products, including sewing machines, air conditioners, washing machines, transistor radios, and television receivers were up an average of 42 per cent (measured in unit output). Production and transportation equipment, mainly bicycles and motorcycles, also rose sharply.

The recovery of exports and consequent trade surplus led to a significant growth in Taiwan's foreign exchange reserves. As of September the reserves stood at $2.55 billion, up from the September 1975 total of $1.99 billion. With an estimated total debt of only $3.2 billion and a debt service ratio for 1976 of only 6.5 per cent, Taiwan was easily able to meet its international payments.

People's Republic of China: Oil Will Lead the Way

1976 was likely a bad year for the economy of the People's Republic of China in light of political developments and natural catastrophes. Quantitative figures for 1976 are much scarcer than for any recent year and highly unreliable, which is explained by the revelations that have been published since the anti-Maoist coup in October. Those have told of massive disruptions of industrial production in many sectors, stoppages in some factories that continued for most of the year, and substantial violence among groups of workers.

But despite the often cautious post-October Western evaluations of China's future economic course, it is now clear that China will be seeking to return to the program championed by Teng Hsiao-ping over a year ago — for crash foreign development of China's oil by the West in order to make possible billions of dollars of capital imports in thenextseveral years. There are indications that in 1975, just before Teng's purge, a deal was under consideration involving U.S. technology and assistance for oil development, in the multi-billion dollar range, including an arrangement for China to receive much of it as long-term credit. Nothing has been heard since, but Teng's imminent return to power may revive this plan.

Teng had also been negotiating with the Japanese for a long-term contract for the export of Chinese oil to Japan in return for steel and other capital goods during the fall of 1975. Reports circulating at the time speculated that China might export up to 50 million tons by 1980. The deal fell through in early 1976 when Maoist factional pressure forced Teng out.

The news that Nippon Steel's Inayama, and a representative from the Idemitsu oil company, will lead a major delegation to China in February makes it quite likely that some major deals will be concluded along the lines delineated over a year ago. The major question mark is the state of China's economy itself. Not only did economic growth in 1976 stall, but oil production, which had increased at 20 per cent per year from 1963-1975, fell to only 13 per cent in 1976. Any long-term agreement to provide Japan sizeable quantities of oil would probably require that China receive Western aid to develop its offshore fields rapidly. China's new leadership has made clear where its desires lie; the only question is its ability to rapidly fulfill them which has been placed in jeopardy by the damage done to the economy in recent years.

Fukuda's 'Reflationary' Budget: Neither Fish Nor Fowl

The Carter Administration and its backers have been pressuring Japan to run a highly reflationary budget. They insist that Japan reduce its high 1976 trade surplus and use domestic public works as a substitute demand. As a result, according to the mythos, Japan should be able to increase its imports from the developing sector and thus help the U.S. and West Germany bring about a wondrous worldwide recovery.

In fact, officials at Treasury and Chase Manhattan Bank told NSIPS that, on a long term basis they want Japan to restructure itself fundamentally away from its postwar export orientation and to a domestic public works buildup and *longterm trade deficit financed by overseas borrowing*. Under such a policy, they believe the New York banks can shift loans from Third World and weak OECD countries to strong U.S., Japan and the BRD. The officials neglected to say how long Japan would remain "strong" under such a policy.

Fukuda's budget

The new Prime Minister Takeo Fukuda personally supports the Carter Administration policy and has tried to the extent possible to implement it in his new budget. In fact, the real issue in Fukuda's year-long campaign to oust predecessor Takeo Miki was Fukuda's support for the Rockefeller-Carter economic policy vs. Miki's support for the alternative approach of the pro-development wing of Japanese industrialists discussed below. However, simple reality — amplified by the business community's recognition of it — has severely crimped Fukuda's ability to carry out Rockefeller's intentions.

In terms of overall size Fukuda's budget is not really reflationary.

At $95 billion, the proposed budget is 17.3 per cent above 1975 budget (which was 14 per cent above 1974). Public works projects are 20 per cent above 1975 at $14 billion. At $28 billion — with local bonds the total in 1977 will be $44 billion — Fukuda has kept national bond issues to 30 per cent of budget, a little higher than 1975 ratio. Running such a huge deficit at this point is no longer additional stimulus but simply preservation of what has become the built-in norm necessary to sustain at least minimal levels of consumer spending. Only an increase in the ratio to 35-40 per cent would represent new stimulus. This Fukuda cannot do.

Within the new budget, according to Jan. 4 *Nikkei*, Fukuda has ordered the Finance Ministry to effect a shift away from social spending toward public works. Within