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JPRS-CAR-88-019  
20 APRIL 1988



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# ***JPRS Report***

# **China**

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# China

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**Comparative Evaluation of Chiang Ching-kuo,  
Deng Xiaoping**

40050139a Hong Kong CHENG MING  
[CONTENDING] in Chinese No 124, 1 Feb 88 pp 36-37

[Article by T'ien Ma [3944 7456]: "A Comparative Study of Chiang Ching-kuo and Deng Xiaoping"]

[Text] Chiang Ching-kuo and Deng Xiaoping are two powerful Chinese political personalities of the same era, but due to different social systems, the former was able to rise to the occasion at a critical moment with a display of great wisdom and courage, while the latter, constrained by ideology and deluded by feudal monsters, is outwardly unyielding and strong, but inwardly weak and fainthearted.

On Taiwan, President Chiang Ching-kuo suddenly passed away, while the much older Deng Xiaoping is still going strong. Judging by Deng's present state of health, he can still go on working for a considerable time. Despite the great difference in their ages, they may still be considered men of the same period: Deng in his younger years studied in France (partly working, partly studying) and was one of the leaders of the French branch of the CPC. Chiang, on the other hand, studied in the Soviet Union; he also joined the CPC, so that actually both started out as Marxists. However, on their return to China, both went their different ways. Deng kept on his pursuit of Marxism and was active in the communist revolution. But Chiang emphatically fore-sware Marxism, became a loyal and staunch member of the KMT, and on Taiwan put his Three Principles of the People into practice..... In their later years, both became strong proponents of opening up and reform, which makes it look like "eating at the same table, but then each doing his own thing," in the end seemingly again "reaching the same goal by different routes." However, the two men differ in their achievements, and internationally they are also evaluated quite differently. Chiang Ching-kuo's evaluation has by now become "judgement of a man's merits and demerits after death," but what will the final evaluation of Deng Xiaoping be? This is now still a variable factor.

**Evaluation of Chiang Ching-kuo**

Chiang Ching-kuo's death was felt as a huge shock at home and abroad. Particularly, important personalities in and out of government on both sides of the Taiwan Strait were extremely anxious whether the great change of the moment would have an effect on Taiwan's domestic and international situation, and out of this consideration there have been repeated evaluations of Chiang Ching-kuo.

The composite evaluation of Chiang Ching-kuo by public opinion on Taiwan and abroad, if expressed in rather comprehensive terms should be: Chiang's merits for

Taiwan's economic prosperity and political democratization can never be obliterated. The ten great construction projects, which laid the foundation for Taiwan's economic expansion, were achievements accomplished during his term as president of the Executive Yuan. In the development of Taiwan's economy, the free economy, which Chiang Ching-kuo pursued and which was guided by the government, was a great success. Taking import figures as criterion, Taiwan is among the top-ranking countries in the world as to foreign exchange reserves, and places as high as 18th in the world according to the value of exports. At the end of 1987, Taiwan, furthermore, lifted the state of emergency, relaxed foreign exchange controls, permitted opposition parties, lifted restrictions on newspaper publishing, and even allowed people of Taiwan to travel to the mainland for family reunions. All this is indicative of a political confidence of the Taiwan Government under the leadership of Chiang Ching-kuo, in view of its tremendous economic successes. We believe nobody could object to the above evaluation of Chiang Ching-kuo. Even the Chinese communists cannot deny these facts. In a statement on 14 January, 2 days after Chiang's death, Zhao Ziyang, secretary general of the CPC Central Committee, expressed his sorrow at the passing of Chiang. In the course of his statement, Zhao praised Chiang; his assessment was, specifically: "Chiang Ching-kuo firmly upheld the principle of one China and rejected 'Taiwan independence.' He advocated a unified China and expressed a sense of responsibility toward history. He also exerted certain efforts toward a relaxation of relations between the two sides of the strait." This is of course an assessment of Chiang's work and standpoint made one-sidedly from the "unified front" angle. It is not a comprehensive assessment; he neither mentions Chiang's contribution toward the success of Taiwan's economy, nor does he criticize Chiang's "obstinate" stand on the "Three No's" [no contacts, no negotiations, no compromises] and his firm resolve to "unify China under the Three Principles of the People." But actually, it is not for the Chinese Communists to give a comprehensive appraisal of Chiang Ching-kuo. If the Chinese Communists, after Chiang's death, in an unprecedented way, sent a telegram of condolence in the name of the CPC Central Committee as on an equal basis, and if Zhao Ziyang on the second day after Chiang's death made statements that were full of implied willingness to talk things over with each other, these "formalities" indicate as such the high value the CPC attributes to Chiang Ching-kuo's lifelong achievements, and actually we need not dwell on that any longer. As to the people of Taiwan, they lined up voluntarily to condole at the mourning hall, many crying bitterly, and many young people kneeling for a long time in silent mourning.....all this is an indication of the lofty image of Chiang Ching-kuo in the minds and hearts of the people of Taiwan. This is a much more vivid appraisal than any evaluation in writing.

**Chiang Ching-kuo One Mark Superior to Deng Xiaoping**

Chiang Ching-kuo is already dead, and according to Chinese "philosophy," it is permissible now to "assess his merits or demerits after death." As to the leader on

the other side of the Taiwan Strait, Deng Xiaoping, there is no "assessment of merits and demerits after death" yet, and it is, therefore, not possible to give a final judgement. But from a simple comparison of the actions and characters of the two, it seems that Chiang Ching-kuo's "merits" are one mark superior to those of Deng Xiaoping.

After Mao Zedong died and soon after the fall from power of the "gang of four," Deng Xiaoping resurfaced. As soon as Deng had resumed the power of government, following the 3d Session of the 11th CPC Central Committee, the Chinese Communists changed their extreme leftist orientation and initiated a political line of reforms and opening up, which is identical in spirit with the policy of reform and opening up that Chiang Ching-kuo initiated in his latter years on Taiwan. But in the course of Deng Xiaoping's enforcement of the policy of reform and opening up, incidents of "backlash" occurred. For instance, the "anti-spiritual pollution" campaign of 1983 was one such backlash, and the "anti-bourgeois liberalization" movement in the spring of 1987 was even more of a countercurrent to the reform movement of the Chinese Communists. Furthermore, such undemocratic measures as the arrests of Wei Jingsheng [7614 0079 3932] and Yang Wei [2799 1550] reveal the extremely superficial and extremely limited character of Deng Xiaoping's reform and opening up. As soon as he encounters difficulties and setbacks, Deng Xiaoping always takes it out on the intellectuals, even going so far as to sacrifice without hesitation some of his old comrades, in order to arrange himself with the conservative forces. It reflects Deng Xiaoping's lack of steadfastness in his reform. He repeatedly proclaims that he will firmly uphold the so-called "four insistences," which are the proverbial "hoop of inhibition" that prevents the communists from carrying out any kind of thorough reform, and predestines such reforms to never attaining unqualified success.

On the other hand, when Chiang Ching-kuo's reform and opening up met with tremendous pressure and resistance from the conservative wing of the KMT and old military officers, Chiang Ching-kuo had the courage to bravely step forward and to rebuke his opponents, demanding that they think first of national affairs and forget nostalgic feelings about the past. He asked them to adapt to the trend of the time, because times change, trends change, and ideas also have to change, and because otherwise it would be perdition for party and nation. At a critical juncture, Chiang Ching-kuo never recoiled in fear. Compared with Deng Xiaoping, Chiang indeed displayed more courage and greater wisdom. It may not be amiss here to quote the comment of an independent Hong Kong writer: "In this way it appears that Chiang Ching-kuo was always outwardly feeble (referring to his bad health), but inwardly strong, enlightened, and enterprising. He also manifested clear wisdom in concrete policies and directions, exerting a forceful and positive influence that benefited home and country. In that respect it seems Deng Xiaoping acted in a diametrically opposite way.

Though somewhat older in age, his health is better than Chiang's was, but in pursuing true freedom and democracy he is entangled in ideology and deluded by feudal monsters. He became helplessly encumbered, a man "hesitant to pelt the rat for fear of smashing the dishes." His spiritual state is such that, though he outwardly appears steadfast and strong, he is internally beset with fears. He is fierce of mien but faint of heart."

Though he has passed away, Chiang Ching-kuo has left behind on Taiwan a prosperous economy, good living conditions for the people, and much more political freedom and democracy than on the mainland. Especially in political respects, allowing formation of opposition parties and lifting restrictions on newspapers are acts that the mainland cannot match. Though the man has gone, Chiang Ching-kuo's contributions to freedom and democracy of the Chinese nation are much ahead of any of Deng Xiaoping's. Many successful experiences in Taiwan's economic development and Taiwan's experiences in promoting political democratization are things that Deng Xiaoping should carefully study.

#### How is Deng Xiaoping To Catch Up?

How is Deng Xiaoping to catch up in the coming years? How can Deng Xiaoping achieve a higher evaluation after his death and a mournful remembrance in the hearts of the people? It seems only by achieving even greater successes in the economic developments on the mainland and politically by allowing the people to enjoy much greater democracy. As to the economic situation, the average per capita income on Taiwan is now over U.S.\$4,000, and on the mainland? There it is only somewhat over \$300, which makes the Taiwan figure more than 10 times higher than the mainland figure! What about political democratization? As from September 1986, Taiwan already has opposition parties that truly oppose the KMT, namely the Democratic Progressive Party, and recently several more political parties, such as the Labor Party, the Free Democratic Party, and others. Furthermore, the restrictions on newspapers was lifted as of 1 January this year and people on Taiwan can freely organize parties, can freely register publication of newspapers, can freely travel out of the country.....what about the mainland? What year, what month will it be that they can freely organize parties, freely publish newspapers and periodicals (meaning newspapers and periodicals that freely criticize the CPC)? It seems Deng Xiaoping has much to catch up with. Is he confident?

There is absolutely no justification for Deng Xiaoping to assume that now that Chiang Ching-kuo is dead, Taiwan will become one big mess, that Chiang's road toward opening up and reform will come to a stop, that Taiwan's economy will stagnate, but that the mainland, on the other hand, will achieve a fourfold increase in average per capita income of its people by the year 2000, "which would mean that the average income will reach \$1,000." "If that goal could be achieved, China's gross output value would have to reach 1 Trillion dollars." But could

Deng Xiaoping figure out, how much Taiwan's gross output value would again be by the year 2000? And how much their average income would again have increased? This comparison, we are afraid, would be very discouraging for Deng Xiaoping.

However, these are indeed the hard figures. Without some careful planning on the part of Deng Xiaoping, we are afraid, his efforts will be merely like "firing blanks." If he will continue, like in the past few years, to one moment do "anti-pollution" and the next moment again do "anti-bourgeois liberalization," advance two steps and retreat two steps, or advance two steps and retreat one step, we are sure he will be in a worse mess than merely shooting off blanks, he may face absolute retrogression.

The two strong men of this era, Deng Xiaoping and Chiang Ching-kuo, had undergone similar developments, but for reasons of different ideologies and different social systems, the results of their efforts were different. The facts by now prove that Deng Xiaoping lags far behind Chiang Ching-kuo. At this time, when we judge the late Chiang Ching-kuo's merits and demerits, we cannot help heartily admonishing Deng Xiaoping: Sir, do not disappoint the expectations of the Chinese people, so that they will not one day lament: "Why was a Deng born to us, when we have a Chiang!"

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**CHIUSHIH NIENTAI Views PRC Reaction to Chiang Ching-kuo's Death**  
*40050137a Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 217, Feb 88 pp 34-35*

[Article by Li Yi [2621 1837]: "PRC Reacts by Emphasizing Unification"]

[Text] The PRC for the first time in 39 years reacted positively to the death of a leader of Taiwan's party and government. Using the phrase "Chiang Ching-kuo accepts responsibility toward history" in the extended meaning of wanting to realize an early unification of China. In the PRC's reaction there is concealed a deep concern about "Taiwan independence."

In the case of Chiang Ching-kuo's death, the PRC for the first time in its 39 years of existence reacted positively to anything like that happening on Taiwan. The PRC Central Committee sent a telegram of condolence to the Central Committee of the KMT in Taipei, and Secretary General Zhao Ziyang, furthermore, made a statement on television in which he "deeply mourned" the "unfortunate death" of Chiang Ching-kuo. Further condolences were wired to Chiang Fang-liang and the funeral committee for Chiang Ching-kuo by Qu Wu [1448 2976], honorary chairman of the Kuomintang Revolutionary Committee in Beijing, and by Chairman Zhu Xuefan [2612 1331 5400], Vice Chairmen Qian Changzhao [6929 2490 3564] and Jia Yibin [6328 0076 2430] of the

same committee. The news was also reported by Xinhua and China News Agencies. Left wing newspapers in Hong Kong had full page illustrated reviews of events in Chiang Ching-kuo's life, accompanied by editorials and special articles, eulogizing Chiang Ching-kuo.

**The Positive Evaluation**

None of all relevant reactions in the PRC had essentially any criticism of Chiang Ching-kuo's entire life, but much praise for his political achievements on Taiwan, in particular also for his "tendency toward enlightened reforms" in his latter years. Approval was even more emphatically expressed for his firm "one China" policy, for his opposition to "Taiwan independence," and for advocating national unification. Even in the case of his ideas of "anti-communism and national recovery," his policy of the "three no's [no contacts, no negotiations, no compromises]," and his "refusal to establish the three communication links [trade, shipping, postal service]," it was considered that "such contradictory ways of thinking, statements, and actions are understandable as having been engendered by his self-imposed 'state of emergency.'" (WEN HUI PAO editorial of 15 January).

Since the founding of the PRC, the KMT and the Chiangs, father and son, had been the PRC's old enemies and the main opponents in the CPC's fight for power over the land. There has never been a letup in all the 39 years in the attitude of mutual hostility. The positive evaluation by the CPC of a leader of a hostile regime has of course its reason in that Chiang Ching-kuo is indeed enjoying highest prestige on Taiwan and the respect, love and esteem of the members of the KMT as well as of the people. The positive evaluation of Chiang Ching-kuo will help win over the minds of the people on Taiwan. If the CPC would at this time noisily lash out against Chiang Ching-kuo, they would, to no useful purpose, evoke strong antagonism among the people of Taiwan. From the united front viewpoint, the CPC reaction is only natural.

What is noteworthy is the standpoint taken by the CPC in its condolences on Chiang Ching-kuo's death and the points of emphasis in their assessments of Chiang.

**Basing on Party-to-Party Relations**

First of all, whether it is the condolences or Zhao Ziyang's statements, or the reports by XINHUA or China News Agencies, or the editorials in the left wing newspapers in Hong Kong, they all take the stand that there exists only a party-to-party relationship and not one of regime to regime. The relevant articles only speak of Chiang as chairman of the KMT and do not mention his more important position of president. The telegram was sent by the Chinese Communist Party to the Chinese Kuomintang. Zhao's statement was made in his capacity as secretary general of the CPC Central Committee. This indicates that in its perception and firm stand in the question of legitimacy, there is for the time being no

indication that the CPC will retreat from its "one country, two systems" model for reunification, which would have only one political regime with Beijing as central authority and the mainland as its principal part. It also indicates that in the form in which peaceful unification is to be achieved, the CPC directs all efforts toward promoting talks between the two political parties. Although Zhao Ziyang mentioned in his statement that "he would like to have joint discussions of national affairs with people of all walks of life on Taiwan," what he mainly wants are "peace talks between the KMT and the CPC."

Secondly, apart from the condolence telegram which was addressed by the CPC Central Committee to the KMT Central Committee and which contained no political statements, only the simple phrase: "We have learned of the unfortunate death of Chiang Ching-kuo, chairman of the KMT of China, and express our condolences as also our sympathies to Chiang Ching-kuo's family," everything else in the various telegrams, statements, and editorials is all propaganda and unified front talk of peaceful reunification. Zhao Ziyang's statement consists of four sections, of which three deal with reunification.

But there is always one fundamental thread that passes through all Chinese Communist statements and editorials dealing with reunification, namely: First, Chiang Ching-kuo firmly did maintain that there is only one China and that he did advocate unification; Second, the hope is therefore expressed that his successor, the new leader of the KMT, will also firmly maintain that there is only one China and will do his best to realize unification at an early date; Third, there is the repeated affirmation that the PRC will not change its principle and policy of peaceful reunification. If anyone is completely ignorant of the situation on Taiwan and of Chiang Ching-kuo's true propositions (most people on the mainland are thus ignorant) and only reads the relevant statements, reports, and editorials by the Chinese Communists, such a person could not but wonder: Since Chiang Ching-kuo during his lifetime was striving for reunification and his successor, who has sworn to carry out Chiang's behest, will of course also want reunification, and the Chinese Communists too want reunification at an early date, what obstacles are there then against reunification? Why was it held up for so long? Not only is there no reunification, even a dialog between the two parties has not yet been initiated.

However, anyone familiar with the situation on Taiwan and Chiang Ching-kuo's consistent propositions, will find this not at all strange. Because Chiang Ching-kuo advocated "reunification under the Three Principles of the People" with "anti-communism and national recovery," and called for "recovery of the mainland." This is quite clearly expressed in his testament and shows that he stuck to these principles until death. The Communist Chinese statements, reports, and editorials in this matter omit all these most important prerequisites, as a means of "seeking common ground while leaving differences

aside." The common people on the mainland, who have not seen any of the "differences," and have only seen the CPC's reaction, cannot help wondering why China has not yet been reunited.

#### **Different Interpretation of "Accepting Responsibility Before History"**

Third, in almost all Chinese Communist reactions in this matter, there is mention of Chiang Ching-kuo's statement of May last year where he touched on the question of "accepting responsibility before history." They link this phrase with reunification, also with "allowing people to visit the mainland for family reunions" and "certain efforts to relax tension between the two sides of the Taiwan Strait."

If Chiang Ching-kuo would indeed have meant "accepting responsibility before history" to be what the Chinese Communists interpret it to mean, China would have been reunified long ago. A careful reading of Chiang Ching-kuo's testament shows that in the short text of less than 200 words, he mentions three "the great task of reunifying China under the Three Principles of the People." He also mentions "the determined policy of anti-communism and national recovery." He particularly adds when mentioning these goals that they are goals to be achieved "under the guidance of our Founding Father's Three Principles of the People and according to the bequeathed teachings of the late President." Regardless of what we think of "reunification of China under the Three Principles of the People," and whether we consider "recovery of the mainland" a realistic objective, Chiang Ching-kuo obviously links "accepting responsibility before history" inseparably with "the bequeathed teachings of the late President." His sense of historical mission "of anti-communism and national recovery" must be taken as the main component of his "accepting responsibility before history."

Furthermore, Chiang Ching-kuo's testament contains, apart from the rather unrealistic "recovery of the mainland," as the more concrete and realistic part his call "to actively carry constitutional democratic development forward without interruption." If we admit that "recovery of the mainland" is a vaguely "ideal" part in Chiang Ching-kuo's "accepting responsibility before history," the "actively carrying constitutional democratic development forward" has indeed been his concrete practice in the last few years of "accepting responsibility before history." In its statement published the evening of Chiang's death, the Democratic Progressive Party particularly seized on this point and placed hopes on implementing, together with the government authorities of the party in power, the "behest of the late president Chiang to 'actively carry constitutional democratic development forward.'"

During his interview on 20 May of last year with Professor Yang Li-yu [2799 0500 1342] of the East-West University in the United States, Li Teng-hui [2621 4098

6540], at that time vice president, talked about the fundamental principle followed by Chiang Ching-kuo in all his great political decisions (see June 1987 issue of *CHIUSHIH NIENTAI*). In the first paragraph we read: "In all actions, we must accept responsibility before history.....," and in the third paragraph we read: "We plan to establish institutions, seeking to provide the country with a long period of good government and peace, and we do not strive for momentarily convenient solutions."

We can see by connecting paragraph 1 with paragraph 3, and by adding Chiang Ching-kuo's active promotion of democratic constitutional government in recent years, that it was Chiang Ching-kuo's intention to establish on Taiwan a democratic system that would ensure a "long period of good government and peace," and furthermore to have this influence the mainland, as an effective means of "accepting responsibility before history." His idea of what this term implies evidently differed from the interpretation given by the Chinese Communists after his death. It is quite out of the question that Chiang Ching-kuo would accede to a Chinese Communist reunification on a "one country, two systems" basis as a way of "accepting responsibility before history."

#### Hidden Concern About "Taiwan Independence"

Fourth, all Chinese Communist reactions contain a deep concern about "Taiwan independence." All their reports, statements, and editorials refer to Chiang Ching-kuo's "firm resistance" and "opposition" to Taiwan independence, and in his "behest" to his successor to "be on guard against foreign politicians who support the breaking away of Taiwan." This shows that the mainland is concerned whether Taiwan will gradually go the way of separating from the Chinese mainland, once the KMT men of the older generation, against whom they had fought, will gradually disappear from the scene, especially after Chiang Ching-kuo's death, when a Taiwanese will succeed to the presidency.

The KMT men of the older generation, especially the Chiangs, are the old enemies of the Chinese Communists, but on the other hand both sides understand each other and know for certain that the opponent too wants to have the country as a whole for himself and would fight to occupy the whole of one unified land. Feelings of gratitude and resentment last longer than 1 day, and the party is also not over in 1 day. There was a letter writer who indicated a few years ago: "After all the turmoil, friends are still alive; a smile on meeting each other would dispel all feelings of gratitude or resentment." Now both the writer (Liao Ch'eng-chih [1675 2110 1807]) and the recipient of the letter (Chiang Ching-kuo) have died. The new generation of Taiwanese leaders who have no feelings for or against the Chinese Communists, on the one hand do not feel they have anything to fight about with the Chinese Communists, and also do not think of achieving any kind of final solution. Their way of "accepting responsibility before history" would be to

promote democratic constitutional government on Taiwan, and have "Taiwanese themselves democratically govern Taiwan." This new generation of leaders is beyond the Chinese Communists' understanding, and there is also no friendship between them. But what the Chinese Communists are deeply concerned about is whether this trend toward "Taiwanese themselves to democratically govern Taiwan" could develop into a separation from the mainland and Taiwan independence.

From the standpoint of the Taiwanese, a discussion with the Chinese Communists on the form of reunification can only take place on the actual basis of accepting that "Taiwanese themselves are to democratically govern Taiwan." As things are now, as the Chinese Communists, on the one hand, reject the idea of having "Taiwanese themselves govern Taiwan democratically" and, on the other hand, when formulating a basic law for Hong Kong, indicate that they will not accept a Hong Kong government created by democratic elections, then the Chinese Communist "reunification" is one based on submission to the orders of the Beijing central political regime. In that way, Taiwan where Chiang Ching-kuo has started a development toward more local autonomy and democratization, a development that is being continued, will be vehemently opposed to the objective of a Chinese Communist reunification.

Finally, none of the Chinese Communist reactions omits to mention that "in sorrow we hope that Taiwan will enjoy stability, social peace and tranquility, continued economic development, and that its people will live and work in peace and contentment." These words, regardless of whether "in sorrow" or not, are what Taiwanese inside and outside of government, the people of Taiwan, as well as overseas Chinese love to hear.

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#### Wang Ruoshui Answers Charges by Party Inspection Commission

40050167 Hong Kong *CHIUSHIH NIENTAI* [THE *NINETIES*] in Chinese No 218, Mar 88 pp 47-50

[Article by Lu Jingshi [7120 0079 1102]: "Chinese Communists Do Not Tolerate True Academic Freedom"]

[Text] A certain Hong Kong publication said last month that Wang Ruoshui [3769 5387 3055] had submitted to the CPC Central Discipline Inspection Commission [CDIC] a "10,000-character defense statement." Actually this so-called "defense," formally titled "Comments on 'Decision on How To Handle Wang Ruoshui's Mistakes,'" was written in September 1987. The "Decision on How To Handle Wang Ruoshui's Mistakes" was none other than the decision statement read to Wang Ruoshui by the leadership of RENMIN RIBAO and party organization on 28 August last year. The text of Wang's defense consists of over 10,000 characters. There are six

appendices: 1) Memorandum on humanism and alienation; 2) My Defense (Wang Ruoshui, 21 March 1983); 3) Wang Ruoshui's two speeches on party rectification (one delivered at an enlarged meeting of the editorial committee on 13 Jan 1984, the other on 28 February 1984); 4) The JINGBAO affair and my understanding (Comrade Wang Ruoshui's speech on 13 July 1984); 5) Concerning My Statements on Public Affairs in recent years (August-September 1984); and 6) Reply to QING-KUANG TONGBAO, Theoretical Department, REN-MIN RIBAO.

The document consists of 7 sections and runs to about 70,000 characters in all. It includes his speeches in 1983 and 1984 as well as the defense he wrote after the CDIC decided to remove his name from the party rolls when it failed to "persuade" him to leave the party. Its subject matter actually goes back to the difference of opinion before and after the "ideological guideline symposium" in 1979-80 and the ideological flip-flops of Hu Qiaomu [5170 0829 2606], the CPC's theoretical authority. Reading it, one gets the feeling that much water has flowed under the bridge. In terms of time, however, it has been only a short 7 to 9 years. In those years, the Chinese Communists said, "Practice is the sole criterion of testing truth." Different fortunes have befallen the "four daring generals," Li Honglin [2621 3163 2651], Guo Loji [6753 5012 1015], Yan Jiaqi [0917 1367 0366], and Su Shaozhi [5685 4801 2535]—demotion, dismissal, or banishment to the outlying areas. Some may be in a leadership position, but constantly face the danger of losing their jobs. Such are the vicissitudes of life under Chinese Communism.

#### The Hypocritical Image of the "Chameleon Scholar"

In his lengthy 70,000-character defense, Wang Ruoshui does more than answer false charges and defend himself. He also refutes the CDIC's "illegal handling decision," citing facts (articles, records of statements,) quoting copiously from many sources, and writing in a sharp polemic style. With his powerful writing and clear thinking, he appeals to reason to demonstrate that the decision is illegal and therefore violates the CPC's constitution. However, what makes the document a real eye-opener and revelation to the majority of outsiders and the uninitiated is that it clearly exposes the image of the "chameleon scholar," Hu Qiaomu [5170 0829 2606]. Since 1978, Hu Qiaomu has been at times "enlightened," at times "leftist," now smiling, now glaring. Sometimes he talked about ideological liberation in the vein of Wang Ruoshui and Zhou Yang [0719 2254] (who too was dealt a blow by the "left king" over the alienation issue. He is still in Beijing Hospital today, barely clinging to life.) Sometimes he turned against them and attacked them violently. It is this hypocrite, given to playing tricks, who has been stirring up trouble for years in China's theoretical and cultural circles. Many people have an aversion to the "left king," Deng Liqun [6772 0500 5028] who, with his murderous looks, was at the forefront of the anti-spiritual pollution campaign and

anti-bourgeois liberalization movement, and even blame him for all kinds of personal attacks in China's literary and theoretical communities. Actually this is a mistaken perception. To be sure, since 1978 Deng Liqun has been leading the assault on enlightened intellectuals, unleashing all his ferocity. However, pulling strings behind him and controlling the whole situation was Hu Qiaomu, the soul of the "left kings." This argument has a basis in facts.

The handling decision of the CPC CDIC sums up Wang Ruoshui's mistakes as six: 1) issues related to the Cultural Revolution; 2) problems related to "Opposition to Upholding the Four Cardinal Principles;" 3) repeatedly publishing articles and making speeches to oppose the four cardinal principles and preaching bourgeois liberalization; 4) problems related to the JINGBAO affair; 5) propagating "alienation" and humanism; and 6) problems related to theoretical propaganda work. In almost every instance, Wang Ruoshui is shown to have offended Hu Qiaomu. Hu Qiaomu has a way of saying one thing and meaning another, but Wang Ruoshui took him at his word and suffered terribly for it. Strictly speaking, what happened was that the party's "resident scholar," once Mao Zedong's secretary, duped Wang Ruoshui, a big-hearted man, with his double-dealing so that the latter was ensnared without evening knowing it. Come to think of it, Hu Qiaomu's seductive "please step into the vat" ruse was certainly the best he has gotten from Mao Zedong. Hu Qiaomu played tricks over the issues of humanism and alienation, first "supporting" Wang Ruoshui's position, then reversing the verdict, turning hostile, attacking him ruthlessly from the high plane of principle and two-line struggle, and finally destroying him totally. Of the six mistakes which he and Deng Liqun accuse Wang Ruoshui of having committed in the latter's public statements, almost none was not directly related to Hu Qiaomu himself. It can thus be seen that the CPC CDIC based itself on nothing more than Hu Qiaomu's and Deng Liqun's words in order to get rid of a dissident and punish one as a warning to a hundred.

However, what Hu Qiaomu failed to anticipate was that Wang Ruoshui, who never flinches in the face of wrong, would pen a 70,000-character defense. In his "Comments," Wang Ruoshui demonstrated at the very beginning that the CDIC's decision itself "violates the party constitution."

#### Central Discipline Inspection Commission Tramples Upon Party Constitution

As its name suggests, the CDIC should be an organ specifically created to uphold party rules and regulations and crack down on any behavior that violates party discipline. Such an organ should first and foremost ensure that it always acts in accordance with the party constitution scrupulously and not tolerate one iota of indiscretion. Yet the ridiculous and tragic thing is that in handling Wang Ruoshui, Wu Zuguang [0702 4371 0342], and others, the CDIC did not act in accordance

with the party constitution at all. Wang Ruoshui quoted Article 9 of the CPC Constitution to show that the CDIC itself has violated constitutional provisions. According to Article 9, "before a party member is advised to withdraw from the party, the general membership meeting of the party branch shall discuss and decide on it." "If the party member advised to withdraw firmly refuses to do so, the case shall be considered by the general membership meeting of the party branch which shall then decide whether to allow him to correct his mistakes by a specified date or to remove his name from the party rolls." The CPC Constitution does not authorize the CDIC to directly advise a party member to withdraw from the party. Obviously the CDIC, whose first secretary is Chen Yun [7115 0061], has taken the lead in destroying party discipline, disregarding the constitution as a mere scrap of paper, and willfully trampling on members' rights, thus putting "power above the law." In reality, high-ranking members of the CDIC knew only too well that if Wang Ruoshui's case was forwarded to RENMIN RIBAO's primary party organization, there was absolutely no way he would be urged to quit and have his name deleted from the party rolls. And even if the case was submitted to the newspaper's higher level, the party organization of the Central Propaganda Department, the latter might not necessarily have decided to urge him to leave if he refused to do so. Desperate to get rid of this dissident theoretician and hell bent on having their own way, CDIC members moved recklessly with no consideration for the constitutionality of their actions.

#### Using Mean Tricks To Bring Up Old Cultural Revolution Scores

Everybody should know fairly well what happened during the Cultural Revolution. Back then, the "proletarian command," whose core consisted of Mao Zedong, Lin Biao, Kang Sheng [1660 3932], and Jiang Qing, "mobilized the masses" everywhere, acting in the name of the "highest orders." The campaign came with such ferocity that many intellectuals who were deeply attached to the revolution and anxious to follow the "red command" closely were swept into it and hoodwinked into criticizing a large number of Mao Zedong's political foes including Liu Shaoqi, Peng Dehuai [1756 1795 2037], Wu Han [0702 2498], and Deng Tuo [6772 2148]. People still remember clearly that even the irredeemably wicked ringleaders of the Lin Biao and Jiang Qing counter-revolutionary clique stopped short of using capital punishment and some "key members of the Cultural Revolution" even began acting as protectors secretly. To attack and persecute a man of vision like Wang Ruoshui, however, the grand old men on the CDIC did not hesitate to dust off his so-called "political mistakes" of yesteryear in order to punish him—"actively exposing the 'conspiracy' by Liu Shaoqi and other central leading comrades to 'promote the revisionist line' in opposition to Mao Zedong's instructions," and "publishing articles in RENMIN RIBAO in which he accused Comrade Wu Han of representing the bourgeoisie and feudal classes in

their struggle against the proletariat in his book, 'The Dismissal of Hai Rui.'" During the Cultural Revolution, particularly in the early part of the movement, most naive intellectuals were convinced that Mao Zedong was "leading a political struggle against or to avoid revisionism." Countless people also blindly followed suit, writing big-character posters, making speeches, declaring their positions, taking to the street, and "hailing the highest orders." How many of them were later declared to have committed "political mistakes?" Wang Ruoshui was neither a rebel leader nor a henchman of Yao Wenyuan [1202 2429 0337]. Is it not too absurd, too unscrupulous to advise him to quit and remove his name from the party rolls on account of this? As for the ilk of Deng Liqun using Wang Ruoshui's former wife, Zhong Dan [6981 0030], now with Changcheng Film Studio, to accuse him of "instigating her to rise up against the leadership" by making public the couple's correspondence 21 years ago, that is even more ludicrous. Actually, had Zhong Dan been used to attack Wang Ruoshui that had been widely known among insiders for a long time. It was simply too mean of little Deng to use or manipulate Wang Ruoshui's estranged former wife in order to brand him a rebel or even rebel leader.

As an outsider (someone who is not the attacker, the attacked, or a close friend of the attacked), I think in all fairness that the string of problems related to Wang Ruoshui's public statements which the CDIC cited in its "handling decision" as serious political mistakes are almost entirely matters of academic interpretation. Not only are they not anti-Marxism, anti-socialism, or anti-CPC leadership, but they actually advocate and elaborate Marxist principles. As to whether Wang Ruoshui's ideas are consistent with Mao Zedong Thought, I think that would depend on how you define Mao Zedong Thought.

#### Might Makes Right

We probably remember that the "great red flag of Mao Zedong Thought" "held aloft" by Jiang Qing and Lin Biao during the Cultural Revolution was different, in "edition" and annotations, from the "Mao Zedong Thought" subsequently upheld by Ye Jianying and Hua Guofeng. After the fall of the "two whatevers," the "Mao Zedong Thought" revered by Deng Xiaoping and Chen Yun as "guiding thought" was in turn different from the "Mao Zedong Thought" promoted by the "wise leader" to whom Mao Zedong once said, "With you in charge, I am at ease." Thus the "Mao Zedong Thought" Hu Qiaomu and Deng Liqun talked about (the same "Mao Zedong Thought" mentioned in the CDIC document) was most certainly different from the "Mao Zedong Thought" referred to by Wang Ruoshui. This is precisely why Wang Ruoshui was not sincerely convinced when Hu Qiaomu and Deng Liqun accused him of "opposing Mao Zedong Thought." It so happened that neither the CPC constitution nor any statute defines "Mao Zedong Thought" in no uncertain terms. The result: might

makes right; whoever has power can remove from the party rolls the names of those who insist on their views by the stroke of a pen. Case closed.

What does this simple and obvious fact tell us? Simply, 1) There is only ironclad discipline inside the CPC: "the lower level obeys the higher level, the whole party obeys the Central Committee." There is no ideological democracy, let alone academic freedom in any sphere. 2) There are so-called ideological prisoners in the CPC. The party can punish, or at least impose party law on, the advocate or propagator of "heresy" who firmly refuses to correct his mistakes. 3) When a conflict heats up, there is simply no freedom of public debate within the CPC. What it does have are exposers, critics, and profound self-critics, that is, attackers brandishing a big stick and people who concede defeat after they have been attacked or as they are about to be attacked. Never has there been the practice of engaging in a dialogue or debate on an equal level with people holding different opinions. Clearly this is the reason why everybody struggles to be a powerholder at the center and the master of Zhongnanhai. In ancient times, those who usurped state power became high officials, while those who stole hooks were executed. Under the feudal system, he who succeeded in seizing power became king, while he who lost was called a bandit. Such has remained the true standard among Chinese Communists even today.

Wang Ruoshui is an intellectual and a theoretician given to independent thinking. Since he cannot make it to Zhongnanhai but still insists on his own viewpoints and steadfastly defends his deeply held truth, he inevitably becomes the target of "leftist" criticism. Other than the dock, where else can he be?

Now, with tears in my eyes, let me say something funny. The tragedy in the mainland's ideological and cultural circles in 1987, such as the expulsion of Fang Lizhi [2455 0536 0039] and Liu Binyan [0491 6333 7159], the urging of Wu Zuguang to leave the party, the removal of Wang Ruoshui from the party, the dismissal of Su Shaozhi (stripped of all party responsibilities)—all this was a reminder to the people that the destiny that befell Galileo and Bruno has not come to an end in China. The spirit of the Inquisition of the Middle Ages is lingering and hovering over China all the time.

#### **The Charge Is Grave, But the Data Is Meager**

Of course, what this article has done in the preceding paragraphs is to analyze and examine an issue from a macro perspective. If we come down to details like Hu Qiaomu and Deng Liqun, we can scrutinize from a micro and specific angle the tactics they employed to attack their old adversary, Zhou Yang, and their archenemy, Wang Ruoshui.

The CPC CDIC pointed out that Wang Ruoshui "repeatedly wrote articles and made speeches opposing the four cardinal principles and advocating bourgeois liberalization." But what the CDIC failed to do was to analyze the theory and political viewpoint. All accusations and verifications were simply the work of Hu Qiaomu's hand and mind. (Naturally, we do not rule out the part played by the "group of scholars" under Hu Qiaomu's and Deng Liqun's banner.) As Wang Ruoshui said in his defense, "The charge was a grave one, but scanty evidence was cited to support it. It only quoted two statements by me, namely 'making adherence to the four cardinal principles a prerequisite would impede the free exploration of truth by the people' and 'it is fundamentally wrong to implement the double-hundred principle on condition that the four cardinal principles be followed.'" Wang Ruoshui explained that back in 1984, he "wrote 'About My Opinions on Public Affairs in Recent Years' which summarized Comrades Hu Qiaomu and Deng Liqun's criticisms of me into eight points (excluding humanism and alienation) and responded to them one by one, including this issue raised in the 'decision.'" Concerning the "prerequisite," Wang Ruoshui's original words were, "Ideological liberation means liberating our ideas from the straitjacket, taboos, and shackles that have hamstrung our understanding so that we can get to understand the truth freely and independently. The purpose of ideological liberation is to understand the truth. And the criterion of truth is practice. As long as we stress this point, we need not worry that ideological liberation will go awry." At the time, Wang Ruoshui also said loud and clear, "Marxism does not fetter ideas. Instead it liberates them. Marxism itself is the product of ideological liberation."

Subsequently Wang Ruoshui made this profound and pithy point in his collected works, "In Defense of Humanism," "In short, ideological liberation and upholding Marxism are entirely consistent with each other. It is not so much that upholding Marxism is a prerequisite for ideological liberation as that ideological liberation is what Marxism itself demands. To uphold Marxism, we must further Marxism. And to further Marxism, we must liberate our ideology. Otherwise, to uphold Marxism would become upholding dogmatism. Provided we correctly understand ideological liberation and Marxism, upholding Marxism would not restrict ideological liberation. Nor would ideological liberation result in the rejection of Marxism." What a penetrating passage. Not only does it breathe new meaning and new life into Marxism, but it also admonishes those bent on turning Marxism into a dogma that Marxism can be passed on from generation to generation only under the banner of ideological liberation. Since Mao Zedong put forward the "six political standards" in 1957 as a prerequisite for and to limit the "double-hundred principle," (that is, "let a hundred flowers blossom and a hundred schools of thought contend,") the "double-hundred" proposition has come to be regarded as a perilous course, something that is unattainable. Like the carrot dangled in front of the animal pulling a cart, its

only purpose is to make people keep on pursuing it. Wang Ruoshui's argument is actually a major critique of Mao Zedong's interpretation of the "double-hundred principle." It shows that while Mao Zedong was talking about a political strategy, Wang Ruoshui was dealing with the truth.

However, the bunch of people like Hu Qiaomu and Deng Liqun who quote Marxism like an incantation all consider Wang Ruoshui's ground-breaking thesis a "political mistake" and slap on him the political charge of "refusing to make the four cardinal principles the prerequisite for ideological liberation." In China, almost everybody knows that the "four cardinal principles" are a key condition proposed by Master Deng as a curb on everything, an untouchable "sacred cow." Yet Wang Ruoshui had the impudence to slight it, provoking the power that be. Wasn't that a heinous crime? Actually these people have been more than tolerant in "advising him to leave the party."

#### **There Has Never Been any Debate on an Equal Plane**

To sum up, there have never been any debates inside the CPC. Nor does the CPC admit that debates between party members on intellectual issues are both beneficial and normal. Let's say Mao Zedong was a person of learning. Did he ever put Guo Moruo [6753 3106 5387], Jian Baizan [5054 0130 6363], and Wu Han on an equal level? Isn't it true that even old Guo, a master when it comes to flattering the supreme leader, was not spared by Mao Zedong who angrily denounced his work "Statement of Ten Criticisms" as "not a good article?" The "Biography of Zhu Yuanzhang" got Wu Han into trouble and "The Dismissal of Hai Rui" and "Hai Rui Chides the Emperor" cost him his life. Isn't this scholar's tragedy known to all? Who can quote a single incident to prove that genuine academic discourse of an equal, comradely nature exists within the CPC?

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#### **Magazine Conducts Survey on Attitudes Toward Political Reform**

40050159 Beijing LIAOWANG [OUTLOOK] in Chinese No 10, 7 Mar 88 pp 8-11

[Article by Zhuang Yan [8369 0917] and Wu Ming [0702 2494]: "Political Structural Reform Greeted With Mixture of Joy and Anxiety"]

[Text] This magazine published a social opinion survey questionnaire in issue 45 in November 1987 and has since received 5,500 completed returns from readers everywhere. Based on regional and population distribution, our scientific sampling yielded 1,000 valid responses, which were then fed into a computer at the Scientific and Technological Promotion Research Center. The

result is a host of data, which we will analyze and make public for readers' reference. What we are publishing now is an analysis by our reporters of a portion of the data.

An analysis of the 1,000 completed questionnaires points up profound changes in the Chinese people's social political psychology after 9 years of reform. These changes will manifest themselves sharply in the nation's political structural reform.

#### **Psychological Keynote: "Half Joyful, Half Anxious"**

In response to the question "What have been your feelings after the 13th Party Congress?" 45.2 percent of CPC members, 43.5 percent of CYL members, 30 percent of the members of democratic parties, and 48.5 percent of non-party personages answered, "Half joyful, half anxious." This response was the most popular in all categories of respondents.

Some people might be more joyful than anxious, others more anxious than joyful. In any case, "half joyful, half anxious" has clearly become the dominant theme in the social psyche.

To say that the social psychology is "a mixture of joy and anxiety" may be a little depressing, but it is the sign of a sobering, maturing people.

The theory of the initial stage of socialism put forward at the 13th Party Congress is a historic signpost in Chinese reform. People can now see where they are and feel the responsibility on their shoulders. That they feel "half joyful, half anxious" signifies their approval of the CPC Central Committee's clear-headed recognition of the realities facing the nation as well as a widespread complex feeling that their burden is heavy and the road is long.

"Half joyful, half anxious" also shows that public understanding of reform has grown. The survey demonstrates that political structural reform is the focal point of social concern right now. Political structural reform was cited as their top concern by 49.8 percent of the respondents, far more than that for the six other choices. The political structural reform plan proposed by the 13th Party Congress was considered satisfactory by 82.7 percent of the people. However, when asked to assess the prospects for political structural reform, 38 percent were either not optimistic or "not sure."

That a large group of people take a cautious attitude toward the success of reform even as they approve of the reform plan can only be described as a product of the "half joyful, half anxious" psychology. The political reform plan proposed by the CPC Central Committee embodies the wishes and demands of the masses and therefore enjoys widespread public support. However, having experienced economic structural reform over

these several years, many people have come to understand the difficulty and complexity of reform better; no longer do they equate wishes with reality. Instead, they judge the results of reform from the perspective of realistic possibility. Political reform cannot be smooth sailing but must overcome hurdle after hurdle and much resistance. Comrade Deng Xiaoping, for instance, once said, "Political structural reform is very complicated and far-reaching and involves too many people and things. We must proceed very carefully." "Half joyful, half anxious" is an affirmation by the public of CPC Central Committee's political reform plan, on the one hand, and shows that the people are only too aware of the difficulties and resistance that reform will encounter, on the other. Even people who are optimistic about the prospects for reform appreciate the difficulty of reform. The difference is that some people stress the favorable factors, others the unfavorable ones.

While the "half joyful, half anxious" psychology does not exclude an element of pessimism, it should be more psychologically resilient than unrealistic optimism.

"Half joyful, half anxious" also shows that some people are skeptical about the reform of the cadre personnel system. According to the survey, 33.1 percent of the respondents did not understand the civil service system, 39.3 percent had no confidence in the implementation of this system, and 36.3 percent believed that the cadre performance assessment system "would not yield notable results."

The reform of the cadre personnel system will directly affect every individual's personal interests. Each specific reform measure may change some vested interests and hence some people's material interests and social status. Because of their lack of understanding of the new system and the powerful inertia of the old system, a significant portion of people have misgivings about and lack confidence in the reform of the cadre personnel system, which is understandable. This also serves as a reminder to the authorities concerned to step up propaganda and education, on the one hand, and be extremely careful as they go about reforming the system, on the other. The interests of every segment and every group of individuals should be taken into account as much as possible in order to minimize the resultant repercussions, avoid a sharpening of conflicts, and help people successfully make the transition from the old system to the new.

#### **The Tendency To "Individualize" Assessment of Reform**

One word has puzzled every one of us. For a long time, people did not know what to make of it. Neither upgrading nor downgrading it seemed appropriate.

The word is "private."

During the Cultural Revolution, people turned pale at the mention of "private." In recent years, legitimate "private interests" have come under the protection of the law. No longer is it a shameful thing to be concerned about and to look out for one's own legitimate interests.

In the survey, 12.5 percent of the respondents chose "practical effects on personal life" as the thing that concerned them most after the 13th Party Congress. In economic structural reform, for instance, people pay close attention to price, wage, and housing reforms precisely because these things directly impact everybody's material life. In political structural reform, public concern with personal interests manifests itself in the realization of individual value. Asked "what are your criteria in determining whether a new reform measure is good or bad?" 37.5 percent chose "whether or not it can bring out a person's abilities" as their sole yardstick. Among people under 30 years of age, over 45 percent made this selection.

We can thus see that the "individual" is becoming more important in the public mind, particularly among young people. Many people are looking for an approach to life that can both bring out an individual's talents and create wealth for society, that offers a rich material life as well as a rich spiritual life. To a certain extent, this desire conforms to the trend of reform. However, it should be seen that an overemphasis on personal interests and wishes and short-term objectives may not prepare us adequately psychologically and may even give way to complaints and doubts when, in the course of reform, we need to make temporary sacrifices for the sake of long-term interests and the good of society at large. We should pay attention to this.

#### **Party Gap and Generation Gap**

From an analysis of the survey questionnaires, we learned there was little difference in the psychological response to the 13th Party Congress and political structural reform among CPC members, CYL members, members of democratic parties, and non-party persons. This shows that the political reform plan and other reform measures put forward by the CPC Central Committee are consistent with the aspirations and wishes of the entire Chinese people, including people in democratic parties. On the other hand, it also shows that in China, there are little differences in the political attitudes of people from different parties and different strata.

What should be noted, though, is the distinctive generation gap as far as political attitudes and political tendencies are concerned. The generation gap is wider than the party gap.

When people were asked what concerned them most about the 13th Party Congress, the generation gap took the form of differing degrees of intensity with which they displayed the tendency toward "individualization."

The 1,000 completed questionnaires were divided into four groups according to the respondents' age: under 30, 31-45, 46-60, and over 61. Among people under 30 and between 31 and 45 years of age, the three things about the 13th Party Congress that concerned them most were "political structural reform plan," "practical effects on personal life," and the "future of modernization," in that order. In the two other age groups, 46-60 and over 61, the three most popular choices were "political structural reform plan," "the future of modernization," and "personnel changes at the center," in that order.

"Practical effects on personal life" was the second biggest concern among young and middle-aged people but was only the fifth choice of those between 46 and 60 years old and was not picked by a single respondent in the over-61 group.

Why? As we see it, older people above 45 usually have established a career with a stable means of livelihood. Thus they tend less to think of the effects of political reform on personal life. Besides, they have personally experienced the basic differences between the old and new societies and many have even participated in the founding of the nation. Also, they have been educated by the party for years. As a result, they invariably put the interests of the party and the people at a very high level and are more concerned about the nation's future and destiny. Most young people, on the other hand, are still building up their careers and have not put down roots in terms of career or personal life. Reform will have a vital impact on their future and destiny. They will face many more choices. Naturally they are concerned about the practical effects of reform on personal life.

As far as attitudes toward political structural reform are concerned, the generation gap manifests itself as a difference in the levels of optimism.

It is noted that the older they are, the more highly people think of the political structural reform plan and the more optimistic they feel about the future. In contrast, the level of satisfaction is lower among young people, who also seem to be less confident about reform prospects. The generation gap is only too obvious if we compare two groups, those under 30 and those over 61.

Take a look at these two sets of numbers:

**Table 1. Attitudes Toward Implementation Of A Civil Service System (in percentage)**

	Understand	Do Not Understand	Confident	Not Confident
Under 30	65.0	35.0	63.1	36.9
Over 61	56.3	43.7	77.8	22.2

**Table 2. Attitudes Toward Implementation of Cadre Performance Assessment System (in percentage)**

	Will work	Will not work	Not sure
Under 30	53.9	25	21.1
Over 61	83.3	0	16.7

The above data show that while they did not understand the civil service system, a sizeable number of elderly people still expressed confidence in it. Not a single individual in the over-61 group said that the cadre performance assessment system "will not work." This proves that the older generation still has unwavering confidence in the CPC Central Committee. Much less confidence can be found among the younger people, who display a higher anxiety level because they will be more intimately affected by actual political reform measures.

The generation gap is epitomized by the difference in the psychological tolerance of reform.

We believe there are two kinds of psychological tolerance of reform. One consists of psychological attributes well suited to reform, such as competitiveness, venturesomeness, and a pioneering enterprising spirit. The other consists of patience and a spirit of sacrifice and expectations of social stability born of a sincere sense of trust and sense of responsibility. These two kinds of tolerance are special to the younger generation and older generation, respectively. Needless to say, this is only a generalization.

**Table 3. Criterion For Choosing A Job (in percentage)**

Criterion	Under 30	31-45	45-60
Good pay	35.4	32.0	15.6
Social stability	29.8	34.3	53.1

**Table 4. Criterion For Deciding Whether Or Not A Reform Measure Is Good**

Criterion	Under 30	31-45	46-60	over 61
Will it help promote productive forces?	37.1	46.9	63.3	68.4
Will it bring out a person's abilities?	45.1	40.0	20.6	15.8

We can see that because of age differences, there is a tendency among people to choose a particular criterion in rising or falling numbers, forming what looks like two corresponding triangles. Yet they are also supplementary and in harmony with each other. Together they constitute a complete social psychological profile.

Generally speaking, we can divide members of society into two supplementary groups, the cut-off point being 45 years of age. Those under 45 often serve as a driving force for social development and change. They are active, dynamic, not averse to risk-taking, and are more interested in being pioneers and forging ahead. Those

over 45 are the ones who maintain social stability. Presently the mainstay in various social sectors, they are pivotal to determining China's development direction even as they exercise a balancing and stabilizing influence on reform in all areas. The two social forces condition each other, influencing growth and decline. They are a prerequisite for reform amid social stability and unity. Policy-makers should take into consideration the different interests and demands of both social groups, prevent conflicts from worsening, and mobilize the positive attributes of each group so that society can make steady progress propelled by both forces.

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### Citizen Participation Deemed Necessary for Political Openness

#### Foreign Countries Cited

40050160 Shanghai SHIJIE JINGJI DAobao  
[WORLD ECONOMIC HERALD] in Chinese  
7 Mar 88 p 3

[Article by Sun Liangsheng [1327 5328 0524]: "Political Openness and Sitting In On NPC Meetings"]

[Text] Political openness is the product of a modern commodity economy and the trend in contemporary world politics. Article 2 of the "sunshine law" of the U.S. stipulates that the "the public is entitled to the fullest usable information in the policy-making process of the federal government. The purpose of this law is to provide the public with this kind of information and protect the individual's various rights and the government's ability to fulfill its responsibilities."

Political openness means "allowing the people to know important events and discuss major issues." Making legislative activities public is the foremost aspect of political openness.

Based on practices in various nations, making legislative activities (in the form of meetings) public (open) usually takes three forms: 1) Opening meetings to the public. The time, place, and subject must be announced, as must any changes thereof. 2) Proceedings of meetings must be made public, including the different viewpoints of people representing different interests. 3) Meeting results should be made public. Laws and resolutions passed at a meeting must be announced. The establishment of a system in which citizens sit in on National People's Congress meetings is the best way to introduce openness into legislative activities.

In its broad sense, citizen participation means discussing, participating in, and supervising politics as well as sitting in on NPC meetings and being informed about politics. Citizen participation is both a political system and a citizen's political right.

#### Reasons Enumerated

40050160 Shanghai SHIJIE JINGJI DAobao  
[WORLD ECONOMIC HERALD] in Chinese  
7 Mar 88 p 3

[Article by Sun Chao [1327 3390]: "Justification for Public Participation in NPC Meetings"]

[Text] I believe a system in which citizens sit in on NPC meetings can be justified as follows: 1) The logical premise of a representative system is that everybody is entitled to participate in and discuss politics. Public participation in NPC meetings can shorten to a minimum the distance between the deputy and the people in terms of space and time. 2) Honesty in the performance of official duties. What makes government highly efficient is popular supervision. Public participation provides the conditions for popular supervision and helps raise work quality and promote efficiency throughout the entire government machinery. 3) By improving citizen understanding of the national policy-making process and influencing policy-making through the news media, public participation can promote two-way feedback between policy-making and implementation, thereby reducing the number of mistakes in the policy-making process and making policies more socially informed. This will be a "boost" for reform. 4) The citizen sitting in on NPC meetings can come to understand the legislative intent and legislative techniques better. As a result, he will more readily accept the norms of the law, thus shortening the internalization of external norms. That way the establishment of a legal climate and legal mentality suited to the needs of modernization will be accelerated.

Public participation can be divided into two kinds: on-site participation and participation through the news media. With on-site participation, a citizen has the right to sit in on all formal meetings of the NPC and its Standing Committee, with the exception of confidential meetings. Accordingly, we need to draw up rules, procedures, and regulations to govern such participation. Public galleries should be built in buildings where the NPC and its Standing Committee meet. In addition, resolutions to be considered by the NPC and the committee should be publicly announced before the meeting. Public participation in the NPC should be facilitated. In light of the conditions in China today, participation through the news media should be implemented first.

#### Lenin's Views Cited

40050160 Shanghai SHIJIE JINGJI DAobao  
[WORLD ECONOMIC HERALD] in Chinese  
7 Mar 88 p 3

[Article by Yu Zhongmin [6735 1813 3046]: "Public Participation Is An Important Part Of Democratic Politics"]

[Text] Lenin once said, "Extensive democracy must satisfy two conditions, that it be totally open and that all offices be elected. It is ridiculous to talk about democracy when there is no openness." The current proposal to

open up the NPC by allowing the public to directly know what is going on there through the news media such as TV and radio and increasing its political visibility in effect constitutes a good method of achieving openness in politics and in the legal system. Like the live broadcast of the proceedings of the NPC as it deliberated the Bankruptcy Law, which enabled many citizens to gain a full and detailed understanding of the substance of that piece of legislation, citizen participation in NPC will enable people to master a good deal of legal knowledge. It can be regarded as an effective tool of popularizing the law.

#### **Writer Proposes Contents of Law**

40050160 Shanghai SHIJIE JINGJI DAobao  
[WORLD ECONOMIC HERALD] in Chinese  
7 Mar 88 p 3

[Article by Yu Feng [0205 1496]: "Detailed Regulations For Public Participation in the NPC Should Be Formulated Without Delay"]

[Text] The establishment of a system allowing citizens to sit in on NPC meetings signals a major breakthrough in China's political structural reform. At the same time, it gives the legal community a new task. The law should safeguard the implementation and perfection of public participation in NPC.

Public participation in NPC meetings is a major political system in China. We need to insert new relevant provisions into the "constitution" to establish its legal status. Also, the NPC should enlist experts to draw up detailed implementation regulations without delay, ideally "at the same time as the system itself is unveiled." In this writer's opinion, "Detailed Implementation Regulations for Public Participation in NPC" should include the following: 1) The objectives and content of the system; 2) The core of the system—the rights and obligations of people sitting in on NPC meetings; 3) the creation and revocation of the right to sit in on NPC meetings; 4) the scope and duration of the right to sit in on NPC meetings; 5) number of such participants in the people's congress at each level and methods of allocation; 6) fees payable by a citizen sitting in on NPC meetings.

#### **Public Participation Deemed Indispensable**

40050160 Shanghai SHIJIE JINGJI DAobao  
[WORLD ECONOMIC HERALD] in Chinese  
7 Mar 88 p 3

[Article by Kong Lin [1313 2651]: "The Institutionalization Of Democratic Rights"]

[Text] The Chinese constitution stipulates that "all power of the PRC belongs to the people." This suggests that popular sovereignty should be a fundamental reality

and legal principle in a socialist system. Legally, however, it remains a generalized abstract principle. Abstract authority needs to be converted into well-defined, practical, and tangible power before it is actualized. It is through the exercise of a variety of concrete rights and functions that the people realize their control over state power. And public participation in the NPC is an indispensable means whereby the people can take part in politics and exercise state power.

China's NPC follows a part-time deputy system. When the NPC is in session, elected deputies exercise the power entrusted to them by voters. When the NPC is in recess, the deputies return to their own jobs in their original units. On this basis, many textbooks conclude that part-time deputies are superior to full time "parliamentarians" because the former live among the voters ordinarily, who thus find it easier to supervise them. The reality, however, is quite different. So-called supervision should mean the monitoring of deputies as they discharge legally prescribed obligations and engage in political activities when the NPC is in session. However, it is difficult for most voters to find out the details and proceedings of a NPC meeting, not to mention the actual performance of their deputy, because little has been done to make these things known to the public. Under these circumstances, voters are not in any position to exercise their right to supervise their deputies. Thus public attendance at NPC meetings would help the supervisory system work properly. Clearly only genuine supervision can give rise to selection and elimination. To improve deputies' political quality, the selection of the good and the elimination of the bad is just as applicable in the nation's political life.

Public participation in the NPC is a way of opening up and democratizing politics. For the masses, it is a democratic right. The key is to institutionalize it. The actualization of a right consists of implementation as well as establishment. Democratic rights must be examined in a legal sense, completely free from personal interference. The rule of law is what guarantees democratic rights because it is uniquely enforceable, a hard restraining mechanism in contrast to personal character, which is a soft restraining mechanism. History proves that to rely on soft restraining mechanisms to maintain the political and economic relations of a state will inevitably invite disaster. Any measures to open up and democratize politics clearly cannot be protected by soft restraints, only hard mechanisms. In other words, the rule of man should be replaced by the rule of law.

## NATIONAL AFFAIRS, POLICY

### Residents' Consumption Selection, Growth of National Economy

40060205 Beijing JINGJI YANJIU in Chinese No 1,  
20 Jan 88, pp 26-42

[Article by Residents' Behavior Group, Economics Institute, Academy of Social Sciences of China: "The Consumption Choices of Residents and the Development of the National Economy"]

[Text] 1. In recent years the short-term undulations of the national economy have pushed to the forefront the theoretical discussions on the problem of deepening the reform. In particular, following the sharp increase in consumption demand and changes in the style of living, the residents' consumption choices have become a problem that cannot be evaded in the theoretical researches. This demands of us to renew from a larger historical span the examination of the changes that have developed in the consumption sector. This will help us to have a deeper understanding of the laws governing economic development and reform in our country.

2. This report is formed on the basis of a survey and separate special researches conducted on the consumption and savings habits and intent of some 10,459 household residents scattered throughout 29 provinces, municipalities and autonomous regions of the country. (This survey has received support and aid from the State Statistical Bureau's chief sampling and investigating team of cities, towns and rural villages, to whom we wish here to express our thanks. The objects covered in this survey included 6,132 urban resident households and 4,327 rural resident households. Of this 113 statistical targets were filled in by the urban residents in their reports and 118 statistical targets were filled in by the urban residents. Altogether about 1.2 million original or firsthand data were obtained. As to the various technical problems involved in the survey, they will be concretely explained in the reports.) The first part of the report reviewed the relations between the residents' consumption and the national economy and their changes before and after the reform; the second part analyzed the important deviations, and the causes for such deviations, appearing in the current residents' consumption selections; and the third part further pointed out a series of effects caused by these deviations on the development of the national economy and initially probed into the possible future developments.

#### Part 1. Evolutions in Consumption Pattern: Historical and Real

##### 1953-1978: Failure of Engel's Laws

3. From 1953 to 1978, our country's social gross output value and national income respectively increased by 626 percent and 353 percent. The ratio of the gross industrial output value in the social gross output value increased

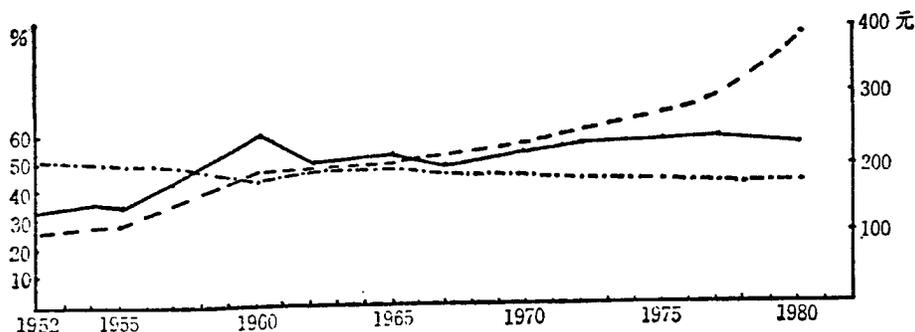
from 34.0 percent to 61.9 percent ("Statistical Year of China," 1978 to 1987 volumes, published by the China Statistical Publishing House) (Except the data obtained from our own sampling survey, the sources of all other data will be mentioned in the notes in this article). If the target in international general use is employed in the analysis, then in 1978, although the per capita GNP in our country was only \$205, the ratio of the manufacturing industry was as high as 31.44 percent, which, compared with the low-income countries with a per capita GNP of \$300, was higher by 13.14 percent and, compared with the medium developed countries with a per capita GNP of \$1,200, was still higher by 8.64 percent ("Counter-measures in Economic Structure," edited by Sun Xiangqing, China Social Sciences Publishing House, 1984 edition; "Industrial and Economic Statistical Materials of China," China Statistical Publishing House, 1985 edition; and Wang Weijiong and Yang Guanghuai: "Various Possible Selective Programs for Changes and Growth in China's Economic Structure," Qixiang Publishing House, 1984 edition). This shows that we have reached from an extremely low income level to an extremely high standard of industrialization.

Such a big contract cannot basically be maintained if not depended on pressing low the people's standard of living, or, to be exact, on separating the whole residents' consumption from the process of the country's industrialization. Thus, in our own economic annals, a frightening record is retained: during the prolonged 26 years' period from 1953 to 1978, the Engel's coefficient which is the most important target reflecting the resident's consumption level was all along actually stabilized at the 0.56-0.59 high level ("Statistical Yearbook of China," volumes 1978 to 1987, published by the China Statistical Publishing House). This forms an extremely strong contrast against the increase in the per capital national income and the rise in the ratio of industrial gross output value during the same period (see Diagram 1):

4. This phenomenon, or termed as failure of Engel's law, has practically no precedent in the economic growth of current world countries. Commenting on the statistical regression shown in the materials of 101 countries, H. Chenery expressed the opinion that the fall in Engel's coefficient in accompaniment with the rise in the per capita GNP (the related coefficient between the two reaches as high as 0.81) is a law universally applicable to the Soviet Union and the East European Socialist States (H. Chenery, M. Syrquin: "Development Models, 1950-1970," Oxford University Press, 1975 edition). For example, in the Soviet Union from 1940 to 1965, the per capita national income rose by 478 percent and simultaneously the Engel's coefficient dropped from 0.54 to 0.38 ("Sixty Years of Soviet Union's National Economy," Joint Publications, 1979 edition, p 460).

5. In a country of extremely undeveloped productive forces, to carry out the Soviet Union's type of development strategy laying the stress on heavy industry can make it practically certain that the development posture and the structural posture will become deformed. This

Diagram 1: China's Per Capita National Income, Ratio of Industrial Output value and Engel's Coefficient\*



———— Ratio of industrial gross output value in social gross output value

----- Per capita national income

-.-.-.-.Engel's coefficient

Sources: (1) Statistical Yearbook of China, volumes 1978 to 1987, published by the China Statistical Publishing House. (2) China Trade and Commodity Prices Statistical Materials, published by the China Statistical Publishing House, 1984 edition.

\*In the materials published up to now by the State Statistical Bureau, those pertaining to Engel's coefficient before 1980 lacked in continuity. To make up for this insufficiency, we have used the relative weight of food retail sales volume in the social commodity gross sales volume to replace the Engel's coefficients for the same period. Despite the meanings contained in them are not the same, the trend of changes is basically identical.

serves as an important guide that cannot be overlooked in comparing the economic disparity between our country and the Soviet Union and the East European countries.

Viewed from the failure of the Engel's coefficient, in order to truly separate consumption from the course of industrialization, a prolonged depressing of the prices of agricultural products as well as the salary and wage level of staff members and workers in cities and towns is obviously a necessary condition. Hence, it is also necessary to set up a complete system to restrict to an extremely great extent, or even to cancel, the freedom of choices of individual residents. And this is precisely the point which the Soviet Union and the East European countries, even during the zenith period of their power centralization, did not do, or even had any necessity to do. (Bruce pointed out that even under conditions of a high degree of power centralization there is no need to cancel the individual resident's freedom of choices, because this freedom, in ensuring the power centralization problem, is "an indispensable tool to suit the demand for consumer goods or the supply of labor force to the consumer goods production composition or employment composition fixed by the plan" (F. Bruce: "Operation Problems of a Socialist Economy," published by the China Social Sciences Publishing House, 1984 edition, p 92)).

Seen from the road we have trodden, the restrictions on the residents' freedom of choices mainly comprised the following:

(1) Banning the free movements of producers. This included banning people's freedom in choosing employment, in moving their residences and in changing their status (such as "changing from agricultural pursuits to non-agricultural pursuits) and so forth. At a time when such control reached its utmost point, even the practices of the peasants putting in a little more labor force in their self-retained pieces of land would be treated as "tails of capitalism" and be cut off. The economic significance of such control measures laid in that only when people had no way to increase their income except through selecting their employment would be possible to thoroughly implement the macroeconomic control of income, particularly for example the practice of, for a prolonged period of over 20 years (such as from 1957 to 1977), without increasing the salaries and wages of staff members and workers. Soviet Union's conditions proved this point from the converse side: during the initial part of the 1950's, after the Soviet Union fully relinquished the administrative control over the workers' selection of employment, the various enterprises competed with each other by paying high wages and offering high posts to attract good-quality workers and as a result the gross volume of salaries and wages frequently exceeded the central plan.

(2) Curtailing the consumers' freedom of making free choices. This was manifested mainly through such measures as rationing or use of coupons in the supply of various kinds of basic consumer goods. If it is said that restricting the increase in the income of consumers is only

through the indirect method of imposing affects on their consumption, then the practice of rationing is directly cancelling the consumer's qualifications of making free choices. In this context, shortage is not the only explanation for enforcing the supply coupon system. For example in the Soviet Union and the Eastern European states under the shortage pattern the supply coupon system is relatively speaking seldom resorted to. Rather, the consumers are allowed to queue up, or to await, or to probe for the supplies on their own accord. And at least what is positive is in the following sense: that on the one hand the states do not fully abolish the consumer's freedom of making choices, be it the choice freedom of queuing, waiting or probing on their own and on the other hand when queuing up and other forms have passed the conventional value, the macroeconomic policy-makers and the producers will be forced to make the necessary reaction (Kornai did at one time describe this phenomenon and termed it as a "fire extinguishing" mechanism (Janos Kornai, "Shortage Economics," Economics Science Publishing House, 1986 edition)). From this we can derive an enlightening revelation: that when residents enjoy a definite policy-making right, the interior of the power-centralization structure will inevitably generate a coordinating mechanism to fit in with this right or power in order to reduce the friction between macroeconomic policy-making and microeconomic policy-making and thereby, in a definite sense, play the role of rectifying the "discrepancy." This is probably an important cause of the traditional economic structure of the Soviet Union and the East European countries possessing a higher operating efficiency than our traditional economic structure and thereby enable consumption not being and not possibly being completely separated to outside the process of industrialization.

(3) Compensation of a welfare nature. Any type of curtailment of man's action cannot but incur the outlay of the cost of curtailment. Moreover, under ordinary conditions, the more rigid the curtailment, the greater the cost. Precisely because of this, a traditional structure, concurrently with restricting the movements of labor force and the consumer's freedom of making choices, practically resorts to employment of all-inclusive measures to give urban residents compensation of an all-round welfare nature—from low-price subsidies to free supplies and from employment protection to sickness, old-age and disability insurances and subsidies, and so forth. On the other hand, regarding rural residents which really cannot be included in the measures, easing of the contradictions is done through "organizing them" and instituting inside the collective bodies such egalitarian practices as "every body eating from the same big pot." It must be pointed out that under the conditions of the residents' exceedingly low monetary income and at the same time monetary outlay being subjected to strict administrative restrictions such welfare benefits of a non-monetary nature provided by the government not only can play the role of compensation but also in certain sense possess the character of "dimensional economics." Many domestic and foreign scholars, when making international comparisons, have found that such important

criteria as our residents' rate of literacy, rate of employment and nourishment level and average life expectancy all far surpass those in typical low-income states and in certain respects even reach or surpass the level in medium-grade developed countries. This is indeed a forceful testimony. (Hui Jiong (3769 1979 3518) and Yang Guanghui (2799 0342 6540): "Consumption Structure," Qixiang Publishing House, 1984 edition) ("Problem of Prosperity and Non-Prosperity in Political Economics," edited by Charles K. Wells, Social Sciences Publishing House of China, 1984 edition) Nevertheless, once administrative restriction on monetary outlay is lifted, and thereby money in the hands of the residents is made to really possess the character of money, the continued existence of non-monetary welfare will pose big erroneous effects on the resident's conduct and thus become a big impediment to economic development.

6. In short, this procedure of taking the restrictions of residents' freedom of choice as the basis of the system and of separating residents' consumption to outside the course of industrialization reflects the great special characteristic of our country's traditional structure and was also a side supporting point of the basis of stressing the development of heavy industry and as a result was the cause for the loss of effectiveness of Engel's law. More importantly, once this procedure has become a regular rule and gained a place in the economic operational system, it will, according to its own logic, continue the deduction, that is, first of all twisting society's demand structure, and rendering the ratio of the resident's consumption in the utilization volume of the national income tend to be low and the social consumption ratio and accumulation rate tend to be high; subsequently this will disturb society's industrial structure, lead to an over-stress on heavy industry, an over-negligence of agriculture and light industry, a serious deterioration in interior liaison between the industries, and so forth; and finally, after formation of such a supply and demand pattern, the relations between consumption and accumulation or between consumption and industrialization will be manifested in an entirely inverted manner. Using a theoretical model to carry out a simulated test and thus making an estimate we have found the results as follows: under the conditions at that time, increasing each yuan in consumption fund required an additional investment of 1.7 yuan in fixed assets of a productive nature whereas increasing each yuan in accumulation required only an additional investment of 0.8 yuan in fixed assets of a productive nature. Obviously, such a comparison of production cost and benefits is detrimental to the growth of the consumption fund and will force people to repeatedly emphasize the logic which they set at the beginning, that is, pushing to the extreme the measure of separating consumption to outside the process of industrialization; at the same time any action in violation of this logic cannot but pay an extremely high social production cost price (such as the great readjustment made in the 1960's). Hence, seen from its nature, readjustment of an ordinary or regular type cannot solve these problems. Reform offers the only fundamental way out.

After 1979: from quantitative expansion to qualitative filling up.

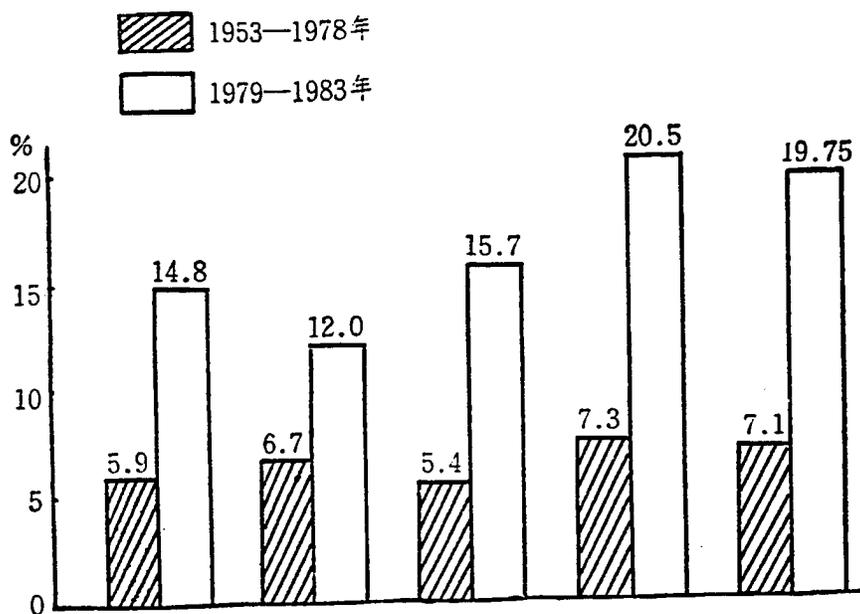
7. Reform and affirming anew the residents' selection right. From promotion in the rural areas of the system of assigning responsibilities on the household basis with payment linked to output to enforcement of urban reform toward expanding enterprises' power, from allowing the coexistence of diversified forms of economic elements to initial reform of the wage and employment systems, and from readjusting commodity prices to abolishing supply coupons and opening up the markets, nearly all the reform measures aiming at arousing the enthusiasm of the production departments are intended to directly or indirectly extend the residents' right and power in autonomous decision-making. It is precisely in this background that our country's residents' motivation of increasing their own income has found a way out to realization and the rise in their income level has become a considerably independent self-realized change in economic development. (Despite all this, there are still a number of problems; in particular in the urban areas, the residents' right to select employment still suffers from restrictive conditions and their income expansion is more often brought about through such irrational forms as the enterprises' budgets being too weak in their restrictions.) More importantly, the autonomous right of the residents in consumption spending has continuously increased, their position or status in the markets has obviously been approved, and in general consumer's sovereignty is being gradually established. The definite establishment of the fundamental rights of the vast masses of residents, plus the initial successes in the reform of the production departments and the extensive readjustment of the economic and social development strategy have at last brought about a fundamental

change in the status of our country's economic development. A pattern of market or consumption demand providing the lead to development of the national economy has been formed basically.

8. The above conditions have greatly stimulated the consumption enthusiasm of our country's residents. From 1979 to 1986, the average annual growth rate of the gross retail sales volume of social commodities was 14.5 percent, an increase of 5.3 percent over the average annual growth rate in the 15 years from 1953 to 1978. This shows that a sharp increase in consumption demand was the general special feature of this period. ("Statistical Yearbook of China," volumes 1978 and 1987, published by the China Statistical Publishing House) Measured on the yardage of a prolonged period, the changes that have taken place in this period may be treated as the first consumption revolution in the consumption history of our country's residents. Nevertheless, judging from the content and nature of consumption, particularly the changes of the residents' choices tending to the better, 1984 marked an important historical turning point: the preceding stage may be called the stage of a quantitative change in consumption whereas the subsequent stage may be called one of filling up the quality of consumption.

9. In the stage of quantitative expansion, the basic special feature of the residents' consumption was solution of the problem of dressing warmly and filling the stomach, or we may say that it was compensation for the consumption demand which could not be satisfied during the prolonged period before the reform. Because of this, people were found to have shown a strong demand for nearly all the various categories of necessities and this was shown as a flat scale quantitative expansion carried out under the original consumption structure (see Diagram 2 below):

Diagram 2 Growth Speed of Retail Sales Volume of Consumer Goods



Source of materials: "Statistical Yearbook of China," Volumes 1978 to 1987, China Statistical Publishing House.

On the other hand, seen from the angle of the national economy, the residents' expansion impetus effectively pushed forward the track-conversion and structural readjustment of the national economy from 1979 to 1983, of which the most outstanding facts were: First, rise of Engel's coefficient from 0.56 to 0.59; second, rise of the ratio of residents' consumption in the volume of use of the national income from 65.4 percent to 70.3 percent; and third, pulled along by demand's intense effects, the ratios of the output value of agriculture and light industry respectively rose from 22.2 percent and 25.6 percent to 24.7 percent and 26.5 percent ("Statistical Yearbook of China," Volumes 1978 to 1987, China Statistical Publishing House). In addition, the residents' savings proportions, that is, the ratio of residents' savings in society's gross savings rose from 9.6 percent to 21.4 percent. This also played an active role in easing the contradiction at that time due to the excessive changes in the distribution and redistribution composition of the national income leading to a sharp decline in the accumulation rate. ("China Trade and Commodity Prices Statistical Materials, 1952-1983," published by the China Statistical Publishing House, 1984 edition)

Regarding the above-mentioned phenomena, particularly among them the Engel's coefficient, residents' consumption proportions and proportions of agricultural output value rising accompanying the growth of the economy which appeared to have been abnormal or deviational phenomena, they cannot be explained by the use of ordinary theories. Precisely the initial stature, that is, the deviational stature of consumption and the process of industrialization being separated from each other formed before 1978, requires a contrary force to have it rectified. Once this rectifying process is completed and the national economy has been converted onto a new operational track, evolutions in the above-mentioned targets will become normal. This was attested to by the facts after 1984.

Seen as a whole, in the quantitative expansion stage from 1979 to 1983, residents' consumption demand obtained the utmost satisfaction—this referred not only to the articles actually consumed by the residents having greatly increased but also to the residents beginning to be able to make the purchases according to their wishes and thereby to the important fact similar to that under their current income they could achieve the maximum use effects; on the other hand, the long-term accumulation potentials of the national economy, of which particularly the accumulation potentials of production of the necessities were also released unprecedentedly and this brought along the all-round track-conversion of the development pattern. Hence it may be said that this period was one in which the residents' consumption

demand and the national economy showed the highest degree of "fitting into each other." In the history of our country's economic development it was a golden period which people are proud of.

10. Since 1984, after the residents in our country have basically solved the problem of dressing warmly and eating one's fill, the country has begun to enter into the quality filling-up stage of consumer goods centered particularly in the newly rising consumer goods. Precisely only in this stage have the residents' consumption choices truly acquired an independent significance—they not only were absolved from the administrative restrictions forcefully imposed by the traditional structure but also from the physiological restriction formed by the low level of their income. Hence, a basic force came into being instigating changes and reform in the structure of the national economy in the direction of a high degree of leaping upward.

Generally speaking, the special features of this stage were:

(1) Extremely frequent changes in the consumption structure. With the sustained fall in Engel's coefficient as the main front, the coefficient of changes in the consumption structure showed a steep rise upward of which the urban portion rose from 6.64 in 1981 to 13.84 to 1986. (This coefficient of changes in consumption structure equals

$$= \sum | a_{it} - a_{it-1} |$$

. Of this  $a_{it}$  is the percentage occupied by the  $t$  year per capita consumption outlay for the  $i$  category of consumer goods in the gross consumption outlay.  $i$  equals 1 (grain), 2 (subsidiary food), 3 (clothing) and 4 (others). This shows that following the rise in the income level and the continuous expansion in selection space, changes occur in the likes and dislikes of residents' consumption habits and at the same time new and higher demands are imposed on the development of the national economy.

(2) Enormous strengthening of the regulatory functions of prices. When people are no longer hampered by the restrictions of physiological demand, their reaction to price changes will become increasingly sensitive. This is outstandingly demonstrated by an obvious rise in the flexibility coefficient of the prices of the various large categories of products. For example, in 1985 compared with 1981, the price flexibility of clothes, articles of daily use and cultural articles rose respectively by 67 percent, 9.2 percent and 8.5 percent. (Price flexibility coefficient is computed from the model of "expanded linear outlay system (ELES).") ("Studies in China's Macroeconomic Model," by Wu Jiawei (3527 1367 1014) and others, page 169) This not only forms an important basis for residents to carry out consumption selection and thereby to readjust their consumption composition but also is an important manifestation of the increasing market development

in our country and thereby the continuous improvement in the system of the national economy.

(3) Deviation effects brought along the dual-structure. In countries of market economy, income and price are the two basic factors influencing the residents' conduct and changes in the consumption structure. However, due to the dual character of the country's existing structure, particularly due to the state bearing large amounts of non-monetarized obligations to the people, the regulatory functions of income and price are restricted and this directly leads to deviation in the resident consumption selections.

11. In short, after experiencing the quantitative expansion stage of the years 1979 to 1983, the consumption insufficiency problem left over from the traditional structure has been basically solved. Currently the national economy is in a new stage of development. This stage is on the one hand full of hope—it is an important ladder for China's residents to go up to a level of being fairly well off—and on the other hand is full of contradictions—of which, first of all, the irrational deep-level composition of the structure causes serious deviations in the residents' consumption selections. Hence, this stage, compared with any other period, needs even more research in and guidance to the residents' conduct.

#### **Part 2 Deviations in Consumption Selection and Non-capitalization of Manpower**

12. Simultaneously with residents in our country being free from the restrictions of physiological demand and beginning to leap upward to higher levels of demand, a new problem has arisen. The residents' selections are over-concentrated on two large categories of commodities, that is, newly rising durable consumer goods and highly-nutritional food products. As seen from the development level of the national economy at the present stage and the conditions of material resources, this development is of a more or less deviational character. Making a record of the main changes developed in this process and a comparison and analysis with reference to international experiences can give us a clearer understanding of this problem.

“Fervor for durable consumer goods” and “tendency to eat better.”

13. From 1984 to 1986, the retail sales volume of durable consumer goods in our country averaged an annual increase of 41.9 percent, of which color television sets increased by 69.3 percent, refrigerators increased by 157.3 percent, washing machines increased by 77 percent, and when compared with the growth rate in 1983 they respectively increased by 59.1 percent, 14 percent and 23 percent. Seen from the changes in the consumption structure, due to the sharp increase in the outlay for durable consumer goods, the proportions of the outlay for articles of daily use and goods for cultural use rose vertically (according to the state statistical bureau's

survey classification, outlay for durable consumer goods is included in the two large category outlays for goods of daily use and goods for cultural use), and a combination of the two rose from 7.2 percent in 1983 to 10.8 percent in 1986 (“Statistical Yearbook of China,” volumes 1978 to 1987, published by the China Statistical Publishing House). The latter, when compared with the level (9 percent) in developed countries with a per capita GNP of \$1,500, was still higher by 1.8 percent (C. Linch, Alan A. Powell, Ross A. Williams: “Household Demand and Savings Pattern,” Oxford University Press, 1977 edition, p 52). These phenomena show that China has entered the stage of rapid popularizing of durable consumer goods.

14. Seen from international experiences, after the residents' standard of living has reached a definite level, generally a period of rapid popularizing of durable consumer goods will appear. Particularly in certain developed states, due to the effects of the international consumption high-tide, frequently in the context of “strong points being subsequently developed,” popularizing is being speeded up but, despite this, the popularizing of durable goods in our country is still irrational to a definite degree.

(1) Extremely low starting point of the popularization. The multiple comparison of the average price of durable consumer goods with the monthly income of residents is an important index used to measure the popularization starting point of durable consumer goods. Seen from the conditions in Japan, popularization of radios, sewing machines and bicycles began in the middle period of the 1950's, popularization of television sets, washing machines and refrigerators began in the 1960's and popularization of small motor vehicles began in the 1970's. In these three periods the multiple comparison of the prices of durable consumer goods with the average monthly income of Japan's residents was not at all high, being only respectively 250 percent, 250 percent and 500 percent. The conditions of our country were: in 1984, the multiple comparison of the “new 4 articles” (including television set, washing machine, recorder and refrigerator) average prices with the average monthly income of urban residents was 1,200 percent, and in 1985, 1,250 percent. In other words, if a computation is made on the basis of the three sets of figures comprising rural residents' monetary income, size of family and average savings rate, purchasing of a durable consumer good by an urban resident's family on the average required the spending of 2 to 3 years' entire savings. This illustrates that so far as our country's residents' existing income is concerned, the newly rising durable consumer goods are still rather expensive luxury items and the time is early for the cross-over to the popularization stage.

(2) Extremely high rate of the popularization speed. According to the statistics, by the end of 1986 in our country's cities and towns residents of every hundred households owned 27.4 color television sets, 12.7 refrigerators, 59.7 washing machines and 51.6 recorders;

whereas at 1983 yearend they had owned only 2.5 color television sets, 1.7 refrigerators, 2.91 washing machines and 27.1 recorders ("Statistical Yearbook of China," 1978 to 1987 volumes, published by the China Statistical Publishing House). This implies that in only 3 years' time, the popularization rate of the above-mentioned durable consumer goods registered an average rise of 550 percent, equivalent to the level which took the Soviet Union and East European countries 10 years' time to realize. Looked at from the standpoint of absolute quantity, the "new 4 articles" owned by our country's urban residents in 1986 already separately reached or surpassed the level attained by Japan, the Soviet Union and South Korea when their per capita GNP was \$1,000. (V. Cao-Pina, S. S. Hatalia: "Comparison of East and West Consumption Patterns," New York, 1979 edition)

(3) Extremely strong tendency to make future purchases. Seen from the results of our survey, answering the question "Do you believe that such high-grade durable consumer goods as color television sets, refrigerators, and washing machines have become indispensable articles in family life?," 72.9 percent of the urban residents made a definite reply in the affirmative, and of them as high as 83.5 percent belonged to the category of residents still in the stage of preparing to make the purchases (including those residents who had not yet purchases a complete set of all four "newly rising articles, same below). Surprisingly, even among rural residents, 43.7 percent made a definite reply in the affirmative to the above question, and of the latter as high as over 90 percent were residents preparing to make the purchases. In addition, we estimate that among the existing savings deposits of the urban residents, a ratio of as high as 54 percent consisted of reserve funds for the purchases of durable consumer goods. Computed on the strength of this ration, in the whole country (urban areas) at least nearly 80 billion yuan of savings were prepared for use on this category of outlay. From this it can be seen that the trend of purchasing durable consumer goods is extremely strong and that a veritable purchase hightide is still in store.

15. The serious nature of the problem lies in that such a kind of selection made by the people precisely aimed at one of our country's weakest industrial departments, namely, the high-technology industries. Since 1984, our country has imported large quantities of durable consumer goods, including essential parts and assembly lines related thereto, has spent enormous amounts of foreign exchange thereon, and this has been an important cause for our increasingly large import burden in recent years and the continuous expansion in our foreign trade deficit. Such conditions very much resembled the early symptoms of the building up of an enormous international indebtedness owing to the large imports of durable consumer goods in Latin American states during their celebrated period of "consumptionism." (Carlos Fitzgerald: "Consumption-ism and the new Legitimism in Latin American States," "Collected Translations of World Economics," 1985, Vol 3) This cannot but make people shudder. Speaking from either technological resources or resources of foreign exchange and in view of the conditions of our country's existing material resources, this type of selection made by the residents constitute an enormous deviation.

16. Compared with the "seal for durable consumer goods," the "trend of eating better food" can be a more serious problem. Originally, if man carried out solely an ordinary plain-level expansion within the original food composition (that is a composition based mainly on grain), irrespective of to what extent the eating is done there can hardly be any appreciable effect on the development of our country's economy, since the capacity of the human stomach has an absolute upward limit. However, if the form of diet is changed and the original subsidiary food, particularly among them meat, eggs, milk and liquor the generation of which highly consumes grain, is taken as main food, then at least in the near-term or medium-term future China's agriculture can hardly be able to stand the pressure of the mouths of a population of 1 billion people.

17. To conduct a little international comparison will help in deepening the understanding of this problem.

Table 1 An International Comparison of Food Composition

	Year	GP: (\$ per capita)	Grain output (kg per capita)	Meat (kg/per capita annually)	Milk (kg/per capita annually)	Eggs (kg/per capita annually)	Cereals (kg/per capita annually)
South Korea	1978	1279	—	10.2	9.1	6.7	162.0
Japan	1966	1025	136(1970)	6.6	—	9.7	134.1
Soviet Union	1950	1213	549	26.5	172.0	3.0	172.0
China	1986	465	372	21.6	—	7.1	137.8

Sources of materials:

(1) "Statistical Yearbook of China," 1978-1987 volumes, published by the China Statistical Publishing House.

(2) "Asian Economics Yearbook," edited by John Wong, You-luo-mo-ni-te Publishing Co., Ltd, 1987 edition.

(3) Statistical Bureau of Prime Minister's Office of Japan, "Annual Report on Family Planning," 1982.

(4) Roger A. Clarke, Dubravko, J. I. Matro: "Soviet Union's Economic Events, 1917-1981," New York, 1983 edition.

Table 1 gives the diet level reached in South Korea and Japan when their per capita GNP exceeded \$1,000. It can easily be seen from the table that in 1986 when the per capita GNP in our country was only \$465 certain main components in our diet already surpassed South Korea's level when the per capita GNP was \$1,200. At the same time, our meat target far exceeded Japan. Although compared with the Soviet Union, there were still certain disparities, yet seen from the relative levels, that is, the relative ratios between our country's per capita meat consumption and per capita GNP and between per capita meat consumption and per capita

grain output, we still surpassed the Soviet Union. Moreover, there were still the problems of the disparity in diet customs of the eastern and western peoples.

Seen from the relative levels, our diet now is much better than that in the past. Is this not a problem that invites people's deep thinking?

18. The problem does not stop here. According to our survey, in the urban residents' selections of the future consumption targets, that of seeking "improvement of the quality of food" ranked the top and obtained a weight of over one-third (see Table 2):

Table 2 Urban Residents' Consumption Targets Most Urgently Needed To Be Realized in the Near Future

Problems	Urban residents' selections (percent)			
	Full Sampling	Low-income Group	Medium-Income Group	High-income Group
1. Increasing the quantity of food	8.1	11.2	8.3	6.0
2. Improving the quality of food	37.5	30.5	42.6	45.3
3. Increasing the quantity of clothing articles	2.9	3.4	2.6	2.4
4. Improving the quality of clothing articles	2.9	3.9	4.1	2.4
5. Increasing the expenses for bringing up children	29.3	26.0	21.3	13.2
6. Increasing the expenses for supporting old people	5.2	6.9	5.9	3.6
7. Increasing the outlay for culture and recreation	1.3	1.1	1.9	1.2
8. Saving money to buy high-grade durable consumer goods	14.3	9.2	20.6	16.8
9. Taking tours	1.4	1.0	1.4	2.9
10. Buying residences	3.4	3.2	4.5	2.7
11. No clear targets	1.4	1.1	1.7	1.1
12. Others	2.3	2.6	2.4	2.5

This is to say, on the basis of eating now better than before, the people's selection tends to further intensify this trend to surpass the previous. More importantly, to the different income layers, the high income group is more tended to eating even better. This seems to make a certain hint that following the continuous rise in the income level, what the residents in our country first of all solved was the problem of the burden of raising their children following which, after the urge to buy durable consumer goods has subsided, (according to our survey, high-income residents' demand for durable consumer goods has been somewhat fully met and the "main force" now in the purchase of durable consumer goods consists of residents in the medium grade income group), the main selection is for an even better diet. (In Table 2 the selections of the three income groups, namely high, medium and low, are shown to have occupied the following order in listing: bringing up children, purchasing of durable consumer goods and eating even better with the last occupying the first place and are clearly distributed in a tier-like shape. This explains the above point.) How will such a challenge be met by a developing country which has a per capita cultivated land of 1.5 mu? Conversely, is it not true that certain warnings have already been given in recent years by the sustained large-scale rise in the prices of subsidiary food products and by the various problems this has brought along such as market uncertainty, the masses' dissatisfaction, and so forth?

19. It should be emphatically pointed out that the formation of diet habits possesses a clearly irreversible character. When people have become accustomed to the practice of consuming meat, fowl, eggs and milk as the main food, to make them revert to the habit of taking grain as the main food not only is difficult but also is unbearable to them. Hence, it is necessary to pay a high degree of attention to, and take the utmost precaution over, the fact that our residents' diet composition is presently making changes and at the same time we should bring up and study such a problem as: what is the cause leading to this deviation in the residents' consumption selection?

Housing welfare, anticipation without risks and the non-capitalization of manpower (In the following discussions of the system, the background mainly concerns residents in cities and towns. As we see it, generally speaking the problem of selection deviation does not exist among the rural residents in their capacity as consumers. This is precisely the result of the great differences between the urban and rural economic structures. As for the fact that in recent years trends for "fervor for durable consumer goods" and "eating better" have appeared among the rural residents, it is mainly due to the influences of urban residents' consumption examples, while regarding the problems of over-investments

in housing and insufficient investments on land, basically speaking, they are due to the operators' structures not being rational and especially to the land relations not having been truly clarified or handled properly).

20. Residents' consumption selections are affected by various factors of which the effects of examples, effects of monetary income and effects of prices are important ones that should not be overlooked. But viewed from the angle of studying the deviations in consumption selections, these factors are still not sufficient to explain the essence of the problem.

For example, although using the effects of examples to explain deviations in residents' consumption selections also has many rational elements, it must still be noted that residents' consumption selections are carried out under the restraint of budgetary income and the effects of examples and that effects of examples cannot play any role outside the scope of man's budgetary space. This is an important special point of residents' acts differing from the acts of enterprises of the existing structure and is also an important reason why when analyzing the residents' acts we should not treat the effects of examples as an essential factor.

Again for example, the large-scale increase in residents' monetary income is an important factor leading to the sharp expansion in consumption demand in recent years. But it is still not convincing enough to use it to explain the structural deviation in consumption selection. Since the 1960's, the per capita monetary income of Japan's residents has maintained a sustained and large-scale increase, of which during the years 1970 to 1975 the annual growth rate was as high as 15.9 percent (higher by 1.2 percent over the level attained in our country during 1984 to 1986 when there was a high rise in income). But there never appeared any deviation in the residents' consumption selection like that in our country and this outstandingly illustrates our point ("Economics Statistics Yearbook," Toyo Economics Magazines Co of Japan, 1985 edition). More importantly, so far as the absolute level is concerned our residents' existing monetary income is still very low. Thus, to undertake selection according to a high-income consumption pattern when the level of income is still low is precisely wherein the original meaning of deviation lies.

This also applies to the effects of prices. Although an irrational price system may affect the residents' consumption selection, yet if outside this price structure a free market (double-track system) still exists then the latter will play the rectifying role. The facts at present are people do not excessively consume grain just because of the low price of state grain and conversely have not economized in their eating habits just because of the sustained rise in the price of subsidiary food in the free market, that is, changing their trend of "eating better." The effects of prices obviously do not explain the real nature of the deviation phenomenon.

It can thus be seen that employment of the ordinary pattern to explain the quality of changes cannot explain the selection deviation of an extraordinary pattern. The crucial point of the analysis only lies in going into the deep layer of the economic structure of our country and only then can our understanding be further intensified.

21. The problem lies in the state taking over too many "responsibilities." One especially large and special characteristic of our country's traditional structure is that it exerts too tight a control over the residents and at the same time takes up too many responsibilities. After the reform, the problem of control, particularly that of too many restrictions on the residents' monetary outlay has been, or is being, solved but the problem of the responsibilities is still as usual. Being responsible for but not exerting control over is obviously the crux of the whole problem.

Seen from the contents, the state's "responsibilities" vis-a-vis the residents may be divided into two categories. One category consists of providing the residents with non-monetary fringe benefits by means of taking up the responsibilities for housing, for education, for medical care, public health and so forth. The other category consists of providing the residents with no-risk anticipations through being responsible for employment, for retirement, and so forth. As we see it, these two factors are the direct causes for the deviations in the residents' consumption selections.

## 22. Housing benefits.

In our country, urban residents are generally allocated to the residents on a low price (low rental) basis. Seen from the standpoint of low price, the direct consequence brought along by housing fringe benefits is the excessive demand for housing. This is the basic cause for the phenomenon in recent years of housing supply still lagging behind demand in our country despite the sharp increase in investments in urban housing construction. Here, obviously price effects have been playing their role.

But viewed from the angle of the residents' consumption selection, the biggest problem in fringe benefits in housing is that housing is subjected to allocation and not to selection (this is precisely the most noticeable and special feature differentiating urban housing from the other market commodities or commodities under the double-track system). Because residences are substitutes of extremely low flexibility for the necessities of life and at the same time and in certain respects are also luxury goods, to continue to use low prices to maintain the non-selective character of residences even when other commodities have already been opened up or liberalized or have been included in the area of consumption selection by the residents, objectively will reduce the consumption selection of the residents and render their purchasing power or marginal purchasing power over-centralized on a small variety of commodities. In other

words, since in regard to housing people need to spend only little expenses which, moreover, in the course of developments will manifest an increasingly smaller ratio of the gross outlay, an identical amount of monetary income will exhibit a larger purchasing power for other commodities. Hence, in one sense, fringe benefits in housing reduce the space for the residents' consumption selections and, in another sense, exaggerates the monetary value of the residents' current income, necessarily leading to an excessive demand for other commodities and forming a division in consumption selection. In this connection, a mathematic model can provide a rigid testimony (Mister Zou Zhizhuang (6760 5267 5445) once made such an experiment. His conclusion was: the distribution system itself leads people to make an excessive demand for commodities not subjected to allocation. (Zhu Zhizhuang: "China's Economy," Nankai University Publishing House, 1985 edition) Here the problem that needs to be stressed is: some comrades have frequently added together a resident's monetary income and his non-monetarized fringe benefits to form his real income. In reality, these two things not of the same character cannot be added together. We have already seen that the low-price allocation of residents leads, on the one hand, to an excessive demand for residences and, on the other hand, to an excessive demand for other commodities subject to selection. Such phenomena cannot be explained by the above-mentioned method of adding the two together.)

### 23. No-risk anticipations.

Aside from the housing fringe benefits, the system of being responsible for providing employment, retirement benefits and all-round insurance protection against sickness, disability and accidents that may occur at any moment and other amenities or subsidies is also an important cause leading to deviations in consumption selection. Despite the fact that such a system is not directly manifested in providing the residents with monetary or non-monetary income, it makes the residents form safe anticipations of there being no risks, that is, a strong psychology of reliance on the state.

In theory, man treats anticipations of the future as one of the most important factors affecting their current acts. Modigliani, who was awarded the Nobel prize for his advocacy of "life period savings," took a step further and treated people's current savings as the result of making rational arrangements for their life-long income and consumption outlay; and the real meaning of this hypothesis is to point out that the most important motive of people taking up savings is for the sake of protection of their livelihood in old age and after retirement. (Franco Modigliani: "Life Cycle, Individual Savings and Citizens' Properties," "Compilation of Economics Translations," Issue No 3, 1987) Japan's experiences in this regard fully attest to this point. For example, many scholars, after doing a large amount of research work on the savings conduct of Japanese residents, have pointed out that an important reason for the

high savings rate of Japan is due to Japan's social protection system being far inferior to that in Western countries and as a result private savings has become the principal form of "safeguarding the future." ("Economic Sociology," edited by Kenichi Tominaga, Nankai University Press, 1984 edition)

In comparison, the form of conduct of residents in our country, spurred on by the no-risk anticipations, naturally tend to be a short-term one. According to our survey, among the residents in the cities and towns, the percentages of residents who take as their own top savings motives are: "purchase of durable consumer goods," 22 percent, "bringing up children," 31 percent, and "for use in family constituents' weddings or funerals or for emergency uses." Combination of these three categories makes up 83.9 percent of the sampling results. On the contrary, only 8.9 percent of the residents intend their savings for use in post-retirement protection. In other words, savings of residents in our country are intended for short-term or medium and short term consumption purposes.

Thus, it is easy to understand that since people have no need to make selections during their own life cycle, that is, no need to "freeze up" a part, be it large or small, of their current income or to use it on long-term arrangements, the same amount of monetary income at present or in the near future will naturally possess a larger purchasing power. Hence, in one sense, no-risk anticipations shorten the time period of the residents' consumption selection and, in another sense, expand the purchasing power of the current monetary income. The result will naturally lead to excessive short-term demand, that is, formation of deviation in consumption selection.

24. Looking a step further, behind housing benefits and no-risk expectations, lurks a more intensified economic category, that is, the "non-capitalization of manpower."

Originally, residents are consumers on the one hand and producers on the other. The consumer's outlay is in the end determined by the producer's income. In present-day commodity economy, the producers' income (including current income and anticipated lasting income) directly manifests its large or small manpower value (that is production capacity), or, it may be said, society's compensation for his past manpower investment. Such a strict contracting relation between input and output is obviously the result of the separation of the "economic man" from the "natural man" and clearly marks the ultimate differentiation of commodity economy from natural economy. It is precisely in this context that the producer's income is a kind of capitalized income, and the producer's manpower itself is a kind of capital, that is, manpower capital.

However, in the traditional socialist economic pattern, the relationship between the properties of the state and of the residents is confused and unclear: on the one hand, present-term income is sharply divided into two parts:

one part is the monetary income given to the producer according to the labor wages system as compensation for his labor (in essence manifesting egalitarianism), and the other part is social welfare accorded to the consumer according to the principle of distribution in kind for meeting his basic living needs. On the other hand, changes have taken place in the nature of anticipations. People do not understand, and even do not wish to understand, what changes will take place in the future, but firmly believe that in this respect the state will be responsible to the end and that, besides, at least future conditions will not be worse than at present, that is, formation of anticipations that there will be no risks. Under such conditions, the producer's manpower value loses any regulated liaison with its income and hence people as producers, on the one hand, cannot make use of their manpower value as capital—manifested in people not caring for this capital, and on the other hand do not possess the innate motive power to realize the capital's continuous increase in value; as for the consumers, under the restriction of the life cycle value of capital, they cannot arrange for their own consumption outlay—this is manifested in that only the current monetary income exerts restriction on people's consumption outlay and not the non-capitalized benefits. Hence, the non-capitalization of manpower is the basic cause leading not only to the irrational acts of producers under the current structure but also to the twisting of the consumer's acts, thereby causing the appearance of deviation in consumption selection.

25. Non-capitalizing of manpower also directly manifests the traditional economic structure's regulatory nature of the essential quality of the producer and the owner. In a definite sense, it is a big, historically difficult problem that the economy of the socialist public ownership system has met with since the date of its birth and up to now has not adequately solved.

(1) The special feature of the economy of the public ownership system is that its social constituent members are on the one hand the owners and on the other hand the producers. The problem generated from this is how the owner's right and interest can be really manifested in the person of each and every producer, particularly how in actual process the equal rights which people, in their capacity as owners, enjoy and the unequal rights (which manifest the disparity in manpower value) which they, in the capacity of producers, seek to realize, can be unified and at the same time do not cause any conflict. Obviously, before the solution of these problems and even before people learn that they need to be solved, this dual status of "being the owner and at the same time the producer" itself can easily make the self-rights and interests of the owner and of the producer and hence the relations between them become confused and unclear. Thus, this very well can bring about the problem of the non-capitalizing of manpower.

(2) The special characteristic of the traditional socialist economic structure lies in that although the state has accepted in the name of society the rights of the owner,

the state-owned assets themselves have not yet found a representative with a personified status, that is, existence of the problem of the "property rights being in name only." The consequences derived therefrom not only are directly reflected by the interests of state-owned assets frequently suffering from losses but also, due to there being no way to set up reciprocal restrictive relationships between those in charge of the interests of the assets and those in charge of the interests of labor (in a commodity economy this relationship is the usual foundation for determining the various kinds of economic relations), cause confusion in the demarcation lines in benefit distribution between assets and labor. Thus, the regulated relationship between labor's contributions and labor's benefits or between the producer's manpower value and his income is cut; whereas on the other hand between the state's provision to the residents of the various kinds of obligations (of them a portion should be the obligations of the one entrusted with the assets to the one entrusting the assets) and the income earned by the residents in the capacity of producers a non-economic or un-regulated relationship is set up. In such a background, the above-mentioned various kinds of lurking conflicts brought about by the dual regulation of "being the owner and at the same time the producer" will unavoidably be converted into realistic structural defects, thereby in the end bringing about the problem of the non-capitalizing of manpower. In this context, the non-personification of state-owned assets is a concept of contrast or mutual boundary marking with the non-capitalizing of the producer's manpower and is the precondition for the latter thereby to generate history and logic.

From this it can be seen that before socialist economy has shaken off the shackles of the stature of the traditional state-owned system and thereby still unable to set up a mechanism of a form of "separation and combination" which, on the one hand, can ensure the full realization of the producer's manpower value and, on the other hand, can also ensure that no damages be done to the equal rights which people consider that owners should enjoy, the problem of the non-capitalizing of manpower cannot be solved. Although certain socialist countries, in handling the problems of their relations with the residents do demonstrate a relatively lower scale of "full responsibility taking," and form of "responsibility taking" carries a rather thicker monetarized color, they still are unable ultimately to shake off the obligations of the "responsibility taking," and thus illustrate this point from one side.

In our country, the problem of the non-capitalizing of manpower is manifested in an especially outstanding manner and the consequences brought about have been especially serious. This is principally determined by certain historical conditions. Of the reasons for this, aside from what was pointed out above that the "overtight control" exercised in the initial period of industrialization had brought about the problems of "undertaking too many responsibilities," the principal one was that the residues of the patriarchal relations of feudalism up

to now are still influencing or governing the people's conduct with the result that the various sides of our country's economic structure all bear the brand of "custom or conventional economics. (This technical term of "custom economics" was first advocated by John Hicks. The Japanese scholar Shigeru Ishii has made a systematic description of the stature of "custom economics" in China—Shigeru Ishii: "Socialist Economics and China's Experiences—Prospects of the Economic Reform Science and Technology Bulletin, Issue No 2, 1986.) This obviously formed the general basis for the non-capitalizing of our country's manpower and at the same time is the main cause of the state that whenever in the course of the reform the problems of the relations between the state and the residents and between the enterprises and the staff members and workers are tackled, people always have felt the force of impediment and the complexity of the details which can hardly be tackled.

26. It is thus seen that simple problems are originally not simple at all. When casually looked at, deviation in the residents' consumption selection may seem to be an occasional phenomenon. In reality, it is related to the background of this profound system of the non-capitalizing of manpower and also related to the basic stipulated character of the producer and the owner and also man himself in our country's existing structure. Hence, despite that following the progress of time, changes may take place in the content, form and extent of the deviations in consumption selection, so long as this kind of system continues to exist, deviation itself cannot be basically eliminated. And this point is precisely a serious challenge which can hardly be evaded in the development of the national economy from now on.

### Part 3 Growth of the National Economy: Its Problems and Way Out

27. In this country of ours with a population of one billion people, how to handle well the relations between consumption and the national economy is an exceedingly difficult problem.

Just like in the pre-reform period when separation of consumption from the process of industrialization brought along serious disadvantageous effects to the development of the national economy, today the deviations in the residents' consumption selection are precisely eroding the national economy's mechanism and impeding its healthy development.

28. In recent years the rapid popularization of newly rising consumer goods has led to an excessive demand for imported materials. The sharp rise in the consumption volume of food and particularly to the subsidiary food products not only has aggravated the contradiction in supply and demand but also has attracted the sustained rise in the gross level of commodity prices; simultaneously the stagnation in the sale of traditional

consumer goods and the large surplus in production capacity have further indicated the abnormal and special character of the growth of the national economy in the current period.

The serious nature of the problem does not lie simply in what has already developed in our country's economy but in what will continue to develop in the future. The appearance of deviations in consumption selection has the background of the leap forward to a living level of being well off on the part of our country's residents and is based on this deep and profound systematic characteristic of the non-capitalizing of manpower. Hence essentially it is not a short-term problem but is a big impediment to the long-term development of our economy. This will necessitate the spending of more time on making an historical estimation of the direct and indirect effects the deviations in consumption selection have brought to the development of our country's economy.

29. World experiences have shown that in the process of the transition from a low income level to a medium and developed level, transfer of rural surplus labor force to non-agricultural pursuits has been from beginning to end the main line in economic growth. Fei Jighan (6316 1529 3352), after making a comparison between Japan's and India's experiences, pointed out: In the early part of this century, Japan vigorously developed those manufacturing industrial departments requiring low technology and small amounts of capital and initially completed the historical task of transferring the rural labor force, thus demonstrating the success of the Japan model. On the contrary, beginning from the 50's of this century, India too early developed the heavy industrial departments which required high technology and large amounts of capital and thus delayed and even hindered the transfer of the rural labor force. This is the basic reason why India's economy has developed so slowly. Hence, he reached the conclusion that in an economy with a surplus labor force, the most important target in measuring economic success is not the speed of the economic growth rate, nor the improvement level in technology but is the speed in the transfer of rural labor force or the effects obtained on this side (Fei Jinghan: "Developing of a Labor Surplus Economy," Taiwan China Book Company, 1971 edition).

Ours is a typical country with "an endless supply of labor force. Up to 1986, the employment rate in agriculture in our country was still as high as around 60 percent. Besides, our country has the special characteristics of a typical medium-grade developed country, that is, the manufacturing industries, especially heavy industry, occupying a large proportion and an obviously high accumulation rate. These special features show in the transfer of rural labor force; our country's difficulties are far larger than those of low-income countries. Hence, in our country whether or not we can successfully carry out the transfer of rural labor force is all the more a fundamental problem.

30. Past experiences have told us that transfer of rural labor force as a usual form of the evolution of a traditional economy to a modernized economy invariably suffers in the end from the restriction of demand, particularly consumption demand. Before the reform, we separated consumption from the process of industrialization, and this not only directly lowered the efficiency rate of the economic operations but also hindered the transfer of rural labor force; after the reform, the national economy has gradually entered onto the operational track with consumption demand as the leading factor. This has not only greatly stimulated the vitality of the entire economy but also in the end facilitated the large-scale transfer of 80 million rural labor force units.

Just speaking in the context of demand restricting economic development, the biggest problem we are currently facing is the appearance of deviations in the residents' consumption selection which will possibly render to nil the gladdening situation formed since the reform and thereby hinder the further transfer of rural labor force.

31. Enormous pressures bearing on industrial and agricultural departments.

Industries producing durable consumer goods have the special features of possessing high technology and an intensified concentration of capital. Their excessive development not only will directly raise the employment rate of the labor force, particularly the "technical thresholds" of the transfer of rural labor force, but also will, as a whole, lower our industries' absorbing capacity of labor force. According to estimates, the labor force absorbing capacity of industries producing durable consumer goods is 30 percent lower than the average absorbing level of our country's light industry. Its rise of each percent in the proportion of the gross output value of light industry will lower by 0.45 percent of entire industry's labor absorbing capacity. In recent years, the ratio of the output value of our country's durable consumer goods industry has risen steeply, from 8.2 percent in 1983 to 9.5 percent in 1986 ("Statistical Yearbook of China," 1978 to 1987 volumes, published by the China Statistical Publishing House).

Another special characteristic of durable consumer goods industries is their long industrial chain and large intermediate consumption coefficient. On an average level, the intermediate consumption coefficient of the durable consumer goods industries in respect of steel materials, copper materials and aluminum materials, compared with the usual run of consumer goods industries, are higher respectively by 189 percent, 164 percent and 10 percent (Peng Huanjie (1756 1888 2638): "An Initial Analysis of the Equilibrium and non-Equilibrium of the Structure of the National Economy," Master's thesis awaiting publication), while products of heavy industry have the characteristics of high self-consumption, and high energy and electric power consumption. Hence the over-rapid development of durable consumer

goods industries not only will directly impose too high a demand on heavy industry but also through the development of heavy industry exert an even heavier pressure on departments producing short-line goods, thus forming an imbalanced state of the short line become increasingly shorter. A more serious problem is: the development of durable consumer goods industries is precisely not purely quantitative expansion but, first of all, involves quality changes. This will force the entire industrial posture to develop too early and too rapidly in the direction of being highly technical and requiring intensive capital concentration. The results will lead to not only a demand for enormous amounts of investment but also to deterioration in industrial liaisons, that is, inability of intermediate products and initial-grade products to follow the steps of the end products in climbing the latter of quality and this may form serious friction between the various large industries. Therefore, regardless of whether the results are the imposition of an excessive demand on the process of accumulation or funds or the lowering of the funds accumulation benefits due to the friction in the industrial structure, in the end serious impediment will be caused to the further transfer of rural labor force.

The problems brought along by the deviations in resident's consumption selection are not simply confined to industry. High grain-consumption food products such as meat, fowls, eggs and milk, compared with ordinary food products, require a much higher degree of intensive capital concentration. According to the World Bank's estimates, if in the direct composition of Chinese residents the proportion of meat products was raised by 10 percent (6 percent in 1981), the additional investments required will amount to 300 billion Yuan (World Bank: "China, Problems and Program of Long-Term Development (Appendix V)," China Financial and Economic Publishing House, 1985 edition). This amount is roughly equivalent to 900 percent of the total amount of productive capital construction investments in agriculture in our country during the 8-year period from 1978 to 1985. The enormous pressure that this will bring along is similarly difficult for the national economy to bear.

A Western scholar engaged in studying the pattern of labor transfer in developing countries once pointed out: "Under the majority of conditions, a poor man's consumption basket, in comparison with that of a rich man, at least to a definite extent carries more articles of the labor-intensive type" (David Molarvich: "Comments on the Meaning of Employment in the Industrialization of Developing Countries," "Selections of Economic Essays in Contemporary Foreign Nations," Vol 8, Commercial Press, 1984 edition, p 125). His meaning is: if through the form of the redistribution of income and distribute the rich men's money to the poor men, then, so far as the developing countries are concerned, this possibly can be more advantageous to lowering the average of people's consumption grade and thereby be able to absorb more labor force into employment. However, when we come

to note China's universal appearance of a high-grade consumption trend, this special characteristic of a more even distribution of income is not a strong point but a weak point of weak points.

### 32. Conditions restricting the development of tertiary industry.

Departments capable of absorbing rural surplus labor force are naturally not confined to the manufacturing industries, since there is the tertiary industry, particularly its service trade department. This department has a low degree of capital concentration, a large hidden potential for absorbing labor force, and at the same time the proportion it occupies in our country's traditional industrial pattern has all along tended to the low side. Hence, in a general sense it definitely has broad development prospects. However, whether or not a service department can develop greatly is to a large extent determined by whether or not the residents have a full demand for it. The results of our estimate are that all along the flexibility of our residents' demand for the service trade has been low and there have been few noticeable changes. From 1981 to 1985, the flexibility value all fell within the realm of 0.8 to 0.9. This formed a striking contrast to people's demand for durable consumer goods and subsidiary food products.

There are of course many reasons for this, such as the businesses of many service departments are monopolized or semi-monopolized by the state or by enterprise units. These conditions are like urban housing the development of which is determined by the state's financial power and not by the size of the demand for it. But it cannot be denied that in recent years the prices or charges for labor services have risen to a great extent—this is particularly obvious in the case of services rendered by various categories of individual households—so-called “second-channel peddlers,” children's nurses and “portfolio companies” are especially noticeable in this respect—and is an important factor restricting the residents' demand.

Seen from other countries' experiences, people under conditions of a continuous rise in their income level are usually prone to resort to social services to take the place of services rendered by their own selves, so as to save more time for work or recreation. This is the basic reason for the rapid development of the service trade in modern economy. Nevertheless, if the prices or charges for social services or labor are so high as to exceed the cost of people enjoying their spare time, the above-mentioned replacement relations cannot happen. In our survey, of the residents who considered color television sets, refrigerators and washing machines as necessities to purchase or to prepare to purchase, actually 63.5 percent believed that by so doing they would be reducing their household work and could find enjoyment therefrom. In other words, after the increase in the income level of the residents of our country, in the main they do not use

social services but rather take advantage of the “services” provided by the durable consumer goods to cut down their own household burden. This is obviously a line of thought leading us to understand that in our country social services find it difficult to take the road of socialization and why the service trade cannot achieve any too great development.

In theory, generally the cheap price of labor force is taken as a phenomenon naturally met within an economy with an unlimited supply of labor power. It is also believed that before the transfer of rural surplus labor force is completed, the price of labor force will not rise on a large scale and what is happening there is the so-called “labor's self economy” (Fei Jinghan: “Development of the Labor Surplus Economy,” Chunghua Book Co, Taiwan, 1971 edition). However, seen from the actual practice in our country in recent years, this strong tendency seems to have vanished: on the one hand, the property relations between the state and the enterprise and between the state and the residents are not sufficiently clear and this has directly induced the sustained and abnormal increase in the monetary income of the staff members and workers. The problem of the benefits of labor encroaching upon the benefits of assets has become an exceedingly outstanding phenomenon in the current economy; on the other hand, as a result of, in the rural villages, land rent itself not having attained an independent posture, the benefits of the operations on land are wholly manifested by the benefits of labor or the prices of labor force. Hence, when people begin their free selection of employment or turn to a transfer to tertiary industry these prices of urban and rural labor force which have been highly assessed naturally become the blueprints for reference when shaping their own prices. More importantly, due to this transfer itself possessing special risks—these risks being first the “systematic risks” caused by relinquishing the reliance on the state (in the case of urban residents) and relinquishing the reliance on hand (rural residents) and second the operational risks, the price or charges of labor services of tertiary industry are further enhanced.

Thus, seen from the angle of the individual unit, it is rational and normal to seek higher prices for their services and without such higher prices nobody will go into the tertiary industry. But seen from the angle of the consumer, such labor prices which are higher than their wage income and higher than their labor cost (meaning shadow cost of production) are irrational or at least there is no necessity of over-spending on this side. As a result, people are universally inclined to services from durable consumer goods or their own selves to satisfy their own demand and would rather spend 3 to 4 hours of time attending to household work. This type of selection naturally restricts the development of the service trades and becomes a big impediment to the transfer of rural labor force to non-agricultural pursuits.

33. Instability of the sources of accumulations.

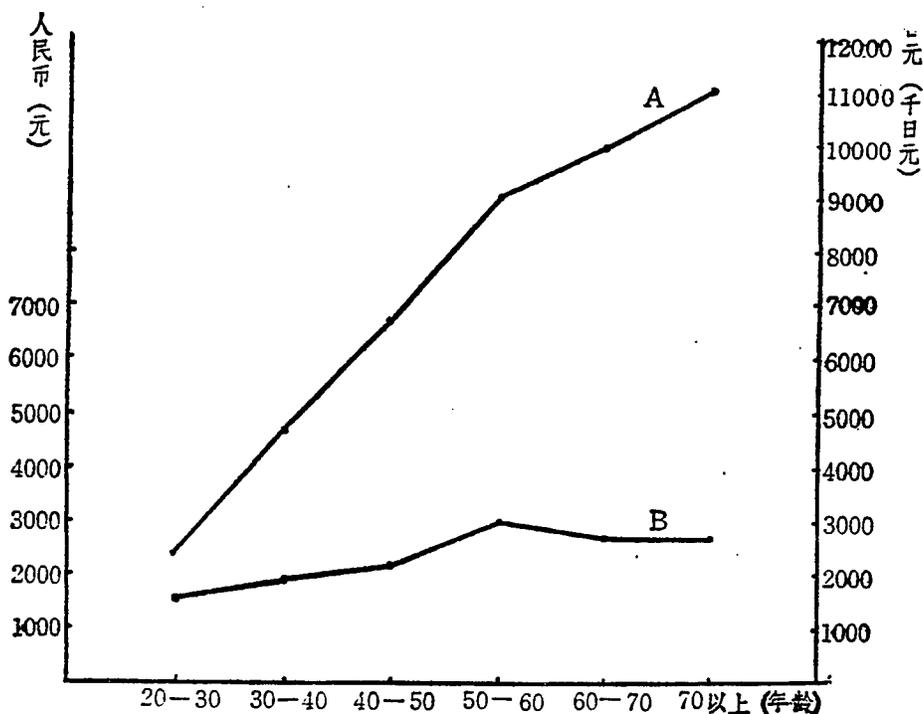
Seen from the experiences of the development of various countries, the transfer of rural surplus labor force is determined not only by the capacity of non-agricultural pursuits to absorb labor force but also by the scale of society's accumulation of capital, that is, the accumulation rate. Particularly under the conditions of the industrial structure tending to a high degree of development accompanied by the declining capacity on the part of capital to absorb labor force, the size of the scale of accumulation has a decisive significance.

Our country is originally a country with an extraordinarily high accumulation rate. The steady rise of the accumulation rate in recent years is to a large extent caused by the large-scale increase in the residents' savings. At

present, the ratio occupied by the residents' savings in our country's gross volume of accumulations is around 33.33 percent and have become the important factors in the developments of our country's accumulation rate and in the long-term development of the national economy.

In the foregoing we pointed out that under the influence of the no-risk anticipations of the residents of our country, the conduct in savings has tended clearly to the short-term, that is long-term savings tending to the low side and short-term savings tending to the high side. This implies that as against the general observation that in a country with a market economy the residents usually have a strong inclination to long-term savings, the duration between making a deposit and eventually withdrawing it on the part of residents of our country, that is, the average period of savings, is relatively short. This special characteristic has brought along the following results (see Diagram 3).

Diagram 3 Comparison of the Trends in the Changes of Balances of Savings Accounts of Chinese and Japanese Residents



A—Curve of changes in balances of savings accounts of Japanese residents B—Curve of changes in balances of savings accounts of Chinese residents

Source: General Affairs Department of Livelihood Bureau of Japan: "Citizens' Livelihood Statistics," 1985.

Short-cycle savings imply that people sometimes make deposits (positive savings) and sometimes withdraw deposits (negative savings) and that after setting off the

negative savings from the positive savings, the savings balances seldom follow the increase in age and develop changes. In our country, the average savings balances of residents in the 60-70 age group are equivalent to only 165 percent of the average savings balances of residents in the 20-30 age group whereas in Japan they were as high as 478 percent. Diagram 3 shows that the curve line of our residents' savings balances is rather level, almost like a straight line, whereas Japan's curve line is exactly in the opposite, clearly demonstrating a trend of progressive increment.

The proportion of the yearly increased portion of the savings balances in income subject to the residents' allocation is the savings rate. Hence, it is not difficult to draw the conclusion: that short-cycle savings naturally lead to low savings rates, at least this is true if seen from a long-term trend.

It should be pointed out that in recent years the residents' savings rate in our country has made a vertical rise and that seen from the absolute level (14 percent in 1986) this cannot be considered as low. This seems to be a contrast with the above-mentioned conclusion. We believe that aside from that in recent years the residents' monetary income has risen too rapidly, the most important reason is the strong motivation to buy newly rising durable consumption goods. Due to our country's extremely slow start into the stage of the popularization of the use of durable consumer goods, people must pass through an interlude of a certain length of time of savings before making the actual purchases, and hence in the initial stage of popularization, relatively fewer people withdraw funds to make the purchases (negative savings) while there are more people depositing money (positive savings) for future purchases. This offsets the factor of short-cycle savings and raises savings rate. However, when as the popularization rate of durable consumer goods has reached a definite degree, particularly when and as the demands of the residents of the medium level or medium-low level of income for durable consumer goods have been basically satisfied, changes will likely occur in the above-mentioned conditions.

The most possible changes are that the savings rate not only will find it difficult to rise but also may fall to a certain extent. The results of our survey show: the marginal savings of those high-income residents who have purchased all "four new articles" tend to be 3.1 percent lower than other residents of the same income level. Of them, the marginal savings of those residents who have set "a better diet" in the first place of the consumption targets tend not only to be lower by 5 percent than other residents of the same income level but also lower by 1.8 percent than the average level of residents of the medium-grade income group.

Naturally, we cannot exclude another possibility. This is that the savings rate not only does not fall but even may rise. This situation can arise from the possibility of maintaining a high and sustained rise in income, what is more important is to stir up a new popularization high tide such as introducing newer durable consumer goods (motor cycles, small sedans, or higher grades of color television sets, refrigerators and so forth) thus to arouse people's appetite.

If it is said that the first possibility is "withdrawing firewood from the furnace," then the second possibility may be likened to injecting morphine. Neither is good to our country's economy or to the promotion of a large scale transfer of rural labor force.

34. Seen as a whole, deviations in residents' consumption selection produce seriously disadvantageous effects on the development of our country's large industries and the evolution in their accumulation stature. Moreover, due to these deviations having already exceeded the acceptance capacity of our country's existing resources (this is naturally assuming that no great changes will occur in the efficiency rate of the input and output of the enterprises is the precondition), seen from the angle of easing the supply and demand contradictions, we have little potential to tap on the side of structural benefits. In other words, if we confine ourselves only to the supply and demand side, be it formulating an industrial policy of a long-term significance or reverting to the kind of great structural readjustment of the years 1979 to 1983, we can hardly solve the existing contradictions in the national economy. It is precisely in this context that we believe that the deviations in the residents' consumption selection have become the most important impediment to the transfer of the rural labor force to non-agricultural pursuits and the development of the entire national economy.

35. The purpose of the research in this report is to point out the serious nature of the above-mentioned problems, but this does not imply that these problems themselves cannot be solved. In fact, in recent years the reforms carried out in various localities on the wages, employment, medical and insurance systems and the piloting of the commercialization of residences have in varying degrees made possible the growth of a new mechanism to rectify the deviations in the residents' consumption selection. More important than that, following the continuous deepening of the reform of the enterprises, the thoughts of making the entrepreneurs' status prominent and carrying out the reform calling for personification of the state-owned assets have been given important attention from various sides and the relevant reform programs have gone into the piloting process. (Study group on assets operation responsibility system of the economics research institute of the Academy of Social Sciences of China: "Start, Intensification and Progress in Reunderstanding the Reform of Enterprises of the Public Ownership System," "Jingji Yanjiu," Issue 5, 1987) It may be safely said that each forward step taken in the reform on this side will bring new hope to the ultimate solution of the problem of deviations in residents' consumption selection.

It should be pointed out that after understanding the key problem that the causes of the deviations are the non-capitalizing of manpower and the non-personification of state-owned assets, the meaning of reform of the enterprises has greatly broken through the past narrow understanding. On the one hand, improving the economic operational efficiency rate (particularly the input and output efficiency rate) and enlarging social gross supply must start from reform of the enterprises; and on the other hand, solving the deviations in consumption selection and guiding the social gross demand must similarly start from reform of the enterprises. In this context,

taking the renewed construction of this microeconomic cell—the enterprise—as the center and at the same time promoting the personification of state-owned assets and capitalizing of manpower, so as ultimately break open the unsmooth “interlocking chain” between the two large mechanisms of supply and demand of our country should become the basic line in deepening the reform.

36. Starting from now and up to the end of this century, only 12 more years will be left. In those 12 years, whether or not we can maintain the stable growth of the national economy, store up for the next century sufficient “bodily power” for further development, and particularly obtain “the best solution” for economic and social development over an even longer span of time will to a very large extent depend on the selections made today and also on whether or not we can achieve final victory in the battle of deepening the reform. Therefore, grasping the crux of the problem and clearly fixing the direction of the reform have an especially important significance today. The full elucidation of the problem itself is wherein the hope for future development lies.

[Editor's Note: Report written in December 1987 by Zhang Xuejun (1728 1331 6511), Peng Zhaoping (1756 3564 1627), Zhang Ronggang (1728 7837 0474), Chen Ding (7115 1627), and Zhang Ping (1728 1627); participants in data handling: Pei Xiaoge (5952 1420 5478), Huo Xiaohu (7202 1420 5706), Huang Zhijun (7806 1807 6511), Qian Wei (6929 0251) and Zhang Ming (1728 7686)]

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### **Economic Structural Reform Intensifying, Price Reform To Follow**

40060167 *Shanghai SHIJIE JINGJI DAobao* in Chinese 15 Feb 88 pp 14-15

[Article by Yang Piexin [2799 1014 2450]: “The Contract System Lies at the Heart of Economic Structural Reform”]

[Text] In his report to the 13th NPC, Comrade Zhao Ziyang proposed that economic structural reform today revolve around and focus on the implementation and perfection of the contract system, accompanied by coordinated reforms in planning, investment, materials supply, finance, banking, and foreign trade. This reform plan has won the enthusiastic support of the Chinese people, particularly leading comrades in enterprises, the theoretical community, and the localities. But some comrades have voiced misgivings. Since economic structural reform hinges on price reform, they argue, why not institutionalize price reform instead of trying something different—contracting? To them the contract system is only an expedient to get around some difficulties, not a long-term solution. There are friends overseas who wonder whether or not the absence of new price reforms in

China since 1986 means that economic structural reform has been stalled. Some friends even suggest that we bite the bullet and grapple with price reform boldly.

These viewpoints and suggestions should be taken seriously. In my opinion, Comrade Zhao Ziyang's economic reform plan shows that after 9 years of exploration and practice in reform, the CPC has found China's own road to economic reform and a socialist road with Chinese characteristics. Successes and mistakes have gradually begun to make us wiser. Step by step we begin to understand and master the special objective rules that China's economic structural reform must follow. This is a sign of our growing maturity. If we forge ahead adhering to the objective rules, China's economic structural reform will definitely enter the right track and achieve remarkable successes with half the effort, while avoiding mistakes and setbacks.

How then should we take these viewpoints and arguments?

### **First Point At Issue: What Do We Make Of The Contract System**

The transition of socialist nations from a highly centralized command planned economy, that is, the traditional Soviet model, to a planned commodity economy is both similar to and different from the transition of Germany and Japan from a highly centralized control economy to a market economy after World War II. Common to both were shifting from war and war preparation to peacetime construction, controlling inflation, stabilizing currency and prices, rebuilding the market, abolishing price control, and gradually rationalizing prices. That was what Japan and Germany did. That was what the PRC did when it was first founded. And that was also what the Soviet Union did in the days of the New Economic Policy. Involved were a change in economic objective from war and war preparation to peace construction and a shift from deficit budgeting, inflation, and price increases to currency and price stabilization. These common rules must be adhered to; it is impossible to carry out economic structural reform during a war or war preparations or in times of inflation.

Economic structural reform in a socialist nation follows not only general rules, but also rules unique to itself. The change in economic mold in capitalist nations is much simpler than that in socialist nations. In 1950, Japan implemented the Dao Ji Plan and eliminated its budget deficit and inflation. Subsequently it abolished the Economic Stabilization Ministry, which controlled the nation's human, financial, and material resources as well as production, supply, and marketing by handing down command plans to enterprises. Instead, the Economic Planning Agency was created whose sole purpose is economic forecasting. In the process Japan effected a change in economic model. Freed from the trammels of a control economy, Japan's farmers and enterprises began operating on their own and producing for the

market. A market economy was re-established and started to function flexibly. After the war, the Federal Republic of Germany [FRG] reformed its currency in 1948. Immediately, existing farming families and enterprises sprang back into life, displaying anew their entrepreneurial skills as they produced for the market. In contrast, a socialist nation will not be able to create or activate commodity economic mechanisms merely by shifting to peacetime production and controlling inflation. This is because independent commodity producers no longer exist in a socialist nation as peasant families, individuals engaged in industry and commerce, private businesses and other independent producers have been transformed. As for state enterprises, they have been turned into workshops that take orders from the state planning agency and produce in accordance with a command plan, as in the Soviet model. It is not necessary for a state enterprise to exercise judgement to decide what to produce and how much in accordance with market needs. All it has to do is to follow orders from above. Instead of having to look for raw materials itself, it is supplied by the materials department in a centralized way based on a plan drawn up by the planning commission. Its products are purchased and marketed by the materials, commercial, or foreign trade department with a monopoly on purchasing, marketing, exporting and importing. It is not necessary for it to understand what the domestic or international market wants. Nor does it have to worry about where the raw materials would come from. Costs, wages, and prices too are set by the planning machinery. Stripped of their functions, state enterprises become production workshops whose only concern is production, not business. As a member of the people's commune, the peasant engages in production under the command of the production team leader, who tells him when to sow, what to plant, and when to harvest. Sometimes the peasant even receives instructions from the provincial or county CPC committee secretary on the telephone. He has lost his decision-making power in production and management. Both enterprises and peasants have been drafted into a vast militarized industrial army to carry out production in accordance with a command plan issued from above. In this traditional model of command economic planning, the nation eats from the big rice pot. He who works harder does not earn more since everybody gets a bowl of porridge irrespective of his labor. Enterprises, workers, and peasants have all lost their initiative and vitality. Divorced from the grassroots, reality, and the masses, this kind of machinery, which commands production from the top down, has no access to the necessary information and feedback and inevitably leads to the "Great Leap Forward," "Dasanxian," and the issue of arbitrary and misguided directions in the annual plan and daily production, to the detriment of the development of productive forces. In the film "Soccer Heroes of the Capital," Empress Dowager's favorite officials, faced with the challenge of a foreign soccer team, picked the best palace guards schooled in such martial arts as "lying on the ground" and "turning over like a swallow" and entered them in the match against the foreigners. The

result was a crushing defeat. What we need to do here is to demobilize the troops, put together a soccer team and a basketball team, and give them training. Only then will we be qualified to take part in international competition or the Olympic Games. In the absence of independent producers, how do we build a planned commodity economy? Nine years of reform demonstrates to us that we must take the contracting road. The contract system is the most effective weapon to break the habits of eating from the big rice pot and issuing confused and arbitrary instructions. We have introduced policies to delegate power, invigorate the economy, and open China to the outside world; imported a host of Sino-foreign joint ventures funded by the "three capital sources;" nurtured a batch of individual urban and rural peddlers and individual enterprises; and developed market-town enterprises aggressively. These have now become independent commodity producers, happy and lively like monkeys on a tree. But even more important, we must let the lion—state enterprises—out of the cage and untie the tiger—military enterprises—in order to mobilize the main force of the socialist economy. To achieve this, we must implement and improve the contract system.

The popularization of peasant family contracting in the rural areas has turned peasant families into active cells in agricultural production. Lively and dynamic, they have become production and operational units that produce for the market. Now that peasants are independent commodity producers, eating from the big rice pot and issuing arbitrary and misguided directions have become things of the past.

Contracting in urban enterprises, including factories, shops, and banks run by the state, collective enterprises, and market-town enterprises, requires enterprises to turn over to the state a specified amount of profits and allows them to keep any profits in excess of that amount. No longer can the "bosses" extort payments and intervene in the enterprise as they please. Right now total demand exceeds total supply, so we have no choice but to keep command planning for the time being and allow an enterprise to produce on its own in accordance with market needs only that portion of its output over and above the production target. When the contract system has successfully stimulated the development of productive forces and the supply of goods and materials becomes more abundant, however, the commodity economic system should be established in full. In foreign opinion, although socialist enterprises owned by the whole people belong to the entire population in name, actually nobody is responsible for them. Their management is lax and efficiency poor. And it is exactly the contract system which recognizes the interests of the three parties—state, enterprise, and workers—and holds the workers responsible for the enterprise, sets the level of revenue due the state, and allows the enterprise and workers to keep the remaining profits. The contract system straightens out the relationships among the state, enterprise, and workers in terms of managerial jurisdictional delimitation and interest distribution and establishes the enterprise as a mechanism that belongs to the

state but whose operations are the responsibility of the workers. It delegates to the enterprise the powers of production, management, and investment so that the enterprise has the capacity for self-accumulation, self-transformation, and self-development. The contract system is certainly not a "fixed-tax system" that merely solves distribution and tax problems. Contracting reforms and improves the system of socialist ownership in a fundamental way by separating enterprises from government. It severs the "umbilical cord" that links the enterprise to a command planning economy or control economy and transforms it into an independent commodity producer that formulates production, operational, and investment policies independently and assumes economic responsibility. By separating the enterprise from government, the contract system makes it possible for employees to run their enterprise and carry out the factory director responsibility system and scientific, democratic management. It also lays the foundation for the establishment of lateral associations by the enterprise and the implementation of a share-holding system. Comrade Zhou Guanwu [0719 0385 0063], leader of Capital Iron and Steel Complex, said that he was first in command both before and after the contract system came into effect, but that there was a big difference in the way he felt. In pre-contracting days, he had limited power and dared not do many things he wanted to do. After the contract system came into effect, he had much more power and money and was able to do all that he wanted. Some departments above demand money and materials from the complex and criticize it irresponsibly. To ensure that it will be able to fulfill its state target, Capital Iron and Steel Complex cannot continue to give in to those departments. Some bosses charge that the complex "is no longer obedient." This shows that issuing wrong and arbitrary orders does not work any more now that enterprises have production, operational, foreign trade, and investment decision-making power. It is just this kind of situation that economic structural reform must bring about.

After the 13th NPC, Comrade Zhao Ziyang conducted an inspection tour of Guangdong, Jiangsu, and Jiangxi and proposed that provinces and municipalities be given the responsibility for finance and trade in order to expedite the entry of coastal provinces into the great global circulation. This is a new development of the contract system. If the fixing of farm output quotas for each rural household and urban enterprise contracting are the first and second milestones, respectively, in China's economic structural reform, then contracting for local finance, foreign trade, foreign exchange, and credit will be the third milestone. Under China's original financial system, the central government and the localities eat from the big rice pot, with the former taking 70 percent and the latter retaining 30 percent. In this system, the central finance ministry involves itself in detailed local financial matters. For instance, when a locality contracts out an enterprise, the central ministry demands that it pay income tax on the amount in excess of the target as well. Profits over and above the target

must be paid out of the amount retained by the locality. In Beijing, this kind of "self-financed reform" can be implemented only within the scope of financing retained by the municipality. "Revolution can be carried out only within 49.55 percent of the money retained." There is financial contracting between Jilin Province and the central government. The province receives a fixed subsidy of 100 million yuan from the central government, but is otherwise free to decide matters on its own. This is why Jilin has been able to deal flexibly with Tong Iron and Steel Complex and other contracted enterprises that need to be developed, exempting them from an iron and steel value added tax, raising the depreciation rate and major repair fees, and offering them loans at subsidized interest rates. The result is that Jilin succeeded in implementing the contract system extensively. In addition, there have been coordinated reforms in finance, taxation, and materials supply, making the most of enterprise contracting and scoring great successes. The province almost tripled its revenues within a short 5 years, from 1,167,000,000 yuan in 1982 to 3.19 billion yuan in 1986. Jiangxi is a subsidy contracting province and enjoys a free hand in the pursuit of contracting. Between 1982 and 1987, its revenues increased 1,584,000,000 yuan, or 130 percent. To implement the fixing of farm output quotas for each household and urban enterprise contracting thoroughly, maximize profits, vigorously carry out coordinated reforms, and support peasants and enterprises, we need to delegate to local authorities such economic levers as finance, credit, transportation, commerce, materials, and foreign trade through contracting, thereby combining the central government's unified policies with measures tailor-made to suit local conditions.

With its high degree of centralization, the traditional Soviet model deprives peasants, enterprises, and localities of their power and creates a situation in which "10,000 horses are all muted." In China, economic structural reform has restored the rights of peasants, enterprises, and localities and revitalized them, smashed the big rice pot, and ended the practice of issuing arbitrary and misguided directions, thereby unleashing the initiative of 800 million peasants, millions of enterprises, and over 100 million workers and enabling local governments, which are closest to the peasants and enterprises and understand them best, to go in for coordinated reforms and support reform and construction with a free hand. It is a dynamic scene.

Thus a socialist country must go about reforming its economic structure by taking its national conditions as the starting point and adhering to rules special to itself. To copy Western economic practices blindly would be simplistic and would only produce ludicrous results without achieving the original objective. What we need to do now is not to cut our feet to fit the shoes—adapting ourselves to the specifications of the Western economic model—but to proceed from realities, pay attention to the uniqueness of our problems, and open up a Chinese path to reform. At present, the first step in economic structural reform is to fix farm output quotas for each

household, go in for enterprise contracting and local contracting, rely on contracting, and put an end to eating from the big rice pot, which has shackled productive forces, and issuing arbitrary and confused orders, which has destroyed productive forces, in order to sever the "umbilical cord" connecting hundreds of millions of peasant households and millions of enterprises to the government, and turn them into independent commodity producers and active cells. This will enable productive forces to expand sharply and raise living standards and increase social accumulation rapidly. Once they enjoy the tangible benefits of reform, the people will embrace reform wholeheartedly, their confidence redoubled. Meanwhile we will balance our budget, credit, incomes and expenditures; boost total supply to slightly exceed total demand; get rid of deficit budgeting, inflation, and spiraling price increases; and enable the people to live and work in peace, contentment, stability, and unity, laying a solid popular base for economic structural reform. The second step in economic structural reform is to establish a socialist market system, completely abolish command planning, coupon rationing, the planned allocation of materials, and miscellaneous controls on materials. At a time when total demand exceeds total supply and there are not enough goods to go around, it would be like building castles in the air to try to establish a simulated market that will not be able to withstand the test of the marketplace. The third step in economic structural reform is to gradually decontrol prices when our financial and material resources become more plentiful and total social demand and total supply are more evenly matched. Price reform is a gradual long-term process that cannot take place before the contract system has paved the way for economic structural reform, before productive forces expand significantly, and before financial and material resources become more abundant. It took the FRG over 30 years to decontrol prices. In 1948 it introduced currency reform and lifted price control on industrial consumer goods. In 1951 it abolished food rationing but continues to subsidize grain even today. Only an oversupply of steel in 1956 persuaded the government to decontrol steel prices. In the 1970's the housing shortage was over and every household had more than one suite of rooms. Only then was rent control abolished. These three steps may take place concurrently. For instance, after the contract system has led to a rapid increase in grain production, we can first set up a grain market and slowly decontrol grain prices. What needs to be emphasized here is that the contract system is the cornerstone of economic structural reform, the creation of a market system, its achievement, and price decontrol, its perfection. Such is the order of priorities among the three.

#### Second Point At Issue: How To Carry Out Price Reform

In a control economy of the traditional Soviet mold, prices are bound to be distorted. Price distortions are the product of inflation. In an inflationary situation with an excess of money floating around, a control economy in which the government controls prices and distributes

and allocates commodities must be imposed. Under these circumstances, daily necessities vital to the people's daily life must be purchased and sold through a state monopoly and rationed. The purchase and allocation of crucial primary products essential to industrial and agricultural production also must be centralized in accordance with a plan. Thus the more important a commodity is in terms of its impact on the national economy and people's livelihood, the more acute the need for price control, whereas minor products are free from such control. Consequently, while the prices of daily necessities and primary products remain unchanged and actually drop below their costs, those of secondary products go up. This kind of price distortion prevents the market from sending out correct signals and interferes with the functioning of the law of value as a regulator of production. Since 1953, China has imposed a state monopoly on the purchase and marketing of grain, cotton cloth, and oil as well as planned supply. From the first 5-Year Plan, important primary products had been put under planned allocation. As a result, their prices have fallen below cost. The elimination of price distortions, therefore, must follow the control of inflation. In China, prices were gradually straightened out only after inflation was checked in 1950. In times of worsening inflation, we may achieve a temporary balance by raising prices that have been artificially depressed. But since the prices of commodities previously exempted from price control continue to rise, primary products remain underpriced and we will be forced to introduce successive rounds of price increases. If runaway inflation continues and the demand for those products outpaces supply, their prices, now decontrolled, will skyrocket. Instead of being underpriced, they will now be grossly overpriced relative to their value and will become inflationary pacesetters for other products. The upshot is endless price spirals that will be hard to stop. Price reform, therefore, cannot take place when there is inflation. Otherwise, we will only fan the flames of inflation and create a huge fire.

In the early days of economic structural reform when productive forces have not been significantly developed and budgetary deficits and inflation have not been eliminated, we must continue price control and slow down the pace of price increases. Some products are grossly underpriced to the extent that the enterprise concerned actually loses money and the initiative of the producers is affected, unable to carry out expanded reproduction. Provided there is strict price control, we should adjust prices on an individual basis. Alternatively, the treasury can give the producer a price subsidy so that it will not suffer losses and be able to continue expanded reproduction. Price adjustments should be small and price decontrol is inadvisable. It should be recognized that our objective is to totally eliminate price control and material control after the contract system is put into effect, productive forces are developed, and inflation is checked. At a time when inflation and skyrocketing prices have not been brought under total control, however, we must take a realistic attitude, keep

price control to check price increases, and maintain a degree of price stability, including that of raw materials, so that enterprises can continue expanded reproduction. We should strive to maintain the price stability of daily necessities in order to ensure a stable livelihood for the masses and not affect their production enthusiasm. Some people believe that rising prices are caused by power delegation, economic invigoration, and the policy of opening to the outside world. In reality, they are the product of inflation and premature price decontrol. To eliminate price increases, we must take drastic measures—rely on the contract system to promote productive forces in a big way and put an end to budget deficits and inflation.

Some comrades believe that price reform is free: there is no cost to the state in terms of financial and material resources. Practice, however, proves that price reform is absolutely no numbers game but the redistribution of national income and material wealth. In 1979, the prices of agricultural products were raised, which boosted peasant earnings and signaled an effort to allocate more industrial goods to peasants. At the time we did not want to slice off part of the workers' earnings and give it to peasants. Instead we chose to stabilize the sale prices of agricultural products. However, the state failed to set aside a sum of money and some goods beforehand. The results were a budget deficit and a bloated money supply. The peasants had the cash but could not find the goods they needed, so their dollar bills became mere IOU's. Subsequently, agricultural and industrial production picked up and revenues increased, which helped wipe out the deficit and increase the supply of industrial goods. It took 4 years, from 1979 to 1982, to bridge this gap. It can thus be seen that prices can be adjusted gradually only after a major expansion in agricultural and industrial production when accumulation has effectively increased. Moreover, price adjustments must be backed by newly-created financial and material resources. Otherwise, it would be like going into business without any capital or spending money that belongs to other people. The masses will become discontented and we will end up pleasing nobody.

As Comrade Zhao Ziyang said, price reform is a long-term process and must be preceded by various other reforms. We must not tackle price reform first and use it to promote other economic reforms, much less trying to adjust a multitude of commodity prices at the same time in the hope of achieving economic reform in one fell swoop. Price reform is not the centerpiece of economic structural reform; putting price reform on hold or slowing it down certainly does not mean that economic structural reform has been stalled or abandoned midway.

Instead of grinding to a halt, therefore, economic structural reform in China is actually intensifying. At the heart of China's economic structural reform is the implementation and perfection of the contract system, accompanied by coordinated reforms, the very sign of an

intensifying and strengthening economic reform. If we follow this road to reform, we will certainly achieve great success, overcome all manner of difficulty, and usher in a glorious economic future.

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**Journal on Economic Reform, Development**  
*HK040821 Beijing JINGJI YANJIU in Chinese*  
*No 1, 20 Jan 88 pp 43-50*

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[Text] [Editor's Note: Since the beginning of last year, this magazine has started discussions on the problem of selecting the strategy for reform of the economic structure. To suit the purpose of meeting the demand for accelerating and deepening the reform, this year this magazine will continue to deepen these discussions. We solicit and welcome your contribution of articles and expression of your opinions.]

**Proposal of New Ideas**

In recent years, theoretical circles and departments engaged in actual practices, based on their separate judgements on the situation of the reform and development and the anticipated targets in reform and development that can be hoped to be accomplished, have formulated many programs and advocations. In summary, there are two different advocations concerning track conversion in the reform. The ideas split on the "double-track system" and the single-track system aiming at "reaching destination in one trial"; on the relations between reform and development, the ideas differ, with one side advocating a reform center and the other side a development center; on the selection of the starting point for urban economic reform, the dispute is between starting from pricing and starting from the ownership system; on the problem of invigorating the enterprises, one side calls for taking the entrepreneur as the center whereas the other side advocates placing the stress on the enterprise; and on the problem of the relations between planning and the market, there is the difference between "making planning scientific (that is, the so-called planning and decision making price system) and the overall speeding up of the formation of markets. On the basis of an analysis made of the various ideas, we advocate a new

line of thought. Its content is: On the precondition of the stable development of the whole country's political and economic situation, the market mechanism should first be promoted and strengthened in the coastal economically developed regions and the middle and western regions should respond and follow up, taking up any opportunity for reform and developing by tiers. In short, this calls for a strategy for reform and development of fighting a decisive battle in the eastern region and gradually shifting westward.

#### **Judgement of the Basic Situation on Which the New Line of Thought Is Based**

In the research on ideas for the reform and in planing this gigantic enterprise of the reform, it is necessary to make a correct analysis and judgement of the basic situation of the reform and development in our country. Reviewing the process of the reform of our country's economic structure and the changes that have taken place in the pattern of economic development in the past 9 years, our opinion is that the tasks of the starting stage of the reform have been basically completed and the major work now should turn to the problem of how to deepen the reform. During the past 9 years, in the rural villages the system of assigning responsibilities and linking remuneration to output has been instituted and conversion to commodity economy has been made; in the cities and towns, power has been delegated to the enterprises, mandatory plans have been greatly reduced in scale, the prices of a great majority of consumer goods have been liberalized and the policy of opening to the outside world has been carried out in the special economic zones and 14 coastal cities. All these measures have significantly revealed the superior character of market mechanism in such aspects as efficiency in allocating resources, turning production toward consumption and generally invigorating the economy. Its great vitality and setting of good examples have greatly aroused the masses' enthusiasm for taking part in the reform and gained their approval for strengthening the market mechanism. Confronting the powerful competition from township and town enterprises, privately run economy, individual economy, and "enterprises jointly run by three parties," state-run enterprises are no longer satisfied with the priority treatment of being supplied with raw materials at parity prices under the state plan and are inclined to demand the same market freedom as their opponents. However, due to the many considerations on the side of macroeconomic control, the state for a time finds it difficult to accord all-round liberalization to the state-run enterprises. For this reason, the reform can only slide along with great difficulty and in a double-track manner of proceeding evenly on a flat terrain. In reality, due to the many difficulties confronting the macroeconomic environment and the restrictions of such factors as the old growth pattern, in planning the lines of thought on the reform the basic points should be how to break the present ossified state, maintain the trend of the reform, achieve actual development in the

track-conversion process, establish and perfect the enterprise mechanism and market mechanism, significantly improve the investment environment, rapidly enable our country to participate, to an even greater extent, in the ranks of international division of work, and keep pace with the high tide of the new industrial revolution.

True, given the general progress of the reform, it is entirely possible that the reform in our country will be a prolonged battle, but for reasons of the non-development of the commodity economy and the imbalance in economic development, we cannot deny the possibility that in the near future in several provinces and regions where part of the commodity economy has developed and the contrast between the dual economies is not too great the market mechanism will be reinforced and a strategic breakthrough scored. Hence, we believe that when making a general plan for the reform, the basic line of thought for the current reform and development should be stabilizing the whole national economy and at the same time arranging for a decisive track-conversion battle along the coastal developed areas.

#### **Theoretical Basic of the New Line of Thought**

First, geographically the distribution in the regions of imbalance in economic and social development in our country is generally that the eastern region along the coast is the developed region, the middle region follows next in development while the western region is undeveloped. In these regions of different development strata which in turn demonstrate differences in economic and social background, the commodity economy presents different problems and requires the employment of different methods of treatment. Since the eastern region possesses relatively good conditions and the environment for instituting a new structure and a new mechanism and has made demands for the further deepening of the reform, it should take up the reform first in order to facilitate the development. Since the middle and western regions temporarily do not possess such conditions and environment, they should, in accordance with their conditions, adopt fitting guidelines and policies and refrain from making too extravagant demands and forcing the localities to do things that cannot be done properly. The strategic proposition of "fighting a decisive battle in the eastern region and gradually extending the front to the western region" in reform and development is made on this basis of thus assessing the judging the national conditions.

Second, in order to solve the problem of the regional disparity in well-being, the speedy and relatively great development of the productive forces should be taken as the precondition, and in the initial stage of development we should depend on the eastern region becoming affluent earlier than others as the pulling force and should not try to "even up" by paying the price of sacrificing wholly or in part the development of the productive forces or by using simple and passive methods. It should be noted that the middle and western regions do possess a definite

industrial foundation and have already developed the blood-making functions of promoting economic growth. When and as the eastern region speeds up the reform and opening to the outside world, it can soon acquire a place in the ranks of international division of work, its industrial structure can be upgraded, an outward-oriented economy can be formed and this will make available to the middle and western regions can, based on their own material conditions and through sundry ways and means, improve their own industrial structure so as to speedily fill up the gap in the domestic market and thereby step up the economic growth of their regions. At the same time, the eastern region, in readjusting its industrial structure to suit the international division of work, may expand and transfer a portion of its industries to the middle and western regions, as a sort of replenishment of the assets accumulations of the middle and western regions. This kind of relationship between the eastern regions and the middle and western regions built on the selection of comparative interests and on the basis of bettering the structure is truly the source of creating economic vitality.

Third, the purpose of socialism is to make the whole people jointly well-off. Manifestation of the superiority of socialism never lies in achieving egalitarianism in conditions of universal poverty. On the contrary, the superiority should be manifested in that following the growth of the economy a portion of the people and a portion of the regions become better off earlier than others. This on the one hand will bring about an economic growth on a much wider scale and more universally and thereby make a portion of the people and a portion of regions become well-off afterward, and on the other hand, reliance on the growth of the economy will provide a basis for the continuous increase in the supply of materials for redistribution which will serve as the predetermined condition for solving the problem of social justice and equality.

#### What Defects Are the New Ideas Meant To Heal?

1. Since the 3d Plenary Session of the 11th CPC Central Committee, our country has achieved great successes in the reform and development. At the same time, people have come to understand that for a country as big and improved as ours to carry out reform and development is an immensely difficult task. Speaking for the country as a whole, reform and development cannot be accomplished all at once. We must pay a price for reform and need funds for the development. In present conditions, the battle line is too long, our strength is scattered, and it is difficult to look after both ends. If this situation continues, we shall fall into a dilemma of having too many problems to tackle. Hence, we should promptly make a resolution at the first opportunity, shorten the battle line, concentrate our limited resources on solving the problems of some of the regions, then launch the operations forward like a tidal wave, accumulate small

triumphs to form big triumphs, convert the small areas of operations to bigger areas and ultimately achieve successes on a nation-wide scale.

2. Seen from the form of the track-conversion of the structure, due to the restrictions of such factors as the large size of our country's territory, the low-level economic development, existence of a great contrast between the dual economies of the urban and rural areas and the different degrees of market development in various regions, reform on a nationwide scale cannot instantly convert the form of the allocation of resources from the centralized administrative model to the track of a diversified market decisionmaking pattern (as differentiated from the socialist reform of a small-nation type). Hence, to undertake reform in a socialist developing big country, the only possible way is the "double-track" system. Nevertheless, in enforcing on a nationwide basis the plain-level double-track system, double "communication rules" will unavoidably be encountered and in turn there will be such problems as conflict and collision between the two structures, lowering of the efficiency in allocation of materials and so forth. Conversely, the "space double-track system" advocated by the new line of thought can in part avoid or at least minimize and ease such contradictions, untie this "death-knot," and bring the dawn of victory to the track conversion of the structures.

3. Seen from the form of delegating power, due to the restrictions imposed by insufficient theoretical preparations and scanty experiences in reform, delegating of economic decisionmaking power in our country has adopted the benefit-motivating form while in reform of the financial structure and reform of the enterprise mechanism the form adopted has been one of tight and vice-like contracting for a base figure and increasing the profit-retention rate. The logical consequences of this type of reform will naturally be that after the central government has fixed the target for increase, the local governments, for the sake of obtaining more rentations, will attempt to double or re-double the target and that after the state's departments in charge have fixed the production-increase target, the enterprises will resort to various measures to realize the target; and the end results will be the circulating and credit and loan funds staying put and fixed, the enterprises' operations turning to a short-term basis, both the state's and enterprises' investments tending to inflate, central finance inclining to the system of subsidizing, red figures in the budget and a trend to currency and credit expansion. Actual practice has shown that enterprise contracting does enliven the microeconomy and is an extremely important measure in the reform and development, but still needs a further step in coordinated reform since only by so doing can we improve the efficiency in allocating material resources and realize strengthening of the national economy's structure. But under the above-mentioned transmission mechanism, any retrenchment policy, if too strict and without any special objective, will render the enterprise

unable to operate, disrupt and wreck the actual productive forces and the potential productive forces and may even cause structural losses, and, if too light, will be ineffective, tight but not restrictive enough, and may cause the economy, before yielding any concrete results, to launch into yet another take off. Judging from this, it can be seen that the reform of the financial structure which has been enforced has not yet caught the key points of the old economic structure and if the line of thought is confined within this scope to carry out the reform, then undoubtedly it will not be advantageous to deepening the reform. The object of the new line of thought is first of all in the reform piloting areas to break through the old economic operation forms, start with solving the problems of the enterprise's operation mechanism and formation of the market mechanism and thereby attain the objectives of economic growth and financial and credit equilibrium.

Viewed from the relations between planning and the market, under the pattern of the plain-level double-track system it is difficult to separate planning work from such concrete affairs as fixing projects, approving or disapproving projects, fighting for funds, distributing material resources and so forth to concentrate its strength on solving such key problems as the industrial policy the solution of which the national economy is eagerly awaiting, restrictions on market admissions and strategy for development, minimising the growth's waiting period, and so forth. Enlivening the market in which state-run large and medium-sized enterprises are the principal participants is fraught with even more difficulties. Under the conditions of a double-track system applicable to prices of the means of production, not only is the relative scarcity reflected by the prices outside the plan being exaggerated but also there is the "possibility of profit-making" by buying at parity prices inside the plan and selling at high prices outside the plan, thus giving those speculative elements living on the defects of the double-track system an opportunity to make money and thereby greatly increasing the transaction cost in economic activities and rendering political life rapidly "commercialised." At present, the major problem is inequality in opportunity rather than inequality in the results of profit distribution. In reality, competition of this kind is not a rational competition in prices and in equality. Rather, it is a field battle in discount-giving and in the school of relationship. Enforcement of the new line of thought can at least bring about in a definite area a measuring of strength on equal chances.

5. Viewed from the relationship between reform and development, although between them both are cause and effect, to strictly separate them is not realistic. However, in guiding thought we must first clearly understand, speaking from a certain aspect, that reform and development are definitely two things that cannot be obtained at the same time. If in making a difficult choice between these two, we lack a firm belief (namely, firmly believing that reform, after attaining an actual breakthrough on the problem of changing the form of the allocation of

material resources, will definitely provide development with a fountain of motive force which is endless in supply and cannot be depleted) but under the conditions of the illness-laden double-track system in operation, force the economy to start flying in the continued search for a high growth target, then our country's economy cannot manifest a cycle of sustained and stable development and also cannot create a suitable macroeconomic environment and minimum conditions for the reform's strategic decisive battle in the not distant future. On the contrary, the development that will be awaiting us will possibly be that, for the sake of solving the problem of the serious imbalance in total supply and demand, we may be forced to retread history's beaten path of relying on compulsory readjustment of development-stalling to centralise and restore the equilibrium. It should particularly be pointed out that under the conditions of the macroeconomic environment rapidly worsening, there is a great risk of the old structure defecting. As a matter of fact, in recent years, a portion of the good effects of rural reform has been surreptitiously eroded by the new unified levy-purchasing scheme (or unified levy-purchasing plus exchange-purchasing scheme), and the diversified efforts made to keep the price level from rising too rapidly have caused the very much disliked consequence of withering of supply. This serves to explain that the difficulties in deepening the reform come not only from the old structure's enormous inertia but also from the non-development of the commodity economy. Facing these two difficulties, we should turn to another angle in examining China's reform and development and, as with the successful experiences gained in rural reform, we may in a certain region and certain industries, trades and products fight a decisive battle first and seek an early breakthrough. By so doing, it will be possible on the one hand not to wait for the development of the economy and proper handling of the environment on a nationwide basis and on the other hand not to lose the opportunity of fully utilizing the already-attained good reform situation and reform resources to effectively implement the main objectives of reform and development.

#### **Strategic Supposition of Decisive Battle in the Eastern Region**

Based on the above-mentioned analysis and judgement, we believe that concurrently with recently stabilizing the national economy, we may soon consider starting in part of the coastal developed provinces with the most favorable conditions, a regional strategic decisive battle for the reform of strengthening the market mechanism, and during the period from 1995 to the end of this century endeavor to achieve the objective of converting the economy in the whole coastal areas onto the operational track of being under the state's indirect control, with the market mechanism as the leading factor. If only we can smoothly accomplish the task of track-changing of the structure in the coastal developed areas, we shall have fixed the basic posture for the reform of our country's economic structure. From then on it will be a matter of course to devote 10 years or more to pushing the reform step by step to the middle and western regions.

This reform idea of staging a regional decisive battle and pushing forward step by step is suited to the basic national condition of the spatial imbalance in the development of the commodity economy in our country. It calls for letting a portion of the coastal provinces with a relatively developed commodity economy enter first onto the operational track of the commodity economy and also for adopting a more positive posture of opening to the outside world. Only through allowing a portion of the regions to become well off before others can the reform obtain the motive force and replenishment from fighting to sustain fighting and can we break through the stinging and ossified state of the reciprocal contradictions between reform and development. If it is said that taking the country as a whole our country's basic national conditions have ordained that the reform cannot proceed in a rapid manner and that because of insufficient experiences we can only revert to the policy of taking small steps under the double-track system, then, after a certain period of learning and adapting, our country's reform policymakers and the masses at large should all have gone through steeling and obtained many beneficial experiences and by adopting of the measure of the developed regions first making a breakthrough, we can also evade the steep differences in the development level. Therefore, a logical conclusion should be: First stabilizing the national economy, storing up strength and at the first opportunity and without stopping short at the current plain-level double-track system, adopting the bold breakthrough strategy of staging a regional decisive battle. Only by so doing is it possible not only to stabilize the general situation of the national economy but also to fully manifest the exemplary effects of the principal body of a regional market mechanism. When the regional breakthrough has been crowned with success, then it will be possible to turn around and, with the cost serving as the basis, develop the reform on a lateral, deep and large scale. We firmly believe that this supposition harmonizes with the actual conditions of carrying out reform and realizing its development in such a large socialist country as ours and also in the poor developing countries. At the same time, it is also the only workable measure in harmony with the 9 years' continuity of the reform policy.

The main contents of the reform and development of the pilot zone:

1. Selection of the reform pattern. Structure's target pattern: On the basis of the socialist public ownership system as the main body, diversify the form of the ownership system, link the enterprise's selection of the form of the ownership system with its selection of the operation mechanism, allow the true realization of self decisionmaking in operation and being solely responsible for one's own profits and losses, thereby further invigorating the economy and enlarging opening to the outside world. Pattern of the economic operation mechanism: The government indirectly controls the economy and principally performs adjusting and regulating work concerning the industrial policy, money supply, and

income distribution for the purposes of solving the problems of the direction of economic development, economic stability, an even growth rate and social justice and equality. By means of definite measures government may participate in the markets (not market intervention) to allow the market to fully display its role and to guide the enterprises.

2. Reform of the ownership system. Principally through promoting the stock-holding system, large and medium-sized state-owned enterprises should be free to select the form of their own ownership system. Their existing assets should be treated and turned into state-controlled shares or participating shares. As for additions to the assets the form of the ownership system should be diversified and on this basis a board of directors should be established with the state entrusting to the board of directors the management of its ownership right. This system of entrusting to the board of directors will concretely carry out the principle of separation of the two powers and will realize the unification of the division and separation of the ownership right and management right in the strata of the enterprise. This not only does not hamper the enterprise's decisionmaking power in the operation policies but can also effectively prevent the enterprise from indulging in short-term behavior. At the same time, issuance of enterprise or company bonds should be permitted, a security market should be set up, and private individuals and bodies should be allowed to purchase various kinds of enterprise stocks and bonds, so that by means of participation and infiltration in various forms the form of an enterprise's ownership system may be diversified, the independence and autonomy of the enterprise may be promoted and a contingent of entrepreneurs may be trained up.

Protecting and facilitating the development of privately-run economy, and formulating statutes governing privately-run enterprises. By means of such forms as leasing, chartering, and contracting, small-scale state-owned enterprises should diversify their operation forms. Private individuals should be encouraged to purchase the assets and stocks of medium-sized and small state-owned enterprises so that a portion of the small state-owned enterprises may be converted into privately run economy. Or, when and as private individuals hold a definite proportion of the stock volume they should be allowed to take over the management right of the enterprise, and the procedure should be by the state-owned assets management department entrusting management control to the share-holders concerned. Simultaneously, the inheritance system of the funds of a deceased's estate should be abolished and an inheritance tax should be collected; with due consideration of the demands of encouraging the accumulation of private individuals' assets and properties, the tax rate should be suitably lower than the level in industrially developed countries.

3. Establishing an overall market system and facilitating the free circulation of various important elements. On the side of market commodity prices, we should enforce

the method of all-round liberalization of the control of commodity prices, and allow prices to freely fluctuate. The staff members' pay should take the form of consultation rates agreed upon by the industries and trades while the salary of the manager's level should be freely determined according to the market conditions. At the same time, an all-round cumulative income tax should be collected, labor force in the pilot zone should be allowed to circulate at will, and to freely choose employment, and the ultimate purpose should be to make the market scale of salaries and wages restrain a rise in wage inflation.

4. Expand in the opening to the outside. We should enforce a policy of attracting foreign capital that is more liberal than that in the inland and also a policy of buying and selling land with a restrictive use period. Based on the harbors and ports, and with large industrial and trading groups as backbone, we should form a number of import and export companies capable of effectively taking part in international competition. To prevent dumping at low prices, we may try out a cartel system with unified foreign-trade prices. The international competitive strategies of ensuring the quality of products, strictly adhering to goods delivery dates, and granting of suitable price discounts should be adopted. Foreign banks should be allowed to establish branch offices and to develop their businesses in the regions. We should openly enforce business transactions in foreign exchange between the enterprises, and buying and selling operations to absorb foreign exchange funds as well as various kinds of buying and selling and discounting businesses in bonds and securities.

5. Aside from directly delivering the special circulation tax to the central treasury, in the pilot zone we should experimentally carry out a separate tax system and form a unified state tax bureau. At the start, we should still base it on the existing practice of upward delivery of the base amounts from contracted jobs. We should definitely establish the principle of the pilot zone not taking any "sideline meals," and carry out the policy of central finance only taking from but not giving to finance in the pilot zone. However, the pilot zone should be accorded a unified power of making international loans and the right to use such power based on a weighted average distribution according to the national income of the provinces and cities and the total volume of export trade. For the sake of safety in supervision, all international loan activities should be done by the Bank of China on a unified basis and under the principle of the borrowing unit being wholly responsible for loan repayment.

6. Breaking the separation of markets between the provinces and cities and between the urban and rural areas in the 8)95 "9,3. A new census register system should be instituted to facilitate population movement. Based on the principle of comparative cost and comparative benefits, we should readjust the industrial composition between provinces and cities and between the urban and

rural areas and improve efficiency in resources allocation. The rural villages should take advantage of their superiority in their cheap labor power and develop products of the labor-intensified type, and further solve the problems of transfer of rural labor force and of making the rural areas non-agriculturalized. Large and medium-sized cities and towns should make use of their superiority in technology and in the processing industries to further readjust their industrial structure, make their industrial structure ascend to a higher and stronger level, and expand, spread and transfer their lower-grade industries to inside and outside the pilot zone.

7. The pilot zone resorting to the practices of frequent consultations with all the parties concerned and the common and mutual enjoyment of benefits to their policy vis-a-vis brother provinces and cities outside the regions. In the course of the pilot zone pushing ahead the market mechanism, the various provinces and cities and the vast masses inside the region will increasingly meet with challenges from the market's relative prices and comparative benefits and will all demand readjustment of their original economic structures in different degrees. Such readjustment can in part be solved by shifting and transfer between the provinces and cities and the urban and rural areas within the zone but in some cases coordination and help must be sought from brother provinces and cities outside the zone. Hence, the zone must consider that there is a difference between pilot and non-pilot and must also consider the aspect of opening to brother provinces and towns. This will demand the setting up of a consultative system to probe into the form and method of the transfer and expansion of industries inside the zone to outside the zone.

8. Formulating the enterprise law. The enterprises must be independent and autonomous and operate according to law and the legal rights of the entrepreneurs must be safeguarded. At the same time, it is necessary to form various kinds of civilian organs and consultative channels, particularly augmenting the construction of labor unions to protect the legal rights of the workers and of the various social circles.

9. Planning an administrative and control organ. The central government should establish a pilot zone management commission which should formulate the reform and development strategies guidelines, and policies in the pilot zones and take charge of the problems of the equilibrium in the outward and inward movements of strategic materials and commodities between the pilot zone and the middle and western regions. Inside the zone a system of conferences should be set up between provincial heads and department and bureau heads, to coordinate inter-provincial relations and to establish normal liaison. To ensure the smooth progress of the reform and development, the central government should consider endowing the pilot zone certain special legislative power.

### Setting Up a Stable National Economy as a Favorable Response to the Pilot Zone's Undertaking Reform Earlier Than Others

A stable national economy is an important exterior condition for the smooth prosecution of the decisive battle in the eastern region. Subjectively speaking, only with a stable national economy can there be any assurance of the central government concentrating its energy and efforts on prosecuting the decisive battle in the eastern region, planning meticulously, making wholesome and all-round arrangements, coordinating in an orderly fashion and emerging triumphantly from the decisive battle. Objectively speaking, a stable national economy will help prevent the economy getting overheated and enable the central government to hold the necessary financial and material reserves to provide the appropriate logistic support when and as needed in the decisive battle in the eastern region.

To definitely ensure the smooth progress of the reform of the economic structure and mechanism in the pilot zone in the eastern sector, a strategy of established development and of slow reform should be carried out in the middle and western sectors. Enforcement of such a strategy not only takes full account of the conditions of economic and social development in the middle and western sectors but also emerges from having regard of the interests of the whole situation and of reserving for the subsequent all-round reform a portion of the battle-front which has fewer risks. The basic concepts of having a stable national economy in response to the pilot zone undertaking the reform earlier than others are:

1. Enforcement of a suitable and effective retrenchment policy to ensure the economy's stable development. Beginning from 1988, the whole country should enforce the "3-stringent policy," namely planning retrenchment, financial retrenchment, and credits and loans retrenchment, so as to ensure the macroeconomic measures which the government can control are strictly implemented according to plan. In particular, banknote issuance should be strictly controlled, there should be no increase in budget deficit, and the existing red figures in the budget should be reduced as much as possible by means of retrenchment planning. The near-term growth rate of the national economy should be maintained at around 5 to 6 percent. Particular attention should be paid to rectifying the practice of using circulating funds to invest in fixed assets and stern legislative measures should be formulated against such a practice. By so doing, temporary losses may result, but it will be exceedingly helpful to setting up the new structure, to forming a benign cycle for economic growth, and to nurturing and training up a spirit and atmosphere of realism on the part of the whole people.

2. Development of the middle and western sectors should center on strengthening capital construction and nurturing and developing the commodity economy. The strategy for economic development in the middle and

western sectors should be subjected to long-term planning and consultation and be based on local conditions. It is especially necessary to pay due regard to their own strong points to form the preparatory conditions for even further and greater development in the future. The state's major investments should be placed in the middle and western sectors, this as a measure to create the conditions for reducing the imbalance in regional development. Solution of the capital construction problem of the middle and western sectors should rely on the joint efforts and strength of the state, the middle and western sectors, and the eastern sector. Realizing conversion to commodity economy as early as possible is the center of another piece of economic work in the middle and western sectors and is a prerequisite for taking a further step in the reform.

3. Reform in the middle and western sectors should preferably be slow and not fast. It should proceed on the basis of strengthening the results already attained, stressing environmental treatment, deepening the reform of the large and medium-sized enterprises, creating conditions and making due response to and following others' advance. Reform of the large and medium-sized enterprises may also follow the pilot method in expanding the stock-holding system but in the whole economic operation there should be only a limited opening up of the markets and an all-round market mechanism should not be immediately enforced. Building up of the entire market structure must keep pace with the progress of the development and nurturing of the commodity economy.

4. Central government's co-ordinated response and aid to the pilot zone and coordinating the relations between the pilot zone and the middle and western sectors. 1) The central government should note the development conditions of the reform in the pilot zone and employ different methods to meet the pilot zone's demands for strategic materials from the outside such as energy, raw materials, and grain but at the same time should ensure by suitable forms the supply of certain important products to the middle and western sectors. 2) The central government should establish a reform pilot special sinking fund for emergency use in the event of unexpected difficulties. Prior to track-conversion of the pilot zone, if the zone finds itself unable to handle the problem of big and important construction projects affecting its development alone, the central government should also consider coming to its aid. 3) The central government should help in solving the liaison problems between the markets in the pilot zone and in the middle and western sectors. The governing principle should be: facilitating commodity circulation, without harming their respective interests eventually creating conditions for setting up a domestic united market. The method available for selection is levying a special circulation tax on commodities entering or leaving the pilot zone with an eye on the price conditions of the two markets. 4) The central government should promptly attend to other problems arising between the the pilot zone and the middle and western sectors, particularly problems of relations between the neighboring provinces.

5. Fixing a timetable for the eastern sector's decisive battle and the middle and western sectors making due response and following it. Two timetables may be considered. One timetable is: In 1988 perform two matters well, these being: 1) Stabilizing the national economy and at the same time developing treatment work on the environment and 2) fermenting and formulating the planning program for staging the decisive battle in the eastern sector. In the years 1989 to 1991, the whole reform program for the decisive battle in the eastern sector will be implemented while the middle and western sectors will still be stabilizing the economy, undertaking the reform in small steps, doing the major task of nurturing and developing the commodity economy and augmenting capital construction; meanwhile consultative talks between the eastern sector and the middle and western sectors will be being developed to probe into solving the problem of liaison and reciprocal relations between the markets in the sectors. In 1992 and 1993 the new economic structure and mechanism in the eastern sector will have been perfected and there will be further solution of the problem of the transfer, expansion and dispersal of industries in the eastern sector to the middle and western sectors; the process of the reform in the middle and western sectors themselves will begin to be speeded up and, based on the conditions of the reform and development in the middle and western sectors, arrangements and a program will be made for the next decisive battle to be staged in the sectors. The above the stages will take approximately 6 years. As for the other timetable, it will contemplate liberalizing the time period allowed for the three stages or for any one of the stages, possibly extending the time allowed to 8 to 10 years.

#### Strong Points of the New Ideas

1. They break the difficult situation caused by the plain-level "double track" system which made various parts of the country proceed abreast in the reform and kept the coordinating reforms from developing in an all-round manner. Rather, they handle relatively well the relations between the reform and the development and cope with fairly well the problem of imbalances between the localities, converting the passive factors affecting the whole situation of the reform and development into active factors for reform and developments in parts of the localities. In the pilot zone, they outstandingly play up market mechanism—the main theme of the reform—and speed up reform so as to propel economic development. In the middle and western sectors, they play up development as the main theme, thus creating the conditions and opportunities for deepening the reform. They constitute a new line of thought with due regard to China's national conditions, being a safe and positive program for the reform and development.

2. Important reforms carried out on a nationwide basis may produce shocks to society and the economy but these ideas can disintegrate them, nullify them, greatly diminish their intensity. By so doing, the extremely good

situation of the whole country being safe and united is maintained and in point of time the reform and development can continue to progress and advance upward. Besides, they also provide the reform and development with breathing time, and possibility to make changes, if necessary.

3. Implementing different strategies in reform and development in different localities can avoid the errors of formalism and is also advantageous to both reform and development attaining concrete progress and likewise advantageous to carrying out different pilot models of piloting and selection.

4. The new ideas make it possible to fully utilize the reform resources. If the different strategies applied to different localities are suited to the character and demands of the local cadres and masses, then the latter can be aroused to even greater enthusiasm and to struggling for practicable and workable targets. Because of this the cadres and masses in the pilot zone can engender an even greater sense of mission and responsibility while cadres and the masses in other regions will also, because of this, feel an even larger sense of urgency. The process of the reform and development in different regions is also the process of suiting the experience accumulations of the cadres and masses in these different regions to their psychological ability of acceptance which will pave the way for the smooth progress of reform and development on the side of culture.

5. Pushing the eastern coastal areas to the front rank of deepened reform is at the same time creating conditions for further opening to the outside world. This will be advantageous to expanding and deepening the liaison between our country's economy and the international economy, to speedily utilize the opportunities offered by the international environment, and propel the course of the modernization of our economy.

6. Another important strong point of this new line of thought is that it can make the enforced program highly practicable and produce exemplary effects. This is because since only some of the areas carry out the all-round reform before others but are supported by the whole country's financial and material resources, any relatively big problem encountered can be solved readily. Also, because strengthening of the market mechanism is carried out in an economically developed region, various kinds of economic regulation measures can be easily undertaken and can readily play their role, and in view of the stress laid in this region its experiences possess sufficient substance and weight to produce various exemplary effects to other regions.

#### Possible Difficulties in Enforcing the New Ideas

1. The eastern pilot zone is an economically developed region in our country. On the one hand, it is a region that has an important bearing on the national economy and on the other it is an important center of finance and

resources of the central government. Its success or failure definitely affects the country's destiny. If the pilot project should fail, naturally it would cause serious confusion to the national economy. Thus relatively great risks are involved. But precisely because of this, the success of the reform venture possesses a decisive significance. Any successful endeavor necessarily incurs certain risks. Reform strategists should be brave enough to shoulder such risks and also must have the wisdom and judgement to overcome the risks as well as the farsightedness to control the destiny of history.

2. When carrying out rapid track-conversion in the pilot region, a certain extent of economic fluctuations and social unrest are possible. Based on the experiences offered in international society and taking into consideration the great inertia inherent in our country's old structure and the serious effects on the cadres and the masses, it is estimated that the fluctuations and unrest caused in the pilot region will continue for a period of 1 to 2 years although their basic trend will not constitute really serious threats to the reform and development. The method of solution is to do three things well during the preparatory period: 1) Unifying understanding and psychologically raising the ability to bear and to accept; 2) good material preparations and formulating in advance programs for special aid; and 3) local government's taking part in the market activities actively, highly efficiently, and in strict accordance with market regulations.

3. Possibility of eruption of conflicts in interest relations between the provisions and cities within the pilot zone. For example, we may mention such matters as the inter-provincial movements of personnel, population, material resources, fighting for foreign capital and export quotas, and so forth. To ensure the smooth progress of the reform and development it is desirable that the central government designate a vice premier to take charge of coordinating the provincial relations. Or, meetings of provincial governors inside the pilot zone may decide on possible solutions to be submitted to the central government for approval.

4. A bigger difficulty is the market liaison problem between the pilot and non-pilot zones. Demarcating the zone itself has the related problem of closing it to the outside, although doing so is to facilitate work and the progress of the reform. Not to do so will mean that one side will be enforcing market mechanism in full with prices all being liberalized and that on the other side a restrictive market mechanism is in force and the prices are not all liberalized. The result will be that the full liberalization of prices will affect the non-pilot regions, bring about a rise in commodity prices throughout the country, affect the stability of the national economy and cause confusion to the whole reform program. However, if the one demarcation becomes fixed and crystallized and form a legally permitted artificial blockade, then it is also disadvantageous to development of the entire economy and sets up a new impediment to the establishment

of a united national market. This problem requires organizing manpower to make a special study, and to suggest rectifying measures, which in turn must first undergo practice and change before a relatively satisfactory answer can be found.

5. People are concerned with the possibility that once the new ideas are carried out the problem of the imbalanced development between the eastern and western regions may be aggravated. Such a concern is a reasonable one. However, on at least two counts the new ideas will make active efforts to solve the problem of imbalanced development. On the one hand, they take the eastern sector's existing economic and social development as the foundation and, without receiving any special financial support from the central government, make the sector accept the risks of deepening the reform before other sectors, employ reform to further the development, and, by means of the improvement in the structure of the eastern sector and transfer of its industries, enable the middle and western sectors to obtain markets and accumulations of assets and bring about the two sectors' readjustment of their industrial structure as well as their economic growth. On the other hand, since the central government's major investments are centered on strengthening the capital construction of the middle and western sectors, conditions are being created for the long-term development of the middle and western sectors. If the relief and supportive measures to the impoverished areas already enforced by the state are added to this, the imbalance problem in the development of the eastern and western sectors, following rather prolonged efforts to be made, can be solved within a historical and rational scope.

#### **Journal Discusses Control of Demand**

*HK141541 Beijing JINGJI YANJIU in Chinese  
No 2, 20 Feb 88 pp 46-49*

[Article by Chen Dongqi (7115 2639 3825) of the Economic Institute, Chinese Academy of Social Sciences: "The Main Objectives in the Control of Demand at Present—Also Discussing the Reform Concept of 'Seeking Progress Through Stability'—written in January 1988"]

[Text] Reform is like sailing against the current, if one does not forge ahead, one will be washed back. Since economic reform and development is an on-going process, neither retrogression nor stagnation will work. However, there are hidden factors of instability in our economy. When drawing up the blueprint for our next reform step, we must go about things slowly and surely and must not rely on luck or act rashly. Under difficult and harsh economic circumstances, it is perhaps too risky to embark on short-term "throe-like" reforms. Out of consideration for practical feasibility, I think that the strategy for our next step of reform should be to seek progress through stability. In other words, we must, on the one hand, bring about economic stability and coordinated development through tightening up the money

supply, checking the expansion of demand, and stabilizing the market and the commodity prices. On the other hand, we must speed up the switch to mechanisms of macroeconomic control, gradually effect the transition from the contract system to the joint stock system through reform measures aimed at "weakening ownership and strengthening the power of management of enterprises," and achieve the goal of selectively intensifying the reform.

It is quite apparent that stabilizing the economy will remain a long-term policy of our country during the period of reform. Economic instability, with its great fluctuations and alternate cycles of constriction and relaxation, is not only extremely detrimental to the effective growth of the economy but will make it very difficult to launch a more comprehensive and well-coordinated reform program on schedule. Under the present circumstances, we must resort to stronger measures of control and adopt suitable measures of readjustment to put the situation in order and stabilize the economy.

In the history of modern economic development, we cannot find a single instance where development and reform have achieved success against a background of high inflation. War-devastated Federal Republic of Germany and Japan were swiftly able to enter the orbit of economic takeoff soon after the war because both countries had adopted an effective austerity program and had successfully kept post-war inflation in check either through the reform of the monetary system or through financial and tax reforms. The economic crisis which hit the United States, Europe and Japan between 1974 and 1975 was accompanied by high inflation. On the other hand, the 1982-86 boom in the United States, Japan and West Germany had a lot to do with the successful control of inflation. During the same period, Eastern Europe was suffering from "stagflation" attributable to the sustained growth of inflation and the constant expansion of total demand. In China, where the level of economic development is still low, there is a universal "investment hunger" left over from the conventional socialist structure. Because there is only a limited amount to go around, "consumption hunger" will easily give rise to consumption fund expansion. This will induce more serious supply shortages, increase the latent price rise pressure, and make it more likely that overall demand will grow too quickly. Thus, we should first consider controlling overall demand by tightening up the money supply.

In the past, every time we introduced contraction measures we did so universally, with the production enterprises usually bearing the brunt. As a result, there was a decline in economic growth and economic results each time the tightening up policy was implemented. In the process of reform, in particular, the introduction of market mechanisms, increased consumer choice, the diversification of investment, the move toward more complicated enterprise behaviors, and the change in the

role of government have the effect of reducing the degree of transparency, or openness, of the economic system and making uneven the objective functions sought by the economic parties concerned. This being the case, "uniform" measures are unlikely to be able to effectively direct the force of the macroeconomic control of demand to the designated areas. Thus, if we "seek uniformity" by introducing universal contraction measures during the reform period, we are bound to incur more losses than when the same measures were implemented under the old system. In which case, should we give up trying to control demand simply because the effects are not satisfactory in the first stage, and switch to policies which will stimulate demand? Should we let the expansion of demand go unabated? Apparently this "either ... or" way of thinking and policymaking principle cannot be used to direct a socialist economy like ours which is still at a primary stage of development. We ought to be able to find a measure which will enable us to effectively control the expansion of demand. I believe that on the basis of the formulation of a scientific system of policies in the three areas of finance and monetary affairs, industrial production, and consumption, a tripod control mode involving "division by types, levels and localities" (see my previous article "The Choice of Macroeconomic Policies in the Period of Reform" carried in JINGJI-XUE DONGTAI [Trends in Economics], No. 11, 1987) may be a feasible avenue for improving the management of demand.

First, we should selectively control the excessive growth of demand.

The most talked about topic over the last 2 years has been the "shopping basket" question. People feel that supply growth cannot keep pace with demand growth, and that the use value of their money is becoming smaller. Some comrades have attributed the main cause to the shortage of effective supply and held that we should try to stimulate output growth and increase effective supply through such measures as land reform or raising the price of grain and pigs. There is some truth in this. However, we should see that limited by land, capital and technical resources, the constraints on grain and pig supplies will remain strong for a long time to come. Moreover, it is by no means easy to make two further leaps in grain output on the 800 billion jin basis (that is, striving to attain the 900 billion jin target by 1990 and the 1000 billion jin target by the year 2000). Neither will we be able to abolish once and for all the situation where grain supply is likely to remain tight in a populous country like ours simply by relying on import—say a net import of 10 million tons of grain each year. The same is true with pigs. Since 1984, the number of pigs butchered has increased by a total 50.61 million head in 3 years, or 16.87 million head each year, an annual growth rate of 7.6 percent, which is not a bad growth rate considering the growth rate of China's agricultural economy and the availability of feed. Moreover, we have already attained the consumption level of roughly 1 pig per four persons each year (see China Statistical Yearbook 1987, p 178).

It is quite hard to surpass this level by a substantial margin under the given resources constraints. It thus appears that for a fairly long time to come China's grain and pig supply will remain short. In spite of all this, the output of vegetables has increased quite rapidly over the last few years. Thus, in order to resolve the problem of "the shopping basket" once and for all, it will not work simply to base our considerations on growing vegetables, raising pigs, and cultivating grain, but must "work along both lines" by increasing supply on the one hand and keeping consumption demand from expanding too rapidly on the other.

At present, the expansion of consumption is beyond what our national strength can contain. In the past, the production of beverages like beer only consumed 8 billion jin of grain, now over 20 billion jin is needed. At this rate, 2,000 jin per capita will be required. Obviously it is highly unlikely that China could produce such a miracle in the near future. Thus, there must be some kind of control over the rate of growth of the demand for grain consumption. Neither can we allow the consumption demand for pork and wool to grow unchecked. It is true that the structure of our consumer demand for things like clothing, food, housing and transport needs to be changed, but we must do things step by step. If we introduced the Western modes of diet, clothing, and housing into our country all at once and practiced the forward mode of consumption (which transcends the level of national wealth and production), our reform will be rendered passive. The reason for this is that if the growth of consumption demand is too rapid, market supply is bound to be strained, and this will force commodity prices up. Thus, a principal task of macroeconomic management at present is to quickly formulate consumption policies to curb excessive consumption demand that exceeds supply capabilities. The expansion of consumption funds induced by the rapid increase in wages and bonuses in non-standard contracting in the previous stage should also be put under effective control. However, it is not enough just to rely on macroeconomic measures to check excessive demand. We need to rationalize the microeconomic mechanisms of management through the system itself. In the initial stage of reform, wages were linked to profits. This situation must be changed. The excessive growth of wages and bonuses can only be curbed by the creation of new mechanisms that can balance and check the "three powers" of wages (laborers), profits (operators) and rents on assets (the state). It cannot be resolved by macroeconomic means of tightening up the money supply.

Second, we must resolve to cut back institutional purchases and check the growth of public spending.

Based on our study and analysis, the microeconomic reasons for the pressure of inflation resulting from the excessive growth of consumption demand in recent years mainly lies in public or institution consumption rather than on personal or household consumption. At present, we are faced with a massive "public spending." "Official

envoys" are the least responsive to price changes in the market. However expensive the bills for taxi fares, meals, and hotel accommodation may be, it is all right as long as they know they will be reimbursed. Huge quantities of foodstuffs are consumed at meetings. "Official envoys" tend to spend as much as they are allowed to, and such limits are normally too generous. Not only do ordinary personnel behave in this way, even leading cadres have this mentality. These kinds of official errands which are not bound by concepts of price constraints have produced a huge institutional purchasing force, brought more pressure to bear on the market and fueled the upward readjustment of commodity prices. According to newspaper reports, institutional purchases in 1987 amounted to 56 billion yuan, an increase of 3.3 times over the 1978 figure of 13.5 billion yuan, which greatly exceeded the rate of revenue growth. Take the national figure for the institutional purchase of small sedan cars for instance. In 1981, some 340 million yuan of public money was spent on purchasing 15,728 cars; in 1986, a total of 5.34 billion yuan was spent on buying 115,677 cars. Expenses for each car were estimated at a minimum of 10,000 yuan. It is reckoned that 3 billion yuan was spent on the 300,000 cars newly acquired over the 5-year period. Assuming that these cars have a life span of 10 years, it means that they would cost the public coffers 30 billion yuan, which accounts for about 13.4 percent of state revenue in 1986. This not only led to an excessive growth of public spending, but exacerbated the shortage of foreign exchange. In addition, against the background of the rapid increase in the construction of publicly financed buildings of various sorts, institutional purchases for residential and office use also grew rapidly. For example, the quantities of video tape-recorders and sofas purchased by units throughout the country increased by 31 times and 20.6 times respectively in 1986 as against 1981. Over the same period, purchases of air-conditioners, color television sets, and carpets also increased by 100 to 200 percent.

Although the Central Committee put forward the policy of "tightening up" in 1987, institutional purchases of consumer goods that year still showed an increase of 19.6 percent over 1986, surpassing the growth rate of purchases by the ordinary people. This shows that there has been a strong force for growing institutional consumption demand in recent years. When curbing the demand for consumption, it is particularly important that we try to reduce institutional consumption without exerting too much pressure on residents' consumption demand. Measures which "seek uniformity" are likely to affect the normal growth of residents' consumption. The present shortages in clothing, food, housing and transport are to a large extent caused by state consumption demand rather than by the "abnormal" growth of household consumption demand. This is a matter which deserves great attention.

Third, we must strictly control government needs and cut administrative expenditure.

What we mean by government needs here is not the need for funds to be appropriated by the government to various enterprises, key projects, transport, communication, defense, scientific, educational, cultural and public health undertakings, as well as welfare and relief institutions, but non-productive consumption demand arising from the expansion of organization and staff, the construction of new buildings of various sorts, meeting costs, traveling expenses and other irregular welfare spending by government departments at various levels. Most serious of these is the demand growth arising from increased administrative expenses. This portion of demand growth is liable to be overlooked by most people but is, in fact, a basic factor behind the excessive growth in total demand in recent years. It usually produces a "demonstration effect" and is an important reason why total demand cannot be reduced despite efforts to cut it back. A lot remains to be done in our efforts to keep demand under control.

As far as the subject of demand goes, there are three kinds of demand: 1) Household demand; 2) enterprise demand; and 3) government demand. In terms of nature, demand can also be classified into three types: a) Production-investment demand; b) livelihood-investment (housing construction); and c) livelihood-consumption demand. In our present effort to control demand, we should try as far as possible not to affect 2a and 1c, but should rather exert great efforts to keep 3b and 2c under control because the latter two not only cannot create material wealth and effective supply but will absorb the wealth and supply. Of course, under modern economic conditions, we must ensure the growth of 3b and 3c. However, a given economic system has a given capacity for the containment of demand. If we go beyond this capacity, the gross labor productivity of society (the ratio between the quantity of utility wealth and the quantity of social labor) will drop and consumer goods on the market will fall short of demand as a result. Seen from the actual situation in recent years, the rate of growth of government demand has greatly exceeded the rate of economic growth, the "expanded reproduction" of government administrative personnel and functionaries has greatly outstripped that of the material departments, and the rate of growth of administrative expenses has greatly exceeded the rate of growth of total industrial and agricultural production, national income and revenue.

In the 3 decades from 1952 to 1981, China's average annual administrative expenses accounted for 5.7 percent of total state expenditure, but in the 5 years between 1982 and 1986, it rose to 7.9 percent. In 1983, 1984, and 1986 administrative expenses grew at an annual rate of 25 percent, 34 percent, and 28 percent respectively, surpassing the rate of growth of state revenue, which grew at an annual rate of 11 percent, 20 percent, and 21 percent respectively over the same period. In 1987, administrative expenses also showed a big increase. In my opinion, the strain on state revenue and expenditure was due primarily to the rapid growth of government expenditure. According to statistics from 1979 to 1986,

apart from appropriations for science, educational, cultural and public health undertakings and for the repayment of loans, administrative expenses was the only item which showed an annual increase in its share of total state expenditure, the remaining 9 of the 12 items of state expenditure, such as outlays for capital construction and for the military, all dropped from year to year. The excessive growth of administrative expenses is attributable to two factors: On the one hand, administrative organs are getting out of control, with the governments at various levels vying with one another in upgrading their administrative levels and expanding the size of their organization. As a result of the excessive increase in the number of administrative officials and functionaries and the acquisition of large quantities of official equipment, there is a rapid "extensive" increase in administrative expenses. On the other hand, some administrative organs and leadership departments are vying with one another in extravagance and are keen on holding big conferences of various kinds which serve no useful purpose. Because they spend money like water, there is a rapid "intensive" increase in administrative expenses.

In China, administrative outlays are allocated in a unified way on a per-capita basis. Some expenses are allocated without expenditure targets being specified, and there is a certain degree of rigidity involved because once the size of the administrative organs and their expenditures are increased it is very difficult to cut them back. This is precisely the reason why state expenditures have grown so much over the last few years.

In a situation where funds are already in short supply, an increase in administrative expenditure means that the state will have less funds at its disposal to spend on construction and reform, and this will slow down the pace of reform and construction. Thus, if we do not change the present state of administrative expenditure and quickly take measures to cut back government demand, and instead merely work on the peasants and workers, it will be very difficult for us to achieve the desired results in reform and development. Moreover, because government administrative expenditure is mostly of a consumption nature, its increase will usually lead to the expansion of consumption funds at a government level through expenditures on wages (non-productive wages) and direct consumption. Thus, we say that limiting government demand, streamlining administration and reducing administrative expenditure are effective measures for controlling demand without affecting the normal growth of enterprise production and household consumption.

The idea of "seeking progress through stability" is that while improving the management of supplies and readjusting the economic structure, we should, by means of tightening up and limiting the growth of money supply, do our best to suppress inflationary price hikes. Rather than striving to exercise "overall control" and perform "major operations" in specific spheres, or returning to

the old system where everything is highly centralized and controlled, we should, through selective retrenchment, "suck away" the excessive demand on our economic benefits. In more specific terms, it means that we should strive to attain the goal of alleviating the expansion of total demand through controlling 3b and 3c. It is true that in the present process of promoting the institution of the contracting system in some of the large and medium-sized state enterprises, wages and bonuses are seen to be growing much too fast due to the absence of standards for contracting and the lack of competition. Also, enterprise expansion projects financed by loans are growing too rapidly and the transformation of residents' consumption patterns is moving too fast. However, we should be flexible in our efforts to control demand in these areas to avoid falling into the trap of "stagflation." Some comrades immediately think of "overall retrenchment of credit and expenditure" as soon as they hear the words "control" and "retrenchment." This kind of thinking must be changed. All we can do is to insist on "selective retrenchment." In particular, we must drastically curtail government demand, drastically reduce administrative expenditure and drastically limit institutional purchases. At present, annual government expenditure on administration is in the region of 20 billion yuan, an amount almost equal to the country's military spending. If we can reduce it by about 10 billion down to the 1982 level when the institutional reform was first introduced, we will be able to spare some of the capital and manpower for the development of production but can relieve the pressure of inflation induced by government demand. If government financial revenue is insufficient to meet expenditure, and the problem is approached not from the angle of reducing expenditure but from the angle of increasing taxes, it will inevitably result in the burden being put on enterprises and citizens, and in the end there will still be price rises. We can no longer continue moving in this malignant cycle.

**Journal on Reform of Materials Supply System**  
*HK130741 Beijing JINGJI GUANLI in Chinese*  
*No 2, 1988 pp 13-15*

[Article by Shen Yufang [3088 3022 5364]: "Speed the Reform of the Materials Supply System and Strengthen the Vigor of Enterprises"—Edited by Lin Daojun [2651 6670 0689]]

[Text] Since the 3d Plenary Session of the 11th CPC Central Committee, our country has done much work in reforming the materials supply system and has achieved definite results. As far as production enterprises are concerned, because of the reduction in the types and quantities of materials subject to mandatory state planning and distribution, the autonomy of the enterprises in purchasing materials has been expanded. The initial formation of means of production markets of various types and of different scales has to a certain degree created an external environment for production enterprises. However, the defects of the old materials supply

system have not yet been eliminated, and the phenomena of regional and departmental divisions, regional blockades, administrative barriers, forests of management organs, the scattering of goods and materials, impeded circulation channels and slow turnover exist everywhere. Also the problem whereby on the one hand the supply of important goods and materials cannot meet demand and on the other hand they are over-stocked in warehouses has not been resolved. Let us take steel products as an example. At the end of June in 1987, the amount of steel in store around the country was equivalent at least to the demand volume over half a year for the whole country. However, only 20 percent of these steel stocks was in the hands of goods and materials departments and steel mills. The other 80 percent was scattered among thousands of units and their management departments. It was thus very difficult to put it into social circulation or to bring its benefits into play. These problems are reflected in production enterprises and are manifested as: 1. The goods and materials allocated to enterprises through state planning have to be applied for level by level in accordance with jurisdiction relationships. The intermediate links are numerous and the procedures tedious. 2. In terms of the goods which have to be purchased from the market, it is difficult to find types and standards which meet requirements and, even if there are suitable materials, the prices are often so high that enterprises cannot afford to purchase them. 3. As soon as materials which fit the need are found, the enterprises will always buy in as great a quantity as possible so as to provide for future production contingencies or to exchange for other materials they lack. This results in there being excessive reserves and pressure on both warehouses and funds. 4. In general the finished products of enterprises need to be sold in a smaller number of large batches, as this aids in the centralizing of energy and the efficient running of the enterprise. However, as circulation channels are not clear, this is very difficult to achieve. The existence of the above-mentioned problems is very unsuited to the overall situation of economic structural reform. Also, it affects the improvement of enterprises' operational mechanisms and is also a major reason why factory directors find their task so difficult and why entrepreneurs are often vexed.

I

The reform of the materials supply system is an important component of overall economic structural reform and the central authorities have already organized the State Council Leading Group on the Reform of the Materials Supply System to arrange and guide this reform. The initially-fixed orientation for the reform of our country's materials supply system is: On the basis of strengthening macrobalance in terms of major goods and materials, gradually reducing mandatory planning, gradually expanding guidance planning and regulation through market mechanism and mainly using economic interests to regulate the supply and demand of goods and

materials so as to gradually establish, under state management, an organized market for means of production. At present, the focal point of reform work is, on the one hand, placed on readjustment of the materials supply and marketing organs of the central economic departments and these are, in accordance with their different situations, being gradually incorporated into state goods and materials departments. At the same time, the small number of important goods and materials which were originally managed by the various central departments are being put under the centralized management of the state goods and materials departments.

This will be of benefit to the state in taking control over a certain quantity of resources, will strengthen the state's ability to adjust and control the market and will promote the growth of a market for means of production. The readjustment of the goods and materials marketing organs will first affect the various central departments and later the various departments in the localities, so as to guarantee the steady progress of reform. This reform will promote a change of functions for the various departments, and the situation whereby there is mainly direct management of enterprises will change to one where there is mainly indirect management. This will accord with the pace of reform of our country's political and economic structures.

The goods and materials departments must in accordance with the principle of separation of government and enterprise functions, have goods and materials enterprises operate as economic entities which make their own operational decisions, and under the guidance of state planning, implement open-type operations, organize social resources and expand purchasing and marketing so as to efficiently satisfy the needs of production and construction. The various goods and materials management departments must bring into play government management functions, do well in planning, coordination, service and supervision so as to avoid the re-occurrence of the previous problem of management being too all-embracing and too tight. The second focal point is speeding up the pace of the reforms, and promoting in an overall way the experiences of Shijiazhuang City, in terms of unified sale price, price differential repayments, gradual opening up and expanding of markets for products both within and outside the plan. This also involves reliance on the large and medium-size cities in developing and perfecting goods and materials trade centers and further developing markets for means of production. In order to obtain experience, experiments are being carried out first in Shanghai, Beijing, and Shenyang.

## II

Reducing mandatory planning, expanding guidance planning and regulation through market mechanism, expanding production enterprises' decision-making power in terms of purchase and sale of goods and

materials and improving enterprise operational mechanisms are important parts of the reform of the goods and materials system. In the last few years quite big steps have been taken in these areas and the number of goods and materials subject to mandatory state planning has been reduced from 256 varieties to 20-plus varieties, and the majority of goods and materials are no longer subject to unified distribution by the state. Further, for those goods and materials subject to unified distribution, a "double-track system" of state planned distribution and market exchange has been instituted. The percentage of goods subject to state planned distribution constitutes an increasingly small proportion of total national output: The figure for steel products fell from 77.1 percent in 1979 to 47.1 percent in 1987; the figure for coal fell from 58.9 percent in 1979 to 47.2 percent in 1987; the figure for wood products fell from 85 percent in 1979 to 27.6 percent in 1987; and the figure for cement fell from 34.2 percent in 1979 to 15.6 percent in 1987. Those goods and materials subject to unified state planning today are major basic materials and energy supplies which are important to the national economy and the people's livelihood. For quite a time to come, these will have to remain subject to distribution in accordance with mandatory state planning and the degree of state planning in these areas should not be reduced. We can see from recent practice that the proportions by which distribution through mandatory state planning have been reduced and the degree by which enterprises' power to purchase and sell goods and materials has been expanded, have not proceeded at the same pace. Let us take cement as an example. Only 15.6 percent is subject to unified state distribution, while only a little over 15 percent is subject to real freedom of purchase and sale decision-making by enterprises. The majority of the cement has become subject to planned distribution by responsible departments and localities. The reform of the materials supply system must be directed at this situation, and first there must be a serious clearing up of the listings and quantities of the goods and materials managed by the various departments at present. On this basis, there should be differentiated reduction, with a small number of items being made subject to mandatory state planning and the majority being subject to guidance planning or regulation through market mechanism. Through the reforms, the state will be able to manage the means of production in four groups.

The first group will be goods and materials subject to mandatory planning by the state. This group will mainly include major raw and semi-finished materials and fuels. The second group will be goods obtained by the state through fixed contract. This will mainly involve major mechanical and electrical products. In accordance with the supply/demand situation in society, the state will formulate guiding production plans for these products. For the proportion which the state urgently needs, state-formulated purchase tasks can be handed down, the supply of major raw and semi-finished materials can be arranged and the state can organize a purchase contract for the products to be signed between the user and the

producing enterprises. The third group will be goods and materials for organizing the linking of production and demand. This group will mainly include quite specialized coordinated auxiliary goods and materials, and the goods and materials departments will organize consultation and the fixing of purchases between the two sides. The fourth group will be goods subject to free purchase and sale. In the situation where mandatory state planning is being reduced and the market is still not complete or developed, the development of state contracted purchases and the matching up, by the goods and materials departments, of producers and those who require the products will be a major component in the expansion of guidance planning. Once this matter is well arranged, it will be possible to reduce the large numbers of purchasing and marketing personnel and establish quite stable purchase channels and guarantee the normal carrying out of production.

### III

Widely propagating the experiences of Shijiazhuang in developing a means of production market is an important component in deepening the reform of the materials supply structure. It is proposed that we start with steel products and cement. For the purchase and sale of the steel products of steel mills and the purchase and sale of cement produced by large and medium-size cement factories, there should be introduced, in accordance with the different product types and standards, nationwide unified ex-factory prices for all goods both within and outside the plan. The income from the price disparity for goods and materials within the plan should be handed up as extraordinary items, and then returned in entirety to the users. The goods and materials enterprises which handle these types of products should add a certain charge in accordance with state regulations. This reform will be beneficial in terms of eliminating, throughout the country, the problems brought by the "double-track system" of pricing for the means of production, will restrict the unhealthy tendencies in the trading of goods and materials, will expand the decision-making power of production and construction units in terms of purchase and sale of goods and materials and will reduce the stockpiling in society of important goods and materials.

After implementing these reforms, enterprises will be able to go to the local goods and materials departments to select and purchase goods and materials both inside and outside the plan. They will also be able to go to means of production markets in other places to purchase them. Alternatively they will be able to use their own stocks and temporarily not make any purchases. Regardless of the situation, the users will be able to completely recover the repayment price differentials. Thus they will no longer be worried about quotas being scrapped and having to suffer losses. At present, there is being trial-implemented, in accordance with Shijiazhuang's practices, the city goods and materials departments, in order to guarantee the goods and materials which are in short supply and which are needed for key production and

construction. In general, these implement supplementary contracted supply. Thus, apart from the goods and materials needed for targets within the plan being guaranteed, there is coordination with relevant departments and, as far as possible, the supplementary goods and materials outside the plans are also supplied. The production departments have warmly welcomed this. In order to perfect the reforms, there have been active measures taken to resolve problems such as the inequality of price differential repayments, the slowness of repayment, the tying up of enterprises' funds and the tedious procedures which exist in the implementation process at present.

### IV

We must, relying on the large and medium-size cities, establish and develop organized means of production markets under state management and make them places where producers and users can carry out fair trade. At present, the means of production markets comprise goods and materials trade centers, steel products markets, other specialized goods and materials markets, goods and materials commercial marts, and retail outlet points. There are now over 880 goods and materials trade centers and over 180 steel products markets at the prefectural/city level or above. These markets play a positive role in achieving brisk circulation. However, they are still in their initial stage, their scale is limited and they do not have many functions. In order to accord with our country's actual situation of being in the primary stage of socialism, having a low level of productive forces, there being a shortage of many important goods and materials and there being a need to gradually develop a means of production market, in the process of deepening the reform of the materials supply system and further developing markets for the means of production, it will be necessary to orient ourselves towards the problems existing at present, and put stress on the use of economic and administrative measures to strengthen state management. This will include: 1. Adopting economic preferential policies to encourage the production factories to trade the products they sell and the materials they have in stock in the means of production market. 2. Stipulating that major resources and materials outside the plan must be openly traded in state-approved means of production markets, and that acting otherwise will be illegal. It will be permissible to trade other general materials in markets which have not been approved by the state. 3. There should be management of market prices for major goods and materials which are in short supply, and maximum market prices which are not to be exceeded should be fixed through consultation between the goods and materials, pricing, industrial and commercial departments. 4. Laws and regulations for managing the means of production markets should be stipulated, and offenders should be sternly punished. These reform measures will be beneficial to production enterprises in reducing the proportion of raw material costs in total product cost. It will also enable enterprises to freely purchase raw and semi-finished materials which meet

their needs from means of production markets which have been approved by the state, are relatively centralized, and which have quite adequate resources. In particular, those large and medium-size enterprises which consume quite large amounts of goods and materials can, through participating in the large-scale wholesale goods and materials trade centers, purchase batches of raw and semi-finished materials, and avoid the trouble of having to rush around, buying everywhere in small quantities.

## V

At the same time as promoting the experiences of Shijiazhuang, improving the goods and materials trade centers and increasing the degree to which the circulation of goods and materials is subject to the market, we must adopt appropriate reform measures in the two areas of guaranteeing key production and construction and rationally arranging the movement of goods and materials. Guaranteeing the goods and materials needs of units engaged in key production and construction requires both special arrangements in the planned distribution of goods and materials as well as in the organization of the supply of goods and materials. A quite effective measure is to develop supplementary contracted supply. That is, in accordance with the principle of "three guarantees and three restrictions", arranging for the various goods and materials needed for increasing the production of those products with ready sales avenues, ensuring the supply necessary for goods and materials that are within the plan, while arranging joint contracted supply, between the goods and materials departments and the relevant departments and units, of the goods and materials for supplementary use outside the plan. In the reforms, we must propagate supplementary contracted supply, and expand the scope and varieties of products included in supplementary contracted supply. In the supply of materials we should, in accordance with the different needs of different users, adopt various flexible supply methods to make things more convenient for users. For example, for important materials in short supply but which are within the plan, we should issue "supply coupons," and the users can then take these to their own supply network point and make purchases through these certificates. For materials used in small quantities for repairs or scientific and technological research, the supply should be on a verification basis. We should develop processing according to needs and the supplementary supply of semi-finished products and finished products.

In rationally arranging the movement of goods and materials, the major aspects are relying on large and medium-size cities to arrange well the orientation of the flow of goods and materials, so as to avoid convection, backwards flow and circuitous movement of goods and materials. The routes of flow of goods and materials from producing units to user units should be selected by the user units in accordance with their own situations. When direct movement is required, direct supply from the producing factory to the user factory should be

arranged. When there is a need to transfer through goods and materials departments, as far as possible supply close to the user units should be arranged. Regardless of whether we speak of direct or indirect transfer, in both cases the supply of goods in small quantities and large number of batches should be arranged. This will prevent both goods becoming over-centralized and users stocks increasing excessively. There are at present several methods by which the same city has several levels of goods and materials operation organs responsible for the supply of goods (mainly referring to goods subject to planned distribution): 1. The production enterprises subordinate to the central authorities, province (municipality), prefecture (city), and county (city) have separate arrangements made for them by which they are supplied by the goods and materials enterprises at the same level. 2. The goods and materials distribution quotas for enterprises under the central authorities and the province (directly supplied), are assigned to the goods and materials enterprises in that city and they organize supply. 3. There is joint arrangement of supply by goods and materials enterprises at various levels. In general, it is a good arrangement for the goods and materials needed by the small number of key backbone enterprises and construction projects to be supplied by state goods and materials departments, while it is appropriate that the goods and materials needed by the majority of enterprise and institutional units be supplied, through assigned quota, by the goods and materials departments in the city where the enterprises are.

## FINANCE, BANKING

### Ways To Improve Relationship Between Finance, Banking

40060168 Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese  
No 1, 12 Jan 88 pp 51-53, 50

[Article by Jing Xuecheng [2529 1331 2052], System Reform Office, the People's Bank of China: "Several Views on Improving the Relationship Between Finance and Banking"]

[Excerpts]

### 1. Public Finance Pressures Banks, and Banks Print More Money: The Present Relationship Between Finance and Banking

To improve the relationship between finance and banking, we must first understand their existing relationship.

(1) Banks now supply most of the enterprise circulating funds. Between 1982, before circulating funds were put under the unified management of the People's Bank, and the end of 1985, state-run enterprise circulating funds have increased an average of 6 percent per year. The ratio of enterprise-owned circulating fund to loans has dropped from 34:66 in 1982 to 27:73 in 1985.

(2) Besides the general state-run enterprise circulating funds, bit by bit, the banks also have been handed the task of supplying a great number of special funds which should have been furnished by the government. These include circulating fund loans to defense enterprises, loans to the Baoshan Iron and Steel Plant, energy and transportation loans, and loans for finishing capital construction projects which have defaulted.

(3) Banks have to make up for a portion of the government's planned deficits. Much of the nation's asset loan balance at the end of 1986 was built up during the previous 3 years. For the past several years, instead of the government, the banks have made up for investment shortfalls in the nation's capital construction projects.

(4) Besides burdening the banks with the above items which should have been budgeted and paid for by public finances, the government has had several budget deficits since 1979, and each time it was bailed out either by bank loans or overdrafts. At present, the government has borrowed or overdrawn well over 10 billion yuan.

In addition, the government has no reserve fund for the country's goods and materials. Compensation due enterprises which suffered losses because of government policies are advanced by the banks. All these and other items take up a substantial portion of the banks' credit funds.

## **2. Public Finance Squeezes the Banks and Erases Red Ink by Overdrafts: The Main Causes of Swollen Bank Credit and Expanded Money Supply**

(1) Government deficits exacerbate over-distribution of the national income, and directly contribute to the increased money supply. Based on the derivative deposit coefficient of 2.6 in China's central bank system, as estimated by the People's Bank, government borrowing and overdrafts have caused the money supply to increase by more than 20 billion yuan a year since 1979. This roughly equals 62 percent of the average annual increase in the banks' derivative deposits. This proves that the increase in the money supply in recent years is due largely to financing government deficits by loans and overdrafts. They also add to the inflationary pressure.

(2) Because public financing is squeezing the banks, especially by overdrawing, the banks' credit scale has expanded. The increase in loan volume during the 3 years from 1984 to 1986 averaged 25.1 percent. During the same period, the GVIAO increased an average of 13.7 percent, and national income increased 11 percent. From the point of view of the credit scale, the deficits, disguised as added value, have become a part of the credit scale by increasing the amount of derivative deposits. Compounded over the years, there must be close to 100 billion yuan, almost one-fourth of the total

credit fund balance, in fictitious credit funds. This makes it very difficult for the central bank to fulfill its mission to support a stable economy and sustain its growth.

## **3. Identify the Causes of the Deficits, Define How Funds Are To Be Allocated, Implement More Thorough Reforms, And Design New Fiscal and Monetary Systems**

(1) What caused the deficits?

While government revenue has decreased in proportion to the national income, government spending and the scale of capital construction have not been reduced, and inevitably this creates relentless financial difficulties. The fundamental cause of the government's deficit lies in the State Planning Commission's over-ambitious capital construction plan and the shortfall in capital construction investment. Fixed asset investment under the people's ownership system increased by 24.5 percent, 41.8 percent, and 15.3 percent, respectively, in each of the 3 years from 1984 to 1986, while national income grew 13.5 percent, 12.3 percent, and 1.4 percent, respectively. Investments far exceeded national capacity. Despite the implementation of the general policy of "the three guarantees and three reductions," several thousand capital construction projects have been added since 1987.

The problem with our public finance lies in the failure of the government to cut back on spending to cope with changes in the revenue system, and this has led to an overall imbalance. In 1978, extra-budgetary funds amounted to 31 percent of the budgeted funds, but by 1984 they had increased to 39 percent, and by 1985 they reached 82 percent. On the other hand, revenues, as a percentage of the national income, have fallen from 37.2 percent in 1978 to 26 percent in 1986. The finance ministry is not committed to the principle that "all financial resources have been allocated, and whoever wants to reap the benefit must finance the project." The government still monopolizes the key projects, as if they must be financed by the government to be right and truly "national."

(2) A realistic starting point for a new finance and banking system will be to change the relative financial strength of the finance ministry and the banks. Since the restructuring of the economic system, the distribution of funds in the national economy has changed drastically. Banks have become the main channel for collecting and distributing funds, and monetary measures have become crucial to macroeconomic management. If we set the total annual outlay of the government and the banks on productive construction and more inputs to equal 100, then in 1978, the finance ministry would have accounted for 76.6 percent, and the banks only 24.4 percent, of the funds. But in 1986, only 31.6 percent of those funds would come from the government, and 68.4 percent would be financed by the banks. This trend will grow

even stronger as the reforms become more thorough. At the same time, as the planned commodity economy continues to develop rapidly, our monetary policies to modify the economic process by adjusting the magnitude of value have also been met with great success in recent years. In 1984, we lost control of the credit scale, so in 1985 we adopted a tight money policy, followed in 1986 by a "steady and loose" policy, and in 1987 we adopted a monetary policy which dealt with different situations in different ways. These policies directly kept up with the needs of society, and had an effect on all regions, enterprises, and departments. The experience proved that when planning and fiscal measures are relatively ineffective, monetary policies can be crucial to the country's macroeconomic management.

(3) If the first point discussed above is correct, the logical conclusion for the first step in implementing a new fiscal and monetary policy is to eliminate the source of financial deficits and thus, the pressure on bank credit, and let banking play a more effective role. In other words, we have to reform the system of government spending to keep it in line with revenue, and balance the budget in order to keep both public finance and the credit volume balanced.

(4) If our second point is correct, then we should follow through and continue to let the central bank regulate the economy, and gradually reduce the scope of government participation in financing productive construction. The government should finance only essential infrastructure and capital construction, and let the banks and non-bank financial institutions play a bigger role in financing economic construction.

#### 4. Immediate Measures of Coordination

Theoretically, because of our meager economy, a policy of planned deficits is unwise. But we must face the reality that deficits are inevitable during economic reforms and in some normal economic cycles. Therefore, to coordinate the present finance and banking relationship, besides refraining from printing money to finance deficits, we must also adopt other versatile measures:

(1) Banks should set up a bad debt reserve fund to deal with slow repayment of credit loans. The fund also can be used to meet deficits, or as replenishment to raise the credit fund ratio, or to increase the People's Bank's own funds, in case of an emergency.

(2) As a part of the economic forecast, potential deficits may be included, with the permission of the State Council, in the credit plan, and similarly, the credit scale should be reduced if the budget is balance. Deal with deficits in the open rather than covertly, and avoid squeezing the credit plan at both ends, that is, leaving a large gap in the plan at the beginning of the year, and expect to make up for the deficit at the end of the year.

(3) The government must borrow funds in the open market. After World War II, as financial markets all over the world began to develop, the international financial market also expanded. Government participation in the open market to gather funds has become an established and institutionalized practice. This is also the best way for China to raise funds. We should open a secondary market for treasury bonds as soon as possible to counter such problems as rigid apportionment, poor rating, and rampant black markets, which have made it difficult to continue to issue bonds.

(4) The finance ministry should set up a debt repayment fund to improve the debt management system. The Japanese have adopted a system whereby an amount which equals 1.6 percent of the total national debt at the beginning of the previous fiscal year is transferred from the general account to a special debt reduction fund, and they also take one-half of the funds in the general account's final balance, plus a sum which equals the estimated amount needed to meet various payments, and set them aside for national debt redemption. As things stand, whether the government can repay the money borrowed or overdrawn from the central bank is questionable. Furthermore, if the government continues to issue new debt instruments at the present rate, before long, it will find the new debts insufficient to redeem the old. Therefore, to improve the government's debt management system, and reduce the bulging credit scale caused by government red ink, the finance ministry must set up a full-scale debt redemption fund, and put aside a fixed percentage of its income, and if necessary, appropriate extra funds, to repay public debts and bank loans.

#### 5. Important Issues In Smoothing Finance and Banking Relationship

The guiding principle in improving the relationship between banking and public finance is not to determine who is more important, or who should replace whom. Rather, it is to make finance and banking interact and work with each other, and share in the responsibility of effectively regulating the economy at the macroeconomic level to promote steady growth.

(1) The question of ensuring the relative independence of the central bank. The Party Central Committee's Seventh 5-Year Plan has clearly designated the central bank as the state organ in charge of the country's financial affairs. Therefore, both the central bank and the finance ministry are government organs. They both are relatively independent and equally influential. The central bank should be made relatively independent because, as the state organ in charge of the nation's financial affairs, it is put under the leadership of the State Council, and also because at present, it is not free to implement the country's monetary policy, due to the financial deficits. The way to deal with these constraints is not to reinforce

the finance ministry's administrative control over the banks, or allow the government to participate in formulating and implementing the central bank's monetary policies.

(2) On the question of limiting the quantity of money. Some comrades in finance and banking circles advocate limiting the issuance of money to an amount approved by the National People's Congress. This kind of rigid control may be wise in the long run.

(3) On the question of levying a tax on currency issuance. In recent years some people have felt that a tax should be levied on currency issuance to make sure that the central bank does not issue more money than the economy needs. Other countries levy such a tax, and in old China, commercial banks were taxed when they issued money. But this was at a time when too many banks issued too much money, and taxation was the means to curb the practice. After the central bank was established and became nationalized, it alone was given the prerogative to issue money, and levies on currency issuance became meaningless, and was abolished. China's central bank is a state organ; it is not a commercial enterprise, and such tax would serve no purpose. On the other hand, if the government levies a tax on currency issuance as a means to increase revenue, the finance ministry in effect would be directly financing its deficits and expenditures by printing money.

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**Problems of, Solutions to Interbank Loans**  
40060162 Beijing ZHONGGUO JINGJI TIZHI GAIGE  
[CHINA ECONOMIC SYSTEM REFORM]  
No 1, 23 Jan 88 pp 32-34

[Article by Xiao Tianye [5135 1131 6851]: "Problems and Solutions To China's Interbank Loan Market"]

[Text] The interbank loan market is an important part of the short-term fund market. It is also the largest among China's budding fund markets. It has had very positive effects on the economy, but it also faces some pressing problems.

**The Main Problems**

1. Newly developed separatism in the interbank loan market. Theoretically, interbank loans are the most direct way to channel funds from a department with a surplus to a department in need of funds. But this is not the way China's interbank loan market is structured. Initially, this was a short-term fund market set up by the specialized bank system, especially the Industrial and Commercial Bank and the Agricultural Bank, for the purpose of adjusting internal fund surpluses and shortages, and extending loans outside of the system was not the primary objective. Today, all specialized banks in the cities have set up their own short-term loan markets—there can be more than a dozen, or at least 4 or 5 of these

markets in one city—each trying to expand its volume of funds in circulation, and as a result they are competing against each other, vertically segregating the fund market. Although the People's Bank has reorganized the fund market which the specialized banks participating, this defect in fund circulation has only been partially remedied, and the barrier put up by the banks has not been torn down. Take Hunan's Hengyang City as an example. There are seven interbank loan markets and fund circulation networks in the city, and between January and June of 1987, more than 600 million yuan in short-term loans were transacted, but only 130 million yuan were exchanged in the market organized by the People's Bank, while 520 million yuan were transacted within the specialized bank system.

In addition to the vertical segregation, regionalism also plagues the market. Leaders in some regions do not understand the fundamentals of short-term interbank loans, and erroneously assume that borrowing increases fund utilization while lending depletes available funds, and out of self-interest, they prohibit banks from lending surplus funds to their counterparts outside of the region. This keeps the short-term loan market from expanding, and damages the integrity of the market.

2. Primary level banks which are directly in the credit business are not participating in the interbank loan market. Today most cities have set up different kinds of interbank loan markets at different levels. At first glance, the interbank loan business is thriving, but in fact, most participants in these markets are not the primary level banks which are directly in the credit business. Instead, they are the managing organs of the provincial and prefectural banks which do not directly grant loans. In fact, this fund market assumes the format of "first level operation under third level management." Some interbank loan markets are very large, and operate nationwide, but most lenders and borrowers are provincial-level branch banks, or at least prefectural city-level branches. The emergence of a high-level, high-impact, interbank loan market at a time when the fund market is still being shaped is caused by man-made factors rather than the result of economic developments.

Interbank loans are temporary transfers of funds between financial institutions to balance the cash flow during the course of conducting business. They are economic acts to adjust fund surpluses or shortages within the financial sector. These economic activities normally take place among the primary level banks which directly handle credits. Therefore, a high-level short-term loan market which does not involve the primary level banks is not the short-term loan market in the financial sense, and this market is unstable.

3. The terms of interbank loans are getting longer, and the volume is not properly controlled. As mentioned earlier, interbank loans are for the purpose of meeting temporary cash flow problems, and are not the means to

expand credit volume. However, at present, most interbank loans in this country are longer term loans: most are for at least one month, and some may be as long as one year, and very few are shorter than a week. At the same time, while interbank loans are increasing, most specialized banks still keep an above-quota reserve in the central bank. Interbank loans are treated by primary level specialized banks and branch banks as the means to make up for circulating fund deficiencies and for expanding local credit volume. Local banks hope to bring in more funds from outside the region by taking out interbank loans to satisfy as much as possible local demands for funds. Some even "ignore all costs" when borrowing funds. At present the interbank borrowing rate is about 0.6 percent [as published], and the interest rate on circulating funds as set by the state is 0.66 percent [as published]. The differential falls far short of the cost of conducting business. Because the borrower is not the final producing unit, it must in turn invest the funds, that is, it must lend the money to enterprises, and as a result the borrowing bank in effect is expanding its credit volume.

4. The interbank loan market basically is a market without a pricing system. The interest rate is the price for funds. The interbank loan rate, in particular, is the barometer which measures fund availability. In China, however, because of the effects of the planned economy, interest rates on deposits and loans are inelastic, and there are practically no fair and open market price for the various financial instruments. At present, although the central bank allows banks to set their own interbank loan rates, such loans are still being handled on a wholesale basis. As long as the interest rate on enterprise circulating fund loans is controlled under state policies, an open-market interbank rate is meaningless. Without a pricing mechanism, the market cannot function to allocate funds properly, and as a result the embryonic financial market is split into discrete markets, and changes in the interbank loan rate are irrelevant to the existing market rates of the various financial instruments.

Because interest rate is not fully decontrolled, unfair competition results. For example, the specialized banks and other financial institutions participate in the interbank loan market, but the interest rate charged by the latter group is not controlled by the central bank. Trust and investment companies charge as much as 8.4 percent interest for their loans, and rural credit cooperatives charge as much as 9 percent interest on their loans to enterprises. As a result these companies do not have to attract depositors; they just borrow funds at the low interbank rate and lend them out at high market rates, and make a profit.

#### **A Few Suggestions for Perfecting the Interbank Loan Market**

One, tightly control the source and use of interbank funds. As the restructuring of the financial system becomes more thorough, interbank loans should no

longer be limited by credit volume but should be constrained by changes in the interest rates, the supply and demand for funds, and other economic parameters and conditions. At present, hampered by the country's fund management system and on-going efforts to operate the specialized banks as enterprises, and in view of the limited autonomy of the specialized banks and their business know-how and management abilities, we must restrict the source of interbank loans to the portion of the total operating funds which is net of the necessary deductions, and which is at the businesses' disposal but is temporarily idle. As long as our financial institutions are not yet considered autonomous legal entities, and as long as credit funds are being allocated from above, and are still being "monopolized," and banks still "eat out of the same big pot," if we do not make allowance for the necessary deductions, and lend out all available cash, we will set off a chain-reaction and upset the balance.

Two, restructure the interbank loan market to involve the primary level banks as principal participants. The interbank loan market should be set up among county (city) level banks which directly handle the credit business. This means financial institutions (including credit cooperatives in the cities and villages) should borrow from each other within the same county (city.) This is the basic interbank loan market. Transactions should be invisible; physical transfer of funds is carried out only when necessary. This helps to break down barriers within the system. To reach this goal, we should consider setting up a fund collection and distribution section at each primary level bank office. It will be in charge of centrally buying and selling funds when the market is open, and during other times, it will be responsible for making the necessary contacts in the market. We hope to turn interbank loan activities into a regular practice, and integrate the visible and invisible markets.

To make interbank lending and borrowing more effective, all branches of the People's Bank must handle their intra-city bill clearing task properly, and set up clearinghouses and exchange centers, and combine interbank loan operations with bill exchange and clearing to reduce operating cost.

Three, the People's Bank must provide better service and tighter control in the interbank loan market at the primary level. The People's Bank at the city and county levels serves the interbank loan market in several ways: (1) It serves as the sponsor in the interbank loan market. (2) It assists with such matters as setting up opening and closing quotations, business talks, appraisals and certifications. (3) It serves as the intermediary in transactions; it verifies contracts and settles business disputes, and protects the rights and privileges of all parties. (4) It remits and transfers funds in loan transactions, and acts as a clearinghouse. (5) It supports fund market activities, and serves as "lender of last resort." The People's Bank controls the interbank loan market primarily through controlling the amount of available funds to prevent over-extending loans. There are two important points

which should be stressed: first, we must pay attention to changes in demand for funds, and keep the volume of loans under control. Secondly, the function of "lender of last resort" should be exercised with caution to encourage businesses to balance their own funds.

Four, operate the specialized banks more as enterprises. Operating specialized banks as enterprises is the most basic and most effect way to perfect and enliven the interbank loan market. If the specialized banks become more enterprise-like, and if they are autonomous, their duties, rights, and privileges will be integrated, and they will be forced to worry about their profit level and the amount of risks, and they will no longer "eat out of the same big pot," and become more motivated. Because the profit level directly affects the wages, bonuses, and welfare of the workers, the specialized banks will be motivated to balance their own funds, and adopt the best program to get the best results. They will have to "sell" their temporary idle funds, and at the same time, seek out low interest rate in the short-term market to "buy" funds if there is a fund deficiency. A dynamic interbank loan market will continue to thrive if short-term borrowing and lending of funds is treated as an organic whole.

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## SMALL-SCALE ENTERPRISES

**Township Enterprises Production, Tax Revenue**  
40060154 Beijing NONGMIN RIBAO in Chinese  
27 Jan 88 p 4

[Article by Liu Xiaohui [0491 2556 1920], Deputy Director, Hubei Province Bureau of Taxation: "A Discussion On the Disparity Between Increases in Township Enterprise production and Taxation"]

[Text] Hubei's township enterprises have developed very rapidly since the inception of the Sixth 5-Year Plan. Their output value increased at a rate of 40.7 percent per year, surpassing by far the increase in the GVIO of the whole province. In contrast, tax revenues collected from township enterprises have increased only 17.9 percent per year, which is on par with the rate of increase in the province's industrial and commercial tax revenue since the Sixth 5-Year Plan. This disparate increase in township enterprise output value and tax revenue has meant that the level of tax revenues accumulated from township enterprises has dropped successively year after year. In Hubei, each 100 yuan of township enterprise production yielded 3.6 yuan in tax revenue in 1981, 2.2 yuan in 1984, and only 1.5 yuan in 1986, which is less than one-third the 5.5 yuan per 100 yuan of production collected from Zhejiang's township enterprises in 1985. Many comrades are concerned about the disparity between increases in township enterprise output value and tax revenue, as well as the falling level of cumulative tax revenues. I will attempt to address this problem in this article.

### Characteristics and Causes of the Disparate Increase

During the early stage of township enterprisedevelopment, tax revenue often lags behind the increase in output value. To a certain extent, this is normal. This is because township enterprises are not very profitable at first, taxes are usually levied on circulating funds, and there is little profit to be taxed. The state also has adopted a series of favorable tax measures to help develop township enterprises. For example some enterprises in which labor service and transportation are important aspects, such as for construction and installation enterprises, output is calculated in rural areas but taxes are paid in the city. Should we, however regard the disparity between increases in township enterprise output value and tax revenue as normal? Upon analyzing relevant statistics on the development of township enterprises, and studying data collected in Hubei's Guangji County, I have found some abnormalities in this situation:

1. The gap is too wide. During the Sixth 5-Year Plan the total output value of Hubei's township enterprises was comparable to that of Zhejiang's and Jiangsu's, but whereas the rural industrial and commercial tax increased 43.8 percent in Zhejiang and 32.9 percent in Jiangsu between 1981 and 1985, it increased only 18.2 percent in Hubei. Compared to Zhejiang and Jiangsu, tax revenues from Hubei's township enterprises have fallen too far behind the increase in output value.
2. The disparity has persisted. Increase in taxation has lagged behind the increase in output value throughout the Sixth 5-Year Plan period. If this condition persists, the tax rate on township enterprise output value will drop below the present low base point of 1.5 percent.
3. Among increases in township enterprise taxation, the increase in the profit tax has been the smallest. According to the Township Enterprise Bureau statistics, between 1981 and 1985, total township enterprise taxes have increased 2.6 folds, of which, income tax revenue has increased only 93 percent. Guangji County even showed a decrease in income tax revenue: for the 5 years between 1981 and 1986, township enterprise circulation tax has increased 74.2 percent, but income tax revenue has dropped by 23.7 percent.

These abnormal characteristics are attributable to several factors:

One, township enterprises have been far less profitable than hoped. This is seen in the trend of declining profitability in terms of the amount of assets required to produce a given amount of income.

Two, the tax burden on township enterprises in different administrative units does not correspond to the output value of township enterprises in the different units. In 1986, enterprises at the district and township levels accounted for 20.7 percent and 39.4 percent of the total

township enterprise output value in Guangji County and in Hubei Province as a whole, respectively. Enterprises below the village level and below accounted for 79.3 percent of the township enterprise output value in Guangji County, and 60.6 percent in the province as a whole. Enterprises in units at the village level and below accounted for the lion's share of the total output value, but the reverse is true in terms of tax revenue. Enterprises at the district and township levels paid 65.2 percent of the tax revenue in Guangji County, and 67.8 percent in Hubei as a whole, while enterprises at the village level and below accounted for 34.8 percent in Guangji County, and 32.2 percent in the province as a whole. Thus, district and township enterprises pay more taxes than enterprises in at and below the village level, yet the former is developing much slower than the latter.

Three, enterprise income is inappropriately distributed; the state tax collection system is weak; enterprises are unable to accumulate, and the social burden is staggering. In 1986, township enterprises in Guangji County's Huaqiao District spent 12.98 percent of their net income from output on various social expenditures and interest payments, and 76.6 percent was distributed to individual workers. The highest average payment exceeded 7,000 yuan per person per year. Only 4.36 percent went to state taxes, and 6.06 percent went to the enterprises.

Four, taxation plays an ineffective role, and tax revenues are often lost. Many people still overlook the importance of tax collection and funds gathering, and are ignorant of the economic role of taxation. In addition, tax collection in rural areas is generally lax, especially among enterprises at and below the village level which do not keep books, and have no accounting system. Tax collection is difficult to supervise, and as a result much tax revenues are lost, which further lowers the level of township enterprise taxation.

#### **Effects of the Disparate Increases on the Development of Township Enterprises**

1. It undermines the objective and accurate assessment of the development of township enterprises, assessment upon which proper scientific decisions are based. The protracted and extensive disparity between increases in output value and taxation is the result of abnormal factors which distort the relationship between output value and taxation. Statistics no longer reflect reality, and the development of township enterprises cannot be assessed promptly and accurately, and in turn proper scientific strategies cannot be formulated to guide their development. 2. It hinders efforts to make township enterprises more competitive and more vigorous. Taxation levied at township enterprises should be reasonable, but we must also know when to be strict and when to be lenient. As the township enterprises develop, we should gradually raise the taxes on their accumulation. If their tax burden is too low relative to that of the people's enterprises or the collective enterprises in the cities and towns, it not only will undermine the formation of a

socialist unified market, it will also prevent the development of socialist competition in an impartial. It will encourage township enterprises to become dependent, and diminish their sense of nationalism and budgetary restraint, and make them less competitive. 3. It reduces fund accumulations during the period when township enterprises are developing.

In some areas where township enterprises are better developed, a substantial amount of the tax revenues collected from township enterprises can be plowed back into their development. Township enterprise taxation becomes an important channel for gathering funds to develop the rural economy. However, when the level of accumulated taxes is too low, taxation becomes a very limited means of accumulating funds. This is a distinct problem in Hubei.

#### **Closing the Gap Between the Disparate Increases in Township Enterprise Production and Tax Revenue Is Vital to the Continued Healthy Development of Township Enterprises and the Revitalization of Hubei's Rural Economy**

The adverse effects of the abnormal disparity will eventually affect the social benefits and economic performance of township enterprises, and in turn undermine the development of township enterprises themselves. Therefore reducing this gap is the main guarantee to a continued healthy development of township enterprises. But to close this gap we cannot rely entirely on taxation, we must find the answer in the objective laws governing township enterprises themselves, and in the interrelationship where the economy governs taxation which in turn affects the economy. At present, the following areas deserve our serious consideration and efforts:

One, we need to look upon both speed and profitability as equally important, and encourage township enterprises to be not only speedy but also profit-oriented.

Two, we need to improve the macroeconomic returns of township enterprises by reducing the gap between output value and tax revenue collected therefrom and improving the accumulated social-economic benefits of township enterprises.

Three, we must attend to the problem of the inappropriate distribution of the tax burden on township enterprises by reducing the disparate relationship between output value and tax payments.

Four, in striving to lighten the tax burden, we must also modify the tax policy, and strengthen the system of tax collection to give full play to taxation as an economic lever.

Five, the financial and tax departments should actively cooperate with the management of township enterprises to set up proper bookkeeping and financial accounting systems.

## FOREIGN TRADE, INVESTMENT

### Joint Sino-Japanese Export Processing Zone Proposed

40060171b Shanghai SHIJIE JINGJI DAOBAO in Chinese 15 Feb 88 p 2

[Article: "Ito Masanori, advisor with the Economic Management Research Center of the State Economic Commission Proposes that China and Japan Establish a Joint Export Processing Zone"]

[Text] After studying and analyzing China's economic reforms, Ito Masanori, advisor to the Economic Management Research Center of the State Economic Commission, feels that China today has the perfect opportunity to expand the use of foreign capital. Speaking at a public lecture in Beijing recently, he proposed that Japan and China select an appropriate site from among the coastal areas (4 special economic zones, Hainan Island, and 14 open coastal cities) and, on the basis of equality and mutual benefit, establish a joint export processing zone compatible with the business practices and investment climates of the two sides.

Behind Ito's proposal is a fourfold rationale. First, there is a need at the moment for Japanese enterprises to increase overseas investment rapidly. As a result of the appreciation of the yen, direct overseas investment by Japanese companies has been rising sharply, almost doubling between 1985 and 1986, and is expected to grow even faster in 1987. Second, because of their rising exchange rates and labor costs, countries and regions that have been recipients of Japanese investment are losing their attraction for the Japanese. In Taiwan and South Korea, which have seen their exchange rates and labor costs go up, labor-intensive processing and assembling industries are losing their international competitive edge. In Hong Kong and Singapore, land and labor shortages, high worker turnover rates, and an inability to raise the level of skill among workers have imposed constraints on further development. Third, China has considerable room for growth and is well qualified as an object of investment. It accounts for a tiny share of total U.S. and Japanese investments, a mere 1 to 2 percent in 1985-86. Thus the potential for direct investment in China remains huge. Besides, China boasts abundant human resources of a good quality. With its low labor costs, less than one-eighth of those in Singapore and Hong Kong, it enjoys an edge in developing labor-intensive processing and assembling industries. Finally, in the interest of boosting China's per capita GNP, it is also imperative that we speed up processing and assembling industries in the coastal areas. These industries account for a markedly smaller share of Chinese exports compared to some countries and regions in Asia. Learning from the experience of Japan and Asia's newly industrialized countries, China should utilize foreign capital, import technology, make a major effort to develop processing and assembling industries with a high added value in the coastal areas, increase the share of

processed and assembled exports, boost its per capita GNP, enhance social accumulation capacity, and improve its infrastructure. This is critical to sustained economic growth.

Ito believes that the key to attracting direct foreign investment lies in improving the investment climate. The tangible part of the investment climate has been improved considerably due to the 22 incentive regulations promulgated by the State Council in October 1986 and other detailed regulations and now almost rivals its counterparts in some nations. The intangible part of the investment climate, however, is still hemmed in by human, material, financial, technological (informational) constraints. "Human" constraints mainly take the form of restrictions on personnel transfer, appointment, dismissal, promotion, and punishment, inadequate flexibility in setting wages, and a shortage of qualified personnel (especially personnel proficient in foreign languages).

"Material" constraints are mostly difficulties in obtaining raw materials, restrictions on domestic sales and exporting, imperfections in the circulation market, failure to deliver on time, high shipment costs, etc.

"Financial" constraints consist of difficulties in balancing foreign exchange and under-capitalization on the part of the Chinese side in Sino-foreign joint and contractual joint ventures (the inequity of capitalization in kind), among other things.

Major "technological" (informational) constraints are excessive demands for high-tech transfer, inappropriate production and quality control, lack of access to domestic and international market information, and inadequate communications.

The total elimination of these human, financial, material, and technological (information) constraints will take a long time. In order that China would not miss the opportunity, Ito therefore suggests that the functions of administrative service centers now being set up in coastal opened areas be strengthened in the near future and given genuine administrative and managerial authority. To centralize responsibility, they should be given full power to handle business dealings with foreigners so that the 4,000 joint ventures now in operation can develop further. The resulting favorable effects will certainly attract large numbers of foreign enterprises to invest in China. It also will have a positive impact on domestic state enterprises.

**JINGJI YANJIU on Import Substitution**  
*HK140451 Beijing JINGJI YANJIU in Chinese*  
*No 2, 20 Feb 1988 pp 54-59*

[Article by Gao Shuanping (7559 2165 1627), post-graduate student of the research institute under the Chinese Academy of Social Sciences, in October 1987: "Import Substitution is Not Suited to China's Economic Development Strategy at Present"]

[Text] Comrade Liu Changli [0491 2490 7812] published in JINGJI YANJIU No. 8, 1987 an article titled "Import Substitution is China's Long-term Strategy for Catching Up With and Surpassing the World's Industrial Countries." He explicitly pointed out that import substitution is still China's current strategy of foreign economic development, on which I disagree.

I

**New Pattern of International Economic Relations  
Makes Import**

When determining whether or not a strategy is applicable, we must examine it by linking it to the objective environment on which its existence counts. Basing on my analysis and understanding of contemporary international economic relations, I disagree with taking import substitution as China's current strategy of foreign economic development.

The strategy of import substitution refers to the domestic development and production of industrial products by a country as an substitution for import products which it needs. This strategic pattern was generally adopted by developing countries in the early 1950's. Under the international economic conditions at that time, it was absolutely necessary for them to use the strategy of import substitution to promote the establishment of their systems of industry and to enhance their national economic strength. The then international economic relations of developing countries with developed countries were unfavorable because the former was weak in economic strength. The developed countries occupied the latter's market, and also seized their rich resources, by dumping cheap products in these countries. They did this to such an extent that the development of native industries in the developing countries were hampered. Under these circumstances, the developing countries had to adopt the economic development strategy of import substitution. Only thus could they have protected their native industries, sped up the development of their national economies, and boosted their economic strength in order to contend with the developed capitalist countries. Moreover, countries which became independent after their national liberation movements following World War II had keenly felt the misery brought to them by the colonial policy of capitalist countries. This further strengthened their resolve to adopt the strategy of import substitution. Judging from the national conditions at their early stage of economic

development, nearly all of these developing countries encountered problems such as having incomplete industrial sectors, limited variety and quantity of industrial products, and a low national economic level. This further required them to adopt the economic development strategy of import substitution, in order to put an end to this situation, to rapidly develop their native industries and to establish relatively complete systems of industry and national economy. This strategy indeed played an important role in establishing a complete system of industry and building a foundation for the development of national economy. China's achievements in perfecting its systems of industry and national economy over the past 30-odd years was also closely related to its correct application of the strategy of import substitution.

However, the new pattern of international economic relations, as well as new theories on international trade, are different from the old ones. It is just because of this difference that the situation requires us to readjust the traditional economic strategy of import substitution.

Comparing the contemporary pattern of international economic relations to the old one, we can find the following discrepancies:

First, the process of developing international economic relations on the basis of equality has been quickened. The development of international economic relations on the basis of equality never existed before World War II. It was only after the World War II that the international economic relations developed in this direction. This is mainly shown in the following points:

1. A number of international economic organizations have established the basis of equality which is favorable to the development of international relations. For instance, the founding of the World Bank Group provided financial assistance to the economic development of developing countries. The World Bank Group consists of the World Bank, the International Financial Corporation and the International Development Association. The primary aim of founding the World Bank was to provide funds for economic reconstruction from the aftermath of World War II. These loans were mainly granted to West European countries during the period shortly after the war. Starting from 1948, however, the funds needed for economic reconstruction in Europe were mainly provided through the "Marshall Plan." The World Bank thus began granting loans to developing countries and regions in Asia, Africa and Latin America. As of June 30, 1982, the development loans granted by the Bank totaled \$78.48 billion. The International Financial Corporation is a subsidiary of the World Bank, whose primary goal is to promote economic development in its member countries (regions), particularly private enterprises in the underdeveloped regions, by supporting their development. Being another subsidiary of the World Bank, the International Development Association aims at providing long-term low interest loans, at

terms more favorable than those for the World Bank loans, to developing countries whose per capital national income is below \$410 for their public works and major development projects.

2. The formation of economic groups among developing countries has helped promote the development of economic relations on the basis of equality. The formation of economic groups among developing countries took place only after World War II. For instance, the Group of 77, which was established at the 1st UN Conference on Trade and Development, held in June 1964, aims at coordinating the position of developing countries in the international trade, strengthening their unity of and cooperation, determining their common goals of trade and economic development, as well as formulating programs of joint action and tactics of joint negotiations in order to boost the position of developing countries in negotiations, and to promote their struggle for establishing a new international economic order and for speeding up their process of economic development. Today, it plays a significant role, and its remarks carry weight, in reform of the international monetary system and global trade talks, as well as issues concerning multi-national companies and economic development. Besides the Group of 77, there are over 10 regional economic bodies formed by the developing countries and regions, which play an important role in promoting the international status of their corresponding regions.

3. The founding of raw materials production organizations and organizations of exporting countries is another symbol marking the development of international economic relations on the basis of equality. Because of unequal economic relations before World War II, many backward countries and regions were suppliers of raw materials to the developed countries. After the World War II, however, these developing countries and regions founded a number of raw materials production organizations, as well as organizations of export countries. For instances, the Organization of Petroleum Exporting Countries was established in September 1960; the international bauxite association in March 1974; the cocoa production alliance in May 1962; and so on. Among them OPEC achieved remarkable results in this respect. Its approach was mainly to increase oil prices, control the oil resources, use their wealth of oil to develop their native economies, and to boost the importance of their remarks on international affairs by using the oil dollar. Consequently, it has made relevant developing countries and regions become powerful when they protect their proper rights and take part in international affairs.

4. The implementation of trade preferential system is another symbol signifying the development of international economic relations on the basis of equality. If we take the trade in raw materials as an aspect of trading, the trade preferential system involves a more extensive trade relations between the developed countries and the developing countries. The trade preferential system is marked by universality, and is free from discrimination

and is not mutually beneficial. The so-called universality refers to the general preferential treatment which should be granted by the developed countries to the products exported by the developing countries. The so-called "free from discrimination" refers to the preferential treatment which should be granted to all developing countries without any discriminatory act. The so-called "not mutually beneficial" refers to the unilateral tariff preference granted by the developed countries to the developing countries without requesting any reciprocal action by the developing countries and regions. The principle goal of the system is to expand the developing countries' export of finished and semi-finished products, as well as their foreign exchange revenue, so as to promote their industrialization and increase their economic growth rate.

All these took place in the development of international economic relations after World War II, particularly after the 1960's. They are the result of struggle by the developing countries. To a certain extent, the roles they played were favorable to the development of international economic relations on the basis of equality. The intensive development of these relations has provided them an opportune moment for competition. They should make the best use of this opportunity. If we now still adopt the strategy of import substitution, we shall miss the best opportunity to catch up with and surpass the world's advanced level.

Second, economic internationalization is intensively developing. This is shown in two areas. First, the internationalization is marked by its intensive and extensive development. For example, in terms of production, the structure of industry is subject to a large-scale readjustment, and achievements of the revolution of new technology will play a major role in developing the structure of industry. The traditional structure of industry may be transformed by advanced technology, and newly emerged industries will develop rapidly by making use of technological advantages. The direct consequences therefrom will be changes in and readjustment of the pattern of production and management; whereas the indirect consequences therefrom will be a rapid increase of productivity and its tendency toward internationalization, so that the supply factors for selection of technology, as well as for production inputs, are also subject to international influences. In terms of sales, various countries strive to diversify the sources of each kind of products they need, whereas the characteristics of their needs for each of these products, and the marketability of commodities, are subject to international influences. The direct consequences therefrom are the increasingly keen international competition in the sales of various commodities, and the life of products is greatly shortened. The indirect consequences therefrom are the diversification and multiplicity, and therefore further internationalization, of the pattern of economic activities promoted by the interaction of production and sales. In the realm of finance, the international reserves system and the revolving trade currency system have become

diversified because of the adoption of the demonetization of gold in the 1970's. The currencies of major Western countries continue to be the international currency. There has been an unprecedented scale of development in the international foreign currency and capital market. The direct consequences therefrom are the intensified keen international competition in the financial industry, and the financial situation in a country may influence another country through the media of interest rates and exchange rates. The indirect consequences therefrom is the development of financial and currency issues into global issues affecting the conditions of all countries.

Another major progress of economic internationalization is the international development of economic integration in various sectors. For example, the multinational companies established by direct foreign investment are an integration of production and trade. Many foreign countries invest a large sum of capital in foreign stock markets. In order to preserve their value of investment, they always buy the shares of reputable large companies. This is the international integration of production and financial issues, as well as the close integration of cooperation and financial issues. In other words, this development trend of integration has played an important role in economic internationalization.

Thus, we can see that the profound development of economic internationalization has introduced regions and enterprises of various countries to the world's economic arena, and has made various countries and regions compete in the world market. Only thus can a country catch up with and surpass the world's advanced level. In these days when the economic internationalization is profoundly developing, it is therefore impossible for us to continue to adopt a high protection policy under the pretext of strategy of import substitution in order to catch up with and surpass the world's advanced level.

Third, the revolution of new technology has changed the pattern of the world's market trading. Under the influence of the revolution of new technology, the most competitive commodities on the current international market are those which employ high technology, consume less energy and do not pollute environment. According to estimates by foreign countries, the global sales of semiconductors may total \$100 billion by the 1990's, becoming one of the world's largest industries. If the present value of dollar remains unchanged, the global sales volume of industries relating to electronics technology, such as telecommunication networking and computer industry, may reach \$500 billion by the early 1990's. According to the statistics of UN Organization for Industrial Development, 65 percent of the world's gross national product is related to microelectronics technology. It is impossible for a single enterprise to monopolize such a broad new market. This thus provides an opportunity for the developing countries to enter the world market. This is just an aspect of the issue. Another aspect of the issue is the life cycle of products

which is greatly shortened by the revolution of new technology, which makes it more difficult for the developing countries to enter the world market. Therefore, the only way out for these countries to enter this market is to achieve the world's advanced level and improve their competitiveness, so that they will survive in the international competition. In order to achieve this goal, they must resolutely discard the traditional economic strategy of import substitution. In these days of revolution of new technology, any country who attempts to preserve its traditional strategy of import substitution and avoids joining the international competition will not rank among the world's advanced nations.

To put it in nutshell, the new international economic relations, which are determined by three major factors, namely the development of international economic relations on the basis of equality, the economic internationalization and the worldwide revolution of new technology, have profoundly influenced the international economic development. In these new relations, the traditional principles of interest comparison have been replaced by the modern ones. Likewise, the traditional theory of free trade and competition has been replaced by the modern theory of international trade. Under these circumstances, the role played by the traditional strategy of import substitution is very limited. We must therefore readjust and change our means in order to win a position in the world market, and to catch up with and surpass the world's advanced level.

## II

### **Import Substitution Is Unsuitable for a Large Country as a Long-Term Strategy of Economic Development**

People who advocate the strategy of import substitution hold that import substitution is the long-term strategy for a large country catching up with and surpassing the world's advanced level. They base themselves on the following points: First, large countries are generally domestic-oriented countries; and the rate of export dependency of the United States is not more than 10 percent. Therefore, the key to catching up with and surpassing the advanced large countries by an underdeveloped country does not rest with the change in its domestic-oriented economy. Second, most large countries are populous, have large markets and possess the basic conditions for implementing the import substitution. Third, the underdeveloped countries generally lack the conditions for joining the international competition in the course of catching up with and surpassing the world's advanced countries. (Footnote 1) (See "Import Substitution is China's Long-term Strategy for Catching Up With and Surpassing the World's Industrial Countries" by Liu Changli, JINGJI YANJIU No. 8, 1987) I shall discuss these points in the following paragraphs.

First, it is undeniable that judging from the rate of export dependency, China and the United States share the same rate, about 10 percent. Then, is it possible for us to draw

a conclusion from this figure that the key for China to catching up with and surpassing the world's advanced countries does not rest with the change in its domestic-oriented economy? I hold that we shall see problems too simply if we think in this way.

1) The absolute export volume of the United States is much larger than that of China. At present, the annual U.S. export volume totals hundreds of billion dollars; whereas that of China only totals over 20 billion dollars, or several scores times less. 2) In its change from an underdeveloped country to an advanced one, the United States depended heavily on foreign trade. Beginning at the early years of this century, the proportion of U.S. export volume to its gross national product had been gradually increased, up to about 20 percent in 1920. It later dropped because of the economic crisis and the downward plunge of prices in the international market, to 10 percent in 1929. During the period that followed, the proportion remained unchanged because of international relations and wars. 3) While the U.S. rate of export dependency remains at about 10 percent, its foreign investment sharply increased. When tariff barriers and trade protectionism were widely spread, the United States indirectly expanded its export by developing its direct foreign investment. Through this method, particularly in the form of multi-national company, it produced in another country commodities which were formerly exported from the United States. This phenomenon is very obvious in western Europe. According to statistics, the production and sales of many industrial sectors in Europe are, to a considerable extent, controlled by many U.S. large corporations. For instances, the U.S. corporations have controlled 50 percent of the car industry in Britain, 40 percent in the Federal Republic of Germany, and one-third in France. Another group of U.S. corporations have controlled 35.8 percent of the oil refining industry in Britain, 24.3 percent in Italy, 29 percent in France, and 18.4 percent in Federal Republic of Germany. Furthermore, IBM alone has controlled 53 percent of the computer market in the Federal Republic of Germany, 51 percent in France, 50 percent in the Netherlands, and 40 percent in Britain. (Footnote 2) (See "The United States and Western Europe" by Ji Er Sa Nuo Fu [1015 1422 5646 6179 1133] (Soviet), the Commercial Press, 1978 edition) In addition to selling their products in their home markets, these controlled foreign companies also export their products, including exports to the United States. If we add these figures, the U.S. rate of export dependency will be more than 20 percent instead of 10. A similar situation also occurs in Canada and Japan. Thus, we can see that in order to catch up with and surpass the world's advanced countries, an economic large country must change its export pattern as well as its domestic-oriented economy. This inevitably requires changes in the economic strategy of import substitution.

Second, China is a populous large country. However, this does not mean that the market of a large country must be large. It can be a potentially large market at most.

Essentially, the demand for paying capacity, that is the purchasing power, exists in a market, which cannot be satisfied simply with a large population. Though the population of the United States is smaller than that of China, its market is larger than ours. This is because the per capita consumer demand in the United States is much greater than that in China. Of course, the market of backward countries is not very large. But the more important point is that because of technological advancement and the intensive development of production specialization, many types of production must be realized in the international market in order to accomplish the advantages of economics of scale. I.P. Faming-siji [3127 2494 2448 1015], Soviet economist, pointed out: "In terms of modern production, it seems that even the domestic market of industrially developed countries is getting smaller. The best arrangement of large-scale production, or mass production, of special equipment can be achieved only in the domestic market of another country whose capacity is larger. Let's take chemical industry as an example. According to estimates, there are about 10,000 kinds of chemical products made in Britain, and about 2,000 kinds of chemical products are not made in there. Of course, it meets its needs for these products by importation." (Footnote 3) ("Influences of Scientific and Technological Revolution on the Economy of Capitalist World" by Faming-siji (Soviet), Beijing Publishing House, 1979 edition, pp 97-98) This type of international economics of scale brought about by technological advancement is also favorable to China. Therefore, we can see that population does not provide a good reason for adopting the strategy of import substitution. z Third, whether or not China can stand the competition in the current international market is determined by the international economic relations, as well as the specific conditions of China's enterprises and products. Judging from the international economic relations, the development on the basis of equality has, on the one hand, provided a good opportunity for the developing countries in the competition. It is completely possible that we can take part in the world's new pattern of division of labor and actively re-arrange our foreign economic activities in order to obtain the best results. On the other, the development of economic internationalization requires us to actively take part in competition in the world market. Only thus can we truly improve the competitiveness of our enterprises and products. Some industries, enterprises and products of some regions in China have already possessed the strength for international competition. For example, it is absolutely possible that we may encourage localities like Shanghai to actively take part in the international competition. This helps these localities achieve the internationally advanced level, speed up the pace of upgrading products and developing the structure of trade, and spread the latest information about the world market to other parts of China through "lateral economic links." In other words, we promote industrial progress in China through our efforts of striving to achieve the internationally advanced level, rather than the China's advanced level. Moreover, we improve the general level of China's national economy through keen

international competition, rather than the internal low-level competition among China's industries. Proceeding from this viewpoint, it is still unnecessary for us to adopt the strategy of import substitution.

### III

#### **The Strategy of Import Substitution Will Bring Us Disadvantages in the Modernization of the National Economy**

The major goal of China's modernization of the national economy is to strive to catch up with and surpass the world's advanced countries, and to improve China's competitiveness in the world. Amid the modern international economic relations and under the conditions of modern commodity economy, however, it is impossible for us to achieve this goal by depending on the strategy of import substitution. This is because the intensive development of modern economic internationalization has made the growth of national economy of a country depend heavily on the international market. If we adopt the strategy of import substitution, we shall inevitably adopt the high protection policy. This will eventually separate China's national economic activities from the competition in the world market, and will isolate China's national economy from the world market. Under the conditions of the modern commodity economy, it is simply impossible for us to catch up with and surpass the world's advanced countries, and to improve China's competitiveness. The situation of China's car industry and ship-building industry clearly shows this problem. Originally, China's car industry and ship-building industry were far behind the world's advanced level. As the ship-building industry began joining the international competition in 1979, it has achieved the internationally advanced level in terms of production techniques and product quality in a matter of years. Its products are now exported to overseas markets in scores of countries; and its competitiveness is now internationally recognized. Until recently China's car industry did not develop its international market. Its production techniques and product quality were therefore far behind the internationally advanced level. Furthermore, in terms of macroeconomics, the labor productivity level of China's industrial sectors is far behind that of the advanced countries. Also, under the protection of high tariff, China's factories duplicate the construction of some popular products. These are the typical result of inappropriate adoption of the strategy of import substitution by China. We can draw lessons from the world's past experience in this respect. Therefore, in order to fundamentally improve the competitiveness of China's national economy and to quickly narrow the gap between China and the advanced countries, we must resolutely abandon the strategy of import substitution.

The result will be the same if we proceed from China's best process of modernization of national economy. First, the improvement of enterprises' quality, as well as their competitiveness, are the basis for modernization of

national economy. But if we adopt the strategy of import substitution, we shall miss this point. As many industries will have no competitors in the domestic market because of the tariff production under the import substitution, they will lack the drive for making further progress. Their quality and competitiveness will therefore not be improved. Second, the strategy of import substitution is unfavorable to balancing the foreign exchange revenue and expenditure. Though import substitution saves some foreign exchange in terms of finished products, we need to import more raw materials and semi-finished products in order to increase the domestic supply. In the wake of changes in the structure of commodity prices in the world market, we shall spend more foreign exchange on importation. At the same time, the strategy of import substitution hampers the development of industries which earn foreign exchange through export, and the development of products. As a result, we shall be unable to save our foreign exchange expenditure, and our foreign exchange revenue and expenditure will become unbalanced. At this stage, China cannot but impose restrictions on the issuance of import licenses. All these are unfavorable to China's practice of strengthening the foreign economic relations and opening up. Third, China must develop its commodity economy in order to realize the modernization of national economy, which is marked by internationalization.

In developing its commodity economy, China must gear to the needs of the international market, and accept challenges by the international market. Judging from this viewpoint, it is impossible for us to adopt the strategy of import substitution. Fourth, the readjustment of structure of industry is a strategic issue concerning China's modernizations. In order to readjust China's structure of industry, we must, on the one hand, greatly develop newly emerged industries and, on the other, transform the traditional industries by applying the achievements of the revolution of new technology. By making use of the opportunity that the developed countries are readjusting and changing their structures of industry, we may speed up our technological transformation of China's traditional industries. However, it is doubtful that we should make use of this opportunity and adopt the strategy of import substitution, which is held by some people. When we transform the technology of traditional industries, we should aim at the new technology which is needed by China in the 1980's for competition in the direction the current market is heading, rather than the technology adopted by the developed countries in the 1950's and the 1960's. Only thus can we make China's structure of industry base on the advanced technological level, and will it be possible for us to catch up with and surpass the world's advanced countries. Thus, we can see that the readjustment of and change in the world's structure of industry are favorable for us to change the traditional strategy of import substitution, instead of continuing to adopt the strategy.

**'Breakthroughs' From Devolving Foreign Trade Authority in Anhui**

40060171a Beijing RENMIN RIBAO in Chinese  
13 Mar 88 p 2

[Article by Zhao Xilong [6392 1585 7893]: "Breakthroughs In Foreign Trade Reform"]

[Text] The conference for commissioners and mayors in Anhui, which closed a few days ago, was the prelude to the intensification of foreign trade reform in the province. The provincial government unveiled 14 reform measures at the conference, a breakthrough in its drive to eliminate the shortcomings of the old system such as eating from the big rice pot at the state's expense, monopolies, and the divorce between industry and trade.

The basic objectives of the latest round of foreign trade reform in Anhui are to make foreign trade enterprises responsible for their own profits and losses, delegate operations, integrate industry with trade, and popularize the use of agents. The reform mechanism is to launch the contracted responsibility system across the board throughout the province, from top to bottom. The provincial government assumes accountability to the state for fulfilling such targets as exports-generated foreign exchange earnings and foreign exchange to be turned over to the state. After consultations and coordination, it will then set a range of foreign trade targets for the province for which bureaus, departments, municipalities, and provincial foreign trade companies will be held responsible. Local governments, in turn, will contract with local and municipal foreign trade enterprises, production enterprises, and materials-supplying units. As a result of contracting at successive levels, responsibilities, rights, and interests are integrated, enterprises can operate independently and be held accountable for their own profits and losses, and the enthusiasm of all parties for exporting and earning foreign exchange is mobilized.

This reform has achieved significant breakthroughs in the delegation of foreign trade authority, such as the decision by Hefei, Bengbu, Wuhu, Anqing, Maanshan, and Tongling to take one step ahead of others and apply to the state for the right to import and export. Before permission is granted, provincial import and export companies may commission prefectural and municipal foreign trade companies as contractors in an "agency-in-reverse" sort of arrangement. Large and medium-sized enterprise groups earning \$3 million in foreign exchange annually have been authorized to import and export, as has a number of well-qualified enterprises along Changjiang whose exports reach \$10 million. Integration between trade and industry, agriculture, and commerce is being promoted. Foreign trade companies and production enterprises have been brought together as economic entities to engage in foreign trade jointly. The foreign trade agent system is being implemented vigorously.

To give localities a free hand in grasping the opportunity to expand foreign trade and earn foreign exchange, the province has increased local power to utilize foreign capital and import technology in accordance with state regulations and circumstances in the province. It also has set up a foreign exchange regulating market, an export production development fund, a foreign exchange circulating fund, and a risk fund for agricultural byproduct exports. In addition, it has adopted a number of new preferential policies concerning the construction of export commodity bases to open up the province and invigorate the economy.

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**Fujian's Further Foreign Trade Potential**

40060176 Beijing LIAOWANG OVERSEAS EDITION  
in Chinese No 8-9, 29 Feb 88 pp 3-4

[Article by Shi Zhengyao [2457 1513 1031] and Xu Yiming [6079 0001 7686]: "Fujian Improves Investment Climate To Attract Foreign Capital"]

[Text] Fujian Province has ushered in its 10th year of opening up to the outside world. Now, yet more plans to open up the province have been drawn up by Beijing and the provincial government.

**Opened Areas Expanded To Cover More Than Half of Province**

As people were busy ringing out the old year and ringing in the new, a travel-weary General Secretary Zhao Ziyang arrived in Fujian on an inspection tour. As he was here 4 years ago, he was able to make comparisons. He said, "This place has changed so much that it is unrecognizable. It is booming everywhere." He also said, "Fujian is on the threshold of major development. Its coastal areas should make full use of the present favorable opportunity, speed up reform and the process of opening themselves up, and steer their economic development strategy toward participation in international competition. The province should join the great international circulation and build up an export-oriented economy systematically and in a guided way in accordance with a plan."

On 26 January, the State Council approved the expansion of economically opened areas in Fujian. Previously Fujian had opened up the Xiamen Special Economic Zone [SEZ], the Xiamen-Zhangzhou-Quanzhou triangle in the southern part of the province, the city of Fuzhou, and an economic and technological development area. The current round of expansion connects the several existing opened areas, from Fuzhou in the north to Zhaoan County adjoining Guangdong in the south. This stretch of land, which extends for 500 kilometers from north to south, consists of 30 cities, counties, and districts and has 17 million people, or 63 percent of the

province's total. Its gross value of industrial and agricultural output stands at 20.4 billion yuan, 65 percent of Fujian's total. In this sense, more than half of Fujian has been opened up.

Addressing the Seventh Fujian People's Congress held recently, Wang Zhaoguo [3769 0340 0948], the new governor, said in his government work report, "The CPC Central Committee and the State Council recently decided that Guangdong and Fujian should move ahead of others to reform and open up to the outside world. This further clarifies Fujian's position and mission in China's coastal economic development strategy. Thus we must be vigilant, further liberate our minds, enhance our sense of reform and openness, and work together as one to catch up from behind. We must enter the international economic arena even more courageously, participate in the international economic division of labor and international competition actively, and do an even better job in reforming and opening up Fujian and in its economic construction in less time."

Such is the theme of the "10th year of opening up Fujian."

#### **Opportunity Beckons To Join International Circulation**

Wang Zhaoguo pointed out in his government work report that Fujian must actively take part in the international economic division of labor and international competition and look to the international market for the supply of raw materials and the sale of products. Apart from coal and electricity, demand for which must be satisfied domestically, additional needs for other raw materials should be met primarily through international exchange. Making use of abundant local manpower resources, Fujian should go all out to develop labor-intensive industries, industries that are both labor- and knowledge-intensive, and processing industries with materials provided, and rapidly increase its exports so as to fuel economic development province-wide.

Is Fujian equipped to do this and at this time?

In recent years, by traveling abroad and receiving foreign businessmen, Fujian has realized that the international economy is currently facing its second global shake-up in industrial structure and that new changes are taking place in international economic relations. Because of the increasing mobility of international capital, the world's idle money, equipment, and technology are looking for new hospitable homes. In particular, there have been tumultuous swings in the exchange rates of the dollar, the yen, and other major international currencies. Some nations and regions in Asia and the Pacific have seen their labor and export costs shoot up in the wake of sharp rises in the value of their currencies, consequently losing many labor-intensive industries to places with lower labor costs. This situation provides a good opportunity for Fujian's effort to expand foreign economic exchange.

As noted at the recent people's congress, however, opportunity does not knock twice. If we grasp it, it is an excellent chance, but a missed opportunity would turn into a "crisis." Thus we must make full use of Fujian's existing advantages while avoiding its shortcomings and exploit this opportunity to do something really big to further Fujian's economy.

#### **Fujian Meets Preliminary Requirements To Enter International Market**

Compared to the time when it was first opened to the world, Fujian has come a long way in terms of economic foundation and foreign investment climate. In the past, Fujian was not a national construction priority because of persisting tension and state of war in the Taiwan Strait. State investments therefore were scarce and the economic foundation was relatively weak. This was a fact. But since Fujian was opened to the outside world, the situation has changed radically. Economic growth has picked up considerably. For instance, in 1978, 1 year before opening up, the gross value of industrial output was 6.09 billion yuan and exports were worth a mere \$190 million. By 1987, the gross value of industrial output had risen to 23.5 billion yuan and exports hit \$847 million.

According to incomplete data, Fujian has sunk 1.2 billion yuan into infrastructural developments since it was opened up, targeting the construction of 6 10,000- to 50,000-ton berths at the two ports of Fuzhou and Xiamen and wharves at such places as Quanzhou and Dongshan. It also has built two airports in Fuzhou and Xiamen and launched 31 domestic and international air routes. It has installed a program-controlled telephone in the four cities of Fuzhou, Xiamen, Quanzhou, and Zhangzhou as well as Jinjiang County, and started direct-dial long-distance services to many places in the nation and abroad. It has organized a coastal and ocean-going fleet consisting of 50 passenger and cargo ships, modernized railways, repaired highways, and put up a host of tourist hotels capable of accommodating foreign visitors. Work is continuing in this area, with emphasis on the development of such raw materials industries as electricity, iron and steel, and cement. Power construction includes key national projects like Shuikou and Shaxi Hydroelectric Stations and the Fuzhou thermal power plant, with a combined installed capacity of 2.8 million kw. With at least one large generating set going into operation each year since last year, electricity shortages in Fujian will gradually be eased in the next few years.

Even as it seeks to improve the "tangible" climate, Fujian also takes the development of the "intangible" climate seriously. In the process of implementing relevant central laws and regulations, it has formulated a string of detailed implementation regulations and other rules in light of actual local conditions and have promulgated them for enforcement. In carrying out the State Council's 22 regulations designed to encourage foreign

investment over the past year, in particular, it has taken many steps that specifically target bureaucratism and a foot-dragging way of doing things and tried hard to improve services. It also has nurtured a 30,000-people foreign economic relations and trade contingent through practice and training.

All this has gone a long way toward protecting the legitimate interests of foreign businessmen and encouraging foreign investment.

During the past few years, Fujian has been conducting trade and established financial ties with more than 120 nations and regions and absorbed and utilized \$600 million in foreign funds. Its exports reached \$847 million in 1987, \$268 million more than the 1986 figure of \$579 million. It is unprecedented for exports to increase \$200 million in just 1 year. In 1987, 286 contracts on the absorption of foreign capital were signed, with a total price tag of \$219 million, up 150 percent and 90.4 percent, respectively, over the preceding year. Today 538 enterprises funded by the "three capital sources" are already in operation in Fujian, their exports generating a total of \$2.7 billion in foreign exchange. Altogether 796 pieces of advanced technology have been imported to transform a large number of old enterprises, thus improving their production capacity. In addition, Fujian leads the nation in overseas project contracting and labor cooperation. Considerable progress has been made in international tourism as well. To sum up, Fujian is basically equipped to enter the international market.

#### **New Moves To Open Up Fujian**

Fujian has made these new moves in foreign economic relations and trade:

To introduce competitive mechanisms into enterprises and improve management and operations, it has ruled that small factories and stores that have been losing money for long periods of time may be auctioned off to collective, individual, and other well-managed enterprises. State enterprises may hire foreign managers. Foreign businessmen may purchase stock in old enterprises and contract to run or lease them. An old enterprise may enter into a joint venture with a foreign businessman and put the latter in charge of management and transformation. A Sino-foreign joint venture may be contracted to a foreign businessman to be run in accordance with advanced methods in current international use. The SEZ and economic and technological development area must move beyond the existing Chinese management system and learn advanced foreign management in order to raise enterprise management standards promptly.

- Reform the foreign trade system. Delegate foreign trade power to various localities, counties, municipalities, and enterprises with the necessary qualifications so that they can go into contracting and be responsible for their profits and losses. Integrate industrial and agricultural production with science and technology and foreign

trade. Apply a tax guarantee system to processing with materials provided and purchased materials to encourage the processing of imported raw materials into finished products for export, thereby mobilizing the enthusiasm of all foreign trade enterprises, export factories, and producers in the province. At present the province is in the process of creating a new organization to manage foreign economic relations and trade. The provincial foreign trade corporation will no longer exercise administrative and managerial responsibilities. Instead it will join the ranks of specialized foreign trade companies and become an independent economic entity to be operated like an enterprise. Establish groups of export enterprises. Adopt effective flexible methods. Make use of and expand international sales networks. Gradually match domestic production with international marketing so as to facilitate the province's participation in international competition.

— Financial reform. Broaden the scope of operations of banks funded by foreign capital, banks run as Sino-foreign joint ventures, and non-bank financial institutions in the province as appropriate. Gradually develop a foreign exchange market.

— The Fujian provincial government also makes different demands on different localities, depending on the local conditions. As a laboratory in comprehensive reform, the Xiamen SEZ must free itself from the restraints of the present system, make itself more attractive to foreign investors, and speed up its entry into the international market. The opened city of Fuzhou should accelerate the utilization of foreign capital to transform small and medium-sized enterprises, vigorously develop wholly foreign-owned enterprises, and enhance the production capacity of export-oriented and innovative enterprises. The opened triangle in southern Fujian and the recently opened coastal area should work hard to develop agriculture and export-oriented township and town enterprises to earn foreign exchange. The development of Meizhou Wan should be intensified in a planned way. Mountain areas too should make use of their advantages, cultivate links with the interior, attract foreign capital, technology, and personnel, and develop agriculture and the lumber industry to earn foreign exchange.

— Turning to policies, Fujian will continue to implement its overseas Chinese policies and offer preferential treatment to overseas Chinese investors. It will set up an overseas Chinese capital development fund, make better use of the provincial Overseas Chinese Investment Company, and attract idle capital from among people who have relatives overseas and from among overseas Chinese. Small industrial zones will be developed in areas inhabited by people with relatives overseas. Taiwan compatriots who invest in Fujian will be offered preferential treatment. When an overseas Chinese from Hong Kong, Macao, or Taiwan invests in his hometown outside the opened areas, he will be treated preferentially as if he were investing inside those areas.

Some of the various reforms mentioned above have been acted upon since last winter. Foreign trade reform, for instance, is being tried out in three specialized export companies—light industry, arts and crafts, and clothing. To expand the sources of exports, measures have been taken to expedite the construction of the production bases of 10 major commodities, such as footwear, canned food, aquatic products, machinery, electronic products, mining products, clothing, tea leaves, jewelry, processed timber products, medicine, and chemical industrial products.

Based on current changes in the international market and local conditions, Fujian has decided to make the expansion of processing with materials provided the thrust of its drive to create an export-oriented economy. Much progress has been made in this area. In the past, processing with materials provided was concentrated in township and town enterprises in and around Quanzhou and Jinjiang in the southern part of the province. Last November, the provincial government decided to scatter it throughout the coastal areas in the entire province. Any enterprise with processing capability can enter that business, including state and collective enterprises, enterprises funded by the "three capital sources," and street enterprises. Today all coastal counties have bestirred themselves, looking for customers, negotiating, signing deals, and setting up joint processing zones with the interior in order to make it big in the manufacturing of footwear, clothing, toys, domestic electric appliances, hardware, new building materials, daily electronic products, and plastic goods.

Assessing Fujian's prospects, Governor Wang Zhaoguo said, "Right now Fujian is on the threshold of a period of great economic development. The time is right, the geography is favorable, and the people are supportive. The situation is excellent and the prospects bright. We are full of confidence about the future."

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### **Solutions to Fujian's Foreign Debt Problems Suggested**

40060166 Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese  
No 1, 12 Jan 88 pp 49-50

[Article by Hu Dunan [5170 3250 0589] and Liang Longjun [2733 7127 0193]: "Analysis of Fujian's Current Foreign Debt Situation and Development Strategy"]

[Text] Since opening up to the outside world, Fujian Province has been importing foreign capital actively through a variety of channels. The time has come for the repayment of principal and interest, which is expected to peak between 1991 and 1995. We have conducted a comprehensive survey to take stock of Fujian's foreign

debt and forecast the province's ability to borrow and repay foreign loans so as to accurately ascertain the scale of foreign borrowing and the uses to which foreign loans should be put.

#### **1. Characteristics of Fujian's Foreign Debt And Major Existing Problems**

1) Foreign debt has grown much more rapidly than gross social output value or export earnings in recent years.

Fujian's foreign debt has grown very rapidly in recent years, doubling in 1985 and 1986 compared to the preceding year. In contrast, gross social output value increased 19.2 percent and 10.9 percent in 1985 and 1986, respectively, while export earnings rose 16 percent and 17 percent in the same period. Foreign debt has risen faster than either gross social output value or export earnings.

2) There is a reasonable mix of loans in terms of maturing period and sources, but short-term loans have increased too sharply recently.

The majority Fujian's foreign loans consist of medium- and long-term loans, bilateral loans, and multilateral loans (from foreign governments and international organizations). Medium- and long-term loans can be broken down by sources as follows: foreign government loans, 9.8 percent; World Bank project loans, 7 percent; foreign bank loans, 30.13 percent; the issue of overseas bonds, 25.17 percent; and private foreign loans, 1.7 percent. Fujian's foreign debt is dominated by medium- and long-term loans, bilateral loans, and multilateral loans, with relatively few short-term loans and commercial bank loans, which suggests that the mix of loans is relatively sound in terms of maturing period and sources. More recently, however, the number of short-term foreign loans and commercial loans has soared.

3) Interest rates charged by foreign lenders have been moderate to high.

The interest rates of the bulk of Fujian's foreign loans range from 7 to 8.5 percent. Compared to the rates on the international financial market in the last couple of years, interest rates at this level is moderate to high. We should pay attention to this when we utilize foreign loans in the future.

4) Lack of diversity in the currency structure of foreign loans.

Fujian's foreign loans can be broken down by currency as follows: the dollar, 64.9 percent; the yen, 18.9 percent; Australian dollar, 6.15 percent; dinar, 4 percent; West German mark, 3.8 percent; Hong Kong dollar, 1.5 percent; krone, 0.8 percent, and pound sterling, 0.4 percent. Most of the loans are denominated in dollar while the share of the West German mark, Hong Kong dollar, and pound sterling is relatively small. The lack of diversity in

the currency of foreign loans and the dominance of the dollar make it difficult for Fujian to steer clear of risks and losses caused by exchange rate fluctuations in the world.

5) The pattern of use of foreign loans is undesirable.

Foreign loans can be broken down as follows by the use to which they are put: infrastructural projects, 13.9 percent; production projects, 78.9 percent; and service projects 7.2 percent. A majority of these projects are non-export-oriented or are geared to import substitution and have serious difficulties balancing their foreign exchange.

6) Most loans are scheduled to mature at more or less at the same time.

The payment of principal and interest on Fujian's foreign debt will gradually peak in the next few years. Based on its current loans, the province will spend tens of millions of dollars each year from 1987 to 1990 just to pay principal and interest. Too many loans will be due at the same time, peaking in the period 1991-1995.

7) The debt service ratio is approaching an alarming level.

The debt service ratio is an indicator of a nation's debt burden. The international rule of thumb is that the safest maximum debt service ratio ranges from 20 to 25 percent. Experts suggest that China hold its ratio between 15 and 20 percent. We have calculated Fujian's debt service ratio in four different ways, taking into account the characteristics of China's foreign exchange management and debt management systems. 1) If we take debt service ratio to be the amount of principal and interest as a percentage of the foreign exchange at the disposal of the province, then Fujian's average debt service ratio during the Seventh 5-Year Plan was 22 percent. 2) If we take the debt service ratio to be the amount of principal and interest paid on loans directly borrowed by Fujian as a percentage of foreign exchange retained by the province, then the average debt service ratio during the Seventh 5-Year Plan was 19 percent. 3) If we take the debt service ratio to be the amount of principal and interest paid on loans directly and indirectly borrowed by Fujian as a percentage of foreign exchange retained by the province, then the average debt service ratio during the Seventh 5-Year Plan was 24 percent. 4) If we take the debt service ratio to be the amount of principal and interest paid on the province's foreign debt as a percentage of foreign exchange at the province's disposal, then the average debt service ratio during the Seventh 5-Year Plan was 14 percent.

That the debt service ratio hovers around 20 percent using any of the four calculation methods shows that Fujian's debt burden is approaching an alarming level.

At that level, the ratio can cause imports to diminish and affect the utilization of foreign exchange by agricultural and industrial production and the balancing of the budget.

8) The management and supervision of foreign debt is less than perfect. There are too many channels of utilizing foreign debt and management is fragmented.

For structural reasons, foreign debt management in Fujian is fragmented. Bilateral loans from foreign governments are administered by the Foreign Economic Relations and Trade Commission; World Bank project loans and some foreign government loans, by the Finance Bureau; International Monetary Fund [IMF] loans, the issue of bonds overseas, and commercial loans, by the Foreign Exchange Control Bureau of the People's Bank of China; commercial loans and export credits, by the Bank of China; and World Bank loans, by the Construction Bank and Agricultural Bank. Then there are miscellaneous loans borrowed and repaid by local financial agencies. With this fragmented foreign debt management system, the province finds it difficult to grasp the foreign debt situation comprehensively or to manage and supervise foreign debt effectively on the macroeconomic level. Moreover, foreign debt regulatory and control mechanisms are inadequate. Borrowing, utilization, and repayment are divorced from one another. As a result, there are still no repayment units for some loans even today. Also lacking is the effective management of foreign guaranty and counter-guaranty. There is confusion in the use of foreign loans, which is responsible for the steep increase in provincial indebtedness. If these problems are not resolved, there is a danger that foreign debt may get out of control.

## 2. Measures To Make Better Use Of Loans

How do we resolve the problems in Fujian's foreign debt today? How can we further utilize foreign loans in the future?

1) Determine a proper scale and pace of foreign borrowing. Our scale of foreign borrowing and solvency are conditioned by our ability to export and earn foreign exchange. Thus, to repay our loans, we must first push for an export-oriented economy and enhance our solvency. Second, we should control the scale and speed of foreign borrowing so that they expand at a rate commensurate with the scale of and increase in exports.

2) Hold the line on short-term loans, make use of medium- and long-term loans, and further improve the mix of loans in terms of maturing periods and structure.

The key to improving the mix of foreign loans in terms of maturing period and structure is to maximize bilateral and multilateral loans and minimize commercial credit. This is because short-term foreign loans have a short turnover period and carry a high interest rate. Retiring a

short-term loan is more difficult than retiring a long-term loan and is also more inimical to the implementation of a medium- or long-range plan. Appropriate measures should be taken to set a maximum interest rate and a minimum maturing period for foreign loans, to limit short-term loans as a percentage of all foreign debt, and to control the increase in short-term loans. Moreover, we should look for medium- and short-term loans actively in order to raise the average maturing period of foreign debt and further improve its mix.

3) Borrow when the time is right to lower the interest rates on foreign loans.

We should take these measures to lower interest rates. As far as fund-raising methods go, we should first make the most of the variety of "soft loans" offered by foreign governments and international financial institutions and continue to float low-interest long-term bonds on the international financial market. Second, as for fund-raising techniques, we should borrow when interest rates on the international market are at their lowest and foreign exchange rates are on the rebound. These steps would help us lower interest rates overall. To avoid losses resulting from wild swings in interest rates, we should use a combination of fixed interest rates and floating interest rates, opting for the former when rates are low and the latter when rates are high.

4) Change the currency mix of foreign debt and reduce losses caused by exchange rate fluctuations.

At present most of Fujian's foreign loans are denominated in the dollar, which is potentially risky as exchange rates go up and down. To reduce the losses resulting from this risk, we should be careful to make sure that export and import currencies are correlated and diversify the currency mix of foreign loans. We should also avoid issuing too many bond on the same market. These measures should minimize the risks and losses associated with exchange rate changes.

5) Adjust the pattern of use of foreign loans so that they are used more effectively.

The soundness with which foreign loans are put to use and the returns on foreign exchange have a direct impact on our solvency. When foreign loans are used properly and pass the tests of cost-effectiveness and foreign exchange-effectiveness, borrowing is justified. In view of the fact that some of Fujian's foreign loans are being misused and have poor foreign exchange returns, we should shift the focus in the use of foreign loans from domestic and import-substitution projects to export-oriented ones.

6) Open up a multitude of avenues to repay debt, enhance our solvency, and avoid the danger of having all loans mature at the same time.

There are three ways to pay back a foreign loan. First, formulate a range of preferential policies, speed up the development of an export-oriented economy, boost exports, and improve our solvency. This is the basic approach toward repaying foreign debt. Second, establish a foreign loan redemption fund, an effective means of retiring debt. Third, borrow new loans to pay off old loans, which is only a supplementary and expedient method, not the primary means of retiring loans.

7) Establish an effective foreign debt management system and improve foreign debt supervision.

(1) Create an agency to coordinate foreign debt management. In view of the fragmentation and chaos in foreign debt management today, we should set up a Fujian foreign debt coordinating agency in accordance with the principles of "unified policy, unified planning, and presenting a united front in dealing with foreign nations" and "centralized management, division of labor with individual responsibility, and strengthening coordination," in order to replace fragmentation with centralization in foreign debt management.

(2) Improve the foreign debt supervisory system. The Foreign Exchange Control Bureau should be relied on to create and perfect a foreign debt supervisory system to monitor changes in foreign debt in a timely way, forecast the peak in loan repayment, make projections about the province's solvency, and recommend appropriate measures.

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## PRC MEDIA ON FOREIGN ECONOMIES

### Eastern Europe's Experience in Encouraging Exports

40060160 Beijing *SHIJIE JINGJI [WORLD ECONOMY]* in Chinese No 12, 10 Dec 88 pp 24-26, 83

[Article by Du Defeng [2629 1795 1496], Institute of Modern International Relations: "Eastern European Countries Adopt Forceful Measures To Encourage Foreign-Exchange Earning Exports"]

[Text] During the 1970s, a number of Eastern European countries vigorously and courageously borrowed capital to import technology, equipment and consumer goods in order to promote economic development and to improve standards of living. However, the countries borrowed too much, used loans improperly and failed to expand exports as fast as they borrowed capital and thus went deeper and deeper into debt to Western capitalist countries. This borrowing, therefore, produced many problems and negative, rather than positive, results, and some of these countries now find themselves burdened with heavy foreign debts as a result. To change this state of affairs, these countries, which were in the process of

reforming their foreign trade systems, adopted additional, forceful measures to encourage expansion of exports so as to earn more foreign exchange with which to pay off their debts.

Yugoslavia. Over the past 2 years, Yugoslavia has stressed that the prerequisite for improving the nation's ability to repay her debt is achieving surplus in her foreign trade and on her need through 1990 steadily to expand exports so as to increase that surplus. The country plans to increase exports and imports of goods and services by six and five percent, respectively, each year from 1986 to 1990; to raise her earnings of convertible foreign exchange from \$13.0 billion in 1985 to \$21.0 billion in 1990; to have merchandise exports cover 90 percent of the total value of all imports; to have total exports, including services, cover 107 percent of all imports; and to maintain an annual \$1.2 billion surplus in her international balance of payments during this 5-year period so that her foreign debt will be reduced to \$16.0 billion by 1990. To achieve these objectives, Yugoslavia has given priority to the expansion of production for export and to increasing foreign-exchange earnings and to these ends has adopted the following policies and measures. (1) The state has given export production priority in investment and in allocation of energy and raw materials. (2) Imports of primary products (raw materials) and basic materials must first be used to meet the needs of export production, and imports must first serve exports. (3) Duties on exports have been reduced, and tax policy has been used to stimulate enterprise aggressiveness and initiative in exporting. (4) Commercial banks have been encouraged to give priority to the granting of export loans to stimulate enterprise aggressiveness and initiative in producing for export. (5) The nation has gradually changed her mix of industrial output, increased production of marketable exports, expanded investment in research and development of export commodities—which is especially important, and thereby improved the quality and competitiveness of her exports. (6) The nation has used law to support exports. For example, the Federal Executive Council passed the Foreign Trade Law and the Foreign Exchange law and readjusted and resolved the contradictions obtaining between developed and undeveloped regions in export production. (7) The nation strengthened her economic and trade ties with socialist countries, the European Economic Community and developing nations and strived to sign long-term trade agreements to stabilize export markets and volume. (8) The nation aggressively contracted to undertake construction projects abroad, expanded exports of technology and labor service and thereby increased foreign-exchange earnings. (9) Joint ventures were further developed. The Joint Venture Law, which was revised in 1984, relaxed restrictions on investment by and granted more preferential treatment to foreign businessmen so as to make better use of foreign capital and technology, to promote economic growth and to expand export capacity. (10) Duty-free zones were established to promote export production and to expand export of goods and

services. (11) The nation supported exports of foreign-exchange earning know-how and labor and encouraged people to go abroad to work and send back more foreign exchange. (12) The nation devalued the dinar at the proper time and thereby improved the competitiveness of her goods on international markets and broadened export opportunities. (13) The nation strengthened her control over the goods and services exported by foreign-trade enterprises, prescribed stern sanctions for violators of trade policy and regulations, and granted material rewards to enterprises and individuals fulfilling their export quotas. The above measures have already yielded good results, and since 1986 Yugoslavia's foreign-exchange earnings began to increase, and her ability to service her foreign debt has improved.

Poland. Over the past several years, Poland's exports to capitalist countries have not increased very much and have even fallen behind the rise in imports from time to time. To turn this situation around, the nation, which is in the midst of economic restructuring, has made the slogan "the economy must develop in the direction of expanding exports" her long-term policy. Polish economic experts widely believe that the nation's debt problem is serious and that she cannot resort to new borrowing to service old debts. Thus these experts have stressed that debt repayment must begin at home and that Poland can pay off her debts to Western nations and balance her trade only by enabling her economy to grow rapidly so as to expand export earnings and to maintain surpluses in her foreign trade. To achieve these objectives, the nation has adopted the following concrete policies and approaches. (1) She has changed her export mix, gradually shifting core exports from raw materials and fuels to manufactures and thereby increasing the share of manufactures in and the value-added of her exports. (2) The state has granted all enterprises producing for export priority in receiving supplies of energy, raw materials and other materials. (3) In the future, the state will use loans primarily to effect economic modernization and to expand export production. (4) The nation has expanded investment in sectors enjoying export potential so as to increase export production, reduce delivery times and improve the reputation of the nation's products. (5) The nation has set sales prices for exports, abolished subsidies for imported raw materials, established rational supply prices for raw materials and thereby prompted enterprises to base export production in business accounting. (6) The nation has permitted enterprises producing for export to carry out foreign trade independently and to retain some of their foreign-exchange earnings. In the latter area, the nation first expanded the amount of foreign exchange enterprises are permitted to keep, allowed units earning hard currency through export to keep a certain proportion of their earnings, established in 1986 a trial system permitting ruble account transfers and retention and finally established unified standards for foreign-exchange retention. The share of foreign exchange enterprises are permitted to keep depends on how much they actually earn and is generally 20 percent but can rise to 50 percent or even

higher under special conditions. The state has also permitted enterprises to use retained foreign exchange to import goods and materials needed to expand export production. (7) The nation has established corporations, of which 51 percent are owned by the Ministry of Foreign Trade, and the rest are export enterprises. According to statistics, 37 foreign-trade companies were registered as of the end of 1985 with the ministry, of which firms 28 were corporations. These firms account for 62 percent of all foreign trade conducted by the ministry and for almost all of Poland's machine exports. (8) The nation granted exporting enterprises tax preferences, making the exports such firms produce more profitable than domestically sold products and providing such firms with more incentive. (9) The nation established an export development bank that enjoys sole responsibility for managing investment in export production. The bank, which formally commenced operations in January 1987, assists enterprises and companies that enhance export output and quality. (10) The nation has integrated industry and trade in order to make products more marketable abroad, stressed improvement of marketing techniques and servicing domestic markets, improved export quality and packaging and strived to obtain favorable prices for her products. (11) An incentive system has been instituted for export enterprises and their employees so as to promote greater initiative. Thanks to the above policies and measures, Poland has achieved a \$1.0 billion trade surplus with Western nations in each of the last 2 years and, according to estimates, will run a surplus of \$1.08 billion with the same countries in 1987. Thus, even though at this rate Poland's foreign debt will continue to mount for a while, the nation's debts should begin to decline by 1990 and will be completely paid off by 2005 if all goes well.

Hungary. Hungary has a heavy foreign debt burden. Foreign trade accounts for one-half of Hungary's national income, so that country is very sensitive to changes in the international market. In the past, however, the country did not place sufficient stress on exports, did not adopt effective measures and, especially importantly, did not have a satisfactory export mix, which was comprised largely of raw materials and low-end manufactures. Hungary suffered for these oversights. For many years, the country's exports to capitalist nations did not increase and her terms of exchange deteriorated, giving rise to a trade deficit and steady growth in indebtedness to foreign countries, so that by the end of 1986 the nation had accumulated a total of \$10.0 billion in debts and had a net debt of \$7.6 billion. Thus Hungary adopted the following important measures to increase her export capacity and her ability to service her foreign debt. (1) The country has restructured her export production and changed her mix of exports, developed marketable goods and fundamentally transformed her foreign trade, which had been very backward. (2) The state has eliminated construction and investment taxes on enterprises and provided preferential loans to encourage firms to expand and improve their plants so as to increase exports and reduce energy consumption. (3) The

nation has broken up the monopoly of foreign trade enterprises, authorized state and cooperative enterprises able to export and earn foreign exchange the authority to engage in direct trade with foreign businessmen, and coupled these reforms with a variety of subsidies and tax preferences. (4) To improve efficiency in export operations, the nation has permitted larger wage raises for export enterprises showing greater profits and has exempted such raises from progressive taxation. (5) The nation has accelerated modernization of her production structure, sped up development of science and technology, improved product quality, strengthened her international competitiveness and enhanced her foreign-exchange earnings capacity. (6) The nation has increased enterprise interest in exporting by revaluing the forint. (7) Since 1987, the nation began to use capital primarily to develop manufacturing industries that have export potential and required that foreign-trade enterprises settling accounts in convertible foreign exchange do even more to expand exports of manufactures. (8) And beginning in 1987, the economic regulatory system was revised in order to encourage business units aggressively to improve export capacity and returns.

Romania. Romania has had a heavy foreign debt burden for a long time, and although she has cut imports and reduced consumption over the past 2 years, she still owes more than \$5.0 billion to foreign countries. The country therefore has placed great emphasis on exports in her current 5-year plan, which calls for a 32.7 percent increase in foreign trade and a 75 percent growth in exports over the previous plan, and will strive to increase exports in order to repay her foreign debt. The measures the nation has adopted to accomplish these ends are as follows. (1) The state has given priority to allocating and ensuring supplies of energy sources and raw materials—especially those reducing dependence on imported counterparts—needed by enterprises to produce exports and has ordered economic units to use energy and raw materials only for export production and not to divert those supplies to other uses. (2) The nation has changed her export mix, increasing the ratio of high-end products in that mix, and by 1990 will raise to 32 percent the share of machinery exports in total exports. (3) Certain enterprises and workshops have been designated to produce solely for export. These units are to promote outstanding cadres to leadership positions and are to plan their production thoroughly, promptly and accurately. Export plans are to be fulfilled by the 20th day of each month, and the last 10 days of the month are to be used to prepare for the following month's production. (4) The nation has modernized her production processes in order to improve the competitiveness of her exports. (5) The nation is determined markedly to increase long-term coproduction agreements with foreign companies, to ensure quality in the goods so produced, and to scrupulously honor her contracts with foreign partners. (6) The nation has ordered that economic agencies and organizations at all levels resolutely and responsibility carry out their duties, work closely together to resolve export problems, and ensure that export earnings are employed

chiefly to balance national income and expenditure. (7) The nation has implemented a system of rewards and punishments for technicians and economic workers in enterprises and in industrial centers and for ministerial-level cadres overseeing export production and has ordered that employees of enterprises overfulfilling export production targets and completing export tasks be awarded bonuses each month equal to as much of 20 percent of their regular salaries and that workers in units failing to meet their targets have their salaries docked by 2 percent where actual production falls 1 percent short of the target, by 4 percent where the shortfall is 2 percent, and so on, up to a limit of 50 percent of base salary levels.

Bulgaria. Although Bulgaria's foreign debt is less than \$2.0 billion, she has adopted many measures to encourage exports and foreign-exchange earnings. (1) The state has budgeted funds (subsidies) to establish (enterprise) bases from which to break into international markets through production that is more advanced technologically. That is to say, to improve productivity and to enhance competitiveness in international markets, the nation is initiating production that has export potential but that involves risk. (2) The nation has increased the ratio of foreign exchange enterprises may retain from supraquota export earnings from the previous 30 percent to 70 percent, which move has greatly increased enterprise enthusiasm for exporting. (3) Enterprises that produce according to plan goods that earn foreign exchange but that are costly and unprofitable to manufacture may receive subsidies computed according to foreign-exchange earnings quotas. For example, machinery exporters on average receive 30 percent subsidies, and exporters of premium wines receive a surcharge of 30 percent. These subsidies benefit both the state and enterprises. (4) The nation has initiated an export incentive system, granting rewards, for example, to producers of high quality exports. These rewards are determined each year by the ministers of finance and of foreign trade, are issued for specific products and are paid for actual performance. For example, the Council of Ministers ordered that the salaries of leadership cadres in economic organizations and enterprises that fulfilled their export and foreign-exchange earnings targets in 1986 could be increased 1-5 percent above the base rate.

Czechoslovakia. Czechoslovakia paid off all of her foreign debt in 1986 and became the only nation in Eastern Europe (excluding Albania) to be free of foreign debt. Czech economists are not sure if this is a good thing or not and feel the question merits further study. But in any case, this country, too, needs to earn more foreign exchange—to import new technology and equipment, energy sources and raw materials in order to accelerate economic development. In her efforts to restructure her foreign-trade administration, Czechoslovakia has adopted such major reforms as expanding enterprise authority to export, strengthening central government macroeconomic control over foreign trade and implementing a unified policy on external economic relations

and trade. She has also adopted the following measures. (1) A number of major enterprises have established foreign-trade offices or have been permitted greater autonomy to import on their own, and a number of companies will be detached from foreign-trade departments and combined with production units so as to stimulate exporting more effectively. (2) Material reward funds have been established as export returns improve. The size of these funds is determined by the overall balance in profits and losses and by the growth of these [pronoun vague in original] indicators. (3) Exporting units have been granted incentive rewards in korunas and in foreign currency. The size of these rewards is determined by the value of the goods received in exchange for exports and is to be markedly higher than the standards established for domestic operations. The incomes of employees of companies showing high earnings may also be increased commensurately. (4) Investment by government departments, which plays an important role in export production, has been increased to ensure greater export production. (5) The nation has improved her science and technology, has made these serve export production and is concentrating her forces on improving key technologies related to enhancing product quality and competitiveness. (6) The nation has further expanded enterprise authority to engage in foreign trade, transferring control over 60 percent of all imports and exports and turning over some responsibility for foreign trade to such units, especially in machine manufacturing. (7) The nation has reformed her foreign-exchange incentive system, increasing the amount of foreign currency enterprises may retain but requiring that this currency be used to expand exports first.

The German Democratic Republic. The GDR currently has a foreign debt of approximately \$7.0 billion and, although in a good position to repay this debt, places great emphasis on expanding exports and foreign-exchange earnings, employing the following measures to accomplish these ends. (1) Enterprise conglomerates produce according to the requirements of the Ministry of Foreign Trade and concentrate their forces on exports. (2) These conglomerates receive only marks for their exports and are not permitted to retain foreign currency. (3) The state rewards enterprises that earn large amounts of foreign exchange.

We should be attentive to and consider drawing upon Eastern European countries' experience in restructuring foreign trade administration, especially the measures these nations have adopted to encourage exports and earnings of foreign exchange.

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## AGRICULTURE

### Rural Industrial Structure 1986-2000

40060165 Beijing ZHONGGUO NONGCUN JINGJI  
[CHINA'S RURAL ECONOMY] in Chinese  
No 7, 1987 pp 1-9, No 8, 1987 pp 21-29,  
No 9, 1987 pp 10-18]

[Article by the Team For the Study of China's Rural Industrial Structure: "Study Report on China's Rural Industrial Structure, 1986-2000"]

[Text] Editor's Note: The study of China's rural indus-

trial structure is a topic that the Rural Policy Research Center of the CPC Central Committee Secretariat and the Rural Development Research Center commissioned more than 20 units to do in cooperation with each other under leadership of the Rural Development Institute of the Chinese Academy of Social Sciences, and including departments concerned in the central government and seven provinces and municipalities, provincial academies of social sciences, and institutions of higher education. Research on this topic took 3 years, and the principal task was to provide source materials for the formulation of long-range policies and long-range plans. The "Study Report on China's Rural Industrial Structure, 1986-2000" was completed by the Industrial Structure Team of the Rural Development Institute on a foundation of cooperative research by all units. The report is divided into six parts as follows: 1. Evolution and Current Status of the Rural Industrial Structure; 2. Trends Toward Change in the Rural Industrial Structure; 3. Forecasts About the Rural Industrial Structure of 2000; 4. A General Picture of the Rural Industrial Structure in 2000; 5. Factors Restricting Changes in the Rural Industrial Structure; and 6. Principal Strategic Measures To Reform the Rural Industrial Structure. The full study contains approximately 42,000 words, which this publication will publish in three issues (two parts per issue).

This report was awarded a Merit Citation Class II by the State Council Rural Development Research Center for outstanding achievement in research on rural economic and social development.

### Introduction

The rural industrial structure is a composition or a structure that rural industrial sectors bring about in certain ways, and it is an important integral part of the national industrial structure. An ideal structure should embody the full and equitable use of natural and economic resources, the organic combination of traditional and advanced techniques, coordinated development among industries, and a balance between supply capabilities and social demand. However, the composition or structure of all rural industrial units and of all essential economic factors rest on a certain level of production and are brought about in a certain way. An ideal structure cannot be completely realized at any given historical stage; only a fairly equitable structure can be sought. Though such a nearly equitable structure is not an ideal structure, it is the optimum combination of the various industrial units and economic factors under conditions at that time, and it strives to attain the unity of economic, ecological and social benefits, as well as the unity of macroeconomic and microeconomic benefits. The main goal that the industrial structure seeks is economic growth. For this reason, the highest goals in reform of the rural industrial structure are to gain maximum economic benefits and to raise the rural labor productivity rate fairly rapidly while doing all possible to secure ecological and social benefits at the same time. Attainment of these

goals requires timely readjustment of the structure even while insuring needed supplies of agricultural products and while carrying out coordinated development of the national economy, so that there is coordinated development among industries, and so that the labor force can be equitably distributed. Therefore, the basic policy that we adopt should be: active development of secondary and tertiary industries on a foundation of stable growth of primary industries, increasing per capita income as quickly as possible, attaining a comparatively well-off standard of living, and forming a coordinated rural industrial structure that is a fairly equitable totality. This so-called totality means two things. First is to make the industrial structure of the national economy a totality, the rural industrial structure being an organic integral part of this totality. Second is to make rural industry a totality. The term coordinated likewise conveys two meanings. One is the need for coordinated national economic development, including all industries in cities and rural villages; the second is the need for coordinated development of all industries in rural villages. This is the goal model for the structure of China's rural industry before the year 2000.

### 1. Evolution and Current Status of the Rural Industrial Structure

#### a. Basic Estimate of Changes in the Rural Industrial Structure

China's rural economy and economic structure may be divided into two development periods since the founding of the People's Republic. The first was a period of slow economic growth and slow structural change before 1979; the second was a period of rapid development and the beginning of structural change in the economy after 1979. During the first period, industrial development outside of agriculture was slow, and the percentage was very small. Industrial development was in a depressed state. After entering the second period, rural secondary and tertiary industries began to form a scale of their own and to strengthen rapidly from a foundation of rapid development of agriculture, producing a new pattern in the industrial structure. Nevertheless, no fundamental change occurred in the irrational state of the industrial structure, and no profound transformation of the structure had taken place.

Ours is an ancient agricultural country that has written glorious chapters in the history of the world's development of agriculture. Endless feudal rule, and particularly unremitting warfare during the several decades before liberation, caused a decline in China's agriculture, the destitution of rural villages, lowering of productivity, and no development of a commodity economy. This resulted in the formation of an undiversified structure that emphasized grain production. In 1949, the main rural industrial sectors in China were farming, business, industry, transportation and communications, and a few service trades. Farming accounted for more than 85 percent of the output value of agriculture and, within

farming, grain was sown on nearly 90 percent of the area. Following the founding of new China, the people of the whole country struggled for a full 30 years under leadership of the people's government to solve the people's food problem throughout the land, scoring achievements that arrested world attention. However, because of various mistakes, the achievements we scored were much fewer than we should have and could have scored. By 1979, no fundamental change had taken place in the appearance of the country's rural villages, and the problem of sufficient food and clothing had not yet been truly solved for more than one-third of the peasantry. Despite a certain amount of change in the undiversified structure in which the emphasis was on farming (particularly grain farming) that had formed over the years, there was no fundamental change. In terms of gross social output value, in 1978 agriculture accounted for 73 percent of all rural industry; farming accounted for 76.7 percent of agriculture, and grain accounted for 76.7 percent of farming. This produced an irrational structure that was "heavy at one end." First of all, industries in rural villages were unable to coordinate development. The main problem was the one-sided development of grain production within the farming industry. Despite advocacy of the development of a twelve-character policy for a diversified economy involving the growing of grain, cotton, oil-bearing crops, hemp, and other crops, this was never fully carried out in fact. Despite advocacy of equal emphasis on farming, forestry, animal husbandry, sideline occupations, and fisheries within agriculture, farming squeezed out the other four. Among rural industries, commerce, industry, transportation and services were extremely backward and very small in proportion. Actually agriculture squeezed out all other industries, and even restricted full development of the rural economy. Second, fullest, equitable use was not made of resources. On the one hand, a substantial portion of resources was not used well; at the same time, a substantial amount of resources were not used sensibly, there was even an increasingly serious seizure of productive operations and destruction of resources. Third, regional advantages were not used to the full. Fourth, with the emphasis on farming and the overemphasis on grain production, not only did grain production not increase, but other industries could not develop either. This led ultimately to market shortages of every kind, and to no coordination between the development of the rural economy and the national economy. In 1978, not only was 13.9 billion jin net of grain imported, but other farm products had to be imported as well, including 1,238,000 tons of sugar, 9.5 million dan of cotton, and 9.5 million dan of vegetable oil. During the 1950's, more than 1 million tons of soybeans had been exported; thereafter, the situation went from bad to worse until 1978 when only 100-odd thousand tons were exported.

There are many reasons for such an irrational structure. Objectively speaking, industrialization requires that agriculture provide needed capital accumulations, population pressure (as well as some incorrect policies),

inadequate resources, and a low level of rural productivity, were also factors limiting structural change. But subjective reasons were most important. In construction, the rural economy was not included in the development of the national economy, and attention was not paid to doing things according to natural and economic laws. Direction was given blindly, and many things were done ill-advisedly. First, planning did not proceed from reality to institute a structure in which diverse systems of ownership existed, with public ownership being paramount, and methods of operation that were in keeping with China's national circumstances had not been found. In the highly centralized and unified collective economic form of "firstly big, and secondly publicly-owned" that was practiced for many years, one problem was insufficient democracy and another was egalitarianism, that resulted in no stirring of enthusiasm for production among the broad masses of peasants. Conversely, it seriously dampened their enthusiasm for production and their innovative spirit. Labor efficiency became lower and lower, and agricultural production continued to revolve in smaller and smaller circles around solution of the problem of providing enough to eat. The necessary conditions for bringing forth and developing new industries could not be created. Second, theory did not recognize that a socialist economy is a planned commodity economy, but rather mistakenly supposed that a commodity economy is capitalism. As a result, the commodity economy was feared and criticized as "abandoning agriculture to take up business." The result was a cut off, to a considerable extent, of economic contacts between one region and another, between producers and consumers, and between cities and the countryside. This caused the rural economy to form numerous closed-off, self-sufficient systems of different sizes, which seriously inhibited the development of rural industries, particularly secondary and tertiary industries. Third, peoples' thoughts and actions stopped at the agricultural stage. Following liberation, substantial changes had taken place in China's rural economy as a result of several 5-year plans, necessitating not only the all-around development of farming, forestry, animal husbandry, sideline occupations, and the fishing industry, but also a beginning in entering the stage of developing pre-production and post-production services and all-around development of agriculture, industry, commerce, transportation, and building. However, for a fairly long period of time, people's thinking did not change with the situation; instead it halted at the traditional agriculture stage, thereby limiting the complete development of rural industries. Fourth was a lack of systematic thinking and of a concept of viewing development as a whole. The national economy is a large system in which agriculture and the rural economy are separate sub-systems. The individual industries and the various production sectors that make up this system are interrelated and mutually restrictive organic wholes. Only when each of the parts of this system works together can the system effectively function as a whole and produce relatively good economic benefits. Conversely, the isolated development of an industry or the uncoordinated development of several

industries can cancel out the strength of each other and become a limiting factor in overall economic development. For a long time, we lacked an understanding, or had an unclear understanding, of systematic thinking and the concept of viewing development as a whole. As a result, we frequently became mired in one-sidedness, which led to simplification and arbitrary uniformity. We emphasized the development of industry, but we frequently neglected the foundation that is agriculture. Without regard for natural and economic conditions in different places, we took grain as the key link without exception, and called for self-sufficiency in grain without exception. Efforts to curb economic diversification to develop grain production were a classic manifestation of this.

The Third Plenum of the 11th Party Central Committee opened vast prospects for invigorating the rural economy. The Party and government summarized the lessons of past experience, and revived and put into practice a series of rehabilitation policies that were consistent with rural realities. In particular, the various kinds of contracting systems entered into primarily by families marked the beginning of reform of the rural economic system, and promoted rural specialization and the development of commercialization and socialization. At the same time, it also demolished the innate system of no diversification in rural industries, and began to change their structure. A beginning was made from placing sole emphasis on grain production to vigorous development of cash crops, and on to new system changes for the development of fodder crops; from sole attention to farming to making a beginning in simultaneous vigorous development of forestry, animal husbandry, sideline occupations, and fisheries; and from rural villages engaging only in agriculture to the beginning of a structural change toward agriculture, business, transportation, construction, and services.

The rural industrial structure is a multi-level composite system in which three levels have the greatest effect on macroeconomic decisions. The first of these levels is the structure of primary, secondary, and tertiary industries. The second level is the internal structure of each industry, i.e., the structure of primary industries (agriculture), the structure of secondary industries (industry and the construction industry), and the structure of tertiary industries. The third level has a structure of its own making that is composed of production units in each industry, or trades. Examples include the structure of farming, forestry, and the animal husbandry industry within agriculture; the structure of agricultural product processing industries and the structure of rural energy within rural industry; and the structure of transportation industries and rural service trades within tertiary industries.

The main irrational conflicts within rural industry are concentrated in the first level and in the agricultural structure system. For this reason, it is mostly changes in

the structure of the three levels of rural villages, agriculture, and the farming industry that are analyzed here. A concise analysis is provided below of the structural changes that occurred in the three levels in 1978 and 1985 (Please see Table 1, Table 2, and Table 3).

**Table 1. Table Showing Changes in The Structure of Farming**

	Particulars		Area Sown	Output
	1978	1985	(100 Million Mu)	Value (%)
			1978	1985
Grain	18.1	16.3	76.7	64.7
Cash Crops	2.1	3.3	11.0	22.2
Other	2.2	1.9	11.4	13.1

**Table Showing Changes (%) In the Gross Output Value of Agriculture**

Particulars	Farming	Forestry	Animal Husbandry	Sideline Occupations	Fishing Industry
	76.7	3.4	15.0	3.3	1.6
	66.2	5.0	19.3	7.1	2.4

**Table Showing Changes in the Structure of Social Gross Output Value of Rural Townships and Cooperatives**

Particulars	Agri-culture	Industry	Construc-tion	Transpor-tation	Business
1978	73.0	17.3	5.3	1.4	3.0
	50.9	29.0	10.6	3.9	5.6

(Source of data in the above tables: "China Statistical Yearbook" for 1986, compiled by the State Statistical Bureau)

The above three tables show a decline in the percentages for grain, the farming industry, and agriculture in the three-level structure, the extent of the declines being 12, 10.5 and 22.1 percent respectively. This means that a definite change occurred in the structure of the three levels, the greatest change taking place in the industrial structure of rural townships and cooperatives, and the least in the structure of agriculture.

Simultaneous with changes in the percentage for farming was a great increase in absolute amounts, the 8 year increase in grain output amounting to 148.68 billion jin; a 0.9-fold increase in cotton, the major cash crop; a threefold increase in output of oil-bearing crops; and a 1.5-fold increase in output of sugar-bearing crops, enough to satisfy society's present basic levels of consumption. Thus, the significance was extremely great. Not only did this lay a foundation for the development

of agriculture over the next several years, but it also created favorable material conditions for a readjustment of the structure of rural industry.

Calculations in terms of gross national product show the gross national product for rural primary, secondary, and tertiary industries for 1985 (See Table 4) as a percentage of rural gross national product to have been 60.8 percent for primary industries, 24.8 percent for secondary industries, and 14.4 percent for tertiary industries. Despite the increase in services, including education, in gross output value, since the net output value of agriculture as a percentage of gross output value was much higher than for industry (more than 60 percent for agriculture versus about 40 percent for industry), the rural industrial structure's emphasis on agriculture is more apparent when calculations are made in terms of net output value rather than in terms of gross output value.

**Table Showing Changes in Structure of Rural Social Gross National Product (%)**

Particulars	Primary Industries	Secondary Industries	Tertiary Industries
1980	70.0	21.2	8.8
1985	60.8	24.8	14.4

In summary, first, in terms of the different levels of the industrial structure, 1985 grain production still accounted for 64.7 percent of total farming industry output, and farming still accounted for 66.2 percent of agricultural production. Agriculture, the primary industry, accounted for 60.8 percent of the output of the three level industrial structure, still not departing from the 60 percent level. Second, in terms of labor force make up, only 23 percent of the 390 million rural workforce of 1985 was engaged in non-agricultural work, meaning that 77 percent of it was engaged in agriculture. Currently more than 100 million of the agricultural workforce is a surplus. The need to create employment opportunities in new industries for them is urgent. Third, in terms of the regional structure, the primary industry accounts for 60.7, 77 and 79.2 percent of output value respectively in economically developed, moderately developed and undeveloped areas. This shows two problems, the first of which is that even in the coastal provinces of the country where the rural economy is fairly well developed, agriculture still accounts for a very high percentage of output value. The second is a great difference between one region and another. In developed regions, secondary and tertiary industries account for 40 percent of gross output value; in undeveloped regions, they account for only a little more than 20 percent.

To summarize the foregoing, we can reach the following conclusions: since the period of structural transformation began 2 years ago, though marked results have been attained in readjustment of the rural industrial structure,

no qualitative changes have taken place in the inequitable structure that emphasizes agriculture. There are still numerous problems, and extremely daunting tasks.

**b. Major Problems in the Present Rural Industrial Structure**

The base position of agriculture is not firm. This shows up mostly in the following ways: (1) The increasingly serious destruction of agricultural resources. The organic content of the soil decreases gradually; the destruction of forest resources continues; the degeneration and desertification of grasslands continues apace, and coastal fishing industry resources decline more and more. Agricultural resources are basic to agriculture. Their deterioration not only deals a mortal blow to agriculture, but posterity will also suffer. (2) Since the relative benefits from agriculture are low and hard work is required, in some economically developed areas peasant enthusiasm for agriculture has declined, and agriculture is in danger of withering away. In places in which a commodity economy has yet to develop sufficiently, although a substantial amount of output still goes to support the peasants themselves, and there are few other avenues for production, agriculture continues to provide the impetus that sustains development. However, as the economy develops, the peasants may also direct their attention to pursuits that provide greater benefits. This poses a latent crisis for agriculture. A great increase in grain output has occurred during the past several years; nevertheless, the following two factors have greatly weakened the impetus for growth. One is the too low prices paid for grain and the leap in prices for the means of production that has increased production costs. The second is the inability to derive increased value and profits from the exchange of grain resulting in a dampening of peasant enthusiasm for grain production. This has caused them to reduce the area sown to grain and their investment in production. That a certain amount of peasant enthusiasm for growing grain exists today is less the result of a prospect for profit than the need to feed themselves and to exchange grain for certain extremely necessary industrial manufactures (even though the exchange is at unequal value). (3) The scale of agriculture, and particularly of farming, is narrow and benefits are low. (4) Existing basic equipment and facilities for agriculture have become old and in need of repair. Many farm machines continue to run though they are in bad shape; reservoirs and irrigation ditches are in need of repair, and the irrigated area has decreased. (5) There is insufficient investment in agriculture. State investment in the capital construction of agriculture as a percentage of total national investment in capital construction has decreased from the 11 percent of many former years to 5.1 percent during the Sixth 5-Year Plan.

(a) Rural industry has fallen on hard times. China's rural industry has broken free of its position as an adjunct to agriculture, and it has begun to form an independent industry, becoming the mainstay in some places. Nevertheless, rural industry has fallen on hard times. (1) There

is a shortage of energy and raw and processed materials. In contrast with urban industries to whom the state supplies energy and raw and processed materials at low prices, rural industries have to chase energy and look for raw and processed materials themselves, pay higher prices for them, or even engaged in "back door deals." (2) Although processing industries for agricultural products have developed to a certain extent, the percentage remains very small. The main reason is that we have already built numerous large and medium size agricultural products processing factories in cities that process grain, cotton, oil-bearing crops, and livestock feed. An overwhelming majority of the processing is concentrated in cities, so rural agricultural products processing industries can only operate within the narrow confines that increases in output provide. (3) The technical level of rural industries is low, and the quality of staff members and workers in enterprises is poor. Although great development has taken place in recent years in the country's rural industry, few have good technical equipment or produce products that are competitive both inside China and abroad. In short, rural industry is largely in the family handicrafts and workshop handicrafts stage where product quality is not high and products often accumulate in inventory. (4) Rural development has been very uneven. In 1983, rural industrial output value of different areas as a percentage of national rural industrial output value was 58.5 percent for economically developed areas, 36.1 percent for moderately developed areas, and 5.4 percent for undeveloped areas.

(b) A service system suited to development of the commodity economy has yet to develop. A service system includes business, transportation and communications, the banking industry, the tourist industry, posts and telecommunications, science, and education. China's rural service system is founded on an undeveloped commodity economy; consequently, it is an introverted service system, this introversion being manifested primarily in service for the village itself and pre-production and post-production services that are not fitted to the regular production cycle.

First, transportation and communications are not suitable. With development of the rural commodity economy in recent years, freight volume has increased. Between 1978 and 1983, state procurement of agricultural and sideline products increased from 110 million tons to 180 million tons, an increase averaging 10.3 percent each year, and between 1968 and 1978, the increase in purchases of agricultural and sideline products averaged only 3.3 percent, an increase of more than three times again as much as during the previous 10 years. Amounts of the means of production and consumption goods used in daily life hauled from cities to rural villages also increased dramatically from 117 million tons in 1978 to 272 million tons in 1983 in a 1.3-fold increase. Statistics show a total rural volume hauled of 2.17 billion tons in 1983, nearly the total city volume hauled. Under normal circumstances, when agricultural production rises 1 point, transportation has to increase

by 0.5 points to meet needs. In 1984, transportation increased only 0.33 points, and during the first quarter of 1985 it increased only 0.24 points for a widening of the gap. Currently transportation and communications facilities are far from able to cope with development of the rural commodity economy. Most rural roads are substandard, and unable to withstand natural calamities. Most are passable in good weather and closed during rainy weather, interrupting contact with the outside world for a time. There are more than 5,000 townships and 200,000 villages not reached by motor vehicles. In addition, communications and transportation equipment in rural villages is extremely backward, 59 percent of transportation being done mostly by tractor, and another 27 percent by animal-drawn wagons, with vehicles hauling only 14 percent of the volume. Rural water transportation has been drying up for a long time as distances open to navigation have decreased. In 1983, there was only 108,900 kilometers of navigable waters, 36.6 percent less than in 1967. This situation means that many rural parts of the country are cut off or partly cut off from the outside world.

Second, the business system and basic facilities are unsuitable. To a very large extent, rural business today still retains the old system and methods of operations. In addition, basic facilities are lacking and greatly unsuited to the constantly developing new situation. When problems are encountered, frequently people's hands are tied and no plans exist for dealing with them. When large numbers of products are produced, there is no way to store them. When goods are scarce, pressure is exerted to make purchases, but when there is an oversupply, it is not possible to even out gluts and shortages. Though supply and marketing cooperatives have made progress in reforms, they have yet to become genuine cooperative business organizations for the peasants themselves, and their vying with peasants for profit is a fundamental weakness. Yet another problem in the circulation of goods is the failure to break down completely the cutting up of sectors and regions. In particular, the eating from "separate stoves" in the public financial realm frequently results in the closing off of one area or another, which not only restricts the development of commodity flow, but also limits development of other tertiary industries.

Third, the rural banking service system is not suitable. A look at financial institutions shows that the Bank of Agriculture is located only in county seats. Credit cooperatives have yet to become genuine cooperative credit organizations for the peasants (or rural residents). Other cooperative credit or non-government credit organizations are just getting started in some places, and they are subject to restrictions of various kinds. At present, when rural funds have begun to flow into cities, and city industrial and commercial banks would like to invest some of these funds in the countryside, various reasons prevent them from doing so. Overall there is an extreme shortage of rural capital, which causes great difficulties for the development of all rural industries. One task of

rural banking organizations is to devise means to increase funds in rural areas, and another is to monitor enterprises. Work in these regards has not yet begun.

Fourth, the state of the rural scientific and technical service system is worrisome. It lacks operating funds, and its scientific and technical personnel are transferred in and out causing damage to the scientific and technical service system and network. In particular, incumbent agricultural scientific and technical personnel are busy on central tasks; they cannot concentrate their energies on scientific and technical experiments and promotional work. This creates a situation in which there is at once both a shortage and a waste of scientifically and technically qualified personnel. Development of secondary and tertiary rural industries requires large number of medium and high level technical personnel and managerial personnel, yet routine personnel supply channels have yet to be devised. Unless this problem is solved, reform of the rural industrial structure and technical promotion plans are in danger of coming to nothing.

Fifth, information transmission methods are relatively primitive. The poor circulation of information in rural villages is closely related to the backward information transmission methods. Statistics show no post roads in 30 percent of villages at the present time, 35 percent of townships without post and telecommunications offices, 50 percent of townships without telephones, a rural telephone service rate of only 0.7 percent, and more than half of all villages not receiving the current day's provincial newspaper. Even those post and telecommunications facilities that do exist cannot play the role they should because of managerial or system shortcomings. Backward information transmission methods causes poor flow of information, which is a major reason why opportunities are lost and economic development is not rapid.

Sixth, rural education remains a weak link. It is the sector of slowest growth among tertiary industries. Statistics show that not only was there no increase in the number of people engaged in rural education between 1980 and 1985, but rather there was a 2,189,000 decline. According to the 1982 census, 35 percent of the rural population of 12 years old or older was illiterate or semi-illiterate. In some economically undeveloped areas, the percentage was higher than 50 percent. Given such a low educational level, readjustment of the industrial structure becomes extremely difficult. One serious problem that has not yet attracted widespread serious attention is the steady growth of new illiteracy. Yet another problem in rural education is the inappropriateness of the educational system. Rural middle schools focus on taking examinations to enter institutions of higher education, yet people who enter institution of higher education are as scarce as phoenix feathers or unicorn horns, while an overwhelming majority of graduates lack the skills needed to engage in production. Unless this problem is solved, there is no hope of building the country's four modernizations, and the readjustment of the industrial structure will also be impossible.

(c) The task of transferring the surplus agricultural workforce is an extremely daunting one.

The pattern of employment of the workforce is a major indicator of the extent to which the industrial structure is rational. Results of numerous World Bank surveys in developing countries have shown an inverse ratio between per capita earnings and the percentage of the total workforce engaged in agriculture, and a direct ratio in relation to the workforce engaged in non-agricultural work. During the period immediately following founding of the People's Republic, China's rural workforce stood at 170 million. By 1984, it had more than doubled to 370 million. However, the amount of cultivated land did not increase, so the amount of cultivated land per capita of workforce declined year by year. In 1983, the amount of cultivated land was 4.4 mu per capita of workforce, a 53 percent drop from 1952. In 1985, the rural workforce engaged in non-agricultural work throughout the country numbered 91.37 million, or 23 percent of the total rural workforce. There has been little change from the past in this regard; however, statistics show another 100 million members of the agricultural workforce as surplus. They either have no work to do, or they are not fully employed and await transfer to other occupations. A small number of them can be transferred to forestry, animal husbandry, or the fishing industry, but most of them can transfer only to secondary or tertiary industries. Creation of new employment opportunities for these members of the workforce requires simultaneous acceleration of the building of rural townships and towns and market towns to provide conditions for the development of new industries. Nevertheless, problems are numerous both in creating new industries and in building new townships and towns. The three principal problems are: First 100 million members of the workforce are currently potentially unemployed, and without strategic actions to move a part of this labor force, the number of rural unemployed will become larger and larger. For several hundred million members of the workforce to be unemployed for a long period of time is not only an economic problem, but it can become a serious social and political problem as well; nevertheless, people today lack a clear-headed understanding of the seriousness and the urgency of this problem. Second, as a result of the gap in understanding, long-range, and consistent positive policy actions have not been taken to date to accelerate development of secondary and tertiary industries, and to build townships and towns. Third despite an economic turn for the better, overall there is a shortage of funds, of skills, of qualified personnel, and of avenues that limits development of non-agricultural industry, and the building of townships and towns. These problems urgently require solutions; however, solution to these problems is by no means easy; therefore, the task of shifting the rural workforce is an extremely daunting one.

In summary, old problems have not been completely solved, and new problems have appeared. These problems must be earnestly solved during the course of the 1986-2000 structural transformation.

## 2. Trends Toward Change in the Rural Industrial Structure

The trends toward change in the industrial structure will express the direction of movement of the industrial structure for a fairly long time to come. Understanding of the trends toward change in the structure can result in fewer detours in changing the structure and the early attainment of anticipated goals. This study shows the trends toward change in the country's rural structure that are given below.

### a. The Trend Toward Integration of Cities and the Countryside

Exploitation of the countryside by the cities, and antagonisms between the cities and the rural villages have been historic phenomena related to productivity levels. Movement from the separation of cities from the countryside toward establishment of a combination and an integration of cities and the countryside is a common trend in mankind's social development. After China established the socialist system, the antagonism between cities and the countryside that was founded on private ownership no longer existed. However, since productivity levels were not high, and because of long enduring policies whereby cities were industrial and rural villages, agricultural changes were few in the separation of city and countryside, and coordinated development of cities and the countryside was consequently limited. Following the Third Plenum of the 11th Party Central Committee, and particularly with the rise and development of rural industry, a change began to take place in the division of cities and the countryside into two independently operating industrial structures. The first inklings of a new relationship began to appear of cities and the countryside joining together in a transition to an integrated city and countryside industrial structure.

Interchanges between city and countryside began to develop from the exchange of undiversified products toward multiple exchanges of products, skilled personnel, funds, skills, and information. Not only did industrial manufactures go from the cities to the countryside, but funds, skills, information, and skilled personnel also began to move. Rural exports to cities were no longer limited to agricultural products and rural industrial articles. Peasant entry into cities to conduct business, to contract construction, and to engage in various activities of a service nature gradually increased. As the commodity economy developed, such multiple exchanges became increasingly strong.

The diffusion of urban industrial manufactures and the appearance of other forms of joint undertakings that took place in the process of the industrial development of cities and the countryside gave impetus to the development of integrated city and countryside industries. Urban industries are rich in skills and funds, but lack manpower, and their space for development (workshops) is cramped. The reverse is true for rural industries, which

have plentiful manpower and spacious workshops, but lack skills and funds. A combination of the two, strengths remedying weaknesses for joint development, is an objective necessity for economic expansion. Integrated development of city and countryside industries will occur mainly through the adoption of joint forms including diffusion of products, the bringing in of materials for processing, and joint operations, and such are already being tried out. This shows an increasingly close economic relationship between city and rural industry to be an inevitable trend, and this trend will fundamentally change the pattern of urban and rural industry.

New developments have also taken place in the integration of city and countryside markets. The mutually exclusive city and countryside markets that have long endured in China have gradually opened up as the rural commodity economy has developed, and the situation of cities and the countryside being cut off from each other has gradually been broken down. Formation of unified city and countryside markets is an inevitable trend in economic development.

Joint city and countryside development, and even the integration of cities and the countryside are objective trends of development that will change the old pattern of city industry and rural agriculture. The national economic structure in which cities and the countryside are separated will be replaced gradually by an economic structure in which the cities and the countryside are united. Such a trend helps in transforming the structure of rural industry and, conversely, changes in the structure of rural industry, particularly in the development of rural industry, are bound to change the pattern of the urban industrial structure, thereby evolving into an integrated city and countryside industrial structure.

### b. Non-Agriculturalization Trends

Non-agriculturalization is a general phenomenon in the economic development of all countries in the world, and China is no exception. However, because of specific historical conditions and the availability of resources, China's non-agriculturalization differs from that of other countries.

(a) In economically developed countries, non-agriculturalization takes the form of peasants leaving the land and rural villages to enter cities. In China, however, non-agriculturalization means that all but a small number of peasants who enter the cities remain in rural villages (including market towns and small cities and towns) to engage in secondary and tertiary industrial production activities. (b) Over the next 15 years, the partial shift of the agricultural workforce to non-agricultural pursuits will take the path of working concurrently at both agricultural and non-agricultural jobs, and working in non-agricultural jobs. As was said above, in capitalist countries, peasants surge into cities after they have gone bankrupt; consequently, except for a small number of countries, there is usually no process of working at both

agricultural and non-agricultural jobs concurrently. In China, however, concurrent employment will be common for a certain period of time, and concurrent employment will be largely in rural villages. This is because of the following: (1) China's commodity economy is not well developed. Every peasant has a plot of land on which he depends for a living. Peasants work in secondary and tertiary industries not because they have lost the means of agricultural production, but rather in order to change their impoverished and backward condition. (2) Because they lack experience, when peasants begin to work in secondary and tertiary industries, they usually cannot give up the land. Instead they take other jobs while depending primarily on agriculture, gradually shifting later on to doing their other job primarily while working concurrently in agriculture. Only after they are thoroughly familiar with their non-agricultural work, have a steady income, and their daily living is assured will they give up the land to engage exclusively in non-agricultural work. Most such concurrent jobs are done in rural villages, and this situation lasts for a fairly long time. Though it is true that concurrent jobs may avoid the shocks caused by readjustment of the industrial structure, inasmuch as the benefits from each differ, the enthusiasm for agricultural production of some peasant households may decline, and they may reduce their investment in it. This can create stagnation or even a decline in agricultural production. The greater the number of peasant households concurrently employed, and the longer their concurrent employment, the longer the labor pains will continue in the readjustment of the industrial structure. (c) A reversal may occur in the non-agriculturalization process. Since the peasants have a plot of land on which they can rely for their existence, when they encounter hardships or setbacks in their non-agricultural jobs, they may return to agriculture to work a small piece of land that permits only survival but from which it is difficult to become rich. Such reversals cause a certain amount of difficulty for readjustment of the rural industrial structure. Peasant investment is frequently erratic. They do not want to invest limited funds in agricultural production, and they fear they may lose everything if they invest in non-agricultural work. Thus, more active assistance policies should be adopted for peasants who already have, or who are about to make a change to non-agricultural work to enable peasants to transfer smoothly into non-agricultural work. (d) In different economic structures, the direction in which the agricultural workforce shifts into non-agricultural jobs also differs. During the natural economic structure stage, when agriculture is dominant, surplus manpower usually goes into business, transportation, and communications first. At this time, most agricultural products are consumed by the peasants themselves, only a small amount of products being taken to markets for sale and used for the exchange of needed means of production and means of livelihood. Thus some peasants are stimulated to go into business or to work in communications and transportation activities. During the period of transition from a predominantly agricultural to a predominantly industrial economy, most manpower shifts into industry.

After a predominantly industrial structure has been formed, surplus agricultural manpower (including some surplus industrial manpower) mostly shifts into tertiary industries. Consequently, in most parts of China, rural workforce shifts have largely followed a "3-2-3" sequence, i.e., first, most of them have gone into tertiary industries, after which most have gone into secondary industries, and then into tertiary industries again.

#### c. The Trend Toward Decline in the Share of Agriculture

The gradual decline of agriculture's share in the total national economy is a common trend through which developed nations of the world have passed and that some developing nations are now going through. Nor is China an exception. Between 1949 and 1985, agriculture's share of social gross output value fell from 58.5 to 28.1 percent for a 30.4 percent decline. Agriculture's share of national economic income dropped from 68.4 to 41.4 percent, down 27 percent. It will continue to decline. The size of agriculture's share or percentage in the national economy is one major indicator of the development or backwardness of a nation's economy. Normal decline in agriculture's share is good rather than bad.

International experience shows a trend toward decline of agriculture's share in economic life and a trend toward rise in the share of industry. Once industrialization has been accomplished, its share begins to decline, but the share of tertiary industries tends to rise steadily. This is to say that the overall trend of development for primary, secondary, and tertiary industries is steady growth of primary industries but a gradual decline in their share; steady development of secondary industries, their share prescribing a parabola; and development of tertiary industries, their share rising in a straight line. This has also been the overall trend of development of China's tertiary industries.

#### d. Trend Toward Coordinated Development of Multiple Sectors

As science and technology advance and social demand becomes more diversified, the social division of labor becomes finer and finer, and new production sectors and trades constantly emerge at the low end of the industrial structure to form a multi-sector, multi-vocation trend of development.

Within agriculture, people will move from primarily engaging in farming to the all-around development of forestry, animal husbandry, and the fishing industry, and these sectors will also become further divided. For example, the growing of flowers and trees, and certain fruits may become new vocations that provide an appreciable income, and certain wild animals or even certain insects and birds may be used in new livestock feed industries.

As secondary industries and the construction industry steadily expand through the division of labor and the spinning off of industries, the speed of development of rural industries, in particular, will accelerate. In terms of the trend of development, the five industrial sectors of building materials, chemicals, machinery, garment making, and paper making will become important industrial sectors within rural industry. Their common characteristics are highly individualized technical requirements, availability of raw materials, labor intensivity, suitability for small scale production, high volume of demand, and a widespread and enduring rural market. In long-range terms, the rural food processing industry will become one of the rural industrial mainstays; however, because (a) at present most food processing factories are located in cities, and (2) the peasant standard of living is not high, peasant families themselves process most of the foods they use, forecasts call for substantial development of the rural food industry over the next 15 years, but by 2000 it will probably not be a mainstay industry.

Development of the rural tertiary industry structure will go through three different stages: agricultural production service industries - rural production service industries - aggregate service industries. Currently, the structure of China's rural tertiary industries is in transition from the agricultural production service stage to the rural production service stage. This stage is characterized by tertiary industries not only serving agricultural production, but also providing services to rural industrial production. The current mainstay in tertiary industries is the rural transportation industry and business. Later on, there will be more and more sectors devoted to improving the quality of workers and to providing services for production and daily life, and finally a huge service system is bound to be formed.

The greater the division of labor among industrial sectors, the more prominent will become problems in coordination among sectors; and the greater the division of labor and the division of industries, the greater the need for coordination. This is a general rule. Under natural economic conditions, the economy works within a closed system, the degree of socialization is low, the industrial structure is undiversified, and requirements for coordination are not high.

As a planned commodity economy develops, more sectors and vocations come into being, and a myriad of products appear. Unless the relationship among them is coordinated, the economy will be unable to function normally, nor will it be possible to build a rational structure. The most fundamental mark of coordination is rationality in the proportion of industries and sectors. Such a rationality in proportions is expressed in the ability of the economy as a whole (or the rural economy) to obtain optimum multiple economic benefits, without giving too much weight to one thing and not enough weight to another in industrial development. Consequently, finding a rational proportion among industries and among sectors is one major task in the coordinated development of the industrial structure.

### 3. Forecasts About the Rural Industrial Structure of 2000

#### a. Goal Selection

The period 1986-2000 will be one of changes that hold major significance for China's rural industrial structure.

Industrial structures have their own laws of development; nevertheless, policies can have a major influence on the development of industrial structures. Correct delineation of the laws governing the structure's development, and reliance on our policy actions for readjustment can cause the structure to develop in a rational direction. Conversely, they can cause the structure to develop in an irrational direction. Forecasts about the future, no matter the methods used, are all based on the past and the present. Past requirements and possibilities are used to look at future requirements and possibilities. The accuracy of forecasts is determined by objective laws and how correctly various influencing factors are understood. Therefore, goal selection is actually a qualitative calculation; it is the selection of forecasts about development plans and development avenues. Based on our analysis of the past structure, over the next 15 years we have three choices in regard to developing the rural industrial structure: First, continue to take the rural road, which means engaging in agriculture, and the peasants provide food to the cities. The consequence of this will be to retravel an old road, employment difficulties for the peasants, inability to raise the labor productivity rate, low income, and an increasingly wide gap between cities and the countryside. This runs counter to the socialist goal of the people in cities and the countryside becoming prosperous together. Such a road definitely leads nowhere. The second choice is to continue to take the road that certain areas are taking today of ultra high speed development of rural industry. Such high speed development leads to a scarcity of capital and energy, which is not consistent with the operation of tertiary industries, so it definitely cannot endure. The third choice is to take the road of coordinated development of all industries. This means active development of secondary and tertiary industries premised on steady growth of agriculture that enables coordinated development of primary, secondary, and tertiary industries. On this road of development, speed is not too high; however, reserve strength is fairly ample; the peasants income can increase steadily, and the goal of being comfortably well off can be attained by the end of the present century.

By making comparisons, our selection of the third road of development as a basic goal for transforming the rural industrial structure also becomes the fundamental basis for a quantitative forecast.

#### b. Determination of Forecasting Methods

Forecasts infer the future from the past and the present. Since forecasts are limited by numerous factors, some of which are difficult for people to anticipate, it is difficult to avoid errors in forecasting. To reduce these errors, we used the three methods given below in making forecasts.

(a) The simple extension method. This method uses historical data to calculate the trend of quantitative changes for a certain period of time, which is then revised to make a forecast. This is a method frequently used in making forecasts in China.

(b) The development speed correlation ratio forecasting method. In this method, the speed of development of all economic categories for a given period of time is calculated first; then, on the basis of the inherent relationships among economic events, the fixed proportions among them are studied, and these proportions are then used to forecast their development. We developed this method for use from the multiplicity of forecasting methods used by our predecessors. The theoretical basis for this forecasting method is as follows: First is systems theory in which the industrial structure is regarded as an organic whole and as a large system in the study of its component elements and the pattern of development of its interrelationships. Second is the law of planned proportional development. Among all rural industries, objectively there exists a fixed proportional relationship, which is a quantitative manifestation of economic development, and which constitutes an important basis for forecasting the future. In addition, we used the law of great numbers as a method for making a quantitative systematization and analysis. The procedure for this forecasting method

is as follows: a) Define forecast goals. b) Collect and analyze historical data; make a qualitative, quantitative and position study to derive correlation coefficients. c) Make thorough practical surveys; solicit the thoughts of experts concerned, and collect forecasting data from all areas and units to test and verify the scientificness of the correlation coefficients. d) Forecast the basic speed of growth, i.e., the speed of growth of the factors in the correlation factors that play a decisive role. e) Estimate overall speed of growth. f) Make a forecast and analyze the forecast error.

c. Forecasting the Make Up of Rural National Gross National Product

*Conclusion: In 2000, the make up of the rural gross national product for primary, secondary, and tertiary industries will be 4:4:2.*

(a) Use of the simple extension method of forecasting. On the basis of study of more than 30 years of data about the country, and the trend of development of rural tertiary industries during the past several years, we conclude that within the GNP, maintenance of a 4 to 5 percent speed of growth by the primary industry; maintenance of a 10 to 12 percent speed of growth by secondary industries, and maintenance by tertiary industries of a speed of growth that is largely in step with that of secondary industries is about right. Using 1985 as a base period for forecasting the year 2000, there are two plans from which a choice can be made: (Note: 1985 output value figures were figured in terms of constant 1980 prices). The two plans are as follows:

	1985 (100 Million Yuan)	Average Speed of Growth (%)	Plan 1 Increased Value (100 Million Yuan)	Make Up (%)	Average Speed of Growth (%)	Plan 2 Increased Value (100 Million Yuan)	Make Up (%)
Primary Industries	1832	4	3299	42	5	3809	38
Secondary Industries	703	10	2937	37	12	3848	39
Tertiary Industries	408	10	1704	21	12	2233	23
Total	2943		7940	100		9890	100

Plans 1 and 2 show that primary and secondary industries each account for about 40 percent of the make up of the GNP of the three kinds of industries, and tertiary industries account for slightly more than 20 percent; thus the great numbers are 4:4:2.

(b) Use of the development speed correlation ratio method of forecasting.

(1) The correlation ratios for the coordinated development of rural primary, secondary and tertiary industries are 1:2.5-3:2-2.5.

The key to coordinated development of all industries is to determine the quantitative correlation for coordinated development of all industries. In this connection, we consulted and studied more than 20 years of domestic economic development data about China, finding that a certain proportional correlation exists in the speed of growth of the three categories of industries. A look at the development of a majority of the countries of the world for the period 1961 to 1982 shows the ratio for the speed of growth of primary, secondary, and tertiary industries figured in terms of gross domestic product [GDP] to have been 1:2.3:1.9 for low income countries, 1:2:1.7 for medium income countries, and 1:2.4:2.3 for economically developed countries. For China between 1965 and

1985, the GNP growth ratio for primary, secondary and tertiary industries (figured in terms of comparable prices) was 1:2.7:1.6. Experience both at home and abroad shows two commonalities in correlation coefficients for primary, secondary, and tertiary industry development during the past 20 years as follows: a) A 1 percent growth in the primary industry, and a more than 2 percent growth in secondary industries; and b) a speed of growth that was generally faster for secondary industries than for tertiary industries.

The above presents the correlation ratio relationships for tertiary industries in the entire national economy. Limited statistical data make the study of primary, secondary, and tertiary industry proportional relationships difficult. In estimating rural GNP, we used existing statistical data as well as our representative survey data, which we converted to derive an approximate value; nevertheless, the overall trend is not wrong.

Speed of growth of primary, secondary and tertiary industries nationally between 1980 and 1985 (calculated in terms of 1980 constant prices, and the same applies hereinafter) was 6.8 percent for the primary industry, 9.9 percent for secondary industries, and 7.5 percent for tertiary industries, the ratio being 1:1.5:1.1. The speed of growth for rural primary, secondary and tertiary industries during the same period was 5.8 percent for the primary industry, 12.4 percent for secondary industries, and 20.2 percent for tertiary industries, the ratio being 1:2.1:3.5. This shows the speed of growth to have been faster for rural areas than for cities, and the speed of growth faster for rural tertiary industries than for secondary industries. In addition, analysis of survey data from more than 20 representative counties in rural Jiangsu Province and three different types of regions throughout the country showed a growth ratio between primary and tertiary [sic; secondary probably intended] industries of approximately 1 percent for the primary industry versus between 2.5 and 3 percent for secondary industries. The growth ratio between the primary and tertiary industries was approximately 1 percent for the primary industry versus between 2 and 3 percent for tertiary industries. Inasmuch as the rural industrial structure is to make a transition from primarily agriculture to primarily industry before the end of the present century, the speed of growth of primary and secondary industries can be maintained at 1 to between 2.5 and 3. During this century, the internal structure of tertiary industries will continue to be that of traditional tertiary industries (such as business, transportation, and communications) primarily. Their growth will be largely dependent on development of the primary and secondary industries and, under normal conditions, they will not take a leading position. However, inasmuch as the foundation is weak for rural tertiary industries, their speed of development cannot be too slow either. On the basis of the above analysis, the future ratio of rural primary, secondary, and tertiary industry development will be between 1:2.5:2 and 1:3:2.5.

d. Forecasts About the GNP Structure of Rural Tertiary Industries

Agriculture is the foundation of the national economy, and it is likewise the foundation for the transformation of the system. The speed of development of agriculture is the speed on which growth of tertiary industries is based. The speed selected for agriculture is extremely important. Analysis of representative survey data shows that during the 15 years from 1970 through 1984, growth of the primary industry will average more than 5 percent of rural GNP. Figured in terms of comparable prices, growth of the primary industry for the period 1980 through 1985 averaged 5.8 percent of rural GNP. When various factors are taken into consideration, the speed of growth in agriculture over the next 15 years will likely slow, remaining at between 4 and 5 percent. Thus, the two plans given below have been derived by using two proportional relationships and two speeds, taking 1985 as the base period.

Structure of Rural Industry in the Year 2000 (Plan 1)

	Proportional Relationship	Average Speed of Growth (%)	Increased Value (100 Million Yuan)	Percent (%)
Primary Industry	1	4	3299	44
Secondary Industries	2.5	10	2935	39
Tertiary Industries	2	8	1295	17
GNP			7529	100

Structure of Rural Industry in the Year 2000 (Plan 2)

	Proportional Relationship	Average Speed of Growth	Increased Value (100 Million Yuan)	Percent (%)
Primary Industry	1	5	3809	38
Secondary Industries	2.5	12.5	4112	41
Tertiary Industries	2	10	1704	21
GNP			9625	100

Two plans (Plan 1 and Plan 2) were worked out for when the proportional relationships for primary, secondary, and tertiary industries are 1:2.5:2 and the average speed of growth for agriculture is between 4 and 5 percent.

Another two plans (Plan 3 and Plan 4) were worked out for when the proportional relationships for primary, secondary, and tertiary industries are 1:3:2.5 and the average speed of growth for agriculture is between 4 and 5 percent.

**Structure of Rural Industry in the Year 2000 (Plan 3)**

	Proportional Relationship	Average Speed of Growth	Increased Value (100 Million Yuan)	Percent (%)
Primary Industry	1	4	3299	37
Secondary Industries	3	12	3846	44
Tertiary Industries	2.5	10	1704	19
GNP			8849	100

**Structure of Rural Industry in the Year 2000 (Plan 4)**

	Proportional Relationship	Average Speed of Growth	Increased Value (100 Million Yuan)	Percent (%)
Primary Industry	1	5	3809	33
Secondary Industries	3	15	5178	46
Tertiary Industries			2389	21
GNP			11,376	100

Analysis of the trend of development depicted in the four plans shows growth to be too low in Plan 1 and too high in Plan 4 under normal circumstances. The growth called for in Plan 2 and Plan 3 can be attained with effort. Thus, Plan 2 and Plan 3 have been chosen as forecast goals, that is to say in the year 2000, the ratio of GNP derived from primary, secondary, and tertiary industries will be 4:4:2 respectively.

Use of systems dynamics simulation models for forecasting produced seven plans for the rural GNP in the year 2000, showing between 40 and 45 percent as coming from the primary industry, between 34 and 37 percent from secondary industries, and between 21 and 25 percent from tertiary industries. By taking median figures, namely 42.5, 35 and 22.5 percent respectively, the great number is also 4:4:2.

**Forecasts of Rural GNP**

*Conclusion: Rural GNP may reach between 900 billion and 1 trillion yuan by the year 2000x.* (a) The simple extension method of forecasting was used to calculate the added value of each industry in the year 2000. These figures were then added up to obtain the GNP. For plan one, the figure was 794 billion yuan; for Plan 2, the figure was 989 billion yuan. (b) Use of Development Speed Correlation Ratio Method of Forecasting

Forecasting based on the above correlation among primary, secondary, and tertiary industries. When the average rural speed of growth is 4 percent and the development ratio among primary, secondary, and tertiary industries is 1:3:2.5, rural GNP may reach 884.9 billion yuan by the year 2000. When the average speed of growth for agriculture reaches 5 percent, and the ratio among primary, secondary and tertiary industries is 1:2.5:2, rural GNP may reach 964.4 billion yuan by the year 2000. (c) Use of Systems Dynamics Simulation Models For Forecasting

Rural GNP in the year 2000 will be between 850 billion and 1.24 trillion yuan.

A median figure of between 900 billion and 1 trillion yuan was taken from the figures arrived at through the above three forecasting methods, which ranged from 794 billion to 1.24 trillion yuan.

**e. Forecast For Rural Workforce Structure**

*Conclusion: In the year 2000, the distribution of the workforce in primary, secondary, and tertiary industries will be 5:3:2.*

China currently has a 100 million surplus agricultural workforce, and another 10 million net increase will be added each year for the rest of this century for a cumulative additional 150 million. This means that if the agricultural labor productivity rate is maintained without change, there will be 250 million people awaiting assignments outside of agriculture. In fact, however, the agricultural labor productivity rate will certainly rise, and thus jobs will have to be found for an even great number of people. Experience within China and abroad shows that the problem of finding jobs for surplus manpower is positively not just a rural problem, much less just an agricultural problem; it is a major problem bearing on a nation's economic future. For this reason, two points must be clearly understood: First, this problem cannot be solved by sole reliance on rural villages; it naturally has to be made a part of basic national policies for reform of the national economy. Second, the shift of the workforce into non-agricultural jobs will not proceed in a single direction, but rather in two directions, namely, some of the workforce will remain in rural villages, and a portion will go into cities. An additional small amount can be exported as labor.

(a) The urban population will change from the present 28 percent to 46 percent. The current population of China's cities and towns is 200 million, and urban population growth averages 4.5 percent. At this rate, it will reach 470 million by the year 2000. This includes both the natural increase in urban population and the rural population that has moved into cities, in addition to some rural market towns that have expanded to become cities. Authorities concerned forecast that by the end of this century, China's population will reach 1.25 billion (and will very likely break that figure). At that time, the urban

population will be 470 million and the rural population will be 780 million. If this goal is realized, a major change will take place in the proportion of the urban and rural population. The rural population will decline from 80 percent to 63 percent, and the urban population will rise from 20 percent to 37 percent. In great number terms, this will mean a change from 80 percent versus 20 percent to 60 percent versus 40 percent.

In the 1982 census, China's workforce accounted for 52 percent of total population. Forecasts call for an older population age structure in 2000, and a rise in the workforce as a percentage of total population to an estimated 55 percent. So, with a workforce of 700 million in 2000, the urban workforce at that time will be 250 million, and the rural workforce will be 450 million. In 1985, the urban workforce will contain 50 million members of the agricultural workforce, or 40 percent of the total urban workforce. In 2000, the percentage of the agricultural workforce in the urban workforce will decline, possibly remaining unchanged in terms of absolute figures. (b) The non-agricultural workforce will account for 60 percent of the national workforce.

After studying both Chinese and foreign data, we discovered that increase in the agricultural labor productivity rate correlates directly to increase in the non-agricultural workforce, meaning that the faster the rise in agricultural labor productivity, the faster the increase in the non-agricultural workforce as well. Further study showed that within a certain period of time, there is a quantitative proportional correlation between the two. For each 1 percent of growth in the agricultural labor productivity rate, the non-agricultural workforce increases by about 2 percent. Assuming an average 3.8 percent average increase in the agricultural labor productivity rate between 1970 and 1985, the agricultural workforce would have increased by 7.2 percent during the same period, the ratio between the two being 1 to 1.85. The same general proportional relationship obtains in foreign countries as well. In the United States, the USSR, Japan, France, and West Germany, for example, for the 20 year period from the 1950's to the 1970's, the ratio between the two went from 1 to 1.6 to 1 to 2.4.

Historically speaking, China's agricultural labor productivity rate increased by an average more than 3 percent. To be safe, an agricultural labor productivity rate of 3 percent (at comparable prices) was assumed for the period 1986 through 2000. This is within the 1:2 correlation ratio. Thus the speed of increase in the non-agricultural workforce became 5, 5.5, and 6 percent, from which the following three plans were derived.

A low end plan took 1986 with a national non-agricultural workforce of 186.86 million as the base period and assumed an average 5.5 percent speed of growth, the non-agricultural workforce for 2000 working out to approximately 390 million. This includes an urban non-agricultural workforce of 200 million (not including a 50 million agricultural workforce in cities), a rural non-agricultural workforce of 190 million, and a rural agricultural workforce of 260 million

A medium position plan took a national non-agricultural workforce of 186.86 million as the base period and assumed an average 5.5 percent speed of growth, the national non-agricultural workforce for 2000 working out to approximately 420 million including an urban non-agricultural workforce of 200 million, a rural non-agricultural workforce of 220 million, an agricultural workforce in cities maintained without change at the present 50 million, and a rural agricultural workforce of 230 million.

A high end plan also used 1985 as the base period and forecast an average 6 percent speed of increase in the non-agricultural workforce, the national non-agricultural workforce working out to 450 million by the year 2000, including an urban non-agricultural workforce of 210 million, a rural non-agricultural workforce of 250 million, an agricultural workforce in cities of 50 million, and a rural agricultural workforce of 200 million.

After considering all factors, we took the medium position plan to examine the structure of the rural workforce in 2000. At that time, the rural workforce will be 450 million, divided approximately equally between agricultural and non-agricultural work. The country's agricultural workforce will stand at 280 million, or 40 percent of the total workforce.

(c) The distribution of the rural workforce in primary, secondary, and tertiary industries will be 5:3:2.

In 1985, the rural workforce stood at 397.8 million, of which 306.42 million, or 77 percent, were employed in the primary industries; 47.04 million, or 12 percent, in secondary industries; and 44.34 million, or 11 percent, in tertiary industries. Over the next 15 years, tertiary industries will likely grow more slowly. Forecasts for 2000 call for an approximately 90 million workforce in tertiary industries, 130 million in secondary industries, and 230 million in the primary industry. The structure is shown in the table below. (Note: The figures given for the number of people in tertiary industries nationwide are estimates from the State Council Technical Studies Center.)

Employment Projections For the Year 2000

(Units: Million People)

	Nationwide		Including Rural		Rural Workforce As a Percentage of National (%)
	Number of People	Portion	Number of People	Portion	
Primary Industry	280	40	230	51	82
Secondary Industries	250	36	130	29	52
Tertiary Industries	170	24	90	20	53
Total	700	100	450	100	64

Use of systems dynamics simulation models for forecasting produced a rural workforce of between 250 million and 280 million in primary industries in 2000; between 90 million and 120 million in secondary industries, and between 60 million and 90 million in tertiary industries. Median figures of 260 million, 110 million and 80 million respectively were selected, the total amounting to 450 million.

f. Position of Agriculture and the Rural Economy in the National Economy

(a) Rural GNP as a percentage of the national total will increase, going from 43 percent in 1986 to 50.7 percent in 2000 (GDP for 2000 being forecast at 1.96 quadrillion yuan). This will include a decline from 88 percent in 1985 to 85 percent for the primary industry, a rise from 21 percent in 1985 to 43 percent for secondary industries, virtually no change in the 36 percent for tertiary industries. (b) Agriculture's percentage in the national economy will decline. Added value from agriculture, which amounted to 33.1 percent of the national total in 1980, 35.6 percent in 1983, and 28.9 percent in 1985 will drop to 22.6 in 2000.

The agricultural workforce as a percentage of the total national workforce will decline from the 62.5 percent of 1985 to 40 percent in the year 2000, bringing to an end a situation in which most of China's population worked to grow food. Within the rural workforce, the percentage of the agricultural workforce will drop from the 77 percent of 1985 to 51 percent, and the non-agricultural workforce will rise from the 23 percent of 1985 to 49 percent, thereby fundamentally transforming the old pattern of rural villages engaging in agricultural production.

g. City and Countryside Per Capita GNP and Consumption Levels

In 2000, GNP will be 1.96 trillion yuan, cities producing 1.01 trillion yuan, and rural villages producing 950 billion (to take the median figure between 900 billion and 1 trillion yuan); thus city and countryside per capita GNP will be 2,149 yuan for cities, and 1,218 yuan for rural areas, which converts to \$1,432 for cities and \$776 yuan for the countryside (at comparable 1980 dollars).

Calculation of the people's consumption in cities and the countryside is an extremely complex task, so only rough calculations can be made, namely that after deducting 30 percent from per capita GNP to expand reproduction, and for depreciation, and after deducting another 5 percent for social consumption, the remaining portion is per capita net income. Urban and rural per capita net income will be 1,612 yuan for cities and 914 yuan for rural areas. If the net income is regarded as consumption income, the ratio of per capita consumption income between cities and the countryside will be 1.8:1, a great number of 2:1.

The average speed of growth in consumption level during the 26 year period 1952 to 1978 was 5.3 percent for cities, and 3.8 percent for the peasants. The level of consumption increased faster for urban residents than for rural villages. Following the Third Plenum of the 11th Party Central Committee, (1979 through 1985), the speed of growth in consumption levels was 8.7 percent for cities and 10.9 percent for rural areas, faster in rural areas than in cities. In 1985, per capita consumption was 733 yuan in cities and 327 yuan in rural villages in a 2.24:1 ratio. If the forecast goal of 2:1 can be realized, by 2000 the gap between cities and the countryside will be narrower than at present. However, this is an extremely daunting task. This is because raising the peasants consumption level has as a prerequisite the movement of more than 200 million members of the agricultural workforce into non-agricultural work, and 60 percent of peasant income deriving from secondary and tertiary industries. If this goal cannot be attained, the gap between cities and the countryside cannot be narrowed. A table is provided below.

City and Countryside Per Capita GNP and Consumption Ratios in 2000

	Population (Million)	Population Percentage	Per Capita GNP (Yuan)	Per Capita Net Income (Yuan)	Ratio of City and Countryside Consumption Levels
Cities	470	37	2,149	1,612	1.8
Villages	780	63	1,218	914	1

#### 4. A General Picture of the Rural Industrial Structure in 2000

##### a. The Rural Industrial Structure Will Have Taken a Decisive Step, Substantially Realizing a Historical Transformation

By 2000, China's rural GNP will have reached between 900 billion and 1 trillion yuan, between four to six times the 185 billion yuan of 1985. More than 60 percent of this will have come from secondary and tertiary industries, thereby bringing to an end a history of agriculture's absolute dominance of the rural economy, and substantially changing the situation of a structure that is "heavy at one end." The proportional correlation among rural primary, secondary and tertiary industries will have been fairly equitably adjusted, and the industrial structure will have entered a new stage of better coordinated development, laying a foundation for continued transformation of the industrial structure and the building of modern, new villages during the 21st century.

Among the changes in the industrial structure, the tertiary industries themselves will have made tremendous progress. Agriculture will have declined as a percentage in the national economy; however, a great increase will have taken place in the total amount of agricultural products. A study done by the Chinese Academy of Agricultural Sciences and the Agricultural Development Strategic Problems Group of the Rural Development Institute of the Chinese Academy of Social Sciences reported that by the year 2000, output of grain will have reached 1 trillion jin, cotton 100 million dan, oil-bearing crops 430 million dan, and meat 60 billion jin. National per capita output of major agricultural products will be as follows: grain, 850 jin; vegetable oil and sugar, 12 jin each; meat 50 jin, eggs 20 jin, dairy products 50 jin, and aquatic products 20 jin. A great stride will also have been taken and marked changes made in bringing about a more rational agricultural structure. The farming industry will have decreased from 71.7 to 53.3 percent; forestry will have risen from 4.9 to 8.7 percent; and the forest cover rate will have reached 20 percent. The animal husbandry industry will have risen from 17 to 27.7 percent, sideline occupations from 4.4 to 7.4 percent, and the fishing industry from 2.0 to 2.8 percent. The proportional relationship between farming and the other four industries within agriculture will have declined from 70 percent versus 30 percent to 50 percent versus 50 percent.

Among the changes in the industrial structure will be very rapid growth in GNP from secondary and tertiary industries, the percentage for secondary industries rising from the 25 percent of 1985 to 41 percent, and for tertiary industries from 13 to 21 percent. Increased value for secondary industries will have increased from the 70.3 billion yuan of 1985 to 411.2 billion yuan in a 5.8 fold increase. The number of people employed will have increased from the 47.04 million of 1985 to 130 million in a 2.8 fold increase. For tertiary industries, increased

value will have increased from the 40.8 billion yuan of 1985 to 211.8 billion in a more than fivefold increase, and the number of personnel employed in tertiary industries will have increased 2.4 fold including a 2.5 fold increase in the number of people engaged in business. Employment in the food service industry will have increased 14.7 fold, and speed of development of banking, information, and consulting services will have been even faster.

##### b. Marked Improvement in the Extent To Which the Industrial Structure Has Become Rational in Different Areas

By the year 2000, distinctive industrial structures will be built everywhere throughout the Chinese countryside. In economically developed areas, agriculture will grow steadily; the extent of commercialization will rise, and "foreign exchange-producing agriculture" will expand. A fairly great readjustment will take place within the structure of rural industry. While consolidating and steadily raising the productivity of existing industry, emphasis will be placed on the development of name brands, on quality, distinctive, and new products and on agricultural byproducts processing industries. Tertiary industries will see very great development, and the overall performance of the rural industrial structure will markedly rise. By the end of this century, the ratio of primary, secondary, and tertiary industries in the GNP for economically developed areas will be 3.5:4.5:2.0.

In moderately developed areas, the potential for agricultural production will have been tapped, with the inherent advantages of grain and cash crops having been further exploited, and an agricultural structure that combines farming and livestock raising formed. Rural industry will develop an integrated industrial structure in which food and livestock feed industries hold an important position. All resources will be better used for an increase in both output and value. Tertiary industries will see corresponding development. By the end of the present century, the ratio of moderately developed area primary, secondary, and tertiary industries in the GNP will be 4.5:3.0:2.5.

The ecological environment of economically undeveloped areas will have improved markedly; the quality of the workforce will have risen; and an agricultural structure that combines forestry and animal husbandry will have been established. Labor intensive extraction industries and agricultural byproducts processing industries that make use of locally available resources will have developed, and corresponding development of business and transportation will also have taken place. Destruction of the undiversified agricultural structure will lay a fine foundation for complete readjustment of the industrial structure. By the end of the century the ratio of primary, secondary, and tertiary industries in the GNP may reach 5:2:3.

In addition to changes in the above three kinds of areas, other areas having special resources or economic conditions such as special economic zones and coastal areas opened to the outside world, forest areas, pastoral areas, fishing areas, minority nationality areas, and tourist areas will also undergo marked changes. Because of their special geographical positions, some areas may take

precedence in readjustment and rapid development. One such area is the middle and lower reaches of the Chang Jiang, which has abundant products, a temperate climate, available water and land transportation, a fairly well developed industrial and agricultural production, and a fairly high scientific and cultural level, enabling the formation of an industrial structure that combines industry and agriculture. Other such regions are the Chang Jiang delta, the Zhu Jiang delta, and the Minnan delta. Still others are the Shandong and the Liaodong promontories. These three deltas and two promontories should develop an industrial structure that combines trade, industry, and agriculture. Such a structure should be oriented toward foreign countries while also emphasizing China. This will require, first of all, that products be distinctive and of very high quality if they are to be able to compete on an equal footing. Second, there will have to be backup markets in China so that should international markets change suddenly, there will be sufficient ability to respond to the emergency.

#### c. Substantial Changes To Occur In the Appearance of Rural Villages

If our forecast goals are realized, substantial changes will have taken place in the appearance of China's rural villages by the year 2000.

First, China will have ended forever its history of an overwhelmingly agricultural population. By that time, the rural population will stand at 780 million, approximately 340 million, or half the rural population and 27 percent of the national population being an agricultural population. This will mean that the population engaged in agriculture, no matter whether in rural villages or throughout the country as a whole, will no longer be in the majority. The number of people supported by each member of the agricultural workforce will rise from the present 3.3 to 5.4.

Second, the position of the rural economy in the national economy will rise further. Rural villages will provide not only large amounts of agricultural and sideline products, but large amounts of industrial products as well, both to satisfy the daily needs of the people in cities and the countryside, and also to obtain foreign exchange through their export. Approximately half of the GNP will be created by rural villages. The rural primary industry will account for 88 percent; secondary industries for 44 percent, and tertiary industries for 36 percent.

Third, the gap between cities and the countryside will have been narrowed, the per capita consumption level of rural residents (figured in terms of constant 1980 prices) likely reaching more than 1,000 yuan for the attainment of a fairly comfortable standard of living. The current consumption ratio between cities and the countryside is 2.3:1. By 2000, it should drop to 2:1. National peasant per capita income will reach or exceed the current peasant average in the suburbs of Shanghai and Beijing.

The era when peasants throughout the country worried all year long about how to get enough to eat and to wear will have become a thing of the past forever.

Fourth, a large number of new townships and towns will spring up in the countryside, approximately one-third of the rural population living in townships and towns. By the year 2000, half of the 450 million rural workforce will be employed in agriculture, and the other half in industries other than agriculture. Most of the 220 members of the workforce engaged in non-agricultural work will be employed in townships and towns. Though employed in secondary and tertiary industries, another part of the workforce will continue to live in rural villages, or will move back and forth from villages to towns or from villages to cities, going from one job to another. As a result, the population resident in townships and towns will be lower than the population engaged in secondary and tertiary industries. China has 300 large and small cities at the present time, and more than 2,800 organic towns. By the year 2000, a number of new townships and towns will have been built and will proliferate in the farflung countryside, becoming rural political, economic, scientific and technical, and cultural and educational centers.

Fifth, the destruction of resources will have been virtually halted, and the ecological system will have taken a turn toward a benign cycle in many regards and in many places.

#### d. Need For A Clear Understanding of Rural Villages in 2000

Realization of the foregoing goals in readjustment of the industrial structure will require suiting general methods to specific circumstances, and proceeding in an orderly way step by step. It should be noted that even should the aforesaid anticipated goals be attained through effort, China's rural villages will still face numerous harsh realities in the year 2000. First of all, a per capita GNP of \$776 is still a low level of income in world terms. According to standards set by the World Bank in 1984, this amounts only to going from the ranks of a low income country to the ranks of a lower middle income country. Second, the problem of a structural surplus in the agricultural workforce will not have been solved completely. At that time, not only will there be several tens of million members of the workforce awaiting assignment, but in the year 2000, China's agricultural workforce will account for 40 percent of the national workforce, only equal to that of Egypt (40 percent), Korea (43 percent), Tunisia (35 percent), Malaysia (42), and the Democratic Republic of Yemen (41 percent). Finally, as a result of population growth, the relative insufficiency of natural resources for agriculture will be more serious. Without major scientific and technical breakthroughs, there will be even less room for maneuver in the development of agriculture.

China is developing and all the countries of the world are also developing. Realization of forecast goals will mean that China's rural villages will only be able to attain the level of countries currently at the barely moderate level. Only through arduous effort and the institution of some correct major strategic policies can this goal be attained. We must clearly understand this fact.

#### 5. Factors Restricting Changes in the Rural Industrial Structure

Realization of the goals forecast for the industrial structure will produce historical changes in the rural economy. Nevertheless, transformation of the structure is subject to numerous factors; thus, a series of highly focused major actions will have to be taken. Otherwise, the goals set for transforming the structure will be difficult to realize.

Among the many factors restricting transformation of the structure, three have the greatest and the most profound effects, and are manifested in three conflicts.

##### a. Conflict Between the Natural Economy and the Commodity Economy

Self-sufficiency, insularity, and conservatism characterize a natural economy while commodity flow, openness, and competition characterize a commodity economy. In China, both currently exist at the same time in a historical stage of transition from the former to the latter. In cities and rural villages alike, one can sense everywhere the conflict and clash between the two mechanisms, and the drag that the natural economy exerts against change.

China's planned economy (principally the urban economy), is, to a very large extent a commodity economy, albeit a commodity economy with a low level of productivity, that remains essentially a natural economy or a contorted natural economy. The urban economy has a cycle of its own, and its relationship with rural areas focuses mostly on getting low cost agricultural products. Such a contorted natural economy finds reflection in the superstructure where it has given rise conceptually and in policy making to a natural economic structure characterized by not rocking the boat. Such a structure both blocks reform of the urban economy, and also rivets attention on the cities, considering only the interests and development of the cities instead of the cities and the countryside being treated as a totality in planning the national economy and reform of the structure.

The natural economy coloration is even deeper in the countryside. The natural economic structure of rural villages is the result of long feudal rule. However, it is because of policy mistakes since founding of the new China that changes in the rural natural economy have been few. During the commune and "cultural revolution" periods, the natural economy was even strengthened in some places. Except for the suburbs of large cities and a small number of developed coastal areas, most

rural villages remained in the natural economic stage of self sufficiency or semi-self sufficiency in which the commodity rate was very low. The insularity and conservatism of natural economies held a dominant position in these places, and showed up in an ultra-stable socio-economic structure in which self-sufficiency production was paramount. Following the Third Plenum of the 11th Party Central Committee, the institution of contract systems linked to output and the liberalization of various economic policies infused rural villages with new vitality and stimulated the broad masses of peasants to become rich, some peasants actually becoming rich as a result of having thrown themselves into the commodity economy. However, partly as a result of the lack of objective conditions, and partly because of the imprint of the natural economy, the majority of peasants were content with having enough to eat and to wear. Especially, after some people who had tried to get ahead met with setbacks, the conservatism of the natural economy was strengthened to a certain extent. Without new impetus, an attitude of complacency in having enough to wear and to eat might have appeared, and a stable era of not seeking for further development might have ensued that would become a restraint on reform of the rural structure.

The existence in the city and rural economy of such insularity and conservatism poses a huge social obstacle for transformation of the national economy and the rural industrial structure in a rational direction. This is because development of the industrial structure requires a division of labor and a division of vocations; it requires a flow of production elements and a realignment through competition, and it even requires a redistribution of benefits. This is bound to produce sharp conflicts and clashes with the existing structure whose prime characteristics are insularity and conservatism. Thus, the conflict between the natural economy and the commodity economy is a most fundamental conflict that limits reform of the industrial structure. The only way in which this conflict can be resolved is through encouragement of openness, flow, and competition, using the commodity economy to knock open the closed main gate of the natural economy.

##### b. City-Countryside Conflict or Industry-Agriculture Conflict

The conflict between the development of industry and the development of agriculture is nothing less than a conflict between the industrialization of the country and the peasantry. For a long time, China has pursued a policy of industrialization. In order to carry out this policy, a complete, primitive accumulation system has been formed. This system not only includes an economic system in which agricultural products are obtained at low prices and workers receive low wages, but it also includes an administrative control system that limits the flow of city and countryside production elements and binds the peasants tightly to the soil. For the peasants,

this means both that they have to provide the accumulations for industrialization and be strictly controlled without sufficient democracy or freedom. Such a primitive accumulation system has produced a dislike for agriculture and "deeprooted and obstinate prejudices" against the peasants. These prejudices are expressed most markedly in the two ways given below.

First is the supposition that the peasants' job is to work in agriculture, and that the job of agriculture is to provide the cities with food and raw materials. From the city point of view, it is as though agriculture is important and thought about only in terms of its ability to provide sufficient agricultural products. Only when a problem crops up in the supply of agricultural products to cities is "assistance" to agriculture offered and investment increased. During the 3 year period of hardships during the early 1960's, investment in agriculture reached 20 percent. However, whenever there are no problems in the cities supplies of agricultural products, agriculture is sidelined, investment is curtailed, and the supply of materials is cut back. During the past more than 30 years, this situation has recurred time and again. No matter what explanation is given, the economic connotation is, in essence, that rural villages serve as raw material supply areas. "Inputs" are only, or mostly, to get "outputs" for city needs, rather than treating agriculture as an integral part of the national economy, much less genuinely regarding agriculture as the foundation of the national economy in instituting a policy of coordinated development of industry and agriculture. Following the Third Plenum of the 11th Central Committee, we made tremendous efforts to improve the conflict between cities and the countryside; nevertheless, the force of habit of the existing "system" and "prejudices" remain very strong, so much so that the percentage of investment in agriculture for 1985 fell to the lowest point in history.

Second, exactions from the peasantry have become a traditional habit, many units making levys or exactions from the peasants in the name of the "country." From the economic angle, the worst consequences of a variety of such economic and super economic actions for urban industrialization are "separation of the cities and the countryside," dividing the totality of the national economy, which is composed mostly of industry and agriculture, into the two closed, antithetical systems of cities and rural villages. Conversely such insularity strengthens the self actuated cycle of urban industry and the firmness of the natural economy. It not only markedly limits the transformation of the rural industrial structure, but also seriously restricts the building of a rational national economic structure. The consequences of the separation of cities and the countryside are, first, creation of an industrial pattern that is not rational. An example is the placement of agricultural product processing industries in cities where they are operated as state monopolies, which creates a whole series of economically irrational situations. Second is the creation of an irrational industrial structure in which 800 million peasants work to

produce food, 90 percent of rural manpower engaging in agriculture. The labor productivity rate is extremely low, and the rural economy becomes a pool of stagnant water. Conversely, since peasant purchasing power is very low, industry loses its farflung rural markets, which seriously limits development of the industrial economy. Third is getting the peasants to provide funds to the cities by fair means or foul, at the same time reducing the percentage of state investment in agriculture year by year. Nor do the peasants want to invest in agriculture because of the relatively low benefits to be gained. The result is a serious shortage of investment in the capital construction of agriculture that poses a potential long-term crisis for agriculture. Fourth, production elements cannot flow back and forth; township and town enterprises develop only with difficulty; and it is difficult to transfer surplus manpower, all of which seriously restrict further development of the rural industrial structure. In short, such "city and countryside separation" places rural villages in a predicament of enduring backwardness. Thus, they are unable to provide a wide market for industry, and this restricts development of the entire national economy in turn. This has to be one of the most fundamental reasons why China has the largest agricultural population in the world, and is one of a small number of nations having the lowest per capita national income.

It is completely necessary that the peasants provide the accumulations for national industrialization. This is to say that an objective necessity exists for the conflict between industry and agriculture during the period of industrialization. The problem lies in how to deal with such conflicts, knowing how far to go so as not to make life too miserable for the peasants. The amount of accumulations that the peasants provide for industrialization should be gradually decreased, accumulations from industry being used instead for the development of agriculture.

#### c. Conflict Between Population and Resources

The conflict between population and resources is another problem of a different character than the above conflict. The central issue in this conflict is that China's resources are insufficient relative to its large population. This is an irredeemable historical fact caused by policy errors. Scarcity of per capita resources narrows choices of economic activity and greatly reduces the freedom of social regulation, thereby greatly increasing difficulties in transforming the rural industrial structure. For example, if population were half of what it is, per capita resources would be double what they are making for different prospects. Of course, we have no choice but to abandon illusions and face harsh realities. The harsh reality is that existing resources cannot be increased, yet population will continue to grow causing a decline in the per capita amount of resources. This fact tells us that the only way out is to use to the full the creativity of our 1 billion population to increase to the fullest extent the rational utilization rate of resources and the ability to reproduce resources. To do this requires utmost efforts

to restrict population growth, while at the same time, first, making full use of advantages in having a abundant supply of manpower to develop labor intensive industries; second, to make full use of modern technology to exploit and process resources in multiple ways, and to increase the ability to reproduce and the ability to get the most out of resources; and, third, to make the opening of international markets an important strategy. However, we have not fashioned these three approaches into a genuine advantage.

First of all, though large in quantity, the workforce is not high in quality. Second, the technological level is not high. It is still very backward in many regards. This is extremely disadvantageous for the development of secondary and tertiary industries and for getting into international markets; nevertheless, this is where our hope lies. Development of both the national economy and the rural economy will be ultimately decided by the training of skilled people and by technical progress, more and more so as time goes on. In the farflung rural villages, in particular, this conflict is especially prominent, requiring the breaking of convention and the development of a large scale movement to train talent simultaneous with vigorous development of the commodity economy, to increase the quality of the workforce as quickly as possible so that peasants possessed of knowledge and skills can start secondary and tertiary industries and create secondary and tertiary industries that become the power for reform of the rural industrial structure. This, I fear, is the only way to solve the conflict between population and resources. We must deal with this conflict from strategic heights and in the course of reforming the industrial structure; otherwise, we face the danger of having insufficient reserve strength.

#### 6. Principal Strategic Measures To Reform the Rural Industrial Structure

##### a. Continued Strengthening of the Agricultural Foundation

The central task in rural industrial structure reform is to lower gradually the percentage of agriculture while increasing the percentage of secondary and tertiary industries in an evolution toward the coordinated development of primary, secondary, and tertiary industries. Over the next 15 years, agriculture should decrease greatly as a percentage of both the national economy and the rural economy; however, such a lowering of the percentage of agriculture must be premised on steady growth of the absolute amounts and value of agriculture. The important position of agriculture positively cannot be weakened as a result of this decline in percentage; on the contrary, it should be strengthened. Unless there is steady growth of agriculture, the goal of reforming the rural industrial structure cannot be realized, and the task of coordinating city and country economic development cannot be completed. The reasons are as follows: (1) Development of agricultural production is a necessary condition for the transfer to the non-agricultural sector

of agricultural manpower, and is the foundation for development of rural secondary and tertiary industries. (2) Development of the entire national economy and increase in the people's consumption level means steady rise in the amounts, varieties and quality of agricultural products. (3) Looked at in terms of systems theory, the greater the decline in the percentage of agriculture, the greater the development of other industrial sectors, demonstrating that the more industries built on the foundation that agriculture is, the heavier the load it carries. In order to attain the coordinated development of all industrial sectors in the entire national economy, it will become more and more necessary to protect and strengthen this foundation.

As the second part of this report pointed out, over the long-term, a potential danger exists for China's agriculture. Unless this foundation of the national economy is firm, the various agricultural products needed to develop the national economy will not be readily obtainable, and tremendous efforts will have to be made for grain output to move up to 1 trillion jin. Surmounting this potential danger and insuring the steady growth of agriculture will require effective action.

First is the need for steadily increasing investment in agriculture. To begin with, the state has to increase investment in agriculture, stabilizing investment at a certain ratio; it positively cannot continue to carry out a policy of agriculture being a "soft" project for which investment may be reduced whenever there is a hiatus over funds. Local public funds should be used as much as possible to increase investment in agriculture, while various methods should be used at the same time to encourage peasant investment in the soil. For gradual solution to the price scissors problem, either prices paid for farm products may be raised or the price of industrial manufactures may be lowered, or else both methods may be used simultaneously. Our long-range policy should be gradually to bring the income of peasants engaged in agriculture close to earnings in other industries, and to insure that agriculture has the wherewithal for the expansion of reproduction; otherwise, agriculture will gradually wither away.

Second is continued good performance in readjusting the structure of agriculture itself, making the most of the structure's total performance. Steady growth in grain output should be used as a basis for a gradual shift from overemphasis on grain production to grain crop, live-stock feed crop, and economic crop production; and from overemphasis on farming to a gradual shift to all-around development of farming, forestry, animal husbandry, sideline occupations, and the fishing industry. Two points are emphasized here as follows: (1) Grain is the foundation of agriculture. Grain production can never be ignored; therefore, a policy must be adhered to of positively no slackening of grain production. Until such time as breakthrough advances are made in agricultural technology and major changes take place in production conditions, the area sown to grain crops must be

stabilized at a rational level with no excessive fluctuations up and down. A concrete analysis must be made for "solving the grain problem," including both the problem of enough to eat, and the "problem" of eating well once enough food is available. Over the next 15 years, it will be mostly the latter "problem" that is to be solved. Therefore, the livestock feed industry (including animal husbandry) has to be placed on the agenda, and the problem of varieties, and quality solved once sufficient amounts of agricultural products have been assured. (2) Following the principle of suiting general methods to specific circumstances, there should be planned, step-by-step readjustment of regional patterns to make the most of regional advantages. In addition, the exchange of varieties among regions is also advocated.

Third is gradual expansion of the scale of farming. The scale of farming is excessively small today (at 6 mu per unit of manpower), with the result that manpower cannot be used to the full and returns are not high. This makes it difficult to increase income and to shift the workforce into other occupations, and to promote the use of science and technology; it also blocks progress in the modernization of agriculture. Increasing the scale of farming is an effective way of improving returns from the land and the agricultural commodity rate, and for increasing peasant income; and it is the road that must be taken for the modernization of agriculture.

Because of the shortage of land, most peasants work part time at both agricultural and non-agricultural jobs; however, as the specialized division of labor becomes better established, except for areas around cities and towns, the farflung farming areas will have to take the road of increasing the scale of farming. A look at present productivity conditions shows that a three to five fold increase in the scale of farming is possible. Two problems must be solved in order to do this. One is the widening of employment avenues to advance the development of non-agriculturalization. The second is the formulation of realistic policies whereby the tilling of the soil is gradually concentrated in expert hands. A condition favoring this course is fullest use of the system of collective ownership of rural land to promote the building of farming on a larger scale. In this connection, it is suggested that rules and regulations be drawn up as soon as possible to encourage the use of various measures to expand the scale of farming, and to provide support in the form of funds and materials.

Fourth is the conduct of a policy of agriculture supporting agriculture through exports and imports by opening domestic and foreign markets. In the year 2000, not only will China's per capita amount of grain not have attained the per capita level for the world, but per capita amounts of cash crops such as sugar, edible oil, cotton, and hemp will also be very low. Therefore, the limited amount of cultivated land means there is no way to solve the conflict between grain and cash crops for land, which will continue to dog the country and the peasants in the form of a conflict between supply and demand. One

fairly effective method for ameliorating (but not fundamentally solving) this conflict, aside from increasing investment in order to bring about a general rise in their yields per unit of area, is to use international markets as a "regulation pool," exporting high value products, and importing low value products. Alternatively, exports may be used to acquire technology and materials to support increase in domestic output to moderate the increasingly sharp conflict between supply and demand.

Ours is a large country with a population of 1 billion in which the supply of agricultural products (particularly grain) must depend primarily on domestic production and not rely on foreign markets. This is entirely correct. Nevertheless, this is not to say that nothing at all may be imported, 100 percent being produced domestically. Conversely, it is entirely necessary to do all possible to export more profitable products to international markets and to import lower priced agricultural products from international markets. However, the export of high value agricultural products comes up against a serious shortage of funds, technology, and skilled personnel, necessitating the institution of special policies for using earnings from exports to support the development of "foreign exchange-creating agriculture," gradually following the road of open commodity agriculture in unified domestic and foreign markets.

Fifth is improvement of the ecological environment, and development of ecological agriculture. Agricultural production is the organic combination of natural reproduction and economic reproduction; therefore, a fine ecological environment is a necessary condition for insuring agricultural production. Strengthening of the agricultural foundation requires extremely close attention to creating a suitable environment for agricultural production, and development of ecological agriculture; otherwise, the steady growth of agriculture will be impossible. Doing this requires attention to solving the following four problems: First is prevention and control of pollution by the three wastes of rural industry [waste water, waste gas, and industrial residues]; second is the establishment of an agricultural structure in which farming, forestry, and animal husbandry are organically combined; third is the institution of a system for rotating the growing of field crops and pasture grass, and the growing of grain and pulse crops. Fourth is rational fertilization, vigorous advocacy of the use of organic fertilizer, and the scientific use of chemical fertilizers and agricultural pesticides.

#### b. Active Development of Rural Secondary and Tertiary Industries To Fashion a Distinctive Industrial Structure

Rural secondary and tertiary industries should be actively developed, and the development of secondary and tertiary industries should be the key for readjustment of the rural structure. Only when secondary and

tertiary industries develop faster than the primary industry will it be possible to make effective use of their role in socio-economic development, and hasten the transformation of the rural industrial structure.

The main actions for developing secondary industries should be: (1) Full use of the advantages that each area provides. Anything that provides economic benefits, social benefits, and ecological benefits should be developed, with no overemphasis on the development of any certain category to the exclusion of other categories. Since processing industries for agricultural products and by-products account for a very small percentage of rural industry, since rural villages have good conditions for the development of such industries, and since their social benefits are high, more attention should be given to their development. Cities should no longer compete with rural villages for such raw materials. (2) Improvement in the quality of enterprises. Conditions should be actively created to accelerate technical replacement and improvement to enable more enterprises to attain advanced levels insofar as possible. (3) Cooperation and coordination between urban industries and rural industries should be strengthened as circumstances and possibilities permit. City and countryside industries should be encouraged to compete on an equal footing in order to help each other forward and for joint prosperity. (4) In some areas, special emphasis should be placed on the development of rural family industries. At the same time, attention should be paid to the development of key industries to spark the joint development of family industries.

The main actions for developing tertiary industries are as follows: (1) Focus on business, transportation, science and technology and education to give impetus to other trades and professions to enable the development of posts and telecommunications, information, banking, health, and food and beverage services. Special emphasis should be placed on the role of banks. (2) Commercial networks should be built energetically, the development of individual retail businesses encouraged, and business wholesaling expanded. At the same time, more commodity exchange locations should be opened and commercial facilities increased. (3) Communications and transportation industries should be developed vigorously. First, there should be a change in the past thinking that emphasized railroads more than highways, and that emphasized land transportation more than water transportation. Second, simultaneous with an increase in state investment in transportation and communications should be vigorous advocacy of stock share companies and other economic organizations for investment in transportation and communications enterprises, insuring that investors obtain the economic benefits they should. (4) Major efforts should be made to improve educational facilities and to improve the quality of teachers; there should be compulsory primary school education, and a gradual expansion of compulsory education to junior middle schools. In addition, rural vocational education should be actively developed. This will

require that public financial institutions in local jurisdictions provide full support without excessive reliance on assessments on the public.

#### c. Planned Development of a Large Number of Small Cities and Towns

In ancient times, cities were countrified, but in modern times, rural villages are modernized is an accurate capitalization of a historical phenomenon. The so-called urbanization of rural villages means a situation in which the centers of rural population and economic and social activities are congregated at points termed "cities" or "towns." As a result of the galloping inflation of the world's population during the past several decades, a worldwide urbanization phenomenon, particularly a tendency toward large urbanization is taking places on an unprecedented scale and speed. This phenomenon is concentrated mostly in third world countries, and it is on the way up. On the other hand, some large cities in old capitalist countries such as the United Kingdom, West Germany and France have seen a trend toward population decline in the beginning of a slow counter-congregation process toward dispersal in medium size and small cities. Eighty percent of China's population lives in rural villages, and there is no doubt whatsoever that China is in the historical stage of congregation rather than dispersal. The urbanization process has just begun. First, by the end of this century, more than 200 million members of the workforce will have to be shifted from agriculture into secondary and tertiary industries. Second, the innate laws of development of rural secondary and tertiary industries require a substantial concentration of population before the various requisite conditions can be obtained for development. Therefore, the congregation in cities and towns of the workforce and of secondary and tertiary industries is inevitable, and it will endure for a fairly long period of time in China as well.

The question is whether to develop large cities or small cities. We maintain that the view that China should take the large urbanization road is undesirable. The entry into large cities or into newly built large cities of a more than 200 million workforce and a population of more than 400 million is unthinkable in terms of financial and material resources. Furthermore, in view of advances that have been made in modern science and technology, there is no need to build new cities. Therefore, China's rural villages can only take the road of relying primarily on the power of the peasants themselves to develop small cities and towns. The construction of a large number of small cities, townships, towns, and market towns can provide not only conditions for development of secondary and tertiary industries, and for the shift of workforces and the population, but the concentration of industries in small cities and towns can also make possible a rational division of labor and a rational pattern of city and countryside industries. This is to say that the development of small cities and towns provides not only necessary conditions for reform of the

rural industrial structure, but also for the ultimate integration of city and countryside industry, and it also makes possible the building of a rational national economic structure.

The foregoing analysis shows that the small city and town development process is a secondary and tertiary industry strengthening process, and it is simultaneously a process for the transfer of the workforce and expansion of the scale of agriculture, the significance of which is extremely great. This means, first of all, that the division of labor and cooperation in city and countryside industries should be linked to the development of small cities and towns, with overall planning that takes all factors into account. Second, the development of small cities and towns should be made a part of the overall strategy for national economic development for planned, step-by-step development. Problems in the development of small cities and towns require prompt solution in order to accelerate progress in the development of villages into cities and towns.

#### d. Acceleration of the Building of Basic Facilities

We usually term the basic facilities on which economic development depends such as roads, electric power, communications, energy and a water supply system the basic structure. Cities and towns are nodes for this basic structural network. Unless the most fundamental basic structure is built, the commodity economy cannot operate normally, and the normal restructuring and reform of the industrial structure naturally cannot be carried out.

Most of China's early rural industries were extensions and expansions of sideline occupations and handicraft industries in which the production level was low and the marketing radius small; thus, the need for a basic structure was also not high. After entering the 1980's when secondary and tertiary industries mounted the economic stage and township and town enterprises developed rapidly, conflicts resulting from the lack of a corresponding basic structure became more prominent. Theoretically speaking, the construction of basic facilities should usually come a little in advance, but just the reverse was the case for us; they were always in a passive situation. Construction, replacement and expansion were all usually done under the "impetus" of economic development. Roads were not built until they just had to be built, and power lines were not erected until they just had to be erected. Consequently, basic structures frequently were not in keeping with the needs of economic development and became limiting elements. Many reasons account for this situation, including the shortage of funds and materials, inadequate electric power and energy, etc. However, the main reason was a lack of understanding of the importance of the basic structure and that this problem had to be solved first. In addition, it is necessary to make clear that the rural economy's basic structure is not an independent system, but is an extension and an integral part of the basic structure of the national economy. It is a tree trunk that is inseparable from the basic structure

of the whole country. Therefore, the construction and development of the rural basic structure can proceed smoothly only as a part of national centralized planning and centralized distribution of financial and material resources. Thus, the building of the rural basic structure, like the development of small cities and towns, has to be made a part of the total strategy for national economic development, and a policy pursued whereby there is a division of labor between the state and the collective in building it to accelerate the speed of development.

#### e. Liberalization of Markets Providing Production Essentials, and Encouragement of Free Flow Between the City and the Countryside

Changes in the industrial structure do not take place in a static state but in motion. For this reason, our policies certainly should allow production essentials to become "lively," and be freely moving essentials that recombine in the course of movement to bring about a rational transformation of the structure. One of the most effective ways of achieving this goal is the opening of markets to provide production essentials, and instituting policies that open channels between cities and the countryside, allowing a free flow. The market should be allowed to regulate the distribution of funds, technology and the workforce under macroeconomic control. This is the only effective way of demolishing the conservatism and insularity of the natural economy.

By the so-called opening of channels for free flow between cities and the countryside is meant the interflow between cities and the countryside of manpower, capital, technology, and population. This includes an interflow among cities, between cities and the countryside, and among rural villages. The interflow of population and manpower between and among the three can be liberalized step by step. Large cities will have to control it rigorously, medium size cities will have to control it to a limited extent, and small cities can completely open up movement. But between small cities and villages, and between one village and another, not only can manpower be allowed to flow freely, but the population should also be allowed to move freely. There should be a complete opening up among the three levels for the flow of funds and technology. By so doing, technology can be spread over the widest area, experience can be exchanged, and one place can supply what another needs. Cities can obtain cheap labor, and the rural villages can get surplus skilled people, technology, and capital from the cities to the benefit of the cities and the countryside alike. Second, the essentials of production can be applied in an optimum way for a more rational distribution of both manpower and resources. Third, the workforces' income level can be evened out in the course of flow, thereby helping narrow the gap between small cities and the countryside, and between one region and another. Fourth, the workforce will expand its horizons in the course of movement and gain an edifying influence from the commodity economy that will help in the training of people skilled in economics. A certain amount of "flow"

has taken place during the past several years; however, this has been largely spontaneous and on a very small scale. Completion of the vast transformation entailed in the transfer of several hundred million members of the workforce requires more explicit policies.

#### f. Multiple Ways of Amassing Funds

The direction in which funds are invested determines the direction in which the industrial structure develops. For this reason, capital is the most important and most basic element in industrial development. At the same time, capital is also a most difficult problem to solve. Therefore a policy for amassing capital through numerous channels must be pursued. There are two channels through which construction capital for rural development comes. One is state investment; the other is accumulations by villages themselves. In an overall sense, it is the accumulations from villages themselves that are most important; however, in terms of the building of the basic structure and control over projects, state investment is more important.

First of all, as was said before, the state has to increase gradually its investment in rural villages, part being used in agriculture, and part being used in the building of the basic structure to create the conditions necessary for the transformation of the rural industrial structure. A strong industrial system has already been built in China, so rural village accumulation of funds for industry through the exchange of industrial and agricultural products at unequal prices should be correspondingly reduced and brought to an end soon. Industry should strengthen its ability to develop itself and make efforts to hasten the day when it provides capital for the development of agriculture. The accumulated experience of more than 30 years shows that a market that supplies plentiful agricultural products is the foundation of national economic stability and prosperity. Likewise, rich rural villages create the biggest domestic markets for industry. The key to making this relationship work lies in cities, but the emphasis in bringing about this change has to be placed on rural villages.

Second, the funds that rural villages accumulate themselves should be used primarily to develop secondary and tertiary industries and to build small cities and towns, and some basic structures. Part of these funds will come from accumulations from tertiary industries themselves, and some will come from the collection of idle funds. The main goal in the opening of capital markets is to enliven capital and to broaden sources of capital. Funds held by collectives and enterprises must be used more fully for better economic benefit, while at the same time, various methods must be used to gather idle funds from society to make use of their punch. For this reason, full use must be made of the key role of banks and credit cooperatives, while encouragement should be given to industrial and commercial banks at the same time to take part in rural financial markets to bring about a

competitive situation. In addition, active encouragement, assistance, and guidance should be given to the building and development of various kinds of rural capital organizations such as cooperative funds, investment companies, and the issuance of securities, allowing them to play an active role in the amassing of capital to meet the different needs of rural commodity production.

#### g. Place the Emphasis in Readjustment of the Structure on Moderately Developed Areas

China's rural economic development has been very unbalanced, and may be divided into economically developed areas, moderately developed areas, and undeveloped areas (Note: We have used three criteria in dividing provinces, municipalities, and regions into three types of region. The first type of region includes the three cities of Beijing, Tianjin, and Shanghai, and Jiangsu, Zhejiang, Liaoning, Shandong and Guangdong provinces; The second type of region includes Shaanxi, Fujian, Jiangxi, Hubei, Anhui, Hunan, Hubei, Sichuan, Nei Monggol, Jilin, and Heilongjiang; and the third type of region includes Guangxi, Shaanxi, Guizhou, Yunnan, Gansu, Xinjiang, Qinghai, Ningxia, and Tibet.) The industrial structure in each type of region varies greatly, and goals in their readjustment are not completely identical. Nevertheless, in an overall sense, the selection of those regions as key points in which sparing investment can produce quick results and can have a decisive influence on doing a good job in restructuring the rural industrial structure throughout the country is truly a policy decision of a strategic nature.

I believe that the emphasis in readjustment of the rural industrial structure should be placed on moderately developed areas. (1) These areas have a large rural area, plentiful resources, a large percentage of rural population, and their major products account for more than half the products of the whole country. (2) These regions have plentiful reserve resources, large amounts of surplus manpower, a certain amount of economic strength, and good conditions for readjustment of the industrial structure. (3) These regions are centrally located and have readily available transportation that will help them assimilate experiences from eastern and western regions, and that will help them spur economic development of eastern and western regions. In short, readjustment of the rural industrial structure in this region will enliven the rural industrial structure of the whole country across the board.

The basic principles for readjustment of the rural industrial structure of the moderately developed region are as follows:

First is balanced readjustment. Proceeding from the overall situation in the region and making the most of industrial advantages should be the basis for accelerating development of rural industry, particularly agricultural and sideline products processing industries and tertiary industries.

Second is diversification. Since differences within this region are fairly great, the types of industrial structure should also be diverse as the only way of making use of the advantages that small areas enjoy.

Third is "three priorities." By this is meant (1) priority support going to the building of basic facilities needed for the restructuring of the rural industrial structure; (2) priority provision of capital and materials needed for development of the economy; and (3) priority planning done for the training of skilled personnel.

It should be explained that when we speak of placing the emphasis on restructuring of the structure in moderately developed areas, that is not to say that the restructuring of other regions should not be given serious attention. It means only that in guiding the readjustment of each region, the key to doing a good job lies in setting priorities and good handling of the relationship between key points and whole areas.

#### h. Full Application of Economic Methods to Readjust the Industrial Structure

Readjustment of the industrial structure is an economic problem the solution to which relies primarily on economic methods supplemented by necessary administrative methods and legal methods.

Economic methods consist mostly of the application of economic levers such as prices, credit, and tax collection.

Prices. Prices for rural industrial manufactures should be basically free from regulation, fluctuating with the market. For some time to come, prices for agricultural products will not be of a single kind. Over the next 15 years, three kinds of price policies will have to be instituted (namely contract procurement prices, protected prices, and free prices), and the spread of differential prices on the basis of varieties, quality, season, and locality will have to be widened. The price scissors between industrial and agricultural products began to narrow several years ago; however, in recent years a spurt in prices of industrial manufactures and various services has again exhibited a tendency toward widening. Should this continue, it will be extremely bad for agriculture, and it may weaken or even shake the economic foundation that is agriculture. Therefore, during the reporting period, comparative prices of industrial and agricultural productions should take a decisive step toward equitability.

Credit. Credit and interest rates should be used primarily to stimulate or restrict certain industries or the production of certain products. When there are too many industries of a certain kind or certain products, credit should be tightened. Conversely when there are too few of a certain kind of industries or when products become in short supply, either credit should be increased or interest rates decreased to provide support. Over the

next 15 years, loan support should be given to the various kinds of specialized households and cooperative economic organizations, and to rural secondary and tertiary industries.

Taxes. For the past several years people have come to believe that the lower taxes the better. This is a mistaken view. Generally speaking, high taxes (and tax rates) are bad, but low ones are also bad; they should be neither high nor low but generally just right if all industries are to achieve coordinated development. When there is a shortage of any given industry, sector, or product, the lowering of the tax rate or even exoneration from taxation may stimulate development; conversely when there are too many industries or products of the same kind, taxes are raised to curb their development.

In the application of economic methods, two problems require attention. The first is the role of multiple application of economic levers. By this is meant that when economic levers such as prices, credit, and taxes are applied, they must be synchronized through policies. There can be no support for certain economic levers and limitation of other economic levers; otherwise, effective results cannot be obtained. Second is the need to adopt guiding plans, meaning that first all possible should be done to provide reliable market information, and to publish price, credit, and tax policies promptly to enable producers to choose a production orientation and to readjust the product mix on the basis of market needs and economic benefits.

The State implements guiding plans for principal agricultural products, and has deregulated most other agricultural products. Widespread use of economic agreements in rural villages is a main way in which macroeconomic control is exerted, and should be gradually expanded. Contract procurement prices should gradually be brought into line with market prices. Contracts should clearly set forth the rights and obligations of both parties, the party that fails to abide by the agreement bearing economic responsibility. Contracts should not become a unilateral notification to peasants to sell products.

#### i. Attention Should Be Given to the Maintenance of Two Ratios When Readjusting the Rural Industrial Structure

Readjustment of the rural industrial structure should center around coordinated development. The relationship among rural industries is a mutually limiting relationship, so an equitable ratio among them must be maintained if a benign cycle in economic activity and the ecological environment are to be attained. Two ratios are of greatest importance.

(1) The speed of growth of GNP for rural primary, secondary and tertiary industries should be maintained at 1 percent of the growth of the primary industry during this century, secondary industries growing approximately 2.5 percent and tertiary industries growing approximately 2 percent.

(2) For each 1 percent rise in the agricultural labor productivity rate during this century, the non-agricultural workforce should increase by approximately 2 percent.

These two proportional relationships are in terms of the country as a whole. Each jurisdiction should figure out an equitable development ratio for its own region on the basis of surveys and research.

These two ratios are basic proportional relationships for the coordinated development of the rural industrial structure. They are in keeping with the basic idea of agriculture being the foundation of the national economy, and also being the foundation for coordinated development of the industrial structure. Therefore, in macroeconomic control, these two proportional relationships should serve as a means for regulating industrial relationships, and be used to monitor the development of all industries to make sure there is no excess deviation from them.

#### j. Organizational Support For the Readjustment of the Rural Industrial Structure

The ownership structure and the form of management have an important influence in stirring entrepreneurs' enthusiasm and creativity, and on the coordinated development of all rural industries. Therefore, if the work of readjusting the industrial structure is to be carried out smoothly and gain anticipated results, there has to be an equitable ownership system structure and the right kind of management system. First of all, a policy has to be adhered to in which the state, collectives, and individuals all benefit. A large body of facts shows that in the development of rural primary, secondary, and tertiary industries, except for a few trades not suited to individual operation, adoption of a policy that benefits the state, collectives (cooperatives), and individuals alike, with vigorous development of cooperative enterprises and active development of the individual economy simultaneous with the operation of state-owned enterprises enables definite development of enterprises in which private individuals hire labor, and values the economic links among all systems of ownership and among all economic methods. An ownership structure in which the state-owned economy plays the dominant role, and in which the cooperative economy (including collectives), the individual economy, and the private economy co-exist should be instituted.

Second is vigorous development of various forms of the cooperative economy. For agriculture, the basic trend over the next 15 years will be: (1) an overwhelming majority of agricultural work will continue to be done through family contracting, decentralized operations predominating. A small amount of agricultural work will be done under mostly centralized management, decentralized operations being supplementary; (2) There will be further development of all kinds of specialized households (such as households specialized in the growing of

grain, cotton, and vegetables, in forestry, in raising chickens, in raising hogs, and in rearing fish; (3) There will be steady development of all kinds of pre-production, post-production and during production cooperation even while independent family operations are maintained. Therefore, during the next 15 years, various forms of contract systems linked to output in which family operations are dominant should be maintained and constantly improved. A policy of vigorous development and assistance should be adopted with regard to the various kinds of specialized households in agriculture. In particular, vigorous support should be provided specialized households in farming, and active support should be given to all forms of cooperatives and partnerships. For industry, existing collective enterprises should continue to be run well; various kinds of partnerships should be developed; active support should be given to family industries, cooperatives and partnerships being developed from a foundation of maintaining independent family operations. Enterprises in which private persons high labor should be permitted to exist since advantages outweigh disadvantages. However, they should be subject to necessary limitations and guidance. For business, state-owned businesses for the purchase of agricultural products are not in keeping with needs in development of a rural commodity economy, so they should be reformed, and the reform of supply and marketing cooperatives should continue. Specifically, except for a certain percentage of profits that supply and marketing cooperatives derive from the sale of products, all the remainder should be refunded to peasants on the basis of the quantity and quality of products they supplied. Specialized cooperative business organizations should be actively developed. For the country as a whole, there is a need to establish rural cooperative banks as joint organizations with credit cooperatives. Credit cooperatives are basic organizations for cooperative banks that should maintain their own operating independence. In addition, various kinds of public credit organizations should be developed.

In short, various forms of cooperation and partnership should be used to organize the peasants and those engaged in production in other vocations to give impetus to and support the coordinated development of all rural industries.

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#### Liaoning Issues Regulations on Agricultural Contracts

40060159 Shenyang LIAONING JINGJI BAO in Chinese 14 Jan 88 p 2

[Article: "A Trial Method for Administering Agricultural Contracts in Liaoning—(Issued by the Liaoning Provincial People's Government on 23 December, 1987)

[Text] Section I. General Principles

Article 1. In order to improve administration of agricultural contracts, perfect the system of rural cooperation, protect the legal rights and interests of contracting parties, safeguard social and economic order, and promote the development of a planned commodity economy in the countryside, we have formulated these measures based on actual situations in Liaoning.

Article 2. Agricultural contracts are agreements made between rural cooperative economic organizations and their members to implement production and management responsibility systems and to clarify mutual rights, interests, and obligations. Agricultural contracts are established according to law, and the parties concerned must fulfill them. No alterations or deletions may be made without authorization.

Article 3. These measures apply to contracts signed between Liaoning rural economic cooperative organizations and their members concerning agricultural, forestry, animal husbandry, sideline, or fishery production and management projects.

Article 4. All government departments concerned with agricultural and animal husbandry administration are responsible for agricultural contracts. Other pertinent departments help to supervise, inspect, and manage agricultural contracts.

## Section II. Initiating and Undertaking Contracts

Article 5. Rural cooperative economic organizations (including existing production teams) initiate contracts involving rural collective-owned resources and property or state resources lawfully obtained and used by the collectives. In the absence of cooperative economic organizations, these contracts will be initiated by rural people's committees.

Article 6. The job contracted and the contracting measures will be discussed and decided democratically by a general meeting of the members of the cooperative economic organization (villagers) or their representatives.

Article 7. The members of a rural cooperative economic organization have the right to enter into a contract the organization initiates. When resources and property are ample, local people who are not members of the cooperative economic organization may also enter into the contract. Able managers are encouraged to contract and specialized contracts are recommended.

Article 8. Contract deadlines should be determined according to the principles of aiding production development, protecting natural resources and ecological equilibrium, and concern for collective and individual interests.

If contractors fulfill their contract obligations and operate according to the law, after the contract expires they will have priority contract rights. If the contract initiators agree, the original contractors may continue contract operations.

Article 9. A contractor has only use rights to contract resources and property: he may not rent or sell them. A contractor may not build a house or burial tomb on contract land, recklessly cut down forests, or damage agricultural facilities. On silkworm farms, wasteland reclamation, rock quarrying, and soil removal are prohibited. Rotation cutting to renew silkworm farms must be approved by the department in charge.

## Section III. Concluding and Fulfilling Contracts

Article 10. In concluding an agricultural contract, contracting parties must comply with state laws and regulations, conform to the demands of state policies and plans, and abide by the principles of voluntary participation and mutual benefit, honesty and trustworthiness, and consensus through consultation.

Article 11. All procedures must be observed in concluding a contract, and the following must be clearly stipulated in written form:

1. Contract items (the names, varieties, quantities, and locations of contract resources and the names, specifications, brands, quantities, conditions, and values of contract properties);
2. The contract's beginning and end dates;
3. What production conditions and services will be provided by the project initiator (provision of technology, equipment, funds, goods and materials, water supplies, capital construction on farmland, mechanized earth turning, and manure and soil collection spots), and what compensation should be made for contractor inputs;
4. The contractor's necessary inputs to the project (aid to soil fertility, soil improvement, capital construction on farmland, wasteland management measures and objectives). Requirements for production management, technical supervision, and operating goals on contract items. Requirements for maintenance and repair of water conservancy facilities, buildings, machinery and equipment, and means of transport;
5. Taxes that the contractor must pay and accumulation funds, public welfare funds, management fees, and funds for the public good that he must submit. Quota responsibilities he must assume for purchasing grain and other agricultural and sideline products, and information on fulfilling the procurement quota contract;

6. The method of distributing contract income and, because major fluctuations occur in state pricing policies, the method of adjusting income distribution;
7. Responsibility for contract violations, as well as rewards and penalties;
8. Other items agreed upon by the two sides.

Article 12. The two parties or their agents must sign (affix their seals) to conclude a contract.

Article 13. A contract is issued in triplicate. The contract originator, the contractor, and the village (here and below, this includes towns) department in charge of contracts each retain one copy. The paper used for the contract is printed and manufactured centrally by the city or county department of agricultural administration and management. If the contracting parties ask for verification, it will be supplied by the village department responsible for contracts, and a verification fee will be collected according to regulations.

Article 14. If the organization that initiated the contract divides or merges with another organization, or if the legal representatives change, the contract remains in force.

Article 15. Any one of the following conditions will invalidate the contract:

1. Violation of state laws, regulations, or policies;
2. Injury to state, collective, or public interests;
3. Cheating, coercion, or other improper methods used in concluding and signing the contract;
4. If the initiator of the contract is not empowered to initiate contracts or if his representative violates democratic principles and oversteps his authority in setting up the contract.

Invalid contracts are not protected by the law. The power to confirm an invalid contract lies with the department in charge of agricultural contracts and the people's court.

Article 16. If any one of the following conditions arises, the contract may be altered or terminated:

1. For reasons beyond control, the contract cannot be fulfilled in part or in whole;
2. The contract land or other natural resources is appropriated for use by the state;
3. Production or operating conditions change significantly and the contractor is unable to continue in operation.

4. Withdrawal from the cooperative economic organization (except for college and polytechnic students and active service in the armed forces);

5. The contracting parties agree unanimously and the result will not harm the interests of the state, collective, or other people.

To alter or terminate a contract, a written agreement must be concluded and signed (sealed) by the contracting parties and reported to the village (or town) department in charge to be recorded.

#### Section IV. Subcontracting

Article 17. During the effective contract period, subcontracting is permitted if one of the following conditions is met:

1. The contractor is unable to meet contract stipulations for cultivated land, fruit trees, or other agricultural production items due to a lack of labor, technology, funding, or other operating conditions.
2. The contractor is already in charge of developing barren hillsides, wastelands, grass farms, water surfaces, marshlands, or tantu [3492 3205];

Article 18. Any subcontracted item must be approved by the originator of the contract. The terms of the subcontract must be agreed upon by both subcontracting parties, and transference procedures must be followed. The subcontractor and the contract originator must continue to meet all stipulations of the original contract.

Article 19. The contractor must not reap unfair gains from the contract.

#### Section V. Responsibility for Contract Violations

Article 20. If a contractor is guilty of one of the following types of conduct and fails to fulfill his contract obligations, the contract originator may criticize and educate the contractor or recall the contract, according to the seriousness of the case, and he may also demand compensation for losses incurred:

1. Plundering or abandoning contracted cultivated land, fruit trees, forests, or other agricultural production items;
2. Damaging machinery or tools due to a failure to conduct stipulated repairs and maintenance on contracted mechanical equipment and means of transportation;
3. Failure to pay stipulated taxes, accumulation funds, public welfare funds, management expenses, and funds for the public good, or failure to carry out contract measures for income distribution;

4. Unauthorized subcontracting resulting in losses to the contract initiator or illegal profits.

Article 21. If the contract originator is guilty of one of the following types of conduct and fails to fulfill his contract obligations, he must compensate the contractor for economic losses incurred, and, according to the seriousness of the case, economically penalize those directly responsible.

1. Failure to supply production conditions or services according to contract stipulations.

2. Unauthorized alteration or cancellation of the contract.

#### Section VI. Contract Dispute Mediation and Arbitration

Article 22. The organization that mediates contract disputes is the village contract mediation group. The arbitration mechanism is the village or county (including county-level municipalities and districts) contract arbitration committee.

The mediation group is produced through a democratic election among the members of the cooperative economic organization or the villagers. The arbitration committee at any level is composed of pertinent departments at that level. Agricultural management and administration departments are in charge of agricultural contract arbitration committees.

Article 23. When a contract dispute arises the parties involved should resolve it through consultation. When consultation will not solve the problem, the village mediation group should mediate the dispute. When mediation fails, any party may petition the village arbitration committee to arbitrate the dispute. Within 30 days of receiving notice of the committee's ruling, anyone who refuses to accept it may petition the arbitration committee at the next higher level to reconsider the matter. The ruling of the arbitration committee at the next higher level is final. After the notice of the ruling becomes legally effective, if the parties refuse to implement its provisions, the arbitration committee which issued the ruling may petition the people's court in the appropriate jurisdiction to implement them.

If the people's court has accepted a contract dispute for review, the contract arbitration committee must not also accept it.

Article 24. The responsible party will be accountable for settling legitimate costs arising out of a contract dispute. When both parties are culpable, both will bear this responsibility, and the contract arbitration committee will make the decision along with its ruling on the contract dispute.

#### Section VII. Additional Regulations

Article 25. These measures should be consulted in managing rural economic agricultural contracts or trans-regional agricultural contracts.

Article 26. The Liaoning Agriculture and Animal Husbandry Department is responsible for explaining these measures.

Article 27. These measures take effect the day they are issued.

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#### Anhui 1987 Agricultural Output Value

40060220a Hefei ANHUI RIBAO in Chinese  
29 Feb 88 p 1

[Excerpt] In 1987 the gross value of agricultural output in Anhui Province was 16,422,000,000 yuan, a net increase of 727 million yuan over 1986. The output value of farm crops was 12,170,000,000 yuan, a 5.1 percent increase over 1986; the output value of forestry was 415 million yuan, a 4.5 percent increase; the output value of animal husbandry was 2,537,000,000 yuan, a 1.1 percent decrease; the output value of sideline production was 934 million yuan, a 6.9 percent increase; and the output value of the fishery industry was 366 million yuan, a 3.2 percent increase.

#### Guangxi Grain Harvest

40060220e Nanning GUANGXI RIBAO in Chinese  
1 Mar 88 p 1

[Excerpt] In 1987, gross output of grain in Guangxi was 12.115 billion kilograms, an 8.2 percent increase over 1986.

#### Guizhou Grain Area

40060220d Guiyang GUIZHOU RIBAO in Chinese  
4 Mar 88 p 1

[Excerpt] In 1988, Guizhou Province plans to sow 35 million mu to grain, of this amount, the area sown to autumn grain will be 25,350,000 mu.

#### Hebei Grain Prices

40060220c Shijiazhuang HEBEI RIBAO in Chinese  
15 Mar 88 p 2

[Excerpt] The current proportional price for every 50 kilograms of winter wheat (medium grade) will increase from 23.79 yuan to 25.30 yuan; the unified procurement price will increase from 17.30 yuan to 18.40 yuan. The current proportional price for 50 kilograms of spring wheat will increase from 22.55 yuan to 24.10 yuan; the unified procurement price will increase from 16.40 yuan to 17.50 yuan. The current proportional price for 50 kilograms of naked oats will increase from 22.40 yuan to 23.90 yuan; the unified procurement price will increase from 17.03 yuan to 17.40 yuan. The current proportional price for 50 kilograms of rice will increase from 23.10

yuan to 25.10 yuan; the unified procurement price will increase from 16.50 yuan to 17.90 yuan. The proportional price for 50 kilograms of sesame (second grade) will increase from 76.70 yuan to 88.50 yuan; the unified procurement price will increase from 59 yuan to 68.10 yuan. The proportional price for 50 kilograms of rapeseeds will increase from 45.50 yuan to 49 yuan; the unified procurement price will increase from 35 yuan to 37.70 yuan. The proportional price for 50 kilograms of sesame oil will increase from 166.40 yuan to 192 yuan; the unified procurement price will increase from 128 yuan to 147.70 yuan. The proportional price for 50 kilograms of rapeseed oil will increase from 137.80 yuan

to 148.47 yuan; the unified procurement price will increase from 106 yuan to 114.20 yuan. These prices will go into effect 1 April 1988.

#### **Qinghai Farm Loans**

*40060220b Xining QINGHAI RIBAO in Chinese  
1 Mar 88 p 1*

[Excerpt] From the fourth quarter of 1987 to the end of January 1988, agricultural banks in Qinghai Province provided over 43 million yuan in loans to support the purchase of 82,000 tons of chemical fertilizer, 65,000 kilograms of pesticide, 410,000 farm tools and 30,000 kilograms of plastic film for farm use.

**Lanzhou MR Develops Jamming Suppression Rocket**

40050186a Beijing JIEFANGJUN BAO in Chinese  
4 Feb 88 p 2

[Text] The Logistics Department of the Lanzhou Military Region has developed rocket artillery which uses chaff to suppress jamming. It will be deployed with ECM and artillery units.

**Armed Forestry Police Become Part of PAP**

40050186b Beijing JIEFANGJUN BAO in Chinese  
5 Feb 88 p 1

[Excerpts] The State Council and Central Military Commission have concurred with the Ministry of Forestry and Ministry of Public Security's plan to incorporate the armed forestry police into the People's Armed Police [PAP]. Commander Li Lianxiu [2621 6647 4423] said, "The PAP is now complete with its gold mining, forestry, hydroelectric power, fire fighting, and traffic control units."

The forestry police will enjoy compensation equal to that of the PAP. Rules and regulations will be drawn up in accordance with PLA and relevant PAP regulations.

**Reserve Units Neglected by Higher Levels**

40050186c Beijing JIEFANGJUN BAO in Chinese  
6 Feb 88 p 3

[Text] It is already more than 1 year since the reserve units have been entered into the organization of the PLA. However, higher levels have not issued any study materials to us. Every time the PLA Publishing House sends books and other materials to the military sub-district, there is never a copy for us, and even the report from the 13th Party Congress and related items were not issued. I suggest that relevant departments place more importance on distributing teaching materials to the reserve units. (letter from the reserve division in Xingyi, Guizhou)

**Job Satisfaction of Rocket Force Intellectuals**

40050186d Beijing JIEFANGJUN BAO in Chinese  
8 Feb 88 p 1

[Excerpts] A certain equipment inspection regiment of the Second Artillery Corps [China Strategic Rocket Force] has worked hard at making intellectuals feel at ease in difficult surroundings. Intellectuals comprise 92 percent of this regiment's total number of cadres, and in early January, the Second Artillery promoted this regiment's experiences in allowing them to work contentedly.

This regiment was formed at the end of 1983 and has been operating in remote areas with poor lines of communication. In recent years, more than 100 college graduates have come here in succession.

The site management zhongdui is a newly-formed element which has the worst living conditions in the regiment, as well as a strenuous mission.

**Tank Division Recalls Merit Citations**

40050186e Beijing JIEFANGJUN BAO in Chinese  
21 Feb 88 p 1

[Excerpts] Nanjing, 20 February: Indiscriminate and excessive awarding of merit citations and commendations in a certain tank division has been curtailed and corrected. Today the certificates and medals awarded to 54 individuals as merit citations and 320 individuals as commendations were nullified and returned.

When this division participated in construction on the former course of the Huang He, in only 2 months it commended 87 people, so that some regiments even decided to commend anyone who had worked more than 15 days on the project.

**Jiangsu Conducts Winter Militia Training**

40050186f Nanjing XINHUA RIBAO in Chinese  
14 Jan 88 p 1

[Text] This winter, the military training of militia in Jiangsu has reached its peak season, and more than 26,000 core militiamen have begun intense training at 56 militia training sites and local regular force training sites. As of yesterday, all military district and military sub-district soldiers and cadres directing the winter training had arrived at the training areas.

**'Long March 1' Space Launch Vehicle**

40050088 Beijing DANGDAI ZHONGGUO DE HANGTIAN SHIYE [CONTEMPORARY CHINESE SPACEFLIGHT] in Chinese Jun 86 pp 151-172

[Text] The "Long March 1" space launch vehicle (CZ-1) was developed to launch China's first artificial earth satellite, the "Dong Fang Hong." Full scale development of the "Long March 1" began in 1965. Over 500 organizations participated in the research, design, production and test activities; thousands of scientists and engineers, technicians, party officials and commanding officers of the People's Liberation Army all felt privileged to be part of this team.

However, just as the development work was entering into a critical stage, the "cultural revolution" disrupted or even shut down many research, production, and test activities. At that time Premier Zhou Enlai was particularly concerned about the status of the "Long March 1"; he frequently requested briefings on its development and provided guidance to the project. On several key occasions, he personally took decisive measures to allow the team members to overcome many difficulties and disruptions; thus, the development work continued to move forward amidst the turmoil until the goal was finally achieved.

On 24 April, 1970, the "Long March 1" successfully launched China's first artificial earth satellite, the "Dong Fang Hong-1". On March 3 1971, it launched an experimental satellite, the "Shijian-1". Thus, China demonstrated its capability to inject a 300-kg satellite into a 440-km circular orbit with an inclination of 70 degrees.

## Section I. The First Space Launch Vehicle

### 1. Launching Satellites Requires Multi-Stage Rockets

In order to place an artificial satellite or a spacecraft into a desired orbit, a sufficiently large force is required to overcome earth gravity and to accelerate the satellite to the required velocity. Therefore, the first task in developing space technology is to develop a high-thrust launch vehicle. To launch an object into orbit, two conditions must be satisfied: one is that it must be able to penetrate the dense atmosphere; the other is that it must achieve a primary velocity of 7.9 km/sec. The rockets developed by China in the 60's were all single-stage rockets; while they were able to exit the atmosphere, they did not achieve this velocity and therefore could not be used as vehicles for launching satellite. To launch a satellite requires a multi-stage rocket, where incremental acceleration is provided by each stage, and the satellite is injected by the final stage into the desired orbit.

In developing a multi-stage rocket based on a single-stage rocket, the interface problem and the separation problem between each stage and between the rocket and the satellite must be solved. Once the energy generated by the first-stage rocket is completed utilized, the rocket shell and associated parts must be discarded in order to minimize the energy expenditure for carrying these "dead weights." Another critical issue is the assurance of reliable ignition of the second and third stage engines at high altitude. Also, because of the problems of stage separation and the increased fineness ratio in a multi-stage rocket, greater demands are imposed on the control system. A poor design may lead to instability and possible destruction of the rocket structure. In addition, the success or failure of a satellite launch depends on the accuracy of the guidance system whose function is to ensure accurate placement of the satellite in the desired orbit. These new requirements involve many different engineering disciplines, and pose many new problems in materials, processing, research, and design. To achieve the desired goal, the designer must take into consideration these difficulties and arrive at an advanced, reliable, and practical overall system design. He then must solve these problems one by one in transforming the design into reality.

### 2. Searching for a Practical and Advanced System Design

In October 1965, during the system design review, it was established as the primary design goal to ensure the successful launch and operation of China's first satellite, and to ensure normal operation of the ground system in

tracking and maintaining communication with the satellite. It was also established that the satellite would weigh 100 kg and have a diameter of 1 meter. The "Long March 1" would be capable of launching a series of scientific and applications satellites, and be designated as the standard vehicle for launching medium and small satellites.

The system design of the "Long March 1" was initially the responsibility of the No 8 Design Academy of the Seventh Ministry of Machine Building. In November 1967, the responsibility was transferred to the Launch Vehicle Research Academy.

The "Long March 1" was a three-stage rocket; the first two stages used liquid-fuel rocket engines whereas the third stage used a solid-fuel engine. Its take-off weight was 81.5 tons and the take-off thrust was 104 tons. Overall length was 29.46m, and maximum diameter was 2.25m. The first and second stages and the control system were developed by modifying the existing intermediate-range rocket design. This approach not only provided the required payload capability with higher probability of success, but also resulted in lower development costs while meeting the required schedule of launching a satellite by 1970. The third-stage solid-fuel engine was a new design. The second and third stages were connected by an interstage adapter. After complete separation, the spin motor was ignited, causing the third stage to spin freely. The cowling was discarded in the horizontal plane. The third stage was equipped with a telemetry system and an exterior ballistics measurement system. The satellite and satellite ejector were both attached to the instrument support frame.

In order to increase the effective payload capacity (satellite) by taking advantage of earth rotation, the initial launch direction was chosen to be nearly due east (10 degrees north). The discarded first stage would fall back to Inner Mongolia, the second stage would fall into the Pacific Ocean, and the third stage would be ignited above the northeast part of China to carry the satellite into orbit. However, the inclination of the orbital plane in this case would be limited to 42 degrees, and the ground track would only cover mid to low altitude regions; therefore, the satellite would not be visible to many European and North American countries. In April 1966, it was decided to raise the inclination angle to approximately 70 degrees, and the launch direction was changed to 70 degrees southeast. Although this revised launch plan reduced the payload weight (the larger the inclination, the smaller the payload capacity because less energy is provided by earth rotation), the new orbit would make China's first satellite visible to almost all inhabited regions of the world. Following this trajectory, the first stage would fall back to Gansu Province, the second stage would fall back to the South China Sea, and the third stage along with the satellite would be injected into orbit above the northwest part of Guangxi Province.

The flight sequence of "Long March 1" is shown in Fig. 43 [not reproduced]. A special feature of this flight sequence is the long coast phase between first and second stage engine cutoff and third stage engine ignition. This feature allows higher injection altitude with minimum energy expenditure. For this reason, the second stage rocket was equipped with a coast-phase control system for controlling the rocket with residual liquid propellant.

### 3. Coordinated Effort To Solve Basic Technical Problems

The first problems to be solved were the problem of new materials, new equipment, and new processing techniques. In order to reduce the structural weight and to increase payload capability, the "Long March 1" not only made extensive use of high strength aluminum-magnesium alloys, but also used such new materials as titanium alloys, fiberglass, and high-strength steel. In a coordinated effort, the Ministry of Metallurgical Industry, the Ministry of Chemical Industry, and the Ministry of Construction Materials Industry mobilized a special team of experts and the best facilities and succeeded in producing various types of high-performance materials within a period of 2-3 years.

The capability and realizability of electronic components have a direct impact on the performance of the flight control system and the measurement system. To meet the needs of the "Long March 1" and the aerospace industry, the Fourth Ministry of Machine Building assigned some of its high-productivity and well-equipped factories to join forces with the specialized factories of the Seventh Ministry of Machine Building to develop China's electronic technology. The newly developed electronic components, semi-conductor equipment and electronic devices laid the foundation for complete transistorization and miniaturization of the "Long March 1's" electrical system.

New processing techniques were also used extensively on the "Long March 1" to improve its performance. Through the joint efforts of designers, processing technicians and factory workers, new techniques such as explosive shaping, tungsten-electrode pulse argon welding, one-sided argon (helium) arc welding, ultra-thin-plate argon arc welding, vacuum electron-beam welding, plasma high-temperature spray coating, plasma cutting, high-pressure and chemical milling, stretching of stainless steel bellows, high-precision leak inspection, and fiberglass shaping were used in the production of rocket structures and engines. In the production of inertial equipment in the control system, new processing techniques such as machining of grating, cutting and grinding of diamonds were used extensively; in instruments, gauges and some of the receptacle units, silica gel sealing technique was used.

These achievements in basic research made significant contributions to China's success in building the "Long March 1" and to China's processing and manufacturing industry.

## Section II. Breakthrough in Multi-Stage Rocket Technology

The development of the "Long March 1" took more than 4 years. In an effort to develop new materials and new processing techniques, research and production organizations around the country joined forces to apply new technologies in the overall system and in many subsystems. Some of these technologies were at a level comparable to the international standards of the 60's.

### 1. Hundred-Ton Class Engine and High-Altitude Liquid-Fuel Rocket Engine

The first and second stages of the "Long March 1" used liquid fuel engines. The first stage engine, the YF-2A, was a 100-ton class engine consisting of four single engines connected in parallel. The second stage engine, the YF-3, was an engine designed for high altitude operation. They were both designed by the Liquid Rocket Engine Research Institute, and built by the Launch Vehicle Assembly Plant.

These two engines were developed under the supervision of rocket expert Ren Xinmin, and Ma Zuoxin and Zhang Guitian of the Liquid Rocket Engine Research Institute. They not only provided reliable propulsion for the "Long March 1" rocket, but also laid the foundation for future development, design, production, and test of large rocket engines in China.

The YF-2A engine and the YF-3 engine were modified designs of the intermediate range rocket engine, the YF-2. Some of the key technical problems such as combustion instability, design of the high-speed, high-performance turbopump, parallel operation of the four single engines, vacuum welding of the thrust chamber, shaping of the bellows, plasma spray coating and the study of material compatibility had already been solved during the development of the medium-range rocket. A number of large test facilities such as the 100-ton thrust level testbed, and 2.5mW pump test platform had already been completed, which greatly facilitated the development of the YF-2A.

The YF-2A engine consisted of four single engines each of which was an independent system. The pump-driven fuel supply system used the thrust chamber pressure feedback control system to achieve high accuracy thrust control. The engine structure was simplified by using main propellant in the gas generator system which supplies the working fluid to the turbine. The turbine was started with gases produced by a cartridge starter. Also, launch preparation time was significantly reduced by employing a non-reusable electric squib valve which was reliable and easy to maintain.

The YF-3 engine was similar to the single YF-2A engine; it was a high-altitude engine designed to operate under near-vacuum conditions. Its development took less than 3 years, from 1965 to 1968. Two major issues involved

in developing the YF-3 engine were: (1) how to ensure consistent ignition when operating at an altitude of 60km where air density and pressure are less than 0.03 percent the values on the earth's surface; and (2) how to measure the engine's high-altitude performance from the ground.

To study and test high-altitude engine ignition, other countries have constructed special testbeds which simulate high altitude conditions. These testbeds are generally very large and complex, and fully automated. Because of the high cost of these facilities, China could not afford to follow the same approach. By taking into account China's economic limitations and noting that self-ignition will occur when the fuel and oxidizer come into contact, the designers conducted extensive studies and repeated tests, and arrived at a solution to this difficult problem by creating an engine ignition environment similar to that on the ground. In order to obtain high-altitude engine performance parameters, the experts carried out repeated calculations and proposed a design where engine exhaust was used as an evacuation source. This approach was simple, low-cost, and also saved time. The key to this design required the construction of an evacuation and diffusion test chamber. The construction project was completed within a few short months, and the first test took place in November, 1966. Within two seconds after ignition, the pressure inside the test chamber reached a stable value as expected, and the high-altitude engine performance parameters were obtained.

The YF-3 operated under near-vacuum conditions. To increase its specific thrust, a fiberglass nozzle extension was added to the engine. Fiberglass is a non-isotropic material which has an abundant supply and therefore is inexpensive, but its manufacturing process is rather complex. The quality of the material depends largely on the environmental conditions and the skill of the operator during the manufacturing process. After considerable research, effective design technique and processing technique were developed.

In order to lower the interior surface temperature of the extension section and to minimize carbon buildup, the turbine exhaust gas was used for cooling the surface. Through simulated engine tests and wind tunnel tests, a structural design which solved the problem of high back pressure in the turbine and a design of waste gas utilization system were chosen.

## 2. The Third Stage Solid-Fuel Rocket Motor

The CZ-1's third-stage solid-fuel motor (GF-02) was developed by the Solid Rocket Motor Research Academy. Under the supervision of deputy director Yang Nansheng, the design work began in late 1965, and actual development began in April 1967. By January 1970, 19 ground tests had been conducted, which included tests of the rocket in vertical and horizontal

positions, and under simulated high altitude conditions. Since mid-1969, 7 consecutive tests were successfully conducted, and the engine was ready for delivery.

## 3. Rocket Structure

The structure of the "Long March 1" consisted of the following components: the cowling, the third-stage instrument support, the interstage adapter cone for supporting the solid-fuel engine, the telemetry instrument chamber, the control instrument chamber, the four propellant tanks, the two tail sections, the stage separation mechanism, the heat insulation base, as well as pipes, bottles, and automation equipment of the transport system. They were designed by the System Design Department and produced by the SLV Final Assembly Plant.

It was possible to develop a high-standard structure within a few short years primarily because of efforts devoted to materials research, processing technique research, strength theory research, strength testing, and careful design and manufacturing.

### a. Stage Separation and Design of Inter-Stage Structure

The first and second stages of the "Long March 1" used the highly reliable hot separation approach, whereas the second and third stages used the cold separation approach because the third-stage solid engine could be ignited under weightless condition.

With hot separation, the second-stage engine is ignited before first-stage engine cutoff, hence separation is completed before the two stages enter a state of weightlessness. The inter-stage structure is subject to the impact of a high-temperature (approximately 2000 C), high-velocity gas jet, and the control system must ensure that the two stages do not collide in the presence of disturbances. With cold separation, the third stage is separated from the second stage during the long coast phase after second-stage engine cutoff. The third-stage engine is not ignited until after stage separation; hence the separation process is more gentle.

At the end of 1965, wind tunnel tests of the first batch of the inter-stage structures were conducted by the Aerodynamics Research Institute. Between December 1965 and October 1966, three consecutive engine tests were conducted to examine the insulation structure and to select an effective separation mechanism. In May 1967, model tests were conducted in a supersonic wind tunnel to measure the force and pressure distribution on the model in a heated jet stream. On the basis of these tests, the following designs were chosen: a rod type inter-stage flame deflector, a fiberglass protective shield over the front storage tank, and the use of load-bearing explosion bolts for connecting and separating the stages. In addition, the separation sequence was also carefully chosen. As a result of the dedicated research efforts, the separation test during flight succeeded on the first attempt.

b. The Common-Base Storage Tank

The "Long March 1" had a very high fineness ratio of 13:1. It was an extremely important design issue to compress the overall length in order to reduce the flight load and the load on the control system. Therefore, in the second stage design, a common base was used for both the oxidizer tank and the fuel tank. In addition, a cone-shaped rear tank base was used to allow the engine thrust to act directly on the tank body. These two measures resulted in a reduction of the overall length by 2m and the total structural weight by 200kg. However, the "common base" design also raised many new design issues. For example, if the "common base" had a crack or a leak, the mixing of the oxidizer and the fuel would lead to an explosion. To ensure safety, a 6-month-long soaking test and two dynamic strength tests of the "conic base" were conducted. In addition, strict measures were also incorporated in the design to prevent possible operator error.

The development of the new storage tanks not only met the system requirements of the "Long March 1", but also provided valuable experience for future design of rocket storage tanks.

c. Horizontal Ejection of the Cowling

The cowling which protected the third stage and the satellite during flight within the atmosphere was a conical structure. Ground testing showed that the original method of ejection by simply unhooking the structure was unreliable. Therefore, it was decided to use a high-speed horizontal ejection technique which allowed the cowling to separate from the satellite smoothly and swiftly at a velocity of 8 m/sec.

d. Titanium Alloy High Pressure Gas Bottle and Other New Components

Prior to the "Long March 1," gas bottles made of high-strength steel had been used as high-pressure containers. However, for the purpose of weight reduction, a new titanium-alloy gas bottle was developed. With the help of China's metallurgical industry which provided the raw material, and the mechanical industry which provided the expertise in fabricating the gas bottle, the weight of the gas bottle was reduced by one-half. Through the development of the titanium-alloy gas bottle, China had established a team of experts in titanium-alloy fabrication techniques, welding techniques and inspection techniques; it had also promoted the commercial use of titanium alloys.

In addition, other new components such as corrugated compensation pipes with reinforced stainless steel wires, high-precision gas and liquid automation equipment,

liquidometers, high-reliability explosive bolts, and electrically detonated valves were used on the "Long March 1"; also, a set of procedures for fabrication, inspection, and measurement were established to ensure reliable operation.

4. A Unique and Practical Control System

The development of CZ-1's control system (including the attitude control system during the coast phase) was a difficult task. In 1965 when the development work began, China's primitive electronics industry and precision instrument industry only had a small number of products; moreover, their reliability was poor. Nevertheless, researchers and designers at the Control System Research Institute and the Inertial Equipment Research Institute devoted three years of their lives and developed a control system which not only met the requirements but was also compatible with China's economic and technical capabilities. In particular, experts Huang Weilu, Hao Fujian, and Shen Jianan made significant contributions to the development of this key technology.

a. Establishing the Theory of 'Total Compensation' and the Development of 'All Inertial Coupled' Guidance System

Most foreign carrier rockets were controlled either by radio on the ground or by using the coupled compensation method. By the 1960's the United States had extensively used the all inertial platform-computer guidance system. In this country, however, because of its experience in the coupled compensation technique, and because of technical and feasibility considerations, it was decided in May 1966 to adopt the "coupled total compensation" design.

The "coupled compensation" guidance method was used on the Soviet P-2 rocket, but it only made constant-value compensation for a limited number of error sources. In the early 60's, based on perturbation theory used in engineering control design, Lin Jin and Zhong Shaolu of the Control System Research Institute developed the theory of "Total Compensation of External Disturbances in a Variable-Parameter Linear Control System." This development not only facilitated the implementation of single compensation and double compensation guidance techniques, but also provided a solid theoretical foundation for total compensation of various type of flight disturbances. By applying this theory in conjunction with the required lateral and normal steering control, it was possible to significantly improve the guidance accuracy of the "Long March 1".

b. Mastering the Stabilization and Attitude Control Techniques for Multi-Stage Rockets

Because of the long and slender shape of the CZ-1's body, it had the lowest resonance frequency of all Chinese-made rockets at that time. During flight, the liquid in the four storage tanks was subject to a low-frequency

sloshing motion. The interaction between the elastic vibration and the sloshing motion posed a difficult design problem for the stabilization system. By carrying out a large amount of calculations and simulation tests, engineers Jin Zhongji et al of the Control System Research Institute developed an integrated stabilization technique where "phase stabilization" was applied to the first vibration mode and "amplitude stabilization" was applied to the second vibration mode. By using this technique in conjunction with other measures, it was possible to achieve stable flight under a variety of conditions including stage separation.

During the 200-second coast phase between the second-stage and third-stage powered flight, the attitude control system must eliminate any disturbances to provide the necessary attitude condition for third-stage ignition. To accomplish this task for the "Long March 1", the Beijing Electro-Mechanical Research and Design Institute designed a simple and practical attitude control system. It used the inertial equipment of the second stage as the sensing element and a high-pressure nitrogen jet for attitude adjustment. In 1968, the Control System Research Institute applied non-linear control theory to illustrate the effect of turbulent motion of the liquid propellant under weightless conditions on the attitude of the rocket, and developed a mathematical model to solve the theoretical and implementation problem of the control system.

#### c. Mastering Air Bearing Technology To Build a High-Precision Inertial Instrument

An inertial instrument which operates on the gyroscopic principle provides the reference for controlling rocket flight. Its precision depends to a large extent on the quality of the bearings of the gyroscope. Prior to the "Long March 1," the inertial instruments used in this country had always used ball bearings, whose frictional torque could be controlled only to a level of 0.2-0.4g/cm; furthermore, the gyroscopic instruments were also subject to large random drift. If these bearings were supported in a pressurized gas or liquid, then the frictional torque would become more stable and its magnitude would be only 1 percent the value of ball bearings. Therefore, in order to improve the accuracy of flight control, static air bearings were used in new inertial equipment such as floated gyroscopes and floated gyro-accelerometers. However, the fabrication of air bearings must be done with a high degree of precision.

In order to meet the immediate needs of rocket development, a task force was organized by the Inertial Equipment Research Institute and the Inertial Equipment Factory under the direction of senior expert Hao Fujian. After 8 months of hard work, two skilled technicians from the Inertial Equipment Factory, Xing Chuanfu and Zhang Yongtao, developed an air bearing whose dimensions could be controlled to 2 microns. Once the bearing was tested and its precision verified, they wasted no time

in starting production of the suspended three degrees-of-freedom gyroscopes and suspended gyro-accelerometers. With the development of high-precision instruments coupled with advanced software technology (e.g., establishing a mathematical model of gyro drift and applying error isolation and compensation techniques), the quality of inertial instruments in this country took a giant leap forward; its precision was significantly improved over the old ball-bearing gyroscope.

#### d. Transistorization of Electric Circuits

The transition from electron tubes to transistors was a revolution in the electronic industry during the late 50's and early 60's. Although transistor was still in its infant stage when China began to develop the "Long March 1," the designers had recognized its future potential in the aerospace industry and made the bold decision to transistorize all its electric circuits. Transistorization played an important role not only in reducing the weight and volume of the rocket structure, but also in simplifying the system and achieving multi-function capability. But due to the turmoil caused by the cultural revolution, the quality of transistor was unreliable, which led to numerous malfunctions in the control system. For a certain period, this was one of the major problems of the "Long March 1." In order to find a solution to the problem within the tight time constraint, several organizations of the Fourth Ministry of Machine Building, which was responsible for the design and production of transistor devices, coordinated their efforts and overcame many disruptions and unexpected difficulties. Finally, just before the rocket was ready for full-scale testing, they succeeded in producing consistent, top-quality components for incorporation in all the electronic equipment of the "Long March 1".

#### 5. New Flight Monitor System and Safety System

The "Long March 1" was equipped with 3 flight monitor systems and 2 safety self-destruct systems. They were designed to transmit information on the operational status of various on-board systems and on the parameters of rocket motion. If trouble developed during flight, they could be activated by ground command or by a self-destruct command to destroy the rocket in order to ensure the safety of human lives and properties along the rocket flight path.

##### a. High-Capacity Telemetry System

The "Long March 1" had two telemetry systems. The first system, which was located in the second stage, was responsible for measuring flight parameters and transmitting data from lift-off until second-stage/third-stage separation; the second system, which was a smaller system located in the third stage, was responsible for measuring flight parameters and transmitting data from third-stage ignition until third-stage/satellite separation. The heart of the telemetry system—the code transmitter—was developed by the Telemetry Equipment

Research Institute. Some of the more sophisticated sensors such as the liquid-level sensor, were also designed by the Telemetry Equipment Research Institute. Some of the more sophisticated sensors such as the liquid-level sensor, were also designed by the Telemetry Equipment Research Institute and built by the Telemetry Equipment Factory. The transmitting antenna was specially designed by the Antenna Design Office of the Beijing Specialized Electro-Mechanical Research Institute.

Prior to the "Long March 1," the code transmitters used on China's rockets could only transmit a limited number of parameters. They could not transmit the high-volume vibration parameters or the high-precision timing parameters. Therefore, they were unable to meet the increasingly complex requirements of the launch vehicle.

In late 1964, members of the Telemetry Equipment Research Institute began the design of a high-capacity telemetry system. They replaced most of the electron tubes in the original system with transistors; the only exception was the transmitter which still used electron tubes because high-power transistors were not available at that time. The new system used pulse amplitude and pulse code modulation techniques as well as frequency modulation technique; the sample rate was as high as 10 KC, and the information content was increased by more than a factor of 10 over the original system. As a result of the close coordination between the Telemetry Equipment Research Institute and the Telemetry Equipment Factory, it only took 2 years to develop the new system.

By using the high-capacity telemetry system, the number of measured parameters on the "Long March 1" was increased to several hundred. Furthermore, during many integrated rocket tests and flight measurement tests, the telemetry system had fully demonstrated its reliability and accuracy. These achievements were attributed to the careful system design and to the serious attitude of the factory workers.

#### b. Exterior Ballistics Measuring System

In order to measure and display the rocket position and motion parameters, the "Long March 1" was equipped with an exterior ballistics measuring system. It was China's first on-board equipment used for ballistics measurement. The system operated on the Doppler principle. Specifically, it used a CW radar transponder for velocity measurement, and a monopulse radar transponder for measuring range, pitch angle, and azimuth angle. In addition, it also had other equipment such as guidance radar transponder and safety command receiver, etc. All the on-board equipment was developed and built by the No 10 Research Institute of the Fourth Ministry of Machine Building.

The exterior ballistics measurement system used microwave technologies and many electronic high-tech devices such as the klystron oscillator used for temperature

control, and the thyatron used for high-speed, high-current pulse modulation, microwave power oscillators, waveguides, high-frequency connectors, and microwave antennas. The ability to develop these devices was crucial to the successful operation of the system. Within a period of 2 years, these devices were all ready for implementation. In 1968, after passing the circuit test, the environment test and the compatibility test, the entire system was incorporated in the "Long March 1" to take part in the integrated test of the electrical system.

#### c. Safety Self-Destruct System

If trouble developed during flight, there were two mechanisms for initiating self destruction of the "Long March 1." One was the on-board self-destruct system, which could identify any operational or attitude malfunctions and activate the on-board detonator. The other was an external detection system, which could activate the detonator by ground command. The self-destruct system was developed by the Control System Research Institute. The detonator was provided by the Fifth Ministry of Machine Building.

The key requirement for a self-destruct system is high reliability. In order to enhance the counter-jamming capability of the system, an independent power supply was installed. In 1966, self-destruct tests were conducted on the ground to verify the effectiveness of the system.

The self-destruct system of the "Long March 1" was also used during flight to destroy the first and second stages after their mission had been completed. This precautionary measure ensured the safety of China's residents on the mainland as well as ocean ships along the flight path.

### Section III. Heading for Space

During the year and one-half period between the Fall of 1968 and Spring of 1970, the "Long March 1" was undergoing integrated tests and full-scale ground tests as part of the readiness process to launch China's first satellite.

In December 1967, a decision was made on the final configuration of the satellite: weight—approximately 170 kg, diameter—1 m. The SLV's task was to place it in a 70 degree-inclination orbit with perigee greater than 100 km. Although the "Long March 1" and its subsystems were designed to satisfy this requirement with ample margin, members of the development team were concerned about the adverse effect of the "cultural revolution" on the delivery schedule and the product quality.

According to plan, prior to launch each stage of the SLV would be tested; also, an integrated training exercise at the launch site and a short flight test would be conducted. These procedures were part of the readiness process of the "Long March 1" for satellite launch. Unfortunately that was the time when Lin Biao and the "Gang of

Four" were dominating the political scene in China; many project managers and party officials were accused of crimes that were totally unfounded, and their work became very difficult. However, driven by their deep sense of responsibility, they ignored the disruptions and concentrated their energies on the technical problems; as a result, development work continued to move forward.

In the Fall of 1968, all the parts began to converge from four corners of the country toward the assembly plant. Before final assembly, the dimensions of all the system were verified on a backup of the SLV, thus eliminating any major problems during assembly. Because of the complexity of the control system and other electrical systems, the test personnel took special care in ensuring that every doubt was removed and every obstacle was eliminated before the rocket was released. In the Winter of 1968, the first two-stage liquid-propellant rocket completed its assembly and test, and was delivered to the test station. At this point, the "Long March 1" entered the phase of outdoor testing.

Prior to satellite launch, the "Long March 1" must undergo four separate engine tests under full-thrust conditions: first/second stage test, second stage test, second/third stage test, and third stage test. The objectives of these tests were twofold: (1) to verify the compatibility of various system operations; (2) to test the on-board instruments under overload conditions provided by the more severe dynamic environment on the ground. Therefore, this was a critical step in the attempt to enhance the probability of success of the "Long March 1" SLV. In May 1969, the first/second stage test was completed in 8 long days; 2 weeks later, the second stage test was completed. Subsequently, the second/third stage test and the third stage test were also completed. During these tests, most systems on the "Long March 1" were verified to perform according to specifications; however, a deficiency in the design of the gyro instrument was discovered, and corrective measures were taken to eliminate the problem prior to launch.

In July 1969, the "Long March 1" entered into the final assembly phase. Following the instructions of Premier Zhou Enlai, the names of 3,456 people from 29 different organizations who directly participated in the design, production and testing were recorded and submitted to the Premier's Office in an effort to assign responsibilities and to ensure product quality. Also, in order to avoid possible bureaucratic delays in the research and production of the "Long March 1," a special directive was issued by the Central Government. Anyone who had this "pass" in his possession could be certain to obtain

assistance from any organization in the bureaucratic structure. This provided a strong assurance that the development work would progress smoothly in the chaotic environment of that time.

In January 1970 prior to the official launch date, a flight test was conducted on the first and second stages of the "Long March 1," during which both stage separation and high-altitude ignition were successfully demonstrated. Telemetry data showed that the coast attitude of the SLV under weightless conditions was completely normal. The results of this flight test verified that the first and second stages of the "Long March 1" met the design requirements and were ready for the satellite launch mission.

On 5 February 1970, the CZ-1 which had been tested was released from the factory, and the preparation work for launching the "Dong Fang Hong 1" was essentially complete.

In conjunction with preparations for the first/second stage flight test, workers in the final assembly plant were racing to deliver the first SLV on time. On 26 March 1970, the SLV was released from the plant. Premier Zhou Enlai sent a special message to everyone pointing out that the job had not yet been finished; careful work must be continued to guard against any possible difficulty, and to uncover any possible oversight. At the same time, he praised the workers for their craftsmanship and for their contribution to the country.

In early April 1970, the "Long March 1" was delivered to the launch site for final check-out and test. On 17 April, the "Long March 1" and the "Dong Fang Hong 1" were erected in the launch tower. On the launch field, everything was progressing strictly according to plan. On 23 April, the check-out was completed, and the support tower was removed; only the rocket and the umbilical tower remained on the field.

At 2135, 24 April 1970, the ignition command was issued. The flame from the rocket engine lit up the night sky, and the SLV raced toward the southeast. Ten minutes later, orbit injection had been verified. Through a telescope, one could clearly see the satellite and the orbiting third stage.

The successful development of the "Long March 1" was particularly significant because it opened a new book on China's aerospace activities. As China's first space launch vehicle, it would undoubtedly be recorded in the history books.

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## EAST REGION

### **Qingdao Party Secretary Discusses Party-State Separation**

40050166a Beijing BANYUETAN [SEMIMONTHLY TALKS] in Chinese No 2, 1988 pp 28-29

[Article by Wang Deyan [3769 1795 5333]: "Party Secretary of Qingdao Municipality Discusses Separation of Party and Government Administration"]

[Text] One morning, early this winter, this reporter interviewed Liu Peng [0491 7720], municipal party secretary, in the conference room of the Qingdao municipal party branch, facing the sea, asking him to talk to me about his understanding of the separation of party and government administration. At the time of the interview, Liu Peng had just come from the fourth discussion he has had with basic-level cadres and the masses on the matter of separation of party and government. He was well acquainted with the people's way of thinking and clearly understood the spirit of the 13th CPC National Congress, therefore spoke with fervor and assurance once the topic was mentioned to him.

"Separation of party and government is part of the trend of the time and in line with the desire of the people; it had to be carried out. It was absolutely necessary to bring about a change in the old system of working without a separation of party and government." Liu Peng directly replied to this reporter's question and came straight to the point by making his views known. After talking further on some of the principles, he quickly turned the topic of conversation to the ideological reflections among cadres and the masses. He said: "Some people worry whether separation of party and government will result in weakening party guidance? Whether it will adversely affect the position of the ruling party? Of course it will not. The party is a political organization, and party leadership is political leadership. After separating party from government, the party organization will have more time and energy to study how the ruling party, under the conditions of the ongoing modernizations, can better perform as governing party. If there would be no separation of party and government, the party would neglect its party functions and take on specific tasks, work as an administrative department, and take on functions of mass organizations, how could the party then be in a position to provide leadership in the modernizations? How would the party be able to guarantee implementation of the political line, principles, and policies?"

In several of his dialogs, Comrade Liu Peng discovered that people differed in their understanding of the meaning of separation of party from government. Some believe that separation of party and government means that the party secretaries and members of the party standing committees may not concurrently serve as administrative heads in governments; some believe instituting separation of party and government means that

the party no more participate in the development of the political power of the state, etc., etc. Directing his attention to these questions, Liu Peng clearly elaborated that the justified purpose for separating party from government is to separate the functions of party and government. He said: "This is a major reform of the leadership structure of our party. Separation of party and government must be accomplished in a well guided, step by step manner at all the various levels, in the central authority, as also in the local and basic levels. If we can accomplish this reform, separating the functions of party and government, having matters attended to by whoever should attend to them, the higher authorities not to arrogate to themselves things the lower levels should do, the party not to arrogate to itself administrative government matters, but each, the party, the government, and the mass organizations, doing their own business, but all working to uphold one center, forming two basic elements, to build up a socialism with Chinese characteristics."

Turning from the "centralized" leadership, that had repeatedly been emphasized in the past, to the function of supervising and guarantor of political affairs, that is indeed a big turn. How is the municipal party secretary intending to guide cadres in effectively making this turn? Comrade Liu Peng said: "Party and government cadres must work hand in hand, create an atmosphere of solidarity and harmony, so as to accomplish the turn successfully. It is not only the party secretaries who have to make the turn, administrative leadership and factory directors too will have to face the problem of making the change. After instituting the system of factory director responsibility, factory directors will have to strive not only for material civilization, but at the same time also for spiritual civilization, to mobilize the initiative of their people, and care about the two civilizations, just like carrying two baskets on one shoulder pole, shouldering a comprehensive responsibility for the whole enterprise. That load is much heavier than before, responsibility is greater, and demands are higher. The change imposes even higher demands on the party secretaries. The change in their position from "centralized" central leadership to functions of political supervisors and guarantors makes higher demands on the ideological level, spiritual state, and work performance of party secretaries and cadres. Both party cadres and government cadres are therefore faced with the problem of improving their qualifications."

At that point, Comrade Liu Peng said that during his discussions many comrades reported that some political cadres are worried and in an anxious state of mind. Some believe that after separation of party and government they will have nothing to do in future, they foresee a bleak future, feel reduced to lower rank, and are therefore very depressed. This is all unnecessary, and merely due to a lack of true understanding of the separation of party and government. He said: "Separation of party from government does not aim in any way at these people, the way that the party was acting as government

had its historical reasons, nobody is to blame for that. But things are changed now, tasks have changed, so that naturally the leadership structure too had to change. During one of my discussions with party secretaries in enterprises, the party secretary in a chemical plant said, reform of the political structure is a demand of the time, separation of party from government is the result of historical progress. As political cadres we should be happy about it, there is nothing to feel depressed about. I agree with this viewpoint. Actually, a large number of political cadres were also dissatisfied with the state of things when party and government were not separated. The political cadres should feel reassured and take people's comments to heart. In years past, political cadres have done much effective work, and their achievements must be acknowledged. We must not blindly belittle ourselves, but must maintain self-esteem, self-respect, and conduct ourselves with dignity."

The hour hand was exactly on 12, when Comrade Liu Peng still seemed to want to go on with great enthusiasm. He ended by expressing, on behalf of Qingdao's 6,330,000 inhabitants, Qingdao's determination to start the new year from a new starting point, and do further good work in new contributions toward reform and opening up.

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### CENTRAL-SOUTH REGION

#### Guangdong Party Official Discusses New Ideas on Ideology, Culture

40050162 *Guangzhou KAITUOZHE [PIONEER]* in Chinese No 1, 1988 pp 4-5

[Interview with Fang Bao, member of the standing committee of the Guangdong Provincial CPC Committee, by reporter Liu Linsong [0491 2651 2646] of KAITUOZHE: "We Cannot Return To The State Of Isolation Of The Past;" date of interview not given]

[Text] Interviewed by this reporter in his office, Fang Bao [2455 5383], standing committee member of the Guangdong Provincial CPC Committee who recently returned to Guangzhou after attending the 13th National Party Congress, discussed at length his new ideas regarding some ideological and cultural issues.

What prompted the discourse was this passage in the report to the 13th Party Congress: "We cannot go back to the isolated state of the past when people were prohibited from coming in touch with all sorts of ideological trends and certainly cannot insulate people from all manner of ideological understanding issues that arise in the course of construction and reform."

Comrade Fang Bao said, "This passage refers specifically to the party's propaganda work and ideological and political work. It lays bare the difficulty and complexity of such work in the new historic era of reform, opening to

the outside world, and economic vitalization. The economic base determines the superstructure. If we are to open up our economy, we cannot possibly keep ideology and culture under lock and key. Besides, cultural and ideological exchange between China and the world would help promote our economy. Owing to the global market created by big industries, bringing all nations closer together, not a single country can isolate itself from the world today. Economics has long transcended national boundaries, and so have ideology and culture. Modern Chinese history shows that it is very foolish to isolate oneself and refuse to introduce and absorb the best of foreign ideology and culture out of parochial arrogance, complacency, and conservatism. That way we will only put ourselves in a backward and vulnerable position. As the policy of opening to the outside world was established and implemented following the 3d Plenum of the 11th CPC Central Committee, not only has our economy formed direct ties with the world market, but the stage has also been set for Sino-foreign cultural exchange. Judging by our province's 9-year experience, not only has the development of social productive forces been stimulated, but narrow concepts of small-scale farming and feudal stratification have also been effectively removed from people's minds. We have cultivated among the people a sense of time, a sense of efficiency, a drive to forge ahead, and a pioneering enterprising spirit. The report to the 13th Party Congress stresses that we cannot return to the isolated state of the past. This isolated state can be said to have reached its peak during the 10-year Cultural Revolution. During that time, all traditional culture, good and bad, was considered feudal trash and subject to criticism with no exception. All foreign culture was dismissed as bourgeois stuff and rejected indiscriminately. All intellectuals who studied national culture and foreign culture were branded as 'monsters and demons' and tortured. All issues of ideological understanding that arose in the course of building up socialism were dismissed as the mischief of the idea of 'private.' Ideologically, we were confined in a rigid straitjacket. Only after the 3d Plenum of the 11th CPC Central Committee did we manage to bring order out of chaos and put an end to this situation brought on by the ultra-leftist line where '10,000 horses stood muted.' It would clearly be a historical regression for our society to go back to that state of isolation. The people would never let us do that."

"Having said that, it must be pointed out that there is no consensus on such issues as opening to the outside world and Sino-foreign cultural exchange," comrade Fang Bao continued. "A few years ago, some of our comrades saw a number of weak-willed individuals succumb to the corrosive influence of decadent bourgeois ideas and way of life. They also noticed the variety of problems that cropped up in the social cultural market, so they became skeptical about the policy of opening to the outside world and Sino-foreign cultural exchange. For a while everybody was discussing this matter and it was difficult to decide who was right. What to do? Should we keep going and stick to the policy of opening to the outside

world? Or should we step on the brakes and return to the state of isolation? The Guangdong Provincial CPC Committee chose the former. First, Comrade Ren Zhongyi [0117 0112 1138] put forward the principle of 'rejecting pollution but not things foreign.' Meanwhile, the Guangdong Provincial CPC Committee decided on the principle of 'promoting the beneficial, permitting the harmless, resisting the harmful, and cracking down on crime.' Practice has proved that the provincial committee's decision was entirely right. It adhered to the policy of opening to the outside world as well as the four cardinal principles. It upheld the unity of the two."

At this point, this reporter suddenly recalled Fang Bao's definition of the committee's principle he gave at a meeting. The "beneficial" mainly refers to superior culture that is healthy, uplifting, and inspiring, that moves us to devote ourselves courageously to the great cause of the four modernizations. What is "beneficial" should be introduced into China vigorously. The "harmless" essentially refers to culture, arts, and other spiritual products that are harmless in terms of subject-matter and provide entertainment for the enjoyment of the masses. The "harmful" refers to spiritual products that are rife with all kinds of decadent, declining ideas of the bourgeoisie and other exploiting classes, with distrust of socialism, communism, and the leadership of the communist party. They should be resisted strenuously. "Criminal" refers to pornographic, obscene, and reactionary things that induce people to commit crimes and break the law of the land.

When the reporter brought up his above-mentioned viewpoint, Fang Bao emphasized, "The main thing about the principle of 'promoting the beneficial, permitting the harmless, resisting the harmful, and cracking down on crime' is that we must have exact standards to tell right from wrong. I think the main criterion is whether or not something is consistent with the basic line of the initial stage of socialism—the idea of having one center and two basic points and its requirements. Given the reality in the social cultural market, I think we should consider four things: First, does it help the development of social productive forces? Second, does it contribute to the healthy nurturing of new people with the four haves (ideals, morality, culture, and discipline)? Third, does it help generate a coalescing and centripetal force for the party and the construction of socialism with Chinese characteristics? Fourth, would it help meet the ever-rising needs of the masses for cultural life? If yes, we should introduce and promote it. Otherwise, we should resist it."

Fang Bao said, "Guangdong adjoins Hong Kong and Macao and is at the forefront of opening to the outside world. The CPC Central Committee demands that we serve as a 'window' and 'radiator' as well as resisting the corrosion of decadent bourgeois ideas. In reality, the corrosion is objectively existent and is ongoing. Once the door is opened to the outside world, it lets in fresh air and provides yet another channel for the spread of

decadent bourgeois ideas and way of life and other 'harmful culture.' But we cannot therefore close the door again because of them. Instead, we should make the struggle against corrosive ideas permeate the entire process of reform and opening to the outside world. If we cannot stop people from coming into contact with all kinds of wrong ideas, we must do a good job in guiding them. By guiding, we mean using conversation, discussion, criticism, comparison, role-playing, education by persuasion, systematic and skillful teaching, and other methods to show the people how to distinguish properly between good and bad foreign spiritual products and enhance their discriminating ability, resistance power, and immunity. In recent years, the theoretical and publishing communities have translated a host of Western philosophy texts and other books. Western philosophical viewpoints, literary and artistic theories, and moral ethical standards have spread far and wide among some university students. At a time when we are opening to the outside world, it is impossible to isolate young students ideologically and prevent them from coming into contact with Western philosophical viewpoints and artistic and literary theories and works. The point is that even as they bring in these books, our theoretical and publishing communities should analyze and evaluate their contents honestly and persuasively in a conscientious and timely manner. On the university rostrum, university teachers also should analyze and criticize the erroneous and harmful viewpoints in foreign culture in simple terms in order to improve their students' discriminating and resistance power. However, our work in this area has been very inadequate in recent years. As a result, some bourgeois philosophies, such as subjective idealism, individualism, and absolute freedom and democracy, have been imperceptibly corrupting certain young people. The situation has gotten better due to the positive education of the anti-bourgeois liberalization campaign, but there is still a need to step up our work in this field in the future."

Fang Bao believes that judging by the demands of the developing situation, we are still in an early stage as far as learning and absorbing advanced foreign science and culture is concerned. Not enough has been done. Particularly when it comes to absorbing and assimilating advanced foreign science and culture and useful culture, we need to make a much greater effort. He said, "The CPC Central Committee recently demanded that Guangdong move one step ahead of others in reform and opening to the outside world, which makes new demands on our efforts to absorb useful foreign culture. We notice that because leftist ideological influences have not been totally eradicated and old ideas and habits die hard, the introduction of useful foreign culture still encounters many ideological barriers. Certain conservative, obsolete, and rigid concepts still exist in Sino-foreign ideological and cultural exchange. Take performing arts, for instance. Some comrades look askance at the healthy, useful, and harmless things we have brought in from abroad just because their forms and techniques of artistic expression are at variance with Chinese tradition.

This shows that there is still a continuing need to liberate ideas and seek truth from facts."

Asked how propaganda work can be improved in the future, Comrade Fang Bao said, "It can be summed up in two points. First, go all out to publicize the spirit of the 13th Party Congress, the policy of reform and opening to the outside world, and the theory and basic line of the initial stage of socialism. Second, reform propaganda work itself. We need to discard those empty, dull, and rigid methods and do our best to make it lively and interesting so that it goes deep into people's minds." He also had a word for Guangdong's theoretical workers: They should study Marxism in light of China's conditions, at the same time paying attention to foreign ideological and cultural studies. He said, "This is the time for theoretical workers to shine. The old era of allowing just one voice and banning discussions featuring different viewpoints is now gone. The 13th Party Congress discussed the theory of the initial stage of socialism in depth systematically. The theory is a crystallization of the collective wisdom of the party and the people and a contribution to the treasure-trove of Marxist theory. The theory went through a formative process.

It embodies Comrade Deng Xiaoping's thought as reflected in a string of important CPC Central Committee documents and incorporates the contributions of the broad mass of theoretical workers, including those in Guangdong. One of the responsibilities of theoretical workers today is to expound, prove, and publicize this theory by melding it with practical experiences from all localities. We should also see that Marxism is not a closed system set in stone. It grew out of absorbing all the outstanding scientific and cultural achievements of mankind. If it is to grow, it must continue to absorb all new outstanding scientific and cultural achievements. Thus our theoretical workers must work hard to disseminate the scientific spirit and creative ability of Marxism and propagate a style of learning that is pragmatic and integrates theory with practice. Even as they step up theoretical research on reform and opening to the outside world, they should intensify the research of foreign ideology and culture, discarding the dross and selecting the essence for our use, and advance Marxist theoretical research."

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