping, "Strengthen the Modernisation of the Army - In Commemoration of the 60th anniversary of the Founding of the PLA", in Renmin Ribao, 24th July, 1987.

ministries of ordnance industries, of nuclear industry, of aeronautics industry and of astronautics were removed from military jurisdiction and placed under the State Council. The entire capacity of these industries is now able to serve civilian needs. In addition, the State Machine Building Industry Commission was established to integrate military production units into the civilian sector. Research units and enterprises in the military were reclassified into three groups: those exclusively serving military needs; those producing both military and civilian products; and finally, those producing entirely for civilian use. Since May 1988, preferential tax and credit policies have been introduced for military industries converted to civilian production<sup>57</sup>. With these changes, total industrial output of military industries serving civilian needs amounted to over 5 billion Yuan in 1987<sup>58</sup>.

In addition to subordinating defence to economic construction, the restructuring of Third Front enterprises to serve civilian production was also compelled by the military's need to find alternative sources of funding for its own modernisation programme in the face of reduced budgetary provisions from the central government. According to Zhao Nanqi, a senior PLA official, defence appropriations through the state budget meets only 70 percent of the army's total expenditure. Consequently, the army has had to rely on commercial sales from its own industries to meet the remaining 30 percent shortfall<sup>59</sup>. Given an official defence appropriation of about 21 billion Yuan in 1987, this suggests that total military expenditures amounted to 30 billion Yuan, and that 7 billion Yuan was earned through sales of military industrial output for civilian as well as military purposes. This is a major factor behind the Chinese military's drive to earn foreign exchange through arms exports. Between 1982 and 1986, Chinese arms sales overseas made it the world's sixth largest supplier. These sales have been estimated

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<sup>57</sup> BBC SWB FE/0274

<sup>58</sup> China Daily, 2nd November, 1988, p. 1.

<sup>59</sup> Ming Bao, 24th April, 1988.

by the US government's Arms Control and Disarmament Agency to have reached 1.04 billion Yuan in 1986, and are estimated to have doubled in 1987 with cumulative sales in 1980-87 of US \$11 billion. In 1987-88, China is widely believed to have become the world's fourth largest arms exporter<sup>60</sup>. Chinese sources have also estimated that the country can easily earn over a billion dollars in arms sales annually, with the figure doubled after further reorganisation and streamlining in the management apparatus<sup>61</sup>.

##### 5. Summary and Conclusions

Defence cutbacks in China in the early 1980s were occasioned by two key developments: first, major ideological and political changes in the post-Mao leaderships which resulted in the subordination of defence to economic construction; secondly, concomitant changes in the leadership's perception and estimation of international security trends, as well as in its view of the role and tasks of the Chinese military given the nature of modern warfare. These led to a major programme of military reform involving defence cutbacks and defence modernisation simultaneously.

Defence cutbacks entailed three principal inter-related elements. First, since 1980 there were major reductions in defence expenditures both in absolute terms (when calculated in constant prices) and as a percentage of budgetary expenditures and GDP. Secondly, it led in 1985 to the demobilisation of one million men or about a quarter of China's military forces. Thirdly, a large number of defence-related industries, especially those built in the remote southwest region of the country under the Third Front programme in the years 1964 to 1978, were reoriented towards civilian production beginning from 1979 onwards.

The demobilisation of one million men, implemented over a constricted three year period (1985-88), came at a time when the

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<sup>60</sup> Far Eastern Economic Review, 2nd June, 1988, p. 22.

<sup>61</sup> Hao Si, op. cit.

Chinese economy faced serious unemployment problems. The problem of open unemployment was made even more serious by the existence of considerable disguised unemployment or underemployment in China's highly inefficient and overstaffed enterprises. In addition, agricultural mechanisation was expected to result in over a hundred million redundant farm labourers over the medium and long-term.

The peculiarities of China's centrally planned economy, however, made the absorption of a million demobilised servicemen into the civilian economy relatively easy when compared with western market economies. Direct, quasi-compulsory and administrative methods of labour planning and labour allocations under such a system allowed a state-controlled system of job placement in which local governments and other economic and administrative units were required to share in the social and financial costs of re-employing and re-housing demobilised servicemen. This system was somewhat facilitated by various retraining programmes although information on the nature, scale, costs and effectiveness of such programmes is scarce. The problems of demobilisation were also possibly ameliorated by the transfer of various non-combatant units of the military to civilian control as part of the demobilisation programme, such that the number of demobilised servicemen requiring new or alternative employment was minimized.

The potential unemployment resulting from other aspects of defence cutbacks in China was also reduced by the peculiarities of China's military and economic system in which the military was a relatively self-sufficient and self-contained unit of consumption and production. The vast amount of resources and productive capacity directly controlled by the military, the scale and importance of which are indicated by the Third Front programme of the 1960s and 1970s, enabled it to reorient defence industries towards civilian production of consumer goods. This precluded the creation of a large number of unemployed consequent upon the closure of, or a major reduction in, the level of activities in the defence-related industries. Thus, where defence cutbacks and the resulting reduction in defence contracts tend to lead to recessionary and unemployment pressures in market economies, the

reallocation and reorientation of resources and productive capacity in the Chinese system following demilitarisation led to overall net benefits to society in a number of ways. First, since Soviet-type economies such as China's are supply-driven rather than demand constrained, the reallocation of resources to civilian production would ease the chronic shortage of consumer goods characteristic of such economies. Secondly, increased availability of consumer goods resulting from the reorientation of military industries to serve civilian needs can raise workers' incentives and hence productivity as well as relieve inflationary pressures and promote sectoral equilibrium. Thirdly, the civilian orientation and commercialisation of Chinese military production generates sizeable earnings and thus allows a growing proportion of military expenditures to be self-financed, allowing an increased share of national budgetary expenditures to be spent for civilian purposes.

The limited data available suggest a scale of earnings in the past few years accruing from these activities that is likely to be in excess of the immediate short-run costs of demobilisation and of restructuring military industries. The financial benefits in the longer term can be expected to be considerable. In addition, these aspects of demilitarisation in China might in the longer-term create more employment opportunities than it would have done in the absence of a reorientation of military industries to serve civilian needs.

Table 1: Defence Expenditures (in billion Rmb, current prices)

	Total budgetary Expenditure	of which National Defence	%
1978	111.10	16.784	15.1
1979	127.39	22.266	17.5
1980	121.27	19.384	16.0
1981	111.50	16.797	15.1
1982	115.33	17.635	15.3
1983	129.25	17.713	13.7
1984	154.64	18.076	11.7
1985	184.48	19.153	10.3
1986	233.08	20.075	8.6
1987	242.69	20.977	8.6

Source: State Statistical Bureau, China Statistical Yearbook 1988  
Beijing: China Statistical Information of Consultancy Service Centre, 1988, pp.665, 674, 676.

Table 2: Labour Force and Employment Rate

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Persons awaiting jobs (m/n)	5.30	-	5.41	4.40	3.80	2.71	2.36	2.39	2.64	2.77
Job waiting rate	5.3	-	4.9	3.8	3.2	2.3	1.9	1.8	2.0	2.0
Total employed labour force (m/n)	401.52	410.24	423.61	437.25	452.95	464.36	481.97	498.73	512.82	527.83
National labour force (m/n)	-	-	-	-	566.83	583.37	601.57	621.14	640.66	656.67
Employment rate (%)	-	-	-	-	79.9	79.6	80.1	80.3	80.0	80.5

Source: State Statistical Bureau, China Statistical Yearbook 1988  
Beijing: China Statistical Information & Consultancy Service Centre, 1988.  
pp.145,123,125.

Table 3: Distribution of Investment, Third Front Areas.  
By Plan Period (in %)

	1st FYP	2nd FYP	1963-5	2nd FYP	4th FYP	5th FYP
National Total	100.00	100.00	100.00	100.00	100.00	100.00
Third Front Areas						
Henan	3.7	5.2	4.2	4.0	4.2	4.1
Hubei	3.6	4.3	3.1	5.6	5.9	6.5
Hunan	1.6	3.4	3.2	3.7	3.7	2.9
Sichuan	4.5	5.8	7.5	13.6	7.7	5.4
Guizhon	0.6	1.8	3.3	4.2	2.8	1.7
Yunnan	1.7	2.8	3.4	4.2	2.6	2.4
Shaanxi	4.0	2.9	2.5	4.1	4.9	3.2
Gansu	3.7	4.0	4.3	4.5	3.1	2.1
Sub Total	23.4	32.0	31.5	43.9	34.9	28.3

Source: Taken or calculated from SMCFAI (1987, 51).

Table 4: Distribution of Capital Construction Investments: Third Front Areas, By Year (in %)

	1963	1964	1965	1966	1967	1968	1969	1970
National Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Third Front Areas								
Henan	4.7	4.5	3.7	2.5	2.5	3.1	5.5	4.9
Hubei	2.1	3.0	3.1	4.1	4.9	3.9	4.4	8.9
Hunan	3.1	3.3	3.2	3.2	4.4	2.9	3.3	4.1
Sichuan	4.4	5.3	11.0	15.9	13.9	9.4	14.2	13.1
Guizhon	1.4	2.5	5.0	4.8	4.4	4.7	3.1	4.1
Yunnan	2.5	2.8	4.5	5.1	5.6	3.5	4.5	3.1
Shaanxi	2.1	2.1	3.0	3.4	2.9	2.7	3.5	6.0
Gansu	3.7	3.6	5.0	5.8	4.1	5.0	4.1	3.4
Sub Total	24.0	27.1	43.0	44.8	42.7	35.2	42.7	47.6

	1971	1972	1973	1974	1975	1976	1977	1978
National Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Third Front Areas								
Henan	4.1	4.1	4.2	4.5	4.2	4.0	4.6	4.5
Hubei	7.9	6.3	5.4	4.8	5.1	7.4	9.5	6.2
Hunan	4.5	3.8	3.9	3.4	3.3	3.0	2.9	2.9
Sichuan	10.9	8.8	6.7	5.9	6.8	5.3	5.0	5.6
Guizhon	4.9	3.5	2.3	1.7	1.8	1.7	1.7	1.9
Yunnan	2.7	2.8	2.8	2.6	2.3	2.3	2.2	2.4
Shaanxi	6.1	6.3	5.0	4.1	3.4	3.2	3.1	3.2
Gansu	3.0	3.4	3.2	3.1	2.8	2.3	2.1	1.9
Sub Total	44.2	39.0	33.5	30.1	29.7	29.2	31.1	28.6

Source: Calculated from SMCFAI (1987, 46-48).

Table 5. Regional Distribution of Large &amp; Medium Sized Projects

	1st FYP	2nd FYP	1963-5	2nd FYP	4th FYP	5th FYP
National Total	595(100)	581(100)	355(100)	743(100)	742(100)	515(100)
Third Front Areas						
Henan	33	21	16	29	34	27
Hubei	14	18	9	30	53	17
Hunan	10	10	8	28	32	23
Sichuan	31	27	10	96	76	41
Guizhon	-	5	4	35	23	18
Yunnan	12	16	4	21	24	19
Shaanxi	21	21	11	50	46	30
Gansu	10	8	6	38	38	6
Sub Total	131(22.0)	147(25.3)	72(20.3)	327(44.0)	326(43.9)	181(35.2)

Note: Percentage in brackets.

Source: SMCFAI (1987, 158).

## DISARMAMENT AND EMPLOYMENT PROGRAMME

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