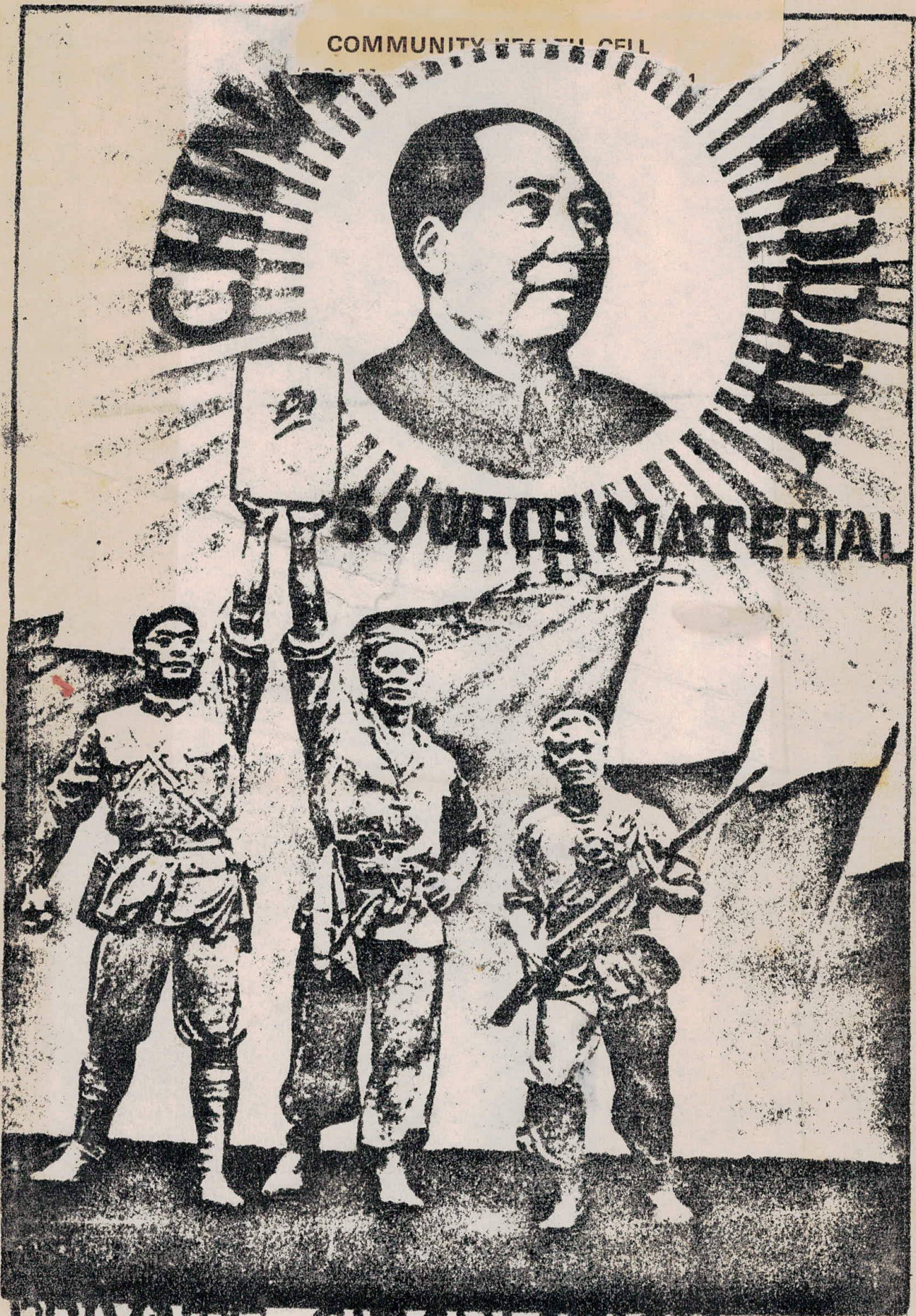


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VOLUME - I



## INTRODUCTION

What is happening in China today ? After years of an ardent revolutionary zeal under the leadership of Mao that has galvanized large masses of people, both inside China and outside, and filled up many desperate hearts with new hopes, is China today falling back to the "capitalist path" of development, tired, unable to sustain any longer its extraordinary revolutionary effort towards a socialist society ? Or is China just engaged in a planned process of "readjustment" of its social system -- readjustment that would be dictated by "realism" and an aptitude to "learn from mistakes" . In such a case, what we would then witness today would be the struggle of Chinese society to find its own way towards a "Chinese socialism" that keeps into account the long legacy of its own history and own genius as well as the demands of a world environment marked by the fast development of new technologies whose impact on societies -- both capitalist and socialist societies -- remains still very uncertain.

"On the good earth of China there has emerged a reformist tide which is the trend of history with an irresistible force", comments the "People's Daily". The same paper authoritatively observes : "For a considerable period our socialist constructions have been subject to the influence of a foreign model in both the ways of planning and the administration and management systems. The models have been a failure on many issues, and is unsuitable for our national conditions".

Commenting on this, Tan Chung observes " This and many other pronouncements of the present Chinese leadership have made it clear that they are leading the country away from the earlier apparently Maoist but substantially Soviet Pattern of Development with a conscientious effort to awaken the individual wisdom and initiative which China was famous for, but had hibernated in a number of chilly winters". ( )

Whether and how far China under Mao's leadership followed the Soviet pattern of development will be enquired into by some of the documents included in this file. But certainly, a conscious and planned departure from some of the basic policies of Mao is observable. Nowhere is this departure more visible than in the process of "de-collectivization" of the communes. In the last five years many villages have partially or totally given up the "Danzhai " model of

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(1) Quoted by Tang Chung, "Winds of Reforms in China" , in "Indian Express" , 28/3/83, p. 8

(2) Tang Chung, Ibid.



development -- for several decades presented as "the" model to be emulated -- in favour of the responsibility system, which directly links a peasant's income with his production. Under the 'responsible' mode of production, a Chinese farmer or his family now plays the master's role in his or their productivity within the broad framework of collective ownership of land and other immovable properties. Now, in a number of places, each family is to be paid according to its contribution to production. Though the farmers will have to sell a substantial part of their produce to the State at controlled prices, the levy quota is claimed to have been reduced by about 20 per cent. But the cultivators can now sell their surplus produce in free markets at profitable prices. Also more land has been diverted from collectives to individual farmers, raising production of private plots in the total cultivated area from 7 to 15 per cent (1)

In Industry too, one witnesses far reaching "reforms". Heavy industry in China in the past suffered from outdated technology, lack of managerial skills and extremely poor utilisation energy consuming nearly three times as much power as the average of other developing countries. An estimated 23 per cent of China's state-owned factories have been operating at a loss. To rectify the situation a system of reward and punishment has been instituted. While increased output and energy efficiency will be rewarded by bonus and other benefits, failures will invite economic penalties for the managements and workers alike. The present Chinese leadership seems to have seen in the responsibility systems a remedy for "social parasitism". This problem was not -- and is not -- easy to solve. It is complicated by the fact that within the system, so far, every one working in a factory or a shop or a public utility corporation or a Government agency is essentially an employee of the state which theoretically belongs to all-people ownership category. Whether the employee works or not, performs or not, produces or not, it is immoral for a socialist state to deny -- means of livelihood to any member who is, in theory an owner of the state. The malady of this system has been given nicknames by the present Chinese leadership as "mess food" and "unbreakable bowl". As the people's Daily editorial of Jan. 27, 1983 describes, in every state-owned enterprise there is a "mess" which feeds individual parasites. And the State itself is a bigger "mess" which feeds "parasitic enterprises". With the existence of these two messes there is no hope for China to achieve modernisation and prosperity. (2)

At the same time, China is resorting to large-scale plant purchases from abroad in key areas like petrochemicals, steel, power and communi-

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- (1) Satyendra Tripathi, "China's modernizing leap", Indian Express 6/8.81 p. 8  
 (2) See Ten Chung, "Winds of reforms" in Indian Express 28/3/83, p. 8



cation equipment.

However, the main aim of the Chinese Industrial policy at present is rapid increase in production of light engineering and consumer goods. Substantially higher outlays, less political interference, decentralization of decision making, a liberal policy for import of machinery have created a favourable climate for expansion of these sectors. As a result the output of light engineering goods increased by 18 per cent compared the 1.4 per cent in heavy industry (1)

From what has been said so far one should not infer that China has sold itself to the capitalist path of development. Market is allowed to work but only at the margin of an almost totally socialised system. At the same time as Government pursues its policies of modernization of an "open door" to the West, it is tightening the clamps once more over artistic and intellectual freedom. This is evident, for instance, in the case of the workers of Shenzhen, the largest of China's "special Economic Zone". For years, China tried to wall off its people from the social evils of Hong-Kong by stationing soldier along the fence that separates the British Colony from Shenzhen. Now Beijing plans to spend \$ 70 million to erect high barbed-wire fence around Shenzhen to prevent Chinese living outside the special zone from entering the town. Actually, Shenzhen's 160,000 residents are just becoming a privileged class with higher salaries and greater personal liberty than Chinese elsewhere. However, out of concern for the social problems of Shenzhen the Government has established a special office for the cultivation of spiritual civilization, which intends to inculcate socialist values through educational programs and a few rules.

China today wants to become a modern industrial country to achieve higher standards of material prosperity and close the technological gap with the West. At the same time, the present leadership wants to preserve tight control for safeguarding the integrity of the Chinese culture and the distinctively Chinese version of socialism. This very process raises a few questions : Can one free an economy without at the same time freeing a people ? How can one open a country's door without at the same time opening its citizens' mind ? These, in fact, are not new questions in the history of China with its long tradition of mistrust of the outsider, based, in modern times, on the painful experience of the destructive invasion of the colonialist.

Speaking to a group of Indian Journalists, Premier Zhao Ziyang admitted that China made three mistakes in the past - failure to shift in

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(1) Satyandra Tripathi "China's modernization leap", in Indian Express, 6/8/81 p. 8.



good time to economic construction, error of being overanxious for quick results in economic fields and over emphasis on class struggle. He added " In the political field we failed to shift in good time the focus of our work to socialist economic construction after socialist transformation ownership was completed in the main. We over-emphasized class struggle which led to frequent political movement ...As regards the economic field we once committed the error of being over-anxious for quick results. We often called for what was beyond our actual capacities. This led to economic imbalance and poor results. ....Consequently, people benefited very little from their work. We will continue to follow the policies of developing our national economy in a steady preactical and sure way " (1)

Some have seen all these problems in the light of what they have called the "three endemic conflicts of principles in the People's Republic of China : the conflict between ideological and material motivation ; the conflict between centralization and decentralization; and the conflict between the total self reliance and borrowed technology and capital" (2). According to this view today's China under the new leadership has settled the argument, for the time being, in favour of material incentive, decentralization and borrowed technology and resources.

This , however, is probably a very simplified understanding of events in today's China. One will find in the present file analysis that go beyond it. What takes place in China today is the expression of a very complex process in which many forces are at work. It is an extraordinary creative process. It is a refusal to be imprisoned within any ready made ideology, imported from outside. It is the determination of a people to engage into a creative process that builds upon the past, sensitive to its own history, and enters into the new but still uncertain world of revolutionizing technologies. Behind it there is a all philosophy of man and history, implied but not yet fully explicated.

It is in order to explore this new and complex process that we have brought out this file. This process is of critical importance for mankind. Out of it are emerging new concepts and new visions that are likely to exert deep influence on further development of societies, chiefly of socialist countries. It will affect all the third world countries and more specially the Asian countries.

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(1) Interview given by Zhao Ziyang to G.K. Reddi, from the "Hindu" and reported also in the Indian Express 1/10/83 p. 8

(2) S.N. Chopra, "Work Wages and incentives, , Indian Express 2/12.80 p. 8



For this exploration we have divided our documentation into six sections.

In the first section we have given an overview of today's transformations in China. The second section, by far the most important in volume as well as in content, deals with the economy of China, the successive attempts at altering its direction, along with the ideological thrusts that have characterised each of those attempts. However, the new orientation in the Economic policy of China is also and obviously linked with new political thrusts. This is the object of the third section.

In order to sustain the new orientation at the economic and political levels, new thrusts at the <sup>cultural and</sup> educational levels are also developing. This has been examined in the fourth section

China's foreign policy is part of the overall thrust of its general policy. It is examined in the fifth section

A concluding section (section vi) has been added that compares the processes of development in India and in China

Among the documents that are reproduced, some have been condensed and edited. Major official documents however have been reproduced integrally.

Some of the documents are of an analytical nature and they represent different ideological thrusts. It is for the reader to form his own judgement.

Other documents are of a propaganda nature. They have been reproduced to acquaint the reader with the general "ideological atmosphere prevailing in China under the new leadership.

This file grew in size as we proceeded in our work. It is presented in two volumes. At a later date we do not exclude the possibility of adding a third volume .... that would look at China from the point of view of the inner and theoretical crisis that affects the Marxist world today.

As it is, with all its limitations, we hope that this documentation will be of use to all those who have at heart the development taking place in socialist societies.

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## V O L U M E I : POST MAO CHINA'S ECONOMIC POLICY

An overview of today's transformation  
in China.

## 1. AN INCENTIVE SOCIALISM

Source = Far Eastern Economic Review, April 28/1983  
pp. 40 - 44

By David Bonavia

Source = Far Eastern Economic Review, April 28/83  
pp. 52-53

By V.G. Kulkarni

Source = Far Eastern Economic Review, April 28/83  
pp. 50 - 51

By V.G. Kulkarni

Source = Far Eastern Economic Review, April 28/83  
pp. 44 -49

The emerging leadership

Source = China Report, July - August 1983  
pp. 3 - 9

Source = "South", December/1983  
p. 20

- Some more specific aspects

By Peter Van Ness and Satish Raichur

Source = Bulletin of concerned Asian Scholars  
Vol. XV, No 1, 1983 ,pp. 2 - 15  
(Condensed and edited by our Centre)



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A report presented by Zhao Zyang, Premier of the State Council, during the fifth national session of the National People's Congress, Nov 30/81	
Source = Beijing Review, December 21/81 (Condensed and edited)	
3. <u>ADDENDUM TO CHINA'S SOCIALIST ECONOMY</u>	50
A policy document. Clarification by Xue Muqiao, a leading Chinese Economist, to his widely circulated book, "China's Socialist Economy".	
Source = Beijing Review, Dec.7/81 pp. 14-16	
4. <u>REPORT OF THE READJUSTMENT OF THE 1981 NATIONAL ECONOMIC PLAN AND STATE REVENUE AND EXPENDITURE</u>	58
Presented by Yao Yilin, Vice Premier and Minister in charge of the State Planning Commission, at the 17th meeting of the Standing Committee of the fifth National People's Congress.	
Source = Beijing Review, March 16/81, p. 14 to 27	
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9. <u>SHANGHAI LEADS IN MODERNIZATION</u>	96
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 Source = Beijing Review, March 16/1981 pp.3-4
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 Source = Beijing Review, January 19/ 1981 pp.19-22
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 Source = Beijing Review, August 24/1981 pp.21-26

C) Concluding article of economic section

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 By Edmund Lee, Political Economist from China now studying  
 in the United States.  
 The "Ten Year Plan" and its failure. Nature and limits  
 of Economic reforms. Future developments in China's  
 Political Economy

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## SECTION I = AN INTRODUCTION TO TODAY'S CHINA

This section presents a general survey of some of the basic issues confronting socialist China in its process of modernization. The words "adjustment" and "reforms" are occurring again and again. What is at stake is a basic understanding of the direction which Chinese society should take. At stake are the "reform" of China's economy as well as the relations of production. Some of the policies initiated by Mao are being questioned and new policies are introduced that seem to revert some of the processes set in motion under Mao's leadership.

Articles in this section therefore describe some of the most significant new processes initiated in China after Mao's death by the new leadership. This material is mainly taken from the Far Eastern Economic Review, and this should be kept in mind while reading through the pages of this section

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"Along with a transformation of economic institutions, Post Mao China, it would seem, is engaged in a radical transformation of its political institutions in which democratic participation is extended to various sections of Chinese society" ( Our file, page 15)



Among many leftist circles it is customary to look at population control as a gimmick in the hands of capitalists to evade the basic transformation of society that is needed to solve the problem of massive poverty. This is certainly an oversimplified view of the question. The Chinese have been more realistic and family planning has been an integral part of the overall planning of their society. This article explores the success of the Chinese policy in this respect.

The United Nations recently gave an award to Qian Xinzhang, China's family planning minister, for outstanding services to his country's population-control programme. Qian shared the award with Indian Prime Minister Indira Gandhi, whose country also has a massive over-population problem. However, this is one award on whose laurels Qian - and for that matter Mrs. Gandhi -- cannot afford to rest, for the crucial battle to control China's burgeoning billion has only just begun.

Peking stated goal is to limit its population to 1.2 billion by the end of the century, up only 20% from the slightly in excess of 1 billion recorded by last year's census. An additional 200 millions people over the next 18 years translates into an annual growth rate of less than 9.5 per 1,000, compared with a 1981 growth rate of 14.55 per 1,000. In other words, it amounts to almost halving China's birth rate. Whether the country can achieve this decidedly ambitious goal is a matter of intense debate among the world's demographic experts.

Until last year, the size of China's population was only being guessed at by demographers. The country had not conducted a census since 1964; selective statistics had been published for some years, but had remained incomplete, and disparate statements by Chinese leaders, rounding off figures in the hundreds of millions, only added to the speculation over China's true population. Last July's census--results of which were published in October--recorded the total population at 1.008 billion. However, the extremely low rate of error claimed by the census takers - a net error of 0.15 per 1,000 - raised some eyebrows among Western demographers.

By way of comparison, the error rates--due to non-declaration--in the censuses of other countries are: Pakistan, 63 per 1,000; Malaysia 40; India, 17; the United States, 25; and Japan, nine for Urban areas and five for the countryside. Dismissing the doubts raised by foreign observers, Li Chengrui, director of the State statistical Bureau, wrote in December that China's census had been thorough and that its exceptionally low rate of error was justified. Li even claimed to foreign visitors that Western demographers were welcome to check detailed calculations. While the rate of error may be of real interest only to academics, it should be pointed out that, given the size of China's current population, even a tiny error translates into a huge number of people.

In any event, China can claim success for its population-control programme of the 1970s. The rate of natural increase--birth minus death--halved from 23.4 per 1,000 in 1971 to 11.7 in 1979, though it edged up to 14.55 two years later. The question is whether the performance of the 1970s can be repeated for the next two decades or so. Here, one confronts the problem of the increase in absolute numbers, even though the growth rate declines. For instance, the rate of natural increase declined by almost half from 20.32 per 1,000 in 1955 to 11.7 in 1979, but the population still increased by 12.33 million and 12.83 million, respectively for those years.



Another factor affecting China's population outlook will be the impact of two baby booms experienced in 1955-57 and 1963-71 when some 230 million children were born. These and many millions more born in the first half of the 1970s will be producing their own children for the coming two decades at least. According to the China Daily, some 13 million young couples will be reaching marriageable age every year up to 2000. Even if each of these couples produces just one child, as the planners hope, China's population would shoot beyond the 1.2 billion target for the end of the century.

The after-effects of the two baby booms are expected to be such that no significant reduction in the population growth rate can be expected in the 1980s, wrote demographer Hou Wenruo in the Beijing Review. And even if family planning measures are "fairly successful", 19 million new births can be expected annually for the rest of this decade, the PEOPLE'S DAILY predicted.

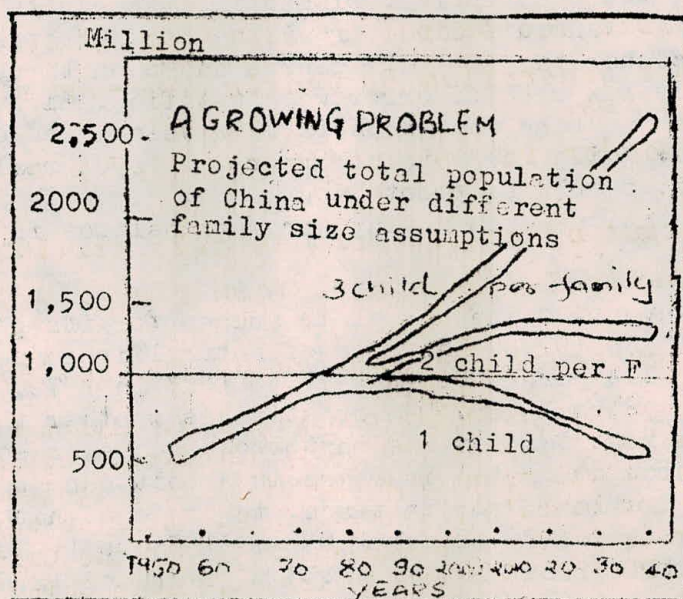
The success of birth control depends mainly on the fertility pattern of women in a society. Later last year China carried out a major fertility survey - the largest of its kind in the world - involving 1 million women. The results of the survey were heartening in that they suggested the fertility rate of Chinese women dropped from 5.8 children per woman in 1971 to 2.63 in 1981. While the drop in fecundity was commendable, it should be noted that in 1971 the Chinese emphasis on planned parenthood had barely begun and 10 years later only the daughters of the early years of the first baby boom were reaching marriageable age. With the onrush of millions of young married women for the rest of the century, it is doubtful if the fertility rate can be further significantly reduced.

While rates of natural increase have been reduced - especially in the cities - rate in rural areas remain 50% higher than in urban areas. If this differential continues, and there are scant signs to the contrary, the average Chinese family could be nearer the present two-child norm than the one-child target.

Chinese leaders seem to be well aware of such a possibility, conceding that the task of population control - urgent as it is - will remain an uphill one. Liang Jimin of the state Family Planning Commission explained to the REVIEW: "if we fail (in the task of population control), China's population could be 1.3 billion by the end of the century, and the growth could last for some 70 years (from now) and stabilise in 2050 at 1.8 billion".

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SOURCE: Far Eastern Economic Review, April 28, 1983. pp.50-51  
by V.G. Kulkarni.





private enterprise without capitalismAN INCENTIVE SOCIALISM

The economic reforms which are taking place in Post Mao's China go very deep. The present article brings out the outlines of these reforms. It should be remembered, however, that it is taken from the Far Eastern Economic Review which represents the interests of the big international business and corresponding ideology. The fact remains that very significant changes in Chinese society are being promoted which are a departure from Mao's line.

The Problems of Modernisation and Reform

Experimental economic reforms in industry and commerce are to be extended throughout China this year and a new employment contract is being introduced to replace the "iron ricebowl" of guaranteed lifetime employment for statesector workers. Along with the successful implementation of rural reforms over the past two years, these measures represent the final dismantling of the Soviet-model centralised "command" economy which has dominated Chinese policy for three decades.

The government's new reform policies are being ushered in by a major propaganda campaign that has followed Chinese Communist Party General Secretary Hu Yaobang's January speech on "the problems of modernisation and reform." The word "reform" has since appeared regularly in headlines on almost every page of national and provincial newspapers. They describe reform as a "powerful shockwave" which is "irresistibly surging over the great land of China."

Reform is to take place on "all fronts, in all departments and units," said a recent PEOPLE'S DAILY editorial - in agriculture, industry, and commerce, large and small enterprises, and in government as well. Foreign affairs, personnel, propaganda, education, science and technology, culture, news, publications and public health are also to be affected.

Some aspects of the campaign now emerging are new, while other reforms are being intensified since their earlier introduction on an experimental basis. But the major impetus for the entire programme is the success of agricultural reforms implemented in rural areas over the past two years. Record harvests in 1982 are attributed to the agricultural responsibility system which has given an unprecedented degree of economic freedom to individual farming families. This has strengthened the hand of the current leadership in stepping up the pace of reforms in industry and commerce.

Experimental programmes to introduce profit-based book-keeping on a tax-paying basis for enterprises, stricter standards of accountability for management and performance-based employment contracts for workers are now being extended to factories and commercial enterprises in every province.

China's sclerotic transport and distribution system is also to be revamped by allowing private and cooperative-run companies to operate alongside state-owned commerce and marketing enterprises. Individuals are now allowed to purchase and operate their own trucks and vans in urban and in inter-city transport marketing, and mechanised ploughing and harvesting with their own



(2)

The two-year-old drive to legitimise private enterprise is being accelerated. There are now 2.6 million individual enterprises in China, almost double the 1979 figure, employing more than 3 million people with a total turnover last year of Rmb 10 billion (US\$5 billion), according to Ren Zhonglin, director of the State Administration for Industry and Commerce in a statement issued in March.

Urban individual businessmen total 1.36 million, Ren said, less than 1% of the urban population. By contrast, there were more than 8 million such people in China in 1953, before the anti-rightist and other campaigns took their toll.

The party has cracked down on local officials who have obstructed the operation of free markets, refused licences to individual business or attempted to intimidate them through special levies and exactions. Equally important is a push to expand loans to individual businesses from the People's Bank of China. Restricted access to commercial credit has effectively limited most private enterprises to operating streetside stalls and the like, using personal capital or small loans occasionally made available by neighbourhood block committees and other organisations.

Rural reforms have proceeded into a second stage. Farming families are now allowed to exchange labour and hire seasonal or casual labour. They may purchase agricultural machinery, tractors, boats and motor vehicles. "Specialised households" are encouraged to engage in services such as transport, marketing, and mechanised ploughing and harvesting with their own equipment.

If successful, the specialised-household movement could eventually break the age-old commitment to material self-sufficiency on the part of Chinese farming families, which has impeded commercial integration in rural areas and limited agricultural productivity.

All these steps are closely linked to simultaneous "structural reforms" to reshape the bureaucracy into a leaner, younger and more efficient organisation and to help rid party ranks of cadres unqualified for their posts or who resist reformist policies. The government shakeup is working down through provincial and municipal organs now and is scheduled to reach country and township-level officials later this year.

In the current propaganda campaign, the official press has not shrunk from calling the reform movement a "revolution." This however, is a revolution from the top.

At the last year's sixth party congress supporters of elders statesman Deng Xiaoping were able to consolidate their control of the politburo and codify basic tenets of the reform programme into the new party and state constitutions. New appointments at the State Council last autumn and the recent shake-up in provincial government and party leadership posts have tended to elevate younger leaders committed to the reforms who also have personal ties to Deng, Hu and Premier Zhao Ziyang.

The Dengists have scheduled a partywide rectification movement for the second half of the year to eliminate vestiges of leftism and resistance within the party to policies since the third party plenum in December 1978, when the Dengist group first gained control of the central committee. The impending purge is an important factor in the intensification of the reform campaign.

Central to these reforms are two basic structural changes. The first is the conversion of state-owned enterprises into relatively independent tax-paying entities which can retain profits and apply them to investment or bonuses. Previously these enterprises remitted all profits - or charged losses - to the state. The second is to free the enterprises from the lockstep of central planning and loosen price controls so that efficiency can be translated into profit performance.



## Structural Changes

Experiments in substituting tax payments for profits in state-owned enterprises have been under way since 1980, shortly after their introduction in Sichuan province by Zhao (then provincial governor). In March, Finance Minister Wang Bingqian announced that from June 1 the system would be expanded to all state-owned enterprises in China with the exception of some semi-autonomous, national-minority areas.

Large and medium-sized enterprises will be assessed at a basic income tax of 55% plus a variable regulatory tax designed to adjust for the highly variable profit ratios in different industrial sectors while price reforms continue. When the price reforms are completed, this two-step tax is to be replaced by a unitary progressive income tax on all enterprises.

The basis for price reform was laid with the adoption in 1982 of a three-tier mixed economy which retains fixed prices for certain primary commodities and consumer staples but allows floating prices for most manufactured goods and free prices for farm and rural sideline-industry products. This tripartite division parallels the new structural division of the economy into three sectors: that under centralised planning, that under non-mandatory guidance planning and the free market.

This structure was a compromise between the more aggressive reformists centred in the Academy of Social Sciences, who have urged that centralised planning be scrapped altogether, and more conservative party and military figures who objected either on doctrinal grounds or because they feared the social consequences of abruptly de-controlling China's economy. There is well-grounded concern that Polish-style unrest could erupt if price increases were too rapid.

Price reform is politically sensitive in China, in large part because of the disastrous hyperinflation experienced in the late 1940s under Juomintang rule. This sensitivity made it necessary to delay the price-adjustment process for more than a year while the Dengist forces consolidated their political base. Changes are needed not only to allow other reforms to work but also to reduce the crippling subsidy bills borne by the central government.

The first major adjustment in the price of a consumer staple was a 20% increase for cotton textiles announced on January 20. This was coupled with a reduction in prices of synthetic textiles and assurances that seriously depressed areas - mostly national-minority areas - would be granted special subsidies to avert hardships. Prices of watches, TV sets, cotton shoes and other manufactured goods were also reduced.

Panic buying was reported in some areas after the cotton-price increase was announced and following rumours that prices of grain, sugar, kerosene, salt, soap and matches would also be increased. This certainly, was one measure of the sensitivity of the price question.

Cracking China's iron ricebowl system will be more difficult to enforce from the centre than converting state-owned enterprises into taxpayers or adjusting prices. The reformists consider the iron ricebowl to be the key obstacle to improving worker productivity and overall economic efficiency.

But almost everyone within the system has a personal stake in preserving it. Initial attempts to introduce bonus schemes or empower management to discipline sub-standard workers were only marginally effective. Bonuses tended to be distributed equally impartially among all workers, stripping them of their intended effect, and managers were reluctant to dismiss workers for any offence short of outright sabotage.

To counter these problems, the Ministry of Labour and Personnel announced in March that the new "contract employment system" is to be extended to state-owned and collective enterprises throughout China. So far it has



been applied only in selectee enterprises in less than half of China's provinces and municipal regions. Initially, however, new areas will institute the system in only a few cities or counties.

Under this system, workers and their employing unit enter into renewable contract (generally one to three years) and the rights and obligations of both parties. The contract also spells out how pay will be linked to performance. This varies according to industry and nature of the employee's work, but "floating wages" incorporating a profit-sharing element are most often described. Most contracts also include provisions for insurance against illness, injury, disability and old age.

To ease the introduction of the new system, only new workers are affected. The government has judged that getting veterans to give up their benefits and lifelong tenure would be too formidable a task at present. So far only a few hundred thousand workers have been enrolled in contractual-employment schemes, though the number is now expected to increase rapidly. Some veteran workers are signing employment contracts, however, with provisions that their original seniority, eligibility for promotion and retirement benefits are retained intact.

Should a worker fail to fulfil his contractual obligations, his "economic interests," in the delicate wording of one commentator, "will be infringed upon." Negative sanctions available to management include dismissal and refusal to renew the contract. Supervisors' willingness to exercise such extreme options can be enhanced suitable wording in the terms of their contracts.

In stressing that anybody can be dismissed, the Chinese press gave prominence to disciplinary actions in September 1982 against management personnel at the Shoudu Iron and Steel Co. in Peking. The sintering plant failed to meet quality specifications which adversely affected pig-iron output. The company dismissed the deputy director of the plant and three other staff were issued warnings.

The Shoudu steel plant has been the subject of numerous articles in the Chinese press over the past six months. It is emerging as a showcase of economic reform, much as the Dazhai brigade in Shanxi was once held up as a model for radical collectivism. The slogan "Learn from Dazhai" in bold red characters on signs and walls was then a ubiquitous element in the Chinese landscape.

An ironic footnote to the reform movement was the news that on December 20 the Dazhai brigade distributed its land among family households and contracted out its industrial and forestry activities to specialised households. Jia Chengrang, a former head of the Dazhai brigade, was quoted in a Shanxi provincial-radio-broadcast as saying: "We Dazhai people will never follow the Dazhai road again."

Not unpredictably, party theorists have been at some pains to justify the current reforms in terms of Marxist doctrine. A PEOPLE'S Daily article in late February, for instance, acknowledged that some people consider the revival of the private sector to be a retrogressive act. But the paper's reply was that the success of the agricultural reform demonstrates the potential of "Socialist construction with Chinese features".

The reform are held to be a refutation, not of Socialism itself but rather of an inferior version unsuited to China's national conditions, slavishly copied from foreign (that is, Soviet) patterns and further warped by hyper-egalitarian "leftist" practices during the Cultural Revolution.

The charge that the contract system constitute a return to the days of wage labour is similarly denied "wage labour," a recent article in the Peking Fortnightly Discussion explained, "is a manifestation of the capitalist production system based on the private ownership of the means of production", whereas "the contract labour system under socialist based on public ownership of the means of production is totally different".



Resistance to the reforms, however, is significant among party cadres as well as in the military. It is understandable that the leaders of the reform movement given their base of power in the party's central committee should prefer to ~~be~~ defend the reforms as a new but legitimate form of socialism rather than attempt to justify the abandonment of state ideology on utilitarian grounds.

Many of the reported cases of obstruction are relatively petty. To the individuals involved, however, the consequences can be tragic. Two peasants in Henan province were recently sentenced to long prison terms after running foul of Shenqiu county officials. Zhang Jintian and Chai Yun had privately undertaken to transport a shipment of synthetic cloth. Their goods were seized and they were charged and convicted with failure to register properly as individuals traders with the county industrial and Commercial Control Department. A newspaper in Zhengzhou, the provincial capital, has criticised the case and called for a retrial. There have been reports of beatings, extortion and other forms of persecution of individuals who have prominently pushed for -- or profited from-- the reform.

In March the Ministry of Public Security was forced to issue a "Circular on protecting households which have acquired wealth through labour", and numerous articles have appeared defending the newly rich in the country side from blackmail, extortion and extra-legal exactions. Rural party organisations in Sichuan and other areas have had to issue new regulations forbidding production teams from imposing arbitrary and excessive fees on wealthy peasants.

The problem, as an article in the GUANGZHOU NANFANG RIBAO boldly put it, is not that "ordinary people" are jealous of newly prosperous households, but that "Cadres with certain powers are jealous". Over the years, the writer claims, "These people have become used to poverty . . . to then, poverty is the badge of Socialism", .

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SOURCE: Far Eastern Economic Review, April 28, 1983. pp.40-44.



The process that had been going on in China under Mao was from Mutual Aid Team to Cooperative and from Cooperative to Commune. Mao, in fact had pushed through his concept of commune in the midst of much opposition. Today, in Post Mao's China the process is being reversed: from Commune to cooperative. The present article, taken from the Far Eastern Economic Review describes this radical change and explains the new concept of "socialist ownership" that is behind.

### Contractual Family Farming

The Chinese leadership is working hard to dispel doubts about the ideological correctness of its changes in agricultural policy -- which aim to put the clock back by 25 years, and revert to the cooperative system which was replaced in 1958 by the late Chairman Mao Zedong's Commune.

The system of contractual family farming, which was initiated more than four years ago, has been defended vigorously by the leadership's top agricultural expert, Du Runsheng. Named last year as head of the State Commission on Rural Policy Research, 74-years-old Du has had long experience of agricultural administration. Born in Shanxi province he served from 1949-54 in the party's Central-South Bureau, and was active in the Academy of Science.

He visited the Soviet Union in 1957, before the Sino-Soviet split came into the open, and was denounced and disgraced by the Red Guards in 1967. Du reappeared in 1979 as a vice-minister of the State Agricultural Commission and visited Yugoslavia, Denmark, Belgium and the Netherlands to observe agricultural techniques there.

Writing in the PEOPLE'S DAILY, Du said "some comrades have doubts" about the so-called responsibility system which have proved popular among the peasants and helped bring record harvests in 1982, with grain production rising to 334 million tonnes. The mission for China's agricultural planners is to perfect the "cooperative economy" in the rural areas, according to Du. The word "cooperative" with its implications of early farm policy of the communist party in the mid-1950s, has not hitherto been widely used to describe the liberal reforms which have followed the third plenary session of the 11th Central Committee held in late 1978.

### COOPERATIVE SYSTEM

So far the normal practice has been to call communes, production brigades and production teams "the Collective", while "cooperative" has been used mainly to designate the small urban enterprises set up to provide employment for the jobless young people. Stressing that this does not mean a return to private land ownership or mutual exploitation, Du wrote: "Through the cooperative system the peasants can combine their labour according to the principle of voluntary participation and mutual ben. fit, ease themselves into the system of public ownership of the basic means of production, improve their economic status, and avoid the bitterness of capitalist polarisation."

The virtues of the new system are extolled on the ground that it permit state planning to coexist with free decision-making by the peasants and act as a transitional stage leading to "true socialism".



Another main advantage of the system is what Du calls the "Transitional form of economy . . . serving as a link between the past and the future". He cites Lenin as his authority on the advantages of the cooperative movement. And in due course, Du says, the cooperatives will serve as a means to introduce socialism to the countryside--something which the peasants, for all the starry-eyed admiration they have evoked among enthusiastic visitors to China, have stubbornly resisted, because they cherish their independence and the right to earn for themselves as much as they can, how they can.

The original cooperatives, following the massive land reforms and expropriations of landowners and rich peasants in the early 1950s, were based on a share-out of land and draught animals among the peasants. However, experience showed that small cooperatives performed better than large ones.

Before more than 15% of rural households had gone over to the cooperatives, it was decided to speed up the measures by implementing the more socialist "advanced producer cooperatives" (APCs). But within six months of this decision, Mao decreed the setting up of the communes--allegedly a Henan cooperative called (at that time) Sputnik (now back to its original name of Qiliying). Mao's statement that "the People's communes are good" was taken as the banner of mass implementation of the movement in most parts of China--with results, over a three-year period, which are now seen as having been disastrous.

"We made 'Left' mistakes in the early stage," Du says, "We wanted total Socialisation". Private plots and household sideline production were abolished, Marxist economic "laws" were inappropriately followed, public mess halls and collectivisation of property antagonised the peasants -- who are, and always have been, the most dyed-in-the-wool individualists in Chinese society.

The division of the communes into three tiers - commune leadership, production-brigade management and production-team farming--was used to mollify the peasants and reduce the rigours of Mao's egalitarian dream. Deng Xiaoping, now China's elder statesman and the power behind General Secretary Hu Yaobang and Premier Zhao Ziyang - as well as the late former of state Liu Shaoqi - introduced the reforms known as the "sixty Articles", granting and guaranteeing substantial right of autonomy at the production-team level -- that is, the lowest.

Mao, while seeming to comply, soon counter-attacked with this promotion of the experience of Dazhai Production Brigade in Shanxi, where the production brigade, accounting was carried out on that level, private plots were "voluntarily" relinquished and the emphasis was put on attaining self-sufficiency through back-breaking toil and self-sacrifice.

Had the APC scheme gone ahead in the late 1950's, the system of accounting at the team level would have been implemented then, without the creation of communes as political and administrative units. (They have been stripped of these powers under the new state constitution promulgated in 1982).

Du puts his finger on the problem of public ownership of land by pointing out that peasants will not take care of it as well as if they had a sense of ownership. He proposes this should be overcome by seeing that there is stable tenure, even if the land is theoretically owned by all, so that it is in the peasants' long term interest to husband its resources.



He denounced as a "misconception" the idea that the commune system was fairer than cooperatives, old or new. Egalitarianism, in the philosophy of Deng and his leadership group, is different from equity - which means recognising the existence in different parts of the country of inequalities of land tenure and crop yield and concentrating on giving every one a chance to make the best of the resources at his or her disposal.

The cooperatives system will also cut down on the need for large numbers of non-productive cadres, a chronic grievance among the peasants, who have to feed them and take their order to boot. Du also stands up for the early 1960s policy, closely associated with Liu, of "three guarantees and one reward" -- under which peasants sold an agreed share of their products to the state, and in turn enjoyed certain economic liberties. It was, in other words, an early version of the responsibilities system now in practice.

The article defends the right of peasant families to devote themselves to specialised work tasks not involving the production of grain or other basic crops (cotton, oilseeds and sweet potatoes). This might mean anything from technical and mechanical repair to rearing chickens. Specialisation can also eliminate the unpopular and time-wasting system of allocating various work task to different individuals or families on a day-to-day basis. Du's proposals are certain to be controversial in the leadership and bureaucracy, representing as they do a virtual declaration that the socialisation of agriculture has been a failure.

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SOURCE: Far Eastern Economic Review. April 28, 1983. pp. 52-53  
By David Bonavia.



China today is envisaging spectacular growth through planned modernisation of both its industry and agriculture. What does this planning consist in? What are the chances of achieving ambitious targets? These two questions are examined in the article which follows. It analyses the general lines of Chinese planning in the post Mao period.

Despite their new-found pragmatism, China's leaders are aiming for nothing less than a fourfold growth in their national economy by the end of the century. This time it is not quite a Great Leap Forward, nor a grand design as proclaimed in 1978 by then Chairman and premier Hua Guofeng, when he called for a near doubling of the economy by 1985.

But as Hua's successors were deriding his unrealistic goals and dismantling or abandoning some of the uneconomic, prestigious projects, they started making their own ambitious plans. Led by strong man Deng Xiaoping, the new leadership began in late 1978 to restructure the economy emphasising the production of consumer goods, raising the standard of living of the people and, in general, loosening some of the tight Central control on the economy. Emboldened by the immediate successes of the liberal policies, by mid-1980 Deng began reffering to a possible per capita national income of US\$ 800 by the year 2000, from the less than US \$200 level if that year. Thus was born the now familiar catchphrase fan liang fan, or "quadruple the economy", by the end of the century. It has since taken concrete shape and has received the imprimatur of the 12th party congress and the National People's Congress (NPC) last year.

The state goals for the end of the century compared with 1980 are:

- To quadruple the gross annual value of industrial and Agricultural output (GVIAO) from Rmb 710 billion (US\$358 billion) to Rmb 2.8 trillion or an average annual increase of 7.2% (The Chinese prefer to use GVIAO as a standard of measure instead of gross national product or gross domestic product because the country's services sector is still relatively small.)
- To nearly double the output of energy - in standard coal equivalent - to 1.2 billion tonnes.
- To nearly double the output of steel to 70 million tonnes.
- To raise power generation by nearly four-and-a-half times to 20 million Kws.
- To increase foodgrain production by 43.7% to 460 million tonnes.
- To double output of cotton yarn to 5.75 million tonnes.
- To stretch Chemical fibres more than fivefold to 2.5 million tonnes.
- To more than quadruple exports to US \$80 billion.

China's energy resources are considerable. Although Peking has not published its estimates of crude-oil reserves, Chinese publications have maintained that the country ranks eight in petroleum resources - that is, between Abu Dhabi's reserves of 29.5 billion barrels and Libya's 26.1 billion barrels. Some Western analysts put the Chinese potential somewhere between 20 and 40 billion barrels. Given China's current emphasis on exploiting the offshore field in the Bohai Gulf and the South China Sea, crude-oil output is set to grow faster from the late 1980s onwards.



Chinese coal reserves are estimated at 640.8 billion tonnes., the third largest in the world. Western projections of China's primary energy production by the end of the century, made in 1981 based on the 1965-78 statistical trend, are in the order 1.29 billion tonnes of standard coal equivalent. The modest plans for steel production also seem achievable. In early 1979, before Peking's pragmatic economic reforms had taken hold a study by the United States CIA projected that China could produce 60 million tonnes of steel in the early 1990s at a hard-currency cost of some US \$ 40 billion. Chinese plans for agriculture are also moderate, in direct contrast to Hua's ambitious announcement in 1978 of mechanisation of the farm sector by 1980.

In a country where some 80% of the people live in the countryside, Agriculture is a vital part of the economy, providing some 25-30% of GVAO. Agriculture also supplies light industry with most of its raw materials - about 68% - including cotton, oil-seeds, timber, and food-stuffs for the processing industry. In effect it has a direct bearing on about two-third of the economy. As the official Beijing Review puts it: "Agricultural output influences to a large extent the development of the national economy and directly determines the scale and speed of construction". Bad harvests have been in subsequent years followed by a drop in industrial output.

Although the value of farm output between 1957 and 1978 rose from Rmb 53.7 billion to Rmb 145.9 billion, the authoritative journal Economic Research reported that the per capita supply of grain actually fell by 3.2 % in the same period. Even discounting the political motivation of such a statement criticising past policies, the decrease is a function of growth in population as well as over-valuation of the sideline farm products. " China's agriculture has not yet been freed from a state of semi-sufficiency," said Beijing Review. Despite the current policy of boosting high-value side line production-pigs, poultry, fruit, Vegetables, handicrafts--Agriculture is unlikely to feed surpluses to industry rapidly enough to quadruple the national economic output.

The growth of population will also affect the target for per capita national income. While the hoped-for figure of US \$ 800 per head is based on a projected population of 1.2 billion at the end of the century, Chinese officials privately concede the possibility of a 1.3 billion population 100 million more mouths to feed. In that event the per capita availability of foodgrain would barely rise by 10% in the next two decades.

Another constraint on boosting the disposable income of the people is the continued Chinese insistence on high rates of accumulation (Saving as a ratio of gross incomes). Accumulation rates soared to more than 40% for some time during the Cultural Revolution when people had little to spend their money on, but has hovered around 30% in recent years. In the late 1970s after Deng consolidated his power, eminent economists such as Xue Muqiao and Xu Dixin began advocating that accumulation should not range above 20-25% if people's livelihood were to be improved. Since last year the rate of 25-29% has become the accepted ratio in view of the ambitious plan for the end of the century. While the high rate of accumulation will provide funds for investments, it will also act as a disincentive for the people to produce more.

More important than the provision of investment funds is efficiency in the use of capital. In a major speech at a national science conference last October, Premier Zhao Ziyang revealed that Rmb 1 of capital construction investment under the present system could be converted only to 80 fen (Rmb 0.8) in fixed assets; and in turn, Rmb 1 of fixed assets produced an output value of 96 fen. " If we retain the present technical level and economic results, we will have to double our investment in order to double our output value", Zhao pointed out. He went on to recommend that the economy was to improve economic management and adopt advanced technology. Whether such significant qualitative improvement can be effected in a span of two decades is the question facing Chinese planners.



The Chinese are aware of such criticism of their path to modernisation. Since last year the Chinese media have been full of explanations of the new policies and goals. As this debate has also caught attention abroad, Peking's foreign language publications have also seen fit to carry a series of articles on what is labelled Chinese-type modernisation. The articles openly try to answer the question: can the goal for the year 2000 be reached?

At the outset, the articles try to show that the new policies will not repeat the mistakes of the Great Leap Forward and the Cultural Revolution. They also reflect a tendency of gradualism for the 1980s. China's sixth five-year plan calls for a 21.7% rise in GVL.O or an annual increase of 4%. But economist Xue, who is also the Secretary-general of the state Council's Economic Research Centre, said the country should strive for a 5% or higher annual growth rate for the first half of the 1980s while the rate for the second half of the decade could be 6% or higher. For the 1990s Xue foresaw an annual growth of 8% or higher. Despite the apparent gradualism the rate for the two decades ending in 2000 works out to be an ambitious 7.1%.

In justifying their end-of-the century targets, the Chinese draw upon their economic experience since the early 1950s. According to official Chinese statistics, in the 31 years 1950-81 the GVIAO grew at a rate of 9.2 %. In the first three years (1950-52) the economy grew at a phenomenal rate because it was a period of rehabilitation from the more than a decade of war and civil chaos. However, even if these years are excluded, the argument goes, the annual growth rate was in the order of 8.1 %.

Chinese economists also point out that in the 32 years of communist rule China's growth rate was above 7.2% in 22 years and below 7.2% only in 10 years. This numbers game can also be seen in another light. If the first three years of rehabilitation, when there was hardly any planning of the economy, are ignored, and at least four years following the period of negative growth in the 1960s are excluded, only in 14 of the 29 years 1953-81 has the growth rate been above 7.2%.

The few successes of the planned economy in the past three decades have arisen largely from multiple cropping and adding on new industrial plant - enlarged reproduction by extension, in Marxist jargon. Now there is precious little extra arable land available and the scope for additional investment is also limited compared with the past.

Meanwhile, supply of scientific and technological personnel in China is still woefully inadequate, as the Chinese themselves admit. In a population of more than 1 billion, a mere 5.71 million or barely above 0.5% are classified as scientific personnel. Even among these, less than half (43.7%) attended colleges and only half of the teachers had any university education.

Despite the existence of the preconditions for the post-1950s economic takeoff in the countries held as examples by China, it seems fairly obvious that such growth is not sustainable in the long term. Nevertheless the Chinese seem bent on emulating the industrialised countries and technical efficiency has become the buzzword in China to-day. Last June an article in the party theoretical journal RED FLAG stated that more than half of industrial plant was 20-40 years old and much of it required immediate replacement. Eminent economist Sun Yefang wrote before his death in February that depreciation of fixed assets should be raised from the current 3.3% to 10% a year in the 1980s and to a still higher rate in the 1990s. Roughly speaking, all of China's industrial plant will have to be replaced at least twice before the end of the century at the 1980s rate recommended by Sun. Chinese economists argue that renovation of equipment would double industrial output by the end of the century.



And by doubling energy producing and improving its efficiency of use by 50%, they hope to quadruple the nation's G V I A O.

If China does succeed in its stated goal by 2000, its GVIAO would have risen from Rmb 82.7 billion to a massive Rmb 2.8 trillion or about 34 times in 48 years. And hardly any independent analysts would bet on that.

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#### APPENDIX

##### % INCREASES IN GVIAO, 1950-81

(Years with more than 7.2% increase over previous year)

<u>Year</u>	<u>%increase</u>	<u>Year</u>	<u>%increase</u>
1950	23.4	1965	20.4
1951	19.0	1966	17.3
1952	20.9	1969	23.8
1953	14.4	1970	25.7
1954	9.5	1971	12.2
1956	16.5	1973	9.2
1957	7.6	1975	11.9
1958	32.2	1977	10.7
1959	19.5	1978	12.8
1963	9.5	1979	8.5
1964	17.5	1980	7.2
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Years with less than 7.2 % Increase			
1955	6.6	1968	4.2
1960	5.4	1972	4.5
1961	-30.9	1974	1.4
1962	-10.1	1976	1.7
1967	-9.6	1981	4.5

SOURCE: Beijing Review

Main SOURCE: By V.G.Kulkarni, under the title of 'Pragmatists leap to grandiose conclusions, Far Eastern Economic, April 28, 1983 pp. 44 to 50.



Along with a transformation of economic institutions, Post Mao China is engaged in a radical transformation of its political institutions in which democratic participation is extended to all various sections of Chinese society. This is why the character of the present state has been defined in terms of people's democratic dictatorship and not only as dictatorship of the proletariat. The transformations aim at building China into an advanced socialist state with high degree of democracy and culture. In this article these transformations are analysed. The background of the leaders who are promoting these transformations is also explained.

The Recently concluded First Session of the Sixth National People's Congress (NPC), China's superparliament, was a major landmark in the process of institution-building in the People's Republic of China. This was the culmination of sustained efforts for over four years to build a system of political institutions which the post-Mao leaders think would establish socialist democracy in China. According to Deng Xiaoping and his colleagues, the movement politics of the period of the Central Revolution had created anarchy and seriously hampered China's economic development. Therefore, they have worked assiduously towards setting up a legal system to enforce the rule of law. They have also reorganised the state structure to ensure co-ordination and efficiency. Another important job of the NPC was to elect a new leader to manage the new government system and carry forward the policy line.

The process of rebuilding the state structure had started in 1978 when the 1975 Constitution was amended to drop some of the practices of the Cultural Revolution. Thereafter a Constitution Revision Commission was appointed to work on a new draft. Even though Ye Jianying was its Chairman, the main spirit behind this effort was Peng Zhen, the Chairman of the NPC. Incidentally, as Mayor of Beijing in 1966, Peng was the first major target of the Cultural Revolution. The Draft Constitution was circulated for nationwide discussion in April 1982 and was finalized and promulgated by the NPC on 4th December. Under the new Constitution election of deputies to the NPC took place soon after, and for the first time in every country the number of candidates was more than the number to be elected.

#### THE NPC SESSION

The First Session of the Sixth NPC began on June and ended on 21 June 1983. A total of 2,977 deputies attended the session, seventy-six per cent of whom are new faces. Since 1978 there has been an annual session of the NPC to discuss draft laws, consider the Premier's report on government work and approve national budget. Its Standing Committee met at least once every month to carry on day-to-day legislative business. On the other hand, after 1965 there was only one meeting of the Fourth NPC and that was in January 1975. Thus the revitalized role of the NPC and its Standing Committee reflects the new emphasis on institutional functioning.

#### PRESIDENT LI XIANNIAN

The NPC elected the veteran communist leader Li Xiannian as President of the PRC. At 74 Li is still going strong and was last year elected to the Politbureau of the CPC Central Committee at its Twelfth Congress. The mantle of the head of state would have normally fallen on Ye Jianying, Chairman of the Fifth NPC Standing Committee, but for his old age and ill health which led to his Voluntary retirement.



Li Xiannian who carries in him the experience of the long March was a close associate of the late Premier Zhou Enlai and along with him weathered the stormy period of the Cultural Revolution. For a brief time in 1967 Li was also attacked by the Red Guards. But with Zhou's help he continued to steer the Chinese economy as Vice-Premier throughout the decade. When Hua Guofeng succeeded Zhou, Li remained in his team. After Hua's fall in 1980 it was believed that Li was not in favour of the tide of the new economic reforms. Indeed other leaders, particularly another veteran, Chen Yun, theoretician Hu Qiaomu, economists Sun Yefang (who recently passed away) and Xue Muqiao seem to be Deng's economic advisers who have charted the new course. However, Li has perhaps accepted the honour seeing that the new line is popular in China and the new leadership is in good command.

The position of president was created by the new Constitution while such a position did not appear either in the 1975 or 1978 statutes. Under the 1954 Constitution Mao Zedong remained Chairman of the Republic till 1959 and was succeeded by Liu Sha oqi who was disgraced during the Cultural Revolution. The NPC standing Committee Chairman Zhu De and after his death Ye Jiangying used to perform the role of the head of state on ceremonial occasions. Now these offices have been differentiated. A new office of the Vice-President of the Republic has also been created. Liao Chengzhi, Politbureau Member of the CPC who was in charge of Overseas Chinese Affairs Commission for a long time, was slated for this position. But he passed away while the NPC was in session. The choice fell on another old-time communist from the minority Mongolian nationality, Ulanhu. He had also faced Red Guard attacks briefly in 1966 but was quickly rehabilitated and continued in leadership position throughout.

#### NEW STANDING COMMITTEE

Under the new Constitution the NPC has transferred much of its substantive legislative powers to its vast membership the NPC performs more a function of legitimation than legislation. Its deputies today also play the watchdog role in supervising governmental activities. But as a relatively smaller body the standing Committee plays the key role in enacting laws, interpreting and enforcing the Constitution. Its new Chairman is the 81-year old Peng Zhen, the architect of post-Mao China's legal system, who will steer the operation of the state structure. Among the twenty Vice-chairmen Chen Pixian has been given precedence over others. He was the Executive Chairman at the closing ceremony of the session. Former Vice-Premiers Geng Biao and Huang Hua, industrialist Rong Yiren and Panchen Lama have been elected as Vice-Chairman.

As against 196 members of the outgoing Standing Committee the new one has 155 and two-thirds of its members are in it for the first time. The proportion of non-communists in the Standing Committee has been increased, as also the representation of intellectuals and experts. The Standing Committee has the arduous task of framing many laws which have been long overdue.

#### STATE COUNCIL

The State Council, the Chinese counterpart of India's Council of Ministers, has undergone major changes both in terms of its components and personnel. Last year a new category called state Councilors was created. Simultaneously the number of Vice-Premiers was drastically cut down while many of them were given the new status. This was part of the process of restructuring of state organs to reduce overlapping responsibility and multiplicity of authorities. Out of the thirteen Vice-Premiers only two were retained in the reorganisation of May 1982. They were: Wan Li Li and Yao Yilin, who have continued in the new State Council as vice-Premiers. Two others have been elevated to the same position. Li Peng (55), an electrical Engineer, was Vice-Minister of Water Resources and Electric Power, and Tian Jiyun (54), formerly Director of Financial Department of Sichuan Province, was Deputy Secretary-General of the State Council.



Both have achieved swift promotions under Deng Xiaoping's plan of encouraging younger and specialized people of "fine political quality and with specialized knowledge".

Out of the ten State Councillors, seven have been carried over from the previous one and they include the only woman member Chen Muhua. The three new State Councillors are: Wu Xueqian, Minister of Foreign Affairs, Wang Bingqian, Minister of Finance, and Song Ping, Minister in charge of the state Planning Commission all concurrently. Among the forty-five ministers who include two women besides Chen Muhua, eight are new. Song Ping was Vice-Minister in the same Commission. Liu Fuzhi has been shifted from Justice to Public Security. Zou Yu has been promoted from Vice-Ministership to the post of Minister of Justice. He Kang, Jiang Xiaoxiong and Jiang Zemin, previously Vice-Ministers, have been promoted to their own ministers of Animal Husbandry and Fishery, Nuclear Industry and Electronics Industry respectively. Two new ministries have been created, a ministry of State Security to supervise counter-espionage work and the office of the Auditor-General to keep a watch on public spending. Former Vice-Minister of public Security Ling Yun is the new intelligence boss and the Ex-governor of Shaanxi Province, Yu Mingtao, is in-charge of Auditing Administration. It may be recalled that in the past there was a plethora of ministries, many of whom were numerically identified. Zhao Ziyang, who has consolidated his position as premier over the last two years and more, seems to have personally given final shape to this State Council team and can confidently look forward to a stable functioning of this central executive body. His report on the work of government was a sober stock taking of the last five years of rectification on various economic and political fronts. That this State Council will formulate the Seventh Five-Year plan while implementing the sixth was the only noticeable theme in his report. Zhao has himself kept the charge of the Commission for Restructuring the Economic System which shows that the process is not yet over.

The NPC re-elected Deng Xiaoping as Chairman of the Central Military Commission of the PRC. This Commission has been created by the new Constitution in order to provide the People's Liberation Army 'an appropriate position in the state system'. Last December itself the personnel of this Commission were finalised. The Vice-Chairman of this commission have remained the same including the aging Ye Jianying. The session also elected Zheng Tianxiang President of the Supreme People's Court as successor to Jiang Hua, who had conducted the great trial of the Gang of Four and Wang Yichen Procurator-General of the Supreme People's Procuratorate in place of Huang Huoqing, both of whom had long inings on the job.

#### PATRIOTIC FRONT ORGAN

As usual, the National Committee of the Chinese People's Political Consultative Conference (CPPCC) had its meeting coinciding with the NPC's. As many as 2,039 members were present and also took part in the NPC deliberations as observers. It should be noted that ever since the Deng Xiaoping group came to the helm of affairs they have consistently tried to win over the non-communist forces in China, intellectuals and experts in various fields, on the plea that the modernization programme was a patriotic duty of all Chinese. In fact, they have succeeded in securing the sympathy and support of overseas Chinese to a very large degree. This is why the character of the present state has been defined in terms of People's Democratic Dictatorship and not 'only as Dictatorship of the Proletariat. On the eve of the NPC Session the Central Committee of the CPC invited many non-communist parties and persons for informal consultation before finalizing its proposal for filling up the various posts.

The sixth National Committee of the CPPCC elected a Standing Committee with 297 members and a chairman and 29 vice-chairmen. Deng Yingchao (Madame Zhou Enlai) was elected Chairperson. She has been on the forefront of the post-Mao reforms right from the beginning.



Among the Vice-chairmen sixteen have been elected, who include the former Guomindang generals Tao Zhiyue and Deng Zhaoxiang (the noted anthropologist and chairman of the nationalities Institute), Ye Shengtao and Qu Wu; entrepreneurs Zhou Shutao and Wang Guangying. The famous novelist Ba Jin is also one of the Vice-chairmen. According to an official analysis the representation of the Communists in the Standing Committee has come down from 70 to 36 per cent. The eight democratic parties have 123 members, i.e. 42 per cent of the total as against 25 per cent previously. As many as 158 members are new faces in the Standing Committee. More than sixty members have been included from scientific, technical, social science, medical and cultural circles. There are twenty five compatriots from Hong Kong, Macao and Taiwan. Naturalized citizens of China doctor George Hatem and writer Israel Epstein are also members of the Standing Committee.

#### BUILDING SOCIALIST DEMOCRACY

Whereas the fifth NPC had worked out a transition first from the Cultural Revolution to the Hua Guofeng phase and then to the current phase since the Third plenum of the Central Committee of the CPC in December 1978, the Sixth NPC faces the task of constructing along the already crystallized line of development. President Li Xiannan in his concluding speech called upon the deputies to work for building China into an advanced socialist state with high degree of democracy and culture. The state structure is supposed to facilitate both participation and leadership, freedom and discipline to realize socialist democracy. Coming as a reaction to the institutional breakdown during the Cultural Revolution, much of the new state system stresses rules and procedures, control and responsibility. This may lead towards institutionalization and bureaucracy. In fact, the Chinese themselves are already talking about it as a result of which there was a campaign against bureaucracy launched last year. Li Xiannan also made a reference to the four cardinal principles of adherence to 'the socialist road, people's democratic dictatorship, leadership by the Communist Party and Marxism-Leninism and Mao Zedong thought' which have been usually hurled at those critics who call the present policies rightist. The economic policies which evolved by way of rectification of the leftist policies of the past may have only one preoccupation, i.e. economic growth and to manage that programme the new state structure has been effectively designed. The domestic response to the new policies has been so positive that the new leadership has proceeded with confidence along the new line. The growth oriented economic strategy may generate inequalities, consumerism and crude materialism while the excessive stress on institutional functioning may lead to bureaucratism and centralization. But the present Chinese leadership seems to have decided to pay this price for growth. Perhaps, they are conscious of this and that is why they talk more and more about spiritual civilization and socialist values.

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SOURCE: CHINA REPORT, July-August 1983. pp. 3-9; By Manoranjan Mohanty .

④ The sentence reads as follows : " Among the vice-chairmen sixteen have been newly elected who include the former Guomindang generals Tao Zhiyue and Deng Zhaoxiang, leaders of democratic parties, Fei Xiaotong ( the noted anthropologist and Chairman of the nationalities institute), Ye Shengtao and Qu Wu; entrepreneurs Zhou Shutao and Wang Guangying.



A P P E N D I XNAME LIST OF STATE LEADERS

President of the People's Republic of China  
LI XIANNIAN

Vice - President  
ULANHU

Chairman of the Sixth NPC Standing Committee  
PENG ZHEN

Vice - Chairmen  
Chen Pixian, Wei Guoqing (Zhuang nationality), Geng Biao, Hu Juewen, Xu Deheng, Peng Chong, Wang Renzhong, Shi Liang(f), Zhu Xuefan, Ngapoi Ngawang Jigme (Tibetan), Bainqen Eridini, Qoigyai Gyaincain (Tibetan), Seypidin (Uygur), Zhou Gucheng, Yan Jici, Hu Yuzhi, Rong Yiren, Ye Wei, Liao Hansheng, Han Xianchu, Huang Hua.

Premier of the State Council  
ZHA ZIYANG

Vice - Premiers  
WAN LI, YAO YILIN, LI PENG, TIAN JIYUN

State Councillors  
FANG YI, GU MU, KANG SHIEN, CHEN MUHUA(f), JI PENGFEI, ZHANG JING AIPING, WU XUEQIAN, WANG BING QIAN, SONG PING.

Secretary - General  
TIAN JIYUN (concurrently)

Chairman of the Central Military Commission of the PRC  
DENG XIAOPING

Vice - Chairman  
YE JIANYING, XU XIANGQIAN, NIE RONGXHEN, YANG SHANGKUN.

MINISTERS UNDER THE STATE COUNCIL

Minister of Foreign Affairs  
WU XUEQIAN (concurrently)

Minister of National Defence  
ZHANG AIPING (concurrently)

Minister in-charge of the state Planning Commission  
SONG PING (concurrently)

Minister in charge of the State Economic Commission  
ZHANG JINGFU (concurrently)

Minister in charge of the State Commission for Restructuring Economic System  
ZHAO ZIYANG (concurrently)

Minister in charge of the commission of Science & Technology  
FANG YI (concurrently)

Minister in charge of the state commission of Science, Technology and Industry for National Defence  
CHEN BIN

Minister in charge of the State Nationalities Affairs Commission  
YANG JINGREN

Minister of Public Security  
LIU FUZHI

Minister of State Security  
LING YUN

Minister of Civil Affairs  
CUI NAIFU

Minister of Justice  
ZOU YU



Minister of Finance  
Wang Bingqian (concurrently)

Auditor-General of the Auditing Administration  
YU MINGATO

President of the People's Bank of China  
LU PEIJIAN

Minister of Commerce  
LIU YI

Minister of Foreign Economic Relations and Trade  
CHEN MUHUA(f, concurrently)

Minister of Agriculture, Animal Husbandry and Fishery  
HE KANG

Minister of Forestry  
YANG ZHONG

Minister of Water Resources and Electric Power  
QIAN ZHENGYING (f)

Minister of Urban and Rural Construction and Environmental Protection  
LI XIMING

Minister of Geology and Mineral Resources  
SUN DAGUANG

Minister of Metallurgical Industry  
LI DOMGYE

Minister of Machine-Building Industry  
ZHOU JIANNAN

Minister of Nuclear Industry  
JIANG XINXIONG

Minister of Aeronautics Industry  
MO WENXIANG

Minister of Electronics Industry  
JIANG ZEMIN

Minister of Ordnance Industry  
YU YI

Minister of Astronautic Industry  
ZHANG JUN

Minister of Coal Industry  
GAO YANGWEN

Minister of Petroleum Industry  
TANG KE

Minister of Chemical Industry  
QIN ZHANGDA

Minister of Textile Industry  
WU WENYING (f)

Minister of Light Industry  
YANG BO

Minister of Railways  
CHEN PURU

Minister of Communication  
LI QING

Minister of Posts and Telecommunications  
WEN MINSHENG

Minister of Labour and Personnel  
ZHAO SHOUYI

Minister of Culture  
ZHU MUZHI

Director-General of XINHUA News Agency  
MU QING

Minister of Radio and Television  
WU LENGXI



(21)

Minister in charge of the State Physical Culture and Sports  
Commission  
LI MENGHUA

CPPCC LEADERS

### Vice-Chairmen

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000#####0000

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LATEST DEVELOPMENT IN THE CHINESE  
COMMUNIST PARTY

(22)

The new policies envisaged by the Chinese Communist Party Leadership cannot be carried out unless a purge of the contaminated elements take place. The present write up, taken from the Review "South" gives an insight into the latest developments taking place in the Chinese Communist Party. It reveals that "unlawful" activities as well as anti party grumblings had begun undermining the party. It points out to the efforts made to overcome the shortcomings.

Cold winds will blow this winter on Chinese Officials and Communist Party members as Beijing launches a new rectification drive. While physical liquidations are not on the agenda, a three-year purge of all those unfit for party membership has already begun.

China's political strongman, Deng Xiaoping, and his closest collaborators have taken a close look at the political establishment over the last two years and they are disenchanted with what they have uncovered. Their solution is to examine the credentials of every single party member. All 40-million men and women currently on the party's rolls will be required to go through a membership registration process. Undesirables caught in the a screening process will be ejected from the party.

The Communist Party has published guidelines for the purge. The preamble paints a depressing picture of problems within the party. "Some members turn a blind eye to anti-Marxist and anti-socialist ideas and some even spread these ideas," according to a central committee report published in October. Extreme ultra-leftists who emerged during the stormy Cultural Revolution of 1966 to 1976 have not been eliminated. Others abuse their official positions, "seeking personal gains for themselves and those close to them by every possible means," the report continued. "They ignore the law, protect and shield criminals and they even take a direct part in unlawful activities such as smuggling, selling smuggled goods, corruption, accepting bribes and profiterring." The central committee has run a pilot scheme to made sure its programme will not get out of hand or come under the control of extremists.

Out of the 2.5-million party units and branches, Beijing selected 580 grassroots units for a dummy run of the campaign. The leadership has announced that this exercise found "the overwhelming majority of party members measured up to the requirements set in the party constitution."

Beijing has been careful to ensure that any potential opposition to the campaign is neutralised in advance. For instance, the armed forces have produced some of the most stubborn ideological hostility to the economic reforms espoused since 1978. At the start of the purge, the Central Military Commission announced that just over 100,000 military cadres had been posted to lower-level units "to help them solve problems related to army building while conducting investigations and studies".

The purge has already aroused resistance. Heilongjiang province, for example, reported a lack of enthusiasm for the pilot scheme. Mass campaigns are not popular because of the way they were abused in the Maoist era. Officials who believe their hardships at the hands of the



Maoist extremists up to 1976 give them the right to the good life now refuse to give up their privileges. For over a year, officials have openly defied the government's instructions to relinquish the lavish houses and other perks that they have grabbed. Also, there are many in the party and the bureaucracy who are at loggerheads with the current leadership either because of genuine ideological differences of frustrated political ambitions. Deng Xiaoping and his colleagues are taking political gamble in launching a major purge.

Chinese officials sympathetic to the rectification campaign argue in private that the gamble is justified. They insist that the central committee of the Communist Party has been correct in admitting openly that neither the ethics nor the efficiency of party members can be taken for granted. The public, these sources claim, is weary of the abuse of office and the incompetence of many party members.

Other Chinese sources say Deng Xiaoping and the present party leadership had no choice but to launch a purge. Over the last six years there have been a number of limited campaigns to weed out Maoist extremists, the corrupt, the criminal and the unqualified. At the same time, there have been attempts to carry out sweeping economic reforms. These campaigns have met with only limited success and have also revealed serious defects in the calibre of political leadership at many levels.

The most dramatic examples have been in the economic sphere. The party's Discipline Inspection Commission has uncovered 192,000 serious cases in the 18 months since a crackdown on economic crime started in January 1982. Investigations on 131,000 cases have been completed. According to the commission over 71,000 members of the party were involved. The official economic commentary Jinji Ribao estimated in August that "one-fifth of the enterprises which ought to be paying tax have succeeded in evading payment". Tax fraud has become a way of life for many state and collectively owned factories and commercial units.

Some party officials are afraid the purge is such an enormous undertaking that it will divert leadership resources from other crucial campaigns. They note that a major reorganisation of industrial management which is supposed to be undertaken in the largest enterprises has made little progress this year.

Sources outside the party say they are more concerned about the danger to the country's intellectuals. In previous ideological movements, the intellectual class has generally been the worst-hit. Throughout 1983, the party has led a drive to end persecution of technically qualified people and to provide intellectuals with proper living standards and working condition. But since the rectification drive got under way, the party has paid increasing attention to ideological deviation in cultural affairs. At this stage, the impression is that professional will be treated better than in the past on condition they accept the party's right to police the nation's literary and cultural output.



## U S S R

FIVE-YEAR PLAN IN TROUBLE

NINETEEN eighty-one is the first year of the Soviet Union's 11th five-year plan. Figures recently published by the Soviet Central Statistical Board reveal that the Soviet Government is facing some knotty problems, with both industry and agriculture beset with troubles in the first six months of this year.

LOW ECONOMIC GROWTH RATE.

The Soviet economic growth is slowing down, a trend which has steadily become more serious in recent years. Industrial output value in the first six months failed to reach the growth rate set for the new 11th five-year plan, a rate which is lower than ever before. It was reported that the output value increased 3.4 per cent compared with 4.2 per cent for the same period last year. The planned annual increase rate for this year was 4.1 per cent. The industrial labour productivity increased 2.5 per cent, less than in the same period of 1980 and the target for 1981. The output of 19 industrial products including coal, rolled metal, generators, cars and equipment for the chemical industrial was less than that of the corresponding period of 1980. The output of some items has steadily dropped over the last two years.

Capital construction is still depressed, and the long-standing problems of scattered investments and far-flung capital construction have not yet been solved. The important projects which were put into production in the first six months according to schedule only account for half of those planned for the period and 13 per cent of those for the whole year of 1981. Some projects scheduled for completion in 1980 have still not been finished, and the plans for putting projects into production, housing, culture and the construction of residential and other facilities were unfulfilled in the first six months. Greatly worries, the Communist Party of the Soviet Union has called special meetings to seek solutions.

AGRICULTURE.

Agriculture has been a vulnerable spot in the Soviet economy. Farm output targets set for the ninth and 10th five-year plans were unfulfilled, and this has had adverse effects on the whole national economy. Though the Soviet authorities were anxious to change the backward agricultural conditions in this new five-year plan, they are facing troubles ahead.

This summer, the crops suffered from a heat wave, similar to 1972. In some areas, temperatures reached 40 degrees centigrade. The grain, potato and beet harvests will certainly be affected. An editorial published in pravda therefore had to again call on people to practise frugality, especially in food consumption.

The Soviet Union has imported more than 1 million tons of American grain since President Reagan lifted the partial grain embargo four months ago. It was reported that Moscow imported 33.5 million tons of grain in the fiscal year of 1980-81. Western agricultural experts estimate that if the drought in the Soviet Union continues, Moscow will then have to import more grain than ever in fiscal year 1981-82.



## SECTION II = POST MAO CHINA'S ECONOMIC POLICY

It is at the level of Economics that one can assess the nature and the extent of the transformations that are contemplated by the new leadership in Today's China and which are actually taking place. Explanations for the new orientations in the economic policy of China are varied. Some see the victory of one group over the other in the struggle for power. According to this view, the "expects" would have taken over from "the Reds". However this seems to us a rather oversimplified view of things. Are there other processes at work within China today, of deeper significance? Which are they? This section on "Post Mao China's economic policy" explores these questions.

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D I L E M M A S   O F   S O C I A L I S T   D E V E L O P M E N T  
AN ANALYSIS OF STRATEGIC LINES IN CHINA, 1949-1981

HISTORICAL PERSPECTIVES

(24)

The Chinese model of development has undergone changes as it went through a concrete historical process. What are the main phases of this historical process and the characteristics of each of these phases? The author of the article condensed below, Satish Riachur, was an associate professor of economics at the University of Denver before he died in 1980. He tries to answer the above questions.

THREE ALTERNATIVE LINES OF SOCIALIST DEVELOPMENT

The purpose of this article is to identify and to analyse the implications of the principal alternative strategic lines of socialist development which have been attempted in China during the first thirty-two years of the People's Republic, from 1949 to 1981. In our view, there has been three such lines, each of them<sup>a</sup> distinctly different approach to socialist development conceived in terms of its own particular logic and basic theories, and implemented in China during a particular historical period. We have labelled them:

- Strategy A ( the strategic design for the first Five Year Plan ( 1953-57)
- Strategy B ( the great leap forward, 1958-60)
- Strategy C ( so far only partially implemented under the four modernizations, 1978-present)

Each strategic line is familiar to students of comparative socialist development. Strategy A is the Stalinist model which emphasizes centralized bureaucratic planning and resource allocation, or what Western Economists have called "Command economy",

Strategy B is a social mobilization approach, based on Party-directed mass movements to create a communist "new man"

Strategy C or "market socialism" is an effort to build a market mechanism into a socialist planned economy in order to increase productivity, to achieve greater economic efficiency, and to stimulate the initiative of workers and managers through material incentives.

Clearly there are a number of parallels between the Chinese experience and that of other socialist countries. For example, the Soviet Union under Stalin attempted to impose strategy A, the Stalinist model, on virtually all socialist countries that Moscow could influence, and, therefore, most socialist countries have had a significant experience with that strategic line. Regarding strategy B, the social mobilization model, there are some striking parallels, for example, between Cuban policy during the period 1966-70 and China during the Great Leap Forward, 1958-60. And finally, the present Chinese Leadership has been studying and emulating certain aspects of the strategy C, the market Socialism model, drawing on experience of Yugoslavia and Hungary.

As an interpretation of China's development history, our analysis differs markedly from interpretation that have characterized PRC history in terms of "pendulum swings" alternating between radical and pragmatic phases or from those who have interpreted PRC history as essentially cyclical, involving little or no qualitative change. Our analysis also differs from those who interpret the Cultural Revolution period 1966-76, as reflecting a significant departure in development strategy. Instead we argue that the cultural revolution is better understood as a struggle in the realm of so-called "superstructure", an intra-party leadership conflict which became a mass movement in the year 1966-69 but which did not involve important innovations in development strategy.



## DEFINITION OF TERMS

We use the term strategic line to mean a conceptual model of development. It is a systematic design which spells out both the ends and the means for purposeful action. Strategic lines, if adopted by a ruling communist party, are implemented by specific development policies. If the policies are thought to be successful and if they are sustained over time, they create a particular social system, a social order and way of life which has its own characteristic division of labour, culture and social values, and form of political rule. Thus the strategy A line was successfully implemented in terms of the policies of the first Five Year Plan, which in turn created a social system in China characterized by a centralized, bureaucratic command economy. Subsequently, the mass mobilization line strategy B was attempted during 1958-60 under the policies of the Great Leap Forward and the Communes, but it was never successfully implemented. In 1961-62, the basic policies were changed in order to reverse the economic downturn of 1959-61. Finally the third alternative strategy C, the market socialism line, to date has only been partially implemented under the policies of the Four Modernizations, and the results so far are mixed.

The term socialism has been used in many different ways. For the purpose of this analysis, socialism is understood to be a process of basic societal transformation, an historical period of planned transformation from capitalism to communism, undertaken in a society ruled by a communist party. We assume that the various communist party leaders and planners will often have very different notions about what socialism in concrete means and what the central characteristics of socialism as a process of transformation should be, but they all agree that communism is the end and that all of them are trying to achieve it.

There is no definition (textbook definition) of Communism in the classical Marxist literature. Here, we assume that the proponents of the various strategies of socialist development would agree on a definition limited to three characteristics: ownership of the means of production, the process of production, and distribution -- the less ambiguous characteristics of communist society. Hence we define a communist society as one in which: 1) the means of production are owned by the whole people (e.g., in Mao Zetong's terms, the means of production have been distributed to all people), 2) the production process is fully socialized, and 3) distribution of that which is produced is on the basis of "need" rather than an individual's "work" -- commodities are no longer produced for exchange but rather products are allocated on the basis of need. We will limit ourselves to these characteristics. Communist party leaders and planners might disagree about other defining characteristics of communism, for example, what level of social output in production is essential to provide the material basis of support for communist society, what the disappearance of social classes might mean in concrete terms, or what procedures would replace the state and perform the continuing necessary functions of organizing production, allocating that which is produced and regulating social interaction in communist society.

Finally, the debate - or more accurately, the struggle - among proponents of the different strategic lines of socialist development is carried out within the conceptual context of Marxist economic theory. The advocates of all three different strategies of socialist development similarly conceive of the process of achieving communism as one requiring the concurrent development of both forces of production and relations of production in order to create the material conditions required for a transition from socialist to communist society. They identify the main contradictions in the socialist historical period as those between the forces of production and the relations of production, and between the superstructure and the economic base. The forces of production have been defined as "the relation of society to the forces of nature, in contest with which it secures the material values it needs", and relations of production as "the relations of men to one another in the process of production."



The forces of production include labor, the means of production (land, tools, or machinery, and raw materials), and technology. Relations of production essentially comprise the ownership of the means of production, the social organisation or administration of production, and the distribution of that which is produced.

IN terms of Marxist theory, the two together (the forces of production and the relations of production) constitute the economic base or material foundation of any society. The superstructure of society, which includes government and other social institutions, legal systems, culture and ideology, is usually conceived of as a reflection of the economic base -- i.e., the economic base of any society is thought of largely to determine the structure of classes, government, and prevailing ideology.

### THE THREE STRATEGIES A,B,C, COMPARED WITHIN THE CONTEXT OF CHINESE HISTORY OF THE PAST THIRTY YEARS .

The three strategies A,B,C, can be compared as follows (the pattern depicted for each strategic line represents the logic of the strategic design, not necessarily the actual performance of the strategy when it was implemented in China. ).

Strategy A , implemented during the First Five Year Plan (1953-57) conceived of a fairly linear relationship between the development of forces of production and relations of production. An initial period of sharp changes in relations of production (e.g. the takeover of state capitalist enterprises, the establishment of joint state-private enterprises, and the collectivization of agriculture) would be followed by a consistent pattern of planned incremental changes -- initially intended to cover three five-year plans, 1953-67) -- in both relations of production and forces of ~~xxx~~ production moving toward communism.

By contrast, Strategy B, Mao Zedong's design for the Great Leap forward (1958-60), sought to achieve qualitative leaps in relations of production as a part of a dialectical process leading to more rapid development of both relations of production and forces of production. During 1958, for example, the hope was often expressed that this approach could significantly shorten the road to communism.

Finally, Strategy C, the present Four Modernizations development strategy, places great emphasis on the development of forces of production or economic capacity through retrenchment with respect to relations of production (e.g., by seeking to combine market with plan, encouraging foreign private investment in China, and emphasizing individualised material work incentives).

Although the characteristics of Strategy A and Strategy C are different, the two strategic lines are similar in envisaging a continuous pattern of incremental change rather than the dialectical pattern described by Strategy B.

TABLE I = PERIODS IN THE PEOPLE REPUBLIC OF CHINA ECONOMIC HISTORY AND STRATEGIES OF DEVELOPMENT

	<u>P o l i c i e s</u>	<u>S t r a t e g i e s</u>
1949-52	Rehabilitation of the economy	
1953-57	First Five Year Plan	Strategy A
1958-60	Great Leap Forward and Communes	Strategy B
1961-65	Readjustment and Recovery	
1966-76	Great Proletarian Cultural Revolution	
1976-77	(CCP leadership transition: deaths of Zhou Enlai, Zhu De, and Mao Zedong; and defeat of the "Gang of Four").	
1978- Present	Four Modernizations	Strategy C

Table 1 (Cfr. above ) places the three strategies within the thirty-two years of the People's Republic. It is our contention that the alternative approaches which we have labelled Strategies A,B,C, are very different, but were the principle strategic lines of socialist development attempted during this time in China



The first period in the economic history of the PRC, 1949-52, was essentially a time of rehabilitation. For over a century (since the first Opium war in 1839-42), China had experienced the agonies of foreign invasions and domestic turmoil. Worst of all had been the Japanese invasion of China (1937-45) and the subsequent four years of civil war between the Guomindang government of President Chiang Kai-Shek and the revolutionary movement led by the Chinese Communist Party. Once victorious in 1949, the CCP's principal tasks were to establish order under CCP rule, to resume production in industry and agriculture, and to carry out a basic land reform in the rural areas of China. As the prominent Chinese economist Xue Muqiao pointed out in a recent interpretation of the PRC's economic history, "By the end of 1952 the work of agrarian reform and economic recovery had been successfully completed". Having consolidated their regime and achieved a level of production comparable to pre-1949 peak years, the CCP leadership in 1953 was prepared to launch its first major effort to achieve a socialist construction in China. This was the first Five Year Plan, 1953-57, and Strategy A. Although the Chinese leadership never completely copied the Stalinist Strategic line (especially with regard to the collectivization of agriculture), many aspect of strategy A were borrowed from Soviet theory and the USSR's development experience. Moreover, Soviet Economic support and technological assistance were central factors in the design and success of the First Five Year Plan. Xue Muqiao, in his review of Chinese Development, comments:

"In the First Five Year Plan we emulated the Soviet Union and implemented a policy of giving priority to the development of heavy industry. With the help of the Soviet Union, China carried out the construction of 156 key projects (mainly heavy industries) to lay the initial foundation for socialist industry, and the achievement was colossal."

Although there was continuing debate in China regarding many aspects of this first effort at socialist development, it seems that all of China's top Party leaders agreed that it was the correct approach. Mao Zedong as well as the comrades with whom he would later disagree profoundly (e.g. Liu Shaoqi, Deng Xiaoping, and Peng Dehuai) all favored the Strategy A approach at that time.

By 1956, however, Mao with his speech "On the Ten Major Relationships", began to press for an alternative approach. The Great Leap Forward, 1958-60, and the people's communes constituted his design for achieving a faster transition to communism by employing an approach, Strategy B, built upon ideas proven to be successful during China's struggle against the Japanese during the Yanan Period. Rejecting reliance on heavy industry, Mao called for simultaneous development of agriculture and industry to be combined with a massive social mobilization to release the productive energies of the Chinese People. A new kind of social organization, the people's commune, would be the vehicle for resolving the contradiction between China's two economies (the collective agricultural economy and the state-owned industry) and serve as the institutional basis for the transition from socialism to communism. For Mao:

"The characteristic of the People's commune is that it is the basic level at which industry, agriculture, the military, education, and commerce are to be integrated in our social structure....The commune is the best organisational form for carrying out the two transitions, from socialist (the present) to all-embracing public, and from all-embracing public to communist ownership. In the future, when the transitions have been completed, the commune will be the basic mechanism of communist society." (Mao, a critique of Soviet Economy).

The great leap forward failed. Publicly, three reasons were given:

- 1) natural disasters, 2) the abrupt cutoff of Soviet aid and the withdrawal of all soviet technicians in the summer of 1960, and
- 3) a rather ambiguous category of organization and administrative problems having to do with the implementation of the Great Leap approach,



During 1959-61, China experienced a decline in output comparable in magnitude to the American Great Depression of the 1930s -- but in a country having a material standard of life which was only a fraction of that enjoyed in the United States. It has been estimated that China's agricultural production dropped thirty-one per cent from the peak year of 1958 to the bottom of the economic decline in 1960. Industrial production is estimated to have dropped forty-two per cent in just one year, from 1960 to 1961. Such sharp economic reverses caused great hardship throughout China. Party policies sought to equalize food consumption among the population in order to avoid large-scale starvation.

The party leadership divided over its interpretation of what went wrong and what should be done. Most courageous among those who opposed Mao Zedong was Peng Dehuai, Defense Minister and long time associate of Mao, who circulated a "letter of opinion" criticizing the Leap at the Lushan plenum of the CCP Central Committee in July 1959. Mao subsequently attacked Peng, and the meeting passed a resolution dismissing him from office.

By 1961-62, the Party agreed upon a number of expedient measures to readjust the economic system in order to halt the decline and to restore economic growth. These measures constituted a substantial retreat in relations of production from the surges in a communist direction attempted during the Great Leap Forward. For example, in agriculture, the 25,000 large-scale communes of 1958-59 were reorganised into 75,000 smaller communes (about the size of the 'xiang' or administrative village); the production team (approximately the size of a small village) was made the basic accounting unit; and the peasants in the collective economy were once again permitted "private plots" on which to raise crops for household consumption and even for sale. This structure of collectivized production has remained largely the same since 1962, in spite of efforts at different times during the decade from 1966 to 1976.

The policies of readjustment during 1961-65 were successful, and economic recovery and the beginning of a general pattern of growth of output ensued. However, the consensus within the Party leadership that expedient policies should be undertaken in the short run to deal with the economic decline began to break down once a pattern of substantial economic growth had again been restored. Many CCP leaders had opposed Mao's Strategy B concept of development as early as 1955-56 when he first pressed for its implementation. After the collapse of the Great Leap and the extreme price that the Chinese people paid for its failure, presumably many others were determined not to permit another such experiment in social change in China. But Mao would not remain content with the status quo. Precisely at the time that the policies of economic readjustment were being formally adopted as Party doctrine, Mao Zedong sought to reverse the retreat from socialism in the relations of production and superstructure in China by launching a Socialist Education Campaign. By means of education and propaganda, the campaign was designed to build on the poor and lower-middle peasants in the countryside, revitalize the class struggle, and to press Chinese society once again in a communist direction.

Differences about the correct road for China's future came to a head in 1965 and 1966. The great proletarian Cultural Revolution became a struggle over policy and power, each side convinced that its approach to socialist construction was the best for China, and that the opposition's strategy would lead to disaster. In June 1966, Mao Zedong and Lin Biao, frustrated by Party obstruction and sabotage of their initiatives, turned the Cultural Revolution into a mass movement to remove their opponents from power. "Bombard the Headquarters" was their motto as student Red Guards besieged government and party offices. Mao, Chairman of the Chinese Communist Party had gone to the streets to recapture control of his own Party organisation. Cadres at all levels were thrown out of office between 1966 and 1969, and head-of-state Liu Shaoqi and CCP General Secretary Deng Xiaoping were singled out as the most prominent "persons in authority taking the capitalist road". The Cultural Revolution focussed largely on superstructure, and it had surprisingly little effect in reshaping the economic base of Chinese society. It was a struggle



which remained unresolved for ten years, 1966-76, and which resulted in no fundamental and consistent new direction with respect to Chinese development<sup>④</sup>. Hence for the purpose of this analysis, the Cultural Revolution does not represent a separate strategic line of socialist development.

The Ninth Party Congress in April 1969 seemed to signal at least a limited victory for the cultural revolution, but it was followed by further struggles -- especially between Mao and Lin Biao. Ultimately Lin died under mysterious circumstances in a plane crash in September 1971, and was charged with having attempted a military coup d'etat. Struggles within the Party over policy and power continued until Mao's death in September 1976.

Looking back over the period from the beginning of the Cultural Revolution in 1966 to Mao's death in 1976, the present leadership tends to lump over together the entire decade as ten years lost to Cultural Revolution. The inconsistency of the policies implemented during this ten years is explained by some as due to virtually continuous struggles within the top party leadership resulting in no agreement about a clear new strategy, and by others as reflecting popular resistance to policies that did not make any sense. In Autumn 1979, Ye Jianying, in his speech celebrating the thirtieth anniversary of the founding of the people's republic, analysed the impact of the so-called Gang of Four and concluded: "In everything they did they set themselves against the overwhelming majority of the people in the party and country". The ten years, according to Ye Jianying, were "an appalling catastrophe suffered by our people".

The traumatic year for China was 1976. First, in January, came the death of Premier Zhou Enlai, and later, in April, the Tian An Men demonstrations (now usually called the April 5th Movement) in support of Premier Zhou and against the policies and power of Jiang Qing (Mao's wife), Zhang Chunqiao (a Deputy Premier), and others in the group which would later be called the Gang of Four. During the summer the old veteran and acting head-of-state Zhu De died, and one of the most destructive earthquakes in history killed 240,000 people in Tangshan. Finally, in September, Chairman Mao died, and the final stage in the process of leadership succession began. In October, the Gang of Four was arrested, and during the following year, a new leadership was formed around Hua Guofeng, supposedly chosen by Mao to succeed him; Ye Jianying, a veteran cadre closely linked to the military and Deng Xiaoping, once again rehabilitated to become the mainstay of the new regime.

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④ However, the cultural revolution did have some impact on the economic base in some parts of China in the following ways: some factories were sent to countryside; some collectives in the cities, especially in service industries (e.g. restaurants and laundries), were put under state ownership; in some rural areas, attempts were made to make the brigade rather than the team the basic accounting unit; and the policies of "politics in command" in both industry and agriculture sometimes reshaped the organization of production and patterns of distribution. For example. For example, Parish and Whyte in their study of rural Guangdong Province found significant changes undertaken beginning in 1968-69 due to implementation of the Dazhai work-point system and a different system for the distribution of grain



After the new leadership had consolidated its power in 1977, a new strategy of socialist development began to take shape. The Four Modernizations -- a plan to turn China into a powerful socialist country with modern agriculture, industry, national defense, and science and technology by the year 2000 -- had its roots in Premier Zhou's report to the First Session of the Third National People's Congress in 1964 (before the Cultural Revolution) and the Fourth National People's Congress of January 1975. But the Four Modernizations as an approach to socialist construction was not duly adopted as policy until after the First and Second Sessions of the Fifth National People's Congress and the Third Plenum of the Eleventh Central Committee of the CCP -- meetings held in 1978 and 1979. Even today, certain aspects of the strategy are still being debated in China, and much of what apparently had been decided has not yet been implemented.

Nonetheless, the general patterns of the new strategy are fully clear. The Deng Xiaoping leadership has proposed a combination of market mechanism with state plan, more autonomy for production units, a strategy which overwhelmingly emphasizes the development of productive forces, and an appeal to workers based on greater material rewards and consumer benefits. In 1979, Zhao Ziyang, more recently elevated to the Standing Committee of the Party Politburo defined socialism as having two central principles: 1) public ownership of the means of production, and 2) distribution on the basis of "to each according to his work". "With these two principles as the prerequisites", Zhao Ziyang asserted, "we should adopt whatever system, structure, policy and methods are most effective in promoting the development of the productive forces". In other words, according to Zhao, if those two principles are kept inviolate, almost anything else might be attempted in China in an effort to develop the economy.

TABLE 2 = STRATEGIES OF SOCIALIST DEVELOPMENT : DIMENSIONS

	Strategy A	Strategy B	Strategy C
1 Strategy focus	Social system (country wide infrastructure)	Individual ("new man")	production unit (management of enterprises)
2 Structural point of policy initiative	Center	Intermediate level (Commune in China)	Production unit
3 Economic base/superstructure emphasis	Relations of production & forces of production together	relations of production & superstructure	forces of production
4 economic sector emphasis (assuming that "balance" and integration of sectors is always important)	heavy industry	simultaneously development of industry & agriculture	agriculture and light industry (consumption emphasis)
5 Strategy implementation	plan	social mobilization with plan	plan-market combination.
6 work incentive emphasis	individual, material incentives	moral plus material incentives on group basis	Individual, material incentives.
7 international economic relations	integration with Soviet Union and socialist camp economies	Self-reliance	integration into the world market economy
8 role of the communist party	centralized rule from top down	social mobilizer in process of "continuous revolution"	contradiction between decentralization and Party political



Table 2 (previous page) identifies the key differences among the three major strategies of socialist development which have been attempted in China.

### STRATEGY A

The Chinese never fully adopted even those ideas that were proffered by the Soviets during the First Five Year Plan, so strategy A in its implementation was always a mixture of Soviet advice and the dynamic of the CCP experience up to that point. Soviet influence was greatest in the heavy industry sector during the first ten years of the People's Republic, and pervasive as well in military organization and science and technology. However, in agriculture (from which seventy per cent of output was derived in 1949), the CCP kept its own counsel, and the success of the collectivization of Chinese agriculture between 1953 and 1956 was in no sense due to Soviet advice but was rather the result of tried and tested CCP mobilization strategies from pre-1949 and the initial land reform program.

As has been mentioned, the First Five Year Plan was originally intended as the first of three five-year plans, to be implemented in connection with a comprehensive programme of soviet economic and technological assistance to China. Soviet aid commitments were part of a combination of military security and assistance pacts negotiated by Chairman Mao himself in Moscow from December 1949 to February 1950. These negotiations came at a time when the cold war was reaching fever pitch and only shortly before the outbreak of the Korean War in June 1950. Chinese intervention came in October-November to help defend North Korea after the United Nations forces crossed the 38th parallel in an American-led rollback operation. Already in June 1949, Mao Zetong had put forth the policy of "leaning to one side", cooperating with the socialist countries against imperialism. By the end of 1950, the CCP had little alternative since the American reaction to the outbreak of the Korean war included efforts to clamp a global embargo on trade with the people's Republic and to isolate it diplomatically. The CCP had no choice after 1950 but to rely on their Soviet and East European comrades.

In this sense, Strategy A for China was an imposed system, especially as it affected heavy industry. The Soviet Union provided approximately \$ 1.5 billion in credits to China during the 1950s, and thousands of Russians and East European worked in China as technical advisors in positions critical to China's economic modernization. Soviet planning concepts, patterns of industrial ~~and technical~~ and scientific organization, and a wide variety of technologies had important influences in China during these years. Strategy A -- a "command economy" -- gave clear priority to developing central planning; it emphasized heavy industry in an effort to build a country-wide industrial infrastructure; and the strategy design was one which seemed to assure a roughly proportional concurrent development of relations of production and forces of production in the direction of communism.

Initially, Strategy A was tremendously successful as a design to for achieving economic growth and modernization. For example, during the five years from 1953 through 1957, industrial production increased by 128.6 % and agricultural production by 24.8 per cent. Heavy industry increased annually by 25.4 % during these years, and light industry by an average of 12.9 %

### STRATEGY B

By the mid-1950s, the international situation had changed. Stalin had died in March 1953, and a negotiated conclusion of the Korean War had been reached soon thereafter. Gradually China had broken out of the American-imposed diplomatic isolation, especially after the successful Bandung summit conference of Afro-Asian states in 1955. Domestically the First Five Year Plan had been successful in laying the material foundations for socialist construction in China, and internationally, conditions were shifting, it seemed, in favor of the socialist camp. Prompted by the Soviet launching of the first earth satellite in October 1957, Sputnik I, Mao Zetong put forward a new interpretation of global politics using the



metaphor of East Wind over the West Wind.

By 1955-56, Mao had apparently concluded that the time was ripe for building Socialism - Socialism on a Chinese design fitted to China's concrete conditions - and that the Soviet-style First Five Year Plan should not be continued. Indeed high rates of economic growth and an immense development of heavy industry had been achieved, but at the same time, differences between mental and manual labor, city and countryside, and worker and peasant were growing greater. BUILDING SOCIALISM FOR MAO WAS A DYNAMIC MASS-PARTICIPANT PROCESS, NOT SIMPLY THE IMPOSITION OF A CENTRALIZED SYSTEM WHICH GAVE DIRECTION TO THE POPULACE. It had been a working assumption among many American political scientists, especially since the cultural revolution, that the state system in China is fundamentally unstable. On the contrary, for Mao in the mid-1950s, the PRC state system was seen to be too stable, too centralized, too rigid, and too given to running the country by issuing commands from the ~~XXXXXX~~ Center.

The logic of Strategy B, which in our view is best represented in the approach attempted during the Great Leap forward, begins with a particular epistemology and emphasizes transforming individual citizens as both the means and the end of socialist construction. For example, compared with the logic of Strategy C or market socialism, Strategy B as a concept of socialist development is different in many fundamental ways, especially regarding epistemology or how one attempts to understand the world, assumption about human motivation, and theories about how societies change.

The Strategy B approach, which is conceptually founded on dialectical materialism, begins with the proposition that contradictions exist in all things and that life should be understood as a dialectical process. There are "laws" which govern the evolution of human affairs, but these laws are different for the various countries because of the particularities of the concrete conditions of each. Thus, a strategy for socialist development (like a struggle for national liberation or any other purposeful collective action) must be undertaken as a process of discovery. No one knows in advance what the objective laws are. Hence, the correct strategy must be discovered through experience. According to Mao :

"At the beginning no one has knowledge. Foreknowledge has never existed. If you want to know the objective laws of the development of things and events you must go through the process of practice, adopt a Marxist-Leninist attitude, compare successes and failures, continually practicing and studying, going through multiple ~~xx~~ successes and failures; moreover meticulous research must be performed. There is no other way to make one's own knowledge gradually conform to the laws. For those who see only victory but not defeat it will ~~xx~~ not be possible to know these laws."

(Mao, "Critique of Soviet Economics", p. 72)

For Mao, "Human knowledge and the capability to transform nature has no limit" (Mao, "Critique of Soviet Economy, p. 137). We are limited only by our capacity to understand. Therefore, those who aspire to achieve socialist construction must work in the unknown to discover those laws of transformation which apply in the particular conditions of any country. Socialist transformation is not achieved by anyone's imposing a system. Transformation by definition is anti-system.

In Mao's view, the Chinese Communists would have to be as inventive and imaginative in designing strategies for socialist construction in a non-industrialized country as, for example, Marx was original in his analysis of capitalism in the middle of the 19th century THEY WOULD HAVE TO FIND WAYS OF DOING WHAT HAD NEVER BEEN DONE BEFORE.

People must liberate themselves, Mao insisted -- they must transform themselves. For example, land was not given to peasants in China during the period of land reform. Rather, under the leadership of the Party, they waged a class struggle to take the land away from the landlords.

Mao argues that contradiction are the motive force in the development of socialism, and that a "thoroughgoing socialist revolution must advance along the three fronts of politics, economics, and ideology" (Mao, "Critique of Soviet Economics", p. 48). In his view, "no line of development is



straight; it is wave or spiral shaped ...The development of all things is characterised by imbalance" ( Mao, "critique of Soviet Economics" p.80) According to Mao Zedong, in a process of socialist construction, changes in relation of production, and the impact of superstructure is also important in creating the ideological and political bases for initiatives in the transformation of the economic base of the society" ( Ibid. p. 67-68)

The Great Leap Forward approach clearly draws on an analogy with the successful mass mobilization strategies of the Yanan Period during the war against Japan. In socialist construction, as in waging revolutionary war, Mao assumes that the key to success is a motivated population. Party-led efforts to mobilize and to sustain support should be designed to tap the basic enthusiasm of the people through the implementation of the "mass line". It is not a matter of moral versus material incentives for Mao Zedong, but rather political mobilization to achieve greater collective efforts in which all will benefit. In terms of the logic of Strategy B, those who "serve the people" also serve themselves as the collective effort moves forward both relations of production and forces of production at an unprecedented rate. At a micro level, as has already been mentioned, the commune was for Mao the basic social unit of socialist transformation, and the creation of the "new man" in China was in a sense both the means and the ends of Strategy B. The ~~xxxx~~ success of the Maoist concept of socialist development during the Great Leap Forward depended on individual Chinese making a commitment to work selflessly and energetically for the collective good. If such mass attitudes could be inculcated and such behavior sustained, both the productive energies needed to develop productive forces and the ideological and political prerequisites for communist society could be attained simultaneously.

#### STRATEGY C

Finally, let us turn to Strategy C, the market socialism approach. Although there are a number of different thinkers contributing theory to the Four Modernizations strategy of socialist Development (E.g. Chen Yun, Hu Qiaomu, Xue Muqiao etc), and there are some disagreements among them. It seems to us however that the strategy as a general line is fairly clear and consistent. Moreover, Chinese economists confirm that the ideas underlying the Four Modernizations are largely in agreement with the theoretical argument made in Ota Sik's "Pxxn Plan and Market Under Socialism". Therefore, Sik can also be helpful in illuminating this approach.

The Strategy C concept seems to assume that the laws for the development of socialism are fairly well understood. Unlike Mao, who calls for "discovering" laws of development, Hu Quiaomu has written an important article calling upon the people of China to "observe" economic laws.

In the minds of the theorists of Strategy C, these laws call for an overwhelming emphasis on the development of forces of production. They condemn the policies of the Great Leap Forward as utopian and conceived on the basis of idealism rather than concrete materialist analyses of the potentialities of Chinese society. Unstated in their argument -- but clearly implied -- is the understanding that to reconsolidate Chinese society after the ten lost years of Cultural Revolution (1966-76), Chinese development strategy must make a short term retreat from socialism in relation to production in order to get the economic system running efficiently after such prolonged dislocations -- attributed to the Gang of Four ( and Mao Zedong).

In order to increase efficiency and economic output, Strategy C calls for the combination of a market ~~xxxxxx~~ mechanism with state plan ; the competition of production units within a given industry ; much greater autonomy to be permitted to individual enterprises ; and appeals to Chinese workers to produce more and better quality products in return for individual material rewards. The production unit is the focus of this strategy, and improving enterprise management is one of its principal tasks.

⊗ It should be noted that a number of Socialist countries are presently experimenting with varieties of the Strategy C model, including Vietnam.



The pattern of development envisaged by Strategy C is continuous and incremental, not wave-like as in strategy B, on the assumption that after certain levels in the development of productive forces are achieved, somehow changes in the relations of production moving sharply in a more communist direction would take place. One problem here is that there is no theory as yet spelling out how or why that would take place. On the contrary, Xue Muqiao, for example, is theorizing about how the collective economy should be expanded as one way of dealing with unemployment, rather than designing ways to transform the collective economy into the more socialist form of ownership by the whole people

Underlying Strategy C is the assumption that human beings are basically motivated by individual material interests, and that the best way to increase efficiency and productivity is to encourage competition among workers and enterprises through promises that those which produce most will be rewarded most. This, it would seem is the main intended function of the market and the concept of distribution on the basis of "to each according to his work!"

In evaluating the Four Modernizations approach as it is implemented in China some of the central theoretical and empirical questions which should be considered, we think, are :

- 1) the role of "law of value" in both circulation and production.
- 2) treating means of production as "commodities" and what implications follow from that for the principle of public ownership of the means of production (especially in light of Mao's notion of the redistribution of the ownership of the means of production as one of the key elements in a process of socialist transformation).
- 3) Greater enterprise autonomy combined with distribution based on "to each according to his work" and their influences on worker income differentials, social stratification in Chinese society, and the politics and socialist consciousness in a socialist society.

Finally, with regard to international economic relations, strategy C calls for China to become integrated with the world market system for the purpose of gaining access to foreign capital and technology -- in a manner parallel to international economic relations under Strategy A which call for integration with the economies of the USSR, and the socialist camp. Strategy A, "leaning to one side", is based on economic integration with the East ; Strategy C, leaning toward the other side, seeks integration with the West. Both differ markedly in this regard from the "self-reliance" policy of Strategy B. At year end 1981, international economic policies that were anathema under Mao Zedong's rule were being pursued by the Four Modernizations Leadership : establishing joint ventures in China with multi-national corporations, joining the International Monetary Fund and the World Bank, the two multilateral institutions linking the capitalist industrialized countries with the Third World ; accepting long-term foreign loans ; building a tourist industry ; importing foreign consumer goods for sale to Chinese citizens ; and sending thousands of Chinese students and scholars abroad for academic training in capitalist countries.

One Chinese economist, Huang Fanzhang, has suggested that the market mechanism and "consumers' sovereignty" should be central elements in a socialist economy in order to mediate the different economic interests which inevitably would develop among different enterprises and individuals. The market, according to Huang, would permit those who serve China's consumers better to earn more, and those who serve badly to earn less. Moreover such a mechanism would encourage Chinese producers in the aggregate to be more productive and efficient. (Huang Fanzhang, "Comment on Consumers' Sovereignty," 'Jingji Guanli' (Economic Management), 1979, No 2 pp. 25-27.

Beijing Review of April 5, 1982 (p.11) reports : "More than 1,000 joint ventures and co-operative and compensatory trade items with foreign business, totalling 2,900 million US dollars in investment, have been approved by the Chinese Government since the adoption of the open door policy and the promulgation in 1979 of the Law Governing Joint Ventures with Chinese and Foreign Investments".



## IMPLICATIONS AND EVALUATION : DILEMMAS OF SOCIALIST DEVELOPMENT

Only one of the three approaches to socialist construction considered here, Strategy A has ever been completely implemented in China in the sense of a strategic line being translated into public policies which ultimately transform the structure of society into a particular kind of Social system. In fact, in terms of its fundamental characteristics, the social system of China in 1982 was still that which was created during the First Five Year Plan, 1953-57 : i.e., a centralized command economy, under the political regime of a "dictatorship of the proletariat". Hence, the evidence available is only sufficient for an empirical evaluation of Strategy A. With regard to Strategies B and C, we must rely more on the implications of the conceptual design and on evidence from the experiences of other socialist countries. For example, "Market socialism" strategies have been implemented for a number of years in both Yugoslavia and Hungary. Evidence from the economic history of these two countries can suggest implications for the implementation of the four Modernization approach in China. To our knowledge, Strategy B, the mass mobilization line, has never been successfully implemented in any country. We will return to this point.

### EVALUATION: STRATEGY A

The successes of the Stalinist model in China were :

- 1) Establishing an infrastructure for industrial development,
- 2) Achieving high rate of economic growth, especially in heavy industry.
- 3) Bringin about significant social change, principally the nationalization of industry and the collectivization of agriculture.

With regard to the short comings of Strategy A, probably the most telling criticisms are those made by Mao Zedong and Ota Sik, both proponents of alternative development strategies. Critics find that, Economically, Strategy A :

- 1) produces economic sector imbalances and bottlenecks through its emphasis on heavy industry,
- 2) leads to irrational resources allocation and production priorities because of the inefficiencies of administered allocations,
- 3) stifles the enthusiasm and initiative of workers and enterprise managers; and, over the long run
- 4) leads to low rates of capital and labor productivity.

Politically, the critics say, the social system created by Strategy A becomes a dictatorship by the ruling communist party in the "new class" sense of Milovan Djilas or what some Poles during the strike of 1980-81 were calling the "red bourgeoisie". Applying Lenin's "State and Revolution" to the analysis of socialist societies under Strategy A, one can argue that the communist party having established a "dictatorship of the proletariat" does not own but comes to control the means of production and emerges as a new ruling class, enjoying tremendous power through their centralized bureaucratic direction of the economy via state planning, and their formal monopoly of political power. As a result, the initial process of social transformation toward communist society begun under a Strategy A-type social system stops, because of the vested interest developed by the "new class" in the established order. In addition, it would seem that such a system has a tendency to stratify into privileged and less privileged groups, and to rigidify under bureaucratic rules.

If socialism is understood as we have defined it in this paper -- i.e., as a process of basic societal transformation and an historical period of planned transition from capitalism to communism -- then, under Strategy A, the term "socialist state" becomes a contradiction in terms. Socialism calls for basic social transformation, but the State stands for defense of the established order. Empirically, in contemporary history, it seems



that the principal function of ~~any~~ any state has been to preserve the established order, and those leaders who hold state power (including revolutionaries who have won state power by force) develop an interest in preserving that order which sustains them in power. From this perspective, it should not be surprising to find that in socialist societies, state officials and economic planners do not write theory of socialist transformation. Instead they write designs for the development of ~~per~~ productive forces -- strategies to achieve wealth and power which do not threaten the established order. One wonders, therefore, how under a Strategy A social system there can ever be a successful socialist state in the sense of those who hold state power directing a process of basic social transformation which must ultimately undermine their own power.

#### EVALUATION : STRATEGY B

In these terms, however, Strategy B is an exception. Of the three strategic lines, it is the only one designed to produce repeated attempts to achieve social transformation toward the communist-society ideal. Significantly, the communist party leaders who write strategy B theory and call for mass mobilization strategies of development are the original leaders of the struggle for state power, men like Mao and Castro, who apparently retain in their minds a vision of the ideals for which the revolution was made in the first place, and for whom, unlike most of their party comrades, achieving state power and the privileges that go with it are not enough.

Mao Zedong believed that the two objectives of social transformation (continuing fundamental change in the relations of production) and economic modernization (the rapid development of productive forces) were congruent objectives which could both most rapidly be achieved through strategies of social mobilization. Unlike the theory of Strategy C which conceives of a trade-off relationship between the two objectives at least in the short run, Strategy B theory argues that the key to socialist development is to achieve both goals simultaneously by means of social mobilization.

In fact, however, the Great Leap line in China, 1958-60, failed to achieve either sustained social transformation or economic modernization. Instead, the Great Leap Forward resulted in a sharp economic downturn and widespread hardship for the Chinese people. Moreover, social mobilization strategies have never been successful in achieving both objectives over a sustained period of time in any other socialist country either.

In China after Mao's death, the prevailing view was obviously that the theoretical design of Strategy B was fundamentally wrong, that it was an "idealist" notion inappropriate to the objective conditions (the present stage of the development of productive forces) in China, or even that it was a theory contrary to human nature. At least one senior member of the CCP has concluded that Mao Zedong "was never a Marxist". Yet, Mao's concept of mass mobilization did indeed succeed as a strategy during the struggle for state power before 1949. Why did it fail as a design for socialist construction in the late 1950s?

In the critics' view, the Great Leap failed because the Chinese people would not support it. For example, some argue that the Yanan analogy, which Mao invoked, was at best inappropriate. During the Yanan Period, the Chinese people were fighting for their lives against invading Japanese, and later fighting to overthrow a corrupt and rapacious Guomindang government before it exterminated them. Radical solutions, they argue, were appropriate to the radical problems of the time. But by the late 1950s, conditions were different. The people of China felt relatively secure from foreign attack and had become concerned with the more prosaic problems of increasing their material living standard, planning careers, and aspiring to brighter future for their children. Radical policies of ~~mass~~ mobilization and continuous remobilization failed, therefore, to gain ~~mass~~ necessary popular support.



Another way of trying to understand the contrast between Mao's success during the struggle for state power and his failure during the great leap forward might be to compare the importance of the popular support for the CCP leadership before and after 1949. During the struggle for state power (both against the Japanese and the Guomindang government), the Party's survival was at stake. If the party's mass mobilization policies were not successful in winning the support of the Chinese people, the CCP leadership as well as its followers would be destroyed. However, after gaining state power, the Maoist party, although it still needed the support of the people it governed like any modern state leadership does, no longer depended to such great extent on popular support for its own survival. Popular support as the critical test of the success of Party policies was no longer so important. Perhaps inevitably, Mao and the Party leadership became less responsive to the desires and demands of the Chinese people, and more likely to engage in "commandism" -- ordering things done, rather than designing policies responsive to the people's concerns and requirements. In China today, people joke that Mao's approach after the mid-1950s was not so much based on the "mass movement" ( Qunhong yundong), as "moving masses" ( Yundong qunzhong) -- i.e., Party leaders manipulating the Chinese people for their own selfish purpose.

The actual reasons for the failure of the Great Leap and other Strategy B attempts remain, in our view, an open ~~xxxxxxx~~ empirical question -- a question of critical significance for the hope of socialist transformation under any of the established socialist systems in the world today. Empirical research in China and Cuba, for example, will have to determine the reasons for the failure to implement successfully the Strategy B approach to socialist development. We suggest however, that the answer to this question should be sought not only in investigations of the appropriateness of the theory to existing conditions and the willingness of citizens to support policies of radical transformation, but also in research on the resistance and possible sabotage by a communist party "new class" fearful of losing its privileges and power.

#### EVALUATION : STRATEGY C

As we have seen, advocates of the Strategy C approach criticize the inefficiencies of centralized state planning and the emphasis placed by the Stalinist model (Strategy A) on achieving rigid output quotas, arguing that such a system does not produce what is needed and desired by consumers and that the system stifles both workers' enthusiasm and managerial initiative. By combining socialist planning with a competitive market system, they say, a Strategy C approach can inspire enthusiasm among workers and managers, and reverse the pattern of low productivity and inefficiency. Enterprises should be required to compete against each other within the market, and they should earn material rewards on the basis of comparative efficiency and profitability. Workers, similarly, should be compensated for the quantity and quality of their work as measured by the market, thus directly linking production performance to ~~xxxxxxxxxx~~ material reward.

The market is the heart of this design for socialist development. Moreover, a market is not something that can be turned on today and off tomorrow. It is a structural phenomenon which must be permitted to function according to its own dynamic in order to produce the promised economic benefits. The market mechanism is intended to reshape individual and institutional expectations and behaviors, and ultimately, the success or failure of Strategy C is dependent upon the implementation of a market mechanism.

POLITICALLY, it seems, especially from the experience in Yugoslavia, that under Strategy C, there arises an almost inevitable contradiction between the communist party's formal monopoly of political power and the economic power enjoyed by production units under this kind of decentralized



economic system. Hence the implementation of Strategy C would seem to challenge the customary notion of the communist party's leadership role under the "dictatorship of the proletariat". At the same time, however, Strategy C may possibly provide the best available means to date of democratizing the Stalinist Social System -- the economic power of worker-managed enterprises increasingly cutting into the centralized political power of the Party. The struggle over implementing market socialism reforms in China during 1980 and 1981 seems to have been principally a struggle between Strategy A and Strategy C adherents -- the advocates of Strategy A fearful, among other things, of the threat to the power of the Party and State Center represented by Strategy C efforts to decentralize economic decision-making.

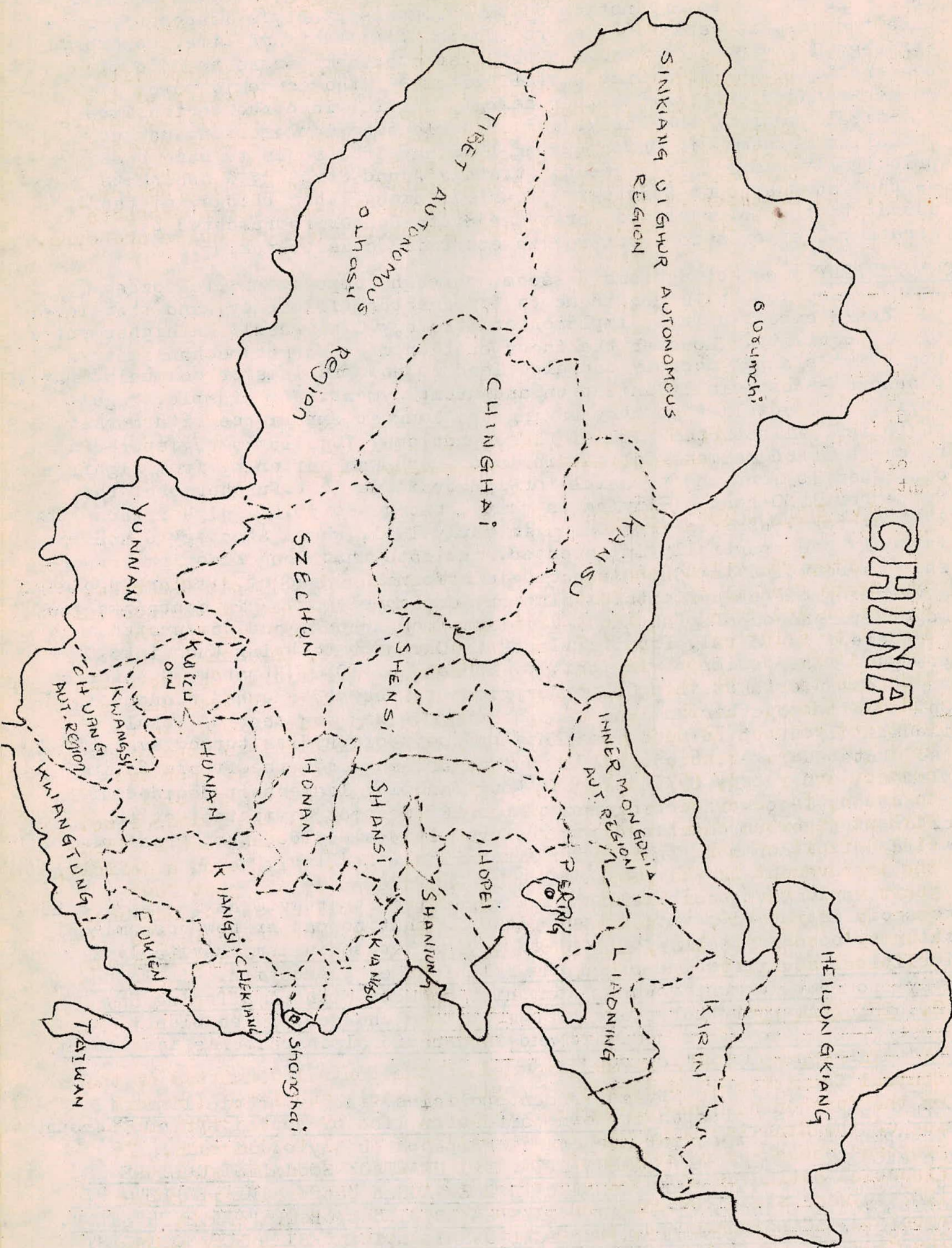
ECONOMICALLY, market systems do seem, through competition, to force upon production units requirements for greater efficiency, and therefore, we should expect a fully implemented Strategy C to result in higher rates of productivity. However the incorporation of a market mechanism in a socialist planned economy can also lead to new problems for communist party planners -- especially inflation and unemployment. For example, Yugoslavia, the socialist country having the longest experience with market socialism, illustrates some of these problems. Yugoslavia registered a record balance payment deficit in 1980, and was suffering from significant unemployment and perennial foreign trade deficit. Furthermore, the September 1980 cost-of-living in that country was 35.8 % higher than the 1979 average. Reports from China in early 1981, where Strategy C has thus far only been partially implemented, indicate that Deng Xiaoping leadership is reevaluating China's economic reforms because of similar problems: government budget deficits, inflation, overcommitment in contracts for major purchases of plant and equipment from abroad, and failure to complete successfully foreign plants in China or to bring them into production as designed. In fact, by the end of 1980, Strategy C reforms had been undertaken in 6,000 enterprises in the state-owned economy in China which together in 1980 accounted for sixty per cent of total industrial output value and seventy per cent of profits turned over to the state. However, because of problems arising from the efforts to implement a Strategy C model, the Deng Xiaoping leadership decided at a December 1980 work conference of the CCP Central Committee not to extend the reforms. Instead of "reform" it was decided that "readjustment" would be the central task of the Sixth Five Year Plan.

Ultimately, the central problem regarding Strategy C as an approach to socialist development, in our view, is that no matter how economically successful it may turn out to be, market socialism inevitably involves a serious reversal in the relations of production. It leads away from development toward communist society without offering any immediate prospect that these trends will be changed. To be blunt, Strategy C in both its domestic and international characteristics amount to "taking the capitalist road".

Once implemented by government policies, the strategic line of market socialism creates its own particular kind of social system, through reshaping both the social structure and people's way of life. FOR MAO ZEDONG AND MANY COMMUNISTS, THE HEART OF SOCIALIST CULTURE IS THE COLLECTIVE SPIRIT REPRESENTED IN THE SLOGAN "SERVE THE PEOPLE". BY CONTRAST, THE CULTURE OF A MARKET SYSTEM ENJOINS EACH TO "SERVE THYSELF". STRATEGY C IN ITS PRACTICAL IMPLICATIONS IS NOT A DESIGN FOR SOCIALIST CONSTRUCTION BUT RATHER A FORMULA FOR RESTORING THE CENTRAL STRUCTURAL CHARACTERISTIC OF A CAPITALIST ECONOMIC SYSTEM, THE MARKET.

SOURCE Peter Van Ness and Satish Riachur, "Dilemmas of Socialist Development: An analysis of Strategic Lines in China, 1949-1981, in Bulletin of Concerned Asian Scholars, Volume XV, Number 1, 1983, p.2 to 15.  
(Edited by our Centre.)







THE PRESENT ECONOMIC SITUATION AND THE PRINCIPLES  
FOR FUTURE ECONOMIC CONSTRUCTION

On November 30, during the fourth session of the fifth National People's Congress, Zhao Ziyang, Premier of the State Council, presented a report of the work of the Government. It is both, an evaluation of the previous years and a statement of policy regarding the future. The report has been published in its totality in the Beijing Review, December 21, 1981. We are reproducing here large extracts of this report. Sub-titles and occasional summaries are ours.

#### 4. THE PRESENT ECONOMIC SITUATION

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##### 1. THE PERIOD 1979-80

After the Third Session of the Fifth National people's Congress, the State Council made a further comprehensive analysis of the economic situation and trend and identified some major problems calling for immediate solution. From 1979 on, we substantially increased state expenditures for improving the people's living standards. On the whole this was the right thing to do, even though the steps we took were a bit too hasty. At the same time, capital construction expenditures were not reduced as much as called for, and administrative expenses kept going up. Hence, total expenditures exceed revenues. For two consecutive years, 1979 and 1980, there were very large financial deficits, too much currency was put into circulation, and prices rose. Without vigorous counter-measures, there would again have been a financial deficit of more than 10 billion yuan in 1981. With such a deficit, the improvement in the people's living conditions in the past few years would have been forfeited and the disproportions in our national economy aggravated, there would have been serious confusion in the country's economic life, and it would have been hard to strengthen our political stability and unity.

##### 2. THE YEAR 1981

In February 1981, on the proposal of the Central Committee of the Central Committee of the Party, the State Council submitted a report on the further readjustment of the national economy to the 17th meeting of the Standing Committee of the National People's Congress. It proposed necessary revisions of the 1981 national economic plan and financial estimates with the aim of achieving a basic balance within 1981 between state revenues and expenditures and between credit receipts and payments and, in the main, stabilizing commodity prices. The Standing Committee of the National People's Congress examined and approved these revisions.

Since the beginning of 1981, governments at all levels have resolutely carried out with marked success a series of emergency measures for further readjusting the national economy. On the basis of our achievements in the past 11 months, I can now confidently report to this session that the 1981 national economic plan will be fulfilled and our objective of stabilizing the national economy will essentially be realized. Despite extensive economic readjustment and despite this year's serious natural calamities, the total output value of



agriculture and industry in 1981 will not go down, but, on the contrary, will increase by more than 3 per cent over that of 1980. The overall economic situation is better than anticipated. Our national economy has embarked on the path of steady growth.

### 3. ECONOMIC STABILITY

Economic stability is manifested, first of all, in the basic balance between state revenues and expenditures and between credit receipts and payments. Since the winter of 1980-81, through their united and concerted efforts, the State Council and governments at all levels have strengthened centralized leadership, tightened financial and price controls, rigorously curtailed capital construction and administrative expenditures, economized on other spending and explored new sources of revenue so as to ensure the implementation of the 1981 budget. The financial deficit for the year is expected to drop to 2.7 billion yuan, from 17 billion yuan in 1979 and 12.7 billion yuan in 1980. It is no easy matter for any country to eliminate large financial deficits and basically balance its budget in a short time. We have done it relatively smoothly, thanks to the hard work of all our people and the full trust they have shown in the government. This proves the complete correctness of the policy decisions of the Central Committee of the Party and the State Council and the great superiority of our socialist system. On behalf of the Central Committee of the Party and the State Council I express thanks to the people of all nationalities for their trust and support.

### 4. NEW PROGRESS IN AGRICULTURAL OUTPUT

The steady development of the Chinese economy depends on an overall increase in agricultural production. Although many regions have suffered serious floods and droughts in 1981, agricultural prospects in the country as a whole are bright. It is estimated that total grain output may approach the 1979 level, which would make 1981 the second peak year since the founding of the People's Republic. A new breakthrough has occurred in cotton production following the previous all-time record of 1980. Output of oil-bearing crops has risen by about 17 per cent following big successive increases in the three previous years. Output of sugaryielding crops should register an increase of more than 10 per cent over 1980. New successes have been scored in forestry, animal husbandry and fisheries. Enterprises run by communes and production brigades and teams have continued to make progress; household sideline occupations have grown even faster.

### 5. NATURAL CALAMITIES

This year, many regions in China suffered from floods or droughts, which were of a gravity rarely known in our history. With unstinted help from the other regions the ensuing difficulties were overcome through the concerted effort of the Party and government cadres, the commanders and fighters of the People's Liberation Army and the broad masses in the affected areas. Production was rapidly resumed, great care was taken of the people's livelihood, and society is in good order.

### 6. LIGHT INDUSTRY

In light industry, production rose markedly thanks to the principle of stressing the manufacture of goods for everyday consumption and to the adoption of a series of detailed measures. It is estimated that the total output value of textile and other light industries for 1981 will show an increase of 12 per cent over 1980. The output of durable consumer goods such as wrist watches, bicycles, sewing machines, TV sets, washing machines and electric fans has increased by double-digit percentages or in some cases several-fold. Output of such major items as cotton yarn and cloth, chemical fibres, sugar, paper and cigarettes



will reach or exceed the planned targets. Light industry and textile products are now available in better designs and quality and in higher variety. The output of medium-and high-grade products has markedly increased, and articles of daily use are available in more varieties. Great changes in our markets as compared with previous years are apparent to all. Substantial increases in the output of goods for everyday consumption, continuing over several years, have played a major role in meeting the needs of people in town and country, created a thriving market, reinvigorated the economy, enabled all industry to maintain a certain rate of growth and increased financial revenues.

## 7. HEAVY INDUSTRY:

In heavy industry, which is now being readjusted, the year 1981 will witness a decrease of about 5 per cent in output value as compared with 1980. This has resulted from the following circumstances: A number of heavy industrial enterprises have suspended production of grossly overstocked items whose manufacture entails high energy consumption. These cutbacks are necessary and rational, for they enable us to transfer the energy thus saved to light industry. A considerable number of heavy industrial enterprises, which have long engaged mainly in serving capital construction, have found their production dropping in 1981 as a result of the much curtailed investment in capital construction and the corresponding decrease in orders for equipment and other production goods. This is inevitable in the course of readjusting the service orientation and product mix of heavy industry. Also, some heavy industrial enterprises were switched to the manufacture of other products later than they should have been, thus causing a drop in the production of some items, which could have been avoided. This happened because some comrades were slow to act, failing fully to understand the necessity of readjusting the service orientation and product mix of heavy industry. Efforts are being made to overcome this tendency. In the latter half of 1981, much has been done in heavy industry to change the orientation of its service, to cut back on products in excess supply and to increase the output of items most needed by the people and export items.

## 8. CAPITAL CONSTRUCTION:

The appropriate curtailment of capital construction is an important aspect of this year's work in economic readjustment. The problem of overextension of capital construction is being resolved step by step, and utilization of investment in this field is more rational than before. Total expenditures on capital construction were cut down to 30 billion yuan in February this year when the national plan was being revised. Later, 8 billion yuan were added, of which 3.5 billion have been used in building more housing projects and the production of goods for everyday consumption, in developing the oil industry and the transport services, and in resuming a number of badly needed projects whose equipment and technology are introduced from abroad. The emphasis in capital construction this year has first of all been on textile and other light industries which have an important bearing on people's standard of living, and then on energy, building materials and transport and communications. The proportions going to education, science, culture, public health and urban utilities have been raised in varying degrees. The first stage of the Gezhou Dam water-control project which had started several years ago was speeded up, so that the river was open to navigation in June 1981 and the first 170,000-kilowatt generator set went into trial operation and began to generate electricity. The three big chemical fibre plants in Liaoyang, Tianjin and Sichuan have basically been completed and put into commission. Over 90 per cent of the projects scheduled to go into full operation 1981 can be completed according to plan. This is a rate unknown for many years.



## 9. SCIENTIFIC RESEARCH:

Scientific research is playing an important role, guided as it is by the correct principle of the close integration of research with economic construction. The pace has been quickened and there has been substantial progress in applying the latest results of scientific research, in popularizing new technology and in absorbing imported advanced technology in agriculture, industry, national defence and other fields. In 1980, altogether more than 2,600 major research projects were successful, and there will be still more successes in 1981. About 50 per cent of the results have been applied to production. The popularization of such improved strains as hybrid paddy rice and "Lunian" Cotton Seed No. 1 over large areas has greatly contributed to the increased output of grain and cotton. During 1981 industrial departments have trial-produced or experimented with about 10,000 new products and technologies, half of which have been applied in regular production. Extensive use of new techniques and materials has steadily raised the technical level of industry. The successful launching of three satellites with one carrier rocket points to a new achievement in our science and technology following the launching of a carrier rocket to a prescribed area in the Pacific last year.

## 10. DOMESTIC AND FOREIGN TRADE:

Domestic and foreign trade has expanded. More commodities are now supplied to the home market and consumer demand is being met fairly well. The volume of retail sales for 1981, according to estimates, should register a 9 per cent increase over 1980. To achieve a balance between the supply of commodities and social purchasing power, it was originally planned to release several billion yuan's worth of commodity inventories. But as both purchases and sales have grown considerably, instead of going down commodity inventories are expected to increase by nearly 10 billion yuan. There has been a fairly big increase both in trade handled by urban and rural collectively owned establishments and in trade run by individuals as a supplement to state-operated and collective commerce. These forms have complemented state-owned stores, restaurants and service trades with respect to the increase in the number of stores, variety of goods, scope of services and business hours, thus providing more conveniences for the people.

## 11. ECONOMIC AND TECHNICAL EXCHANGE :

Further progress has been made in economic and technical exchanges with foreign countries, and the total volume of imports and exports in 1981 will have increased considerably over the previous year. More solid and perceptibly successful work has been done with regard to joint ventures involving Chinese and foreign investment, compensatory trade, the processing of materials for foreign businessmen, and the import of advanced technology and key equipment.

## 12. LIVING STANDARD OF THE PEOPLE:

The living standards of the people have continued to improve. With the overall increase in agricultural production, rural income has gone up noticeably following the fairly big rise in the two previous years. There are more and more peasant families, production teams, production brigades, communes and counties whose income has gone up by a big margin. In 1979, there were 1,622 production brigades whose members each received an average of over 300 yuan from the distribution of collective income. The number rose to 5,569 in 1980 and it will be even higher in 1981. Especially gratifying is the fact that production and the people's living standards have gone up considerably, and profound changes have taken place in areas such as western Shandong, eastern Henan, northern Jiangsu and the area



north of the Huaihe River where production used to be low because of poor natural conditions. An important indicator of the improvement in peasant living conditions is the large-scale construction of housing in rural areas where, according to incomplete statistics, new houses with about 900 million square metres of floor space have been added in the past three years. In the cities and towns, 4.77 million people were assigned jobs from January to September 1981. It has been decided to raise the pay of primary and middle school teachers, of some medical personnel and of physical culture workers as of October this year. Despite the big reduction in capital construction expenditures, the financing of housing projects for workers and staff has remained at last year's level, and close to 80 million square metres of new residential space in cities and towns will be completed by the end of 1981. With better planning of auxiliary projects providing water, electricity and public transport, more floor space will be commissioned than last year, resulting in improved urban housing conditions. Bank savings in the urban and rural areas increased by 9.5 billion yuan between January and October 1981, reaching 49.4 billion yuan. This is a striking indication of the improvement in the living standards of the masses of the people as well as of their confidence in the development of the economy.

### 13. READJUSTING ECONOMIC POLICY:

The setting forth of the principle of readjusting, restructuring, consolidating and improving the national economy marked a fundamental turn in our economic work under the guidance of the correct line formulated at the Third Plenary Session of the 11th Central Committee of the Party.

### 14. READJUSTING RURAL POLICY :

Beginning from 1979, we set about readjusting our rural policy to ensure the production teams's power of decision. Many different forms of the system of responsibility for production have been practised in our vast rural areas in the last three years. This system represents a new form of management and distribution for our socialist agriculture in the specific conditions of China's countryside. We have firmly grasped two important links: the establishment and perfecting of the responsibility system and the development of diversified undertakings. Meanwhile, we have made significant increases in the purchasing prices of farm and sideline products and decided to import a certain quantity of food grains every year. All this has been of great help in readjusting crop patterns, developing a diversified rural economy in accordance with actual conditions and rehabilitating the rural areas.

### 15. READJUSTMENT IN INDUSTRY:

Readjustment in industry is somewhat different from that in agriculture. In industry, the main stress is on readjusting the proportions between its different branches, coupled with the necessary restructuring. As regards the readjustment of the ratio between light and heavy industry, measures have been taken since the policy decision in late 1980 to further readjust the national economy—to give top priority to the development of light industry in the following spheres: the supply of raw and semi-finished materials and energy; bank loans; tapping potential, and carrying out technical innovations and transformation; capital construction; the use of foreign exchange and imported technology; and transport and communications. In 1981, beginning with key industrial cities, co-operation for specialized functions and through different forms of economic association has been organized for the mass production of certain items, with factories producing brand-name and quality products as the foundation. At the same time, arrangements have been made for such enterprises in the



heavy and national defence industries as have the necessary conditions to produce durable consumer goods which meet the needs of the people. All these factors account for the sustained increase in the proportion of the total industrial output value produced by light industry. A bigger section of heavy industry is able to give direct service to light industry and agriculture, thus making the internal structure of our industry as a whole more rational. In the last three years, we have also gradually enhanced the power of decision of enterprises, introduced the system of economic responsibility, carried out the principle of distribution according to work, and striven to bring into play the supplementary role of regulation through the market under the guidance of the state plan. All these initial reforms have helped to invigorate our industrial enterprises, to overcome the widespread phenomenon of egalitarianism with "everybody sharing food from the same big pot," and to develop the initiative of enterprises and of their workers and staff.

#### 16. CHANGE IN THE DISTRIBUTION OF NATIONAL INCOME :

Conspicuous changes have also taken place in the distribution of national income. With increased purchasing prices for farm and sideline products and the reduction of tax burdens in some rural areas, state revenue fell by 52 billion yuan from 1979 to 1981 while peasant income increased accordingly. In the same period, the state provided jobs for more than 20 million people in towns and cities, raised the wages and salaries of workers and staff and applied the bonus system. The consequent increase in state expenditures and reduction in state revenues, taken together, provided a total of 40.5 billion yuan for an increase in the income of workers and staff. The reduction of state revenues in the countryside and the cities thus totalled 92.5 billion yuan, or 54 per cent more than the estimated figure of 60 billion yuan. Moreover, price subsidies from the state for diesel oil and electricity used in agricultural production, farm machines, chemical fertilizer, coal for civilian use, and imported food grains, cotton and sugar amounted to 23.4 billion yuan. Thanks to this series of effective measures for solving some of the problems piled up over the years and improving urban and rural living standards, the share of consumption in the national income went up from 63.5 per cent in 1978 to about 70 per cent in 1981 while the share of accumulation fell from 36.5 to about 30 per cent. It can be said that a market changed for the better has taken place in the serious disproportion between consumption and accumulation left over from the past.

It was at the Second Session of the Fifth National People's Congress held in June 1979, that the State Council proposed the task of readjusting, restructuring, consolidating and improving the economy within three years. Through practice, we have since gained a deeper understanding of this principle. As far as readjustment is concerned, we should not only readjust the proportions between industry and agriculture, between light and heavy industries and between accumulation and consumption; we should also readjust the product mix, the technological makeup, the line-up of enterprises and the organizational structure so as to rationalize the overall structure of our national economy. Therefore, economic readjustment covers a much wider range than we first envisaged. The overall restructuring of the economic management system will take an even longer period. For this reason, the State Council holds that it is necessary to carry on with the principle of readjustment, restructuring, consolidation and improvement for another five years or a little longer, beginning from 1981. This is the way to gain a firm foothold and to lay a solid foundation for sounder development in the future.



Fellow deputies,

The present economic situation in our country is good. Things have been getting better and better quarter by quarter in 1981. Compared with the corresponding periods of 1980, the gross value of industrial output dropped by 0.2 per cent in the first quarter but increased by 1.7 per cent in second and by 3 per cent in the third, while in October it went up by 10.6 per cent. Our economic prospects for 1982 and, of course, for subsequent years are unquestionably better.

The successes we have achieved in economic construction in the past year are due to the common efforts all our people under the leadership of the Chinese Communist Party. The workers, peasants, intellectuals and cadres on the economic front have been very diligent and hard-working. The cadres and masses in the fields of education, science culture, the mass media, publishing, public health, politics and law, foreign affairs, etc., have brought their initiative and creativeness into full play in their work and scored significant achievements in the drive for socialist modernization centred on economic construction. In sports, good news has kept pouring in this year. Recently the Chinese Women's Volleyball Team won a world championship for the first time. Their victory inspires the people of all our nationalities who are working hard for the modernization programme. On behalf of the State Council, I take this opportunity to extend our sincere greetings to comrades on the above fronts. The Chinese People's Liberation Army has firmly carried out the line, principles and policies laid down by the Central Committee of the Party, strengthened ideological and political work, intensified military training, enhanced its sense of organization and its discipline, safeguarded and taken an active part in socialist construction and continued to play its role of pillar of the people's democratic dictatorship. PLA units and militiamen in the frontier regions and the heroes defending the Koulin and Faka Mountains on the border between China and Viet Nam are on guard every minute against provocations and incursions by the imperialists and hegemonists, thus defending the sacred frontiers of the motherland. Public security and judicial workers throughout the country have made outstanding contributions to the maintenance of public order, the struggle against criminals and the education and remoulding of delinquents. On behalf of the State Council, I would like to take this opportunity to pay high tribute to the PLA commanders and fighters, the militiamen and public security workers.

#### 17. TEN PRINCIPLES FOR FUTURE ECONOMIC CONSTRUCTION

1. Accelerate the development of agriculture by relying on correct policies and on science.
2. Give prominence to the development of consumer goods and further adjust the service orientation of heavy industry.
3. Raise the energy utilisation ratio and promote the building of energy industry and transport.
4. Carry out technical transformation step by step in key units and make the maximum use of existing enterprise.
5. Carry out the all-round consolidation and necessary restructuring of enterprise by groups.
6. Raise more construction funds and use them thriftily through improved methods of acquisition, accumulation and spending.
7. Persist in an open-door policy and enhance our capacity for self-reliant action.
8. Actively and steadily reform economic system and realize the initiative of all concerned to the full.



9. Raise the scientific and cultural level of all working people, and organise strong forces to tackle key scientific projects.
10. Proceed from the concept of everything for the people and make overall arrangements for production, construction and the people's livelihood.

18. CHINA IS A DEVELOPING COUNTRY:

Ours is a developing country, Our rich resources are far from being well exploited and utilized. Our economic level is still rather low, and managerial, scientific and technological levels are still backward. These are undoubtedly weaknesses we should face up to. Nevertheless, these very weaknesses reveal our country's vast potential. Not only do we have our own positive and negative experience to draw on, we can also refer to and employ the advanced technological and managerial experience of other countries. There is no need to start from scratch in everything and risk following others' detours. Therefore, from a long-term point of view our economy will develop at a fairly quick pace.

19. CHINA IS A SOCIALIST COUNTRY GIVING UP "LEFT" ERRORS

Ours is not only a developing country, it is also a socialist country. We have achieved the public ownership of the means of production and abolished the system of exploitation of man by man. That portion of the social wealth formerly appropriated by the exploiters has reverted wholly to the people, and the growth and distribution of the entire social wealth can therefore be effected rationally and in a planned way. In this lies the fundamental superiority of the socialist system. Because of long-standing "Left" errors in the guideline for our economic work in the past and of certain defects in economic management, neither the intrinsic superiority of the socialist system nor the initiative and creativeness of the workers, peasants and intellectuals have been given full scope. The overall restructuring of the economy, the application of the system of responsibility in agricultural production, the system of economic responsibility in industry and other measures will play an important role in fully realizing the intrinsic superiority of our socialist system and in further liberating the productive forces.

20. GUARDING AGAINST TWO ERRONEOUS TENDENCIES, EMPHASIS ON PRACTICAL RESULTS:

With regard to the prospects for our economic development, we have to guard against two erroneous tendencies. One is pessimism about the modernization programme, stemming from failure to see the favourable conditions and consequent lack of confidence in the future. The other is the unrealistic expectation of quick results stemming from failure to see existing difficulties and the extreme arduousness and complexity of our tasks. Strategically, we must think in terms of a long period of time for construction. We must seek truth from facts, emphasize practical results, act according to our capacity and work with all our energy in order gradually and systematically to attain the magnificent goal of modernizing our agriculture, industry, national defence and science and technology.

21. 1982 PLAN'S TARGET:

The plan set for 1982 requires us to increase total agricultural and industrial output value by 4 per cent instead of by 3 per cent as expected for this year and to strive to surpass this rate while implementing the plan. Also planned is an increase in the national income of about 4 per cent as compared with this year. This requires



another substantial expansion in agriculture and the textile and other light industries in 1982, and in addition an increase in heavy industrial production as opposed to the decrease in 1981. With regard to the distribution of the national income, our target is to increase consumption by 5.7 per cent and the total volume of retail sales by 8 per cent, while accumulation is to increase by 3.2 per cent and direct investments under the state budget by 5.7 per cent. Expenditures for education, science, culture, public health and physical culture should increase by 5.9 per cent. The collectively owned sector and necessary individual economy of working people should be actively promoted, and various means should be adopted to provide proper employment for persons in urban areas who are waiting for jobs. The standard of living of both the urban and rural people should continue to improve. Strenuous efforts must be made to carry out the all-round consolidation of enterprises next year. Those which turn out low-quality products with high energy consumption or have long been operating at a loss must be shut down, or suspend operation, or be amalgamated with other enterprises or switch to the manufacture of other products. In order to fulfil the 1982 plan, we should do our utmost to gain better economic results and strive for noteworthy achievements in all fields, such as agricultural and industrial production, transport, capital construction, commodity circulation, finance and banking.

## 22. SOCIALIST MODERNIZATION MEANS HIGH LEVEL OF MATERIAL AND CULTURAL DEVELOPMENT:

In the work of socialist modernization, we must strive for a high level of both material and cultural development. The two are inseparable. Only by so doing can we ensure the sustained growth of the national economy and the socialist orientation of material development.

## 23. CULTURAL DEVELOPMENT :

Cultural development covers a wide area, but it must have as its main content the following two aspects: one is the scope and level of development of education, science, culture, art, public health and physical culture. This is an indicator of a society's level and degree of civilization. Every society develops this aspect of cultural life to suit its needs, but the socialist system demands its wider and faster development. We must tap our intellectual resources and increase intellectual investment so that a correspondence is achieved between such investment and investment in production and construction, and the requirements of economic development are consequently met. The other aspect is the orientation and level of the political, ideological and moral development of society. This is determined by the nature of the social system and, in turn, strongly reacts on the latter. Owing to complex historical and practical reasons, this problem is becoming more and more pronounced and requires immediate solution. Through effective publicity and education, political and ideological work, and work in other fields, and through promoting socialist democracy and perfecting the socialist legal system, we must enable more and more members of society to cherish the socialist and communist ideology, morality and attitude towards labour, to cultivate noble thoughts and feelings, a fine life style and aesthetic standard, a conscious law-abiding spirit and a high sense of organization and discipline, to persist in the principle of subordinating personal and partial interests to those of the whole and subordinating immediate to long-term interests, of doing everything for socialist modernization and the socialist motherland, and to develop the lofty spirit of patriotism and to internationalism. In handling relations among the people, including relations between the people of different nationalities, between the workers, peasants and intellectuals, between cadres and the masses, between soldiers and civilians, between the advanced and less advanced, between the well-off and those in more difficult circumstances as well as between the different participants in economic



life-the buyer and the seller, those who serve and those who receive services, the producer and the consumer-all the members of our society should be able to respect, show concern for, unite with and help each other. They must be able to take into account the interests of the whole, observe principles, act fairly and honestly, do a good job at their posts, and serve the people and be responsible to them. In their relations with foreigners, they must be neither overbearing nor servile. In handling the relations between the ideal and the reality, they must have firm confidence in the gradual improvement of the socialist system and the certain realization of communist society in all its splendour following the development and maturity of socialist society. And to realize this ideal, they must be able at the same time to make persistent, down-to-earth efforts and adopt a correct attitude towards difficulties and the negative features of real life, neither cherishing naive illusions, nor feeling pessimistic or disillusioned in any circumstances. The development of this ideological side of cultural life is a hallmark of our socialist society as distinguished from capitalist society and other exploitative societies of the past. It is an important social, political and ideological condition for ensuring the future of our socialist economy and socialist society and represents the common aspiration and strong desire of all upright and politically conscious citizens. We have scored remarkable achievements in raising the level of our cultural life in the past year. The emergence of large numbers of advanced workers, pace-setters in the new Long March 8 red banner winners and other heroes and model workers on all fronts bears living testimony to this.

#### 24. THE FIVE STRESSES AND FOUR POINTS OF BEAUTY:

In our economic life, we must continue to advocate a high ethical and cultural standard under socialism and unfold the movement of "five stresses and four points of beauty. (The five stresses are: stress on decorum, manners, hygiene, discipline and morals. The four points of beauty of the mind, language, behaviour and the environment.) resist and overcome the corrosive influence of exploiting class ideologies and other ideologies running counter to the socialist system, such as capitalist ideology, the survivalism and bureaucratism, and oppose and crack down on unlawful or criminal activities undermining our socialist economy and socialist cause.

#### 25. SEMI-FEUDALISM AND SEMI-COLONIALISM STILL PRESENT IN OUR SOCIETY

China was a semi-feudal and semi-colonial society for more than a century. Capitalist and slavish colonial ideology have not yet been eradicated from the minds of a part of the people. In recent years, our international contacts have sharply increased. As a result of corrosion by the corrupt ideology and life style of the foreign bourgeoisie, instances of abandonment of our national dignity have recurred in some places. This state of affairs merits our earnest attention. On the eve of nationwide victory in our revolution, Comrade Mao Zedong gave a timely warning against the bourgeoisie's "sugarcoated bullets." Now we are facing a similar situation. It is necessary to remind our government functionaries at all levels, and particularly those engaged in economic work, of the necessity of maintaining a firm stand and keeping a level head so as not to be corrupted by the decadent capitalist ideology and way of life. It is of particular importance to strengthen the work of education the young people so that they will be better able to resist various types of erroneous ideas.

#### 26. FIGHTING CORROSIVE INFLUENCES

Owing to the severe damage to our fine traditions inflicted by the 10 years of internal disorder and to the resurgence of certain old habits and ideas left over from the old society, there has been a recent increase in such obnoxious practices as giving lavish dinner



parties and presents, trying to establish underhand connections for the sake of personal gain demanding commissions, securing advantages through pull or influence and going in for extravagance and waste. A few economic units, economic administrative organs and their leading cadres not only turn a blind eye to such practices but even go along with them. The corrosive influence of these practices on our cadres and functionaries has been grave, causing great dissatisfaction among the masses. This problem merits the serious attention of leading organs at all levels and of all our cadres. Effective measures must be adopted to plug all loopholes and check unhealthy tendencies in our economic work.

## 27. RECTIFYING DANGEROUS TENDENCIES. ROLE OF LEGISLATION:

Owing to the inadequacies in our laws and regulations covering the administrative and economic fields as well as in our management system, many weak links still exist. Furthermore, the leadership in some areas, departments or units is lax and flabby. Objectively this provides the few law-breakers and violators of discipline with openings and opportunities to carry out activities undermining the socialist economy. At present, such criminal activities as graft, embezzlement, speculation, profiteering, smuggling and tax evasion are rife in some areas. There have been instances of open plunder of state-owned goods and materials and appropriation of other state property. What is particularly serious is that some economic units and some government functionaries connive at, shield or even directly participate in these activities, thus gravely corrupting our state organs and cadre ranks.

These phenomena must be dealt with sternly and correctly according to the merits of each case. Mistakes in the ideological sphere must be overcome through criticism and self-criticism and through political and ideological education. Those who have made serious mistakes in violation of administrative regulations and refuse to mend their ways must be disciplined. Those who have violated criminal law must be dealt with according to law, and cases of a grave nature must be dealt with severely. Heavy punishment must be meted out to all government functionaries who take part in criminal activities, and no criminality is to be tolerated. In recent years, our country has been quite active in the sphere of economic legislation and jurisdiction. A good many laws and regulations pertaining to the economy are being drafted. Economic courts have been established at most levels. Our efforts in this area still need to be greatly reinforced. Some units are unwilling to be submit criminal cases in the economic field to the judicial organs, because they think that it is against their interests to do so. This is not only harmful to normal economic activities and hinders an effective crackdown on criminals but also goes directly against socialist legality. This state of affairs must therefore be changed quickly and resolutely. While learning to make use of other measures, the leading members in all governments offices and economic organizations must acquire a better mastery of legal measures to maintain economic order. Besides the economic departments, all public security units, procuratorial organs, law courts, industrial and commercial administrations, customs offices and tax bureaus must co-ordinate their efforts to deal timely and heavy blows at criminals in the economic field in accordance with the laws and regulations of the state.

## 28. ELIMINATING BUREAUCRATIC TENDENCIES

The existing bureaucratic tendencies in our political life and economic administration are an important obstacle to our new approach to economic development and the realization of our modernization programme. At the Third Session of the Fifth National People's Congress in September 1980, the problem of eliminating bureaucratism was discussed, its causes and its various manifestations in our present administrative system were analysed and solutions were proposed. Over the past year or so, many successes have been achieved



in combating the malady of bureaucratism, especially in improving the relationship between the cadres and the masses, and there have been quite a few refreshing instances of a new style of work among the cadres. But, on the whole, the results are still not particularly satisfactory. More recently, acting on the suggestion of the Central Committee of the Party, the State Council has repeatedly studied and discussed the problem of eliminating bureaucratism. To ensure effective leadership for the modernization programme, the State Council is determined to adopt firm measures to alter the intolerably low efficiency resulting from overlapping and overstaffed administrations with their multitiered departments crammed full of superfluous personnel and deputy and nominal chiefs who engage in endless haggling and shifts of responsibility. The State Council has therefore adopted a decision to restructure the administration, beginning with the departments under the State Council itself, and to ensure accomplishment within a specified time limit. The restructuring of the government departments will give a powerful impetus to the enthusiasm of our cadres, to the further improvement of our work style and methods of leadership and to the readjustment and restructuring of the whole economy. Leading cadres and all functionaries of departments under the State Council should set an example to local governments at all levels in performing the task of simplifying administration and raising working efficiency. During the restructuring, there will be relatively important reductions in or mergings of State Council departments, accompanied by all possible cuts in staff and fairly big changes in leadership. I would like to suggest here that the National People's Congress authorize its Standing Committee to examine and approve the restructuring plan upon its submission.

## 29. PROMOTING RESPONSIBILITY AND YOUNG TALENTS:

While simplifying our government structure, we should also clearly define by administrative statutes the responsibilities and the limits on the powers of the departments of the State Council and the local governments at all levels and also the powers and duties devolving on them and their functionaries. Strict rules for assessing, rewarding and penalizing functionaries should be established. The habit of shirking responsibility and taking a dilatory and irresponsible attitude towards work must be resolutely rectified, and so must the bureaucratic style of work which piles up red tape without solving actual problems. In the process of simplifying our administration, we should systematically promote to leading posts at different levels outstanding young and middle-aged cadres with practical experience and a talent for leadership who are qualified ideologically, politically and professionally, so that the ranks of our leading functionaries will become revolutionized, better educated, professionally more competent and younger.

## 30. BE WITH THE MASSES :

From time to time, leading cadres of the departments under the State Council and of governments at all levels should go deep among the masses, get a deeper understanding of the realities of life, make investigations and studies, and help solve actual problems at lower levels and in grass-roots units. Beginning in January next year leading comrades from the economic departments under the State Council and those in charge of economic work in the provinces, municipalities and autonomous regions will head large numbers of cadres from both central and local authorities and go down to the enterprises and help them with their all-round consolidation. Cadres at all levels, and particularly the higher leaders, must set an example in restoring and carrying forward the fine traditions of sharing weal and woe with the masses and of plain living and hard struggle which were characteristic of the period of the revolutionary wars and the early years of the People's Republic, and they must make new contributions to socialist modernization.



31. REINFORCE THE GREAT UNITY OF THE WHOLE CHINESE PEOPLE.  
STRENGTHEN THE UNITED FRONT:

Our economic construction needs close co-operation, encouragement and support from the different fronts. We must adhere to the four fundamental principles, continue to develop the political situation of stability, unity and liveliness and strive to reinforce the great unity of the whole Chinese people. The united front has always been a "magic weapon" in our revolution and it will guarantee the success of our socialist modernization. The democratic parties, the democratic personages without party affiliation and patriots in all circles have a tradition of long-term co-operation with the Communist Party in the course of our revolution and construction. Our compatriots in Taiwan, Xianggang (Hongkong) and Aomen (Macao) and Chinese citizens overseas have always been concerned with the construction, growing strength and unification of the motherland, thus manifesting their deep patriotism. We must conscientiously strengthen the re-education of the Party and government cadres at all levels in the policy of the united front, so that they will fully respect and pay serious attention to the suggestions advanced by personages from all circles, enable the latter to play an ample role at their respective posts and thus further consolidate and expand the patriotic united front. Acting in accordance with the policies and principles proclaimed by Ye Jianying, Chairman of the Standing Committee of the National People's Congress, and the spirit of Comrade Hu Yaobang's speech at the meeting in commemoration of the 70th anniversary of the 1911 Revolution, we should exert ourselves in every field of work so as to promote the unification of our country at an early date, an aspiration cherished by the entire people, including the people in Taiwan. The commanders and fighters of the People's Liberation Army must brighten their state of preparedness against war, step up military and political training and make new contributions in consolidating our national defence and safeguarding socialist construction.

32. OPPOSE HEGEMONISM :

We must continue to carry out the diplomatic lines and policies laid down for us by Comrades Mao Zedong and Zhou Enlai, lines and policies which oppose hegemonism, safeguard world peace, support the just struggles of the people of various countries and promote the cause of human progress. Under the leadership of the Communist Party of China, let us hold aloft the banner of Marxism-Leninism and Mao Zedong Thought and march forward valiantly along the road to a modern and powerful, highly democratic and culturally advanced socialist China!

SOURCE: Beijing Review, No 51, December 21, 1981  
 Page No. 6 to 36.

We have given only extracts. The subtitles  
 are ours.

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# ADDENDUM TO "CHINA'S SOCIALIST ECONOMY"

Several million copies of the Chinese edition of "China's Socialist Economy" have been sold since it was first published two years ago. Written by one of China's noted economists Xue Muqiao, this book has also been translated and published in English, French, Japanese and Spanish. "Beijing Review" printed Chapter 7 of this book in issue No. 43, 1979 and Chapter 8 in Nos. 5, 12 and 14, 1980.

Foreign press has reviewed this book and many readers have written to the author. In this addendum to the forthcoming new printing of the book, the author observes that this book, which he calls a "draft," has "failed to raise its summary of practical experiences to the level of theoretical analysis and some of the viewpoints are premature." Moreover, the author acknowledges that this book leaves much to be desired in clarifying the "Left" mistakes that existed within our Party for so long.

In the first and second sections of the addendum, Xue Muqiao amends and clarifies some of his viewpoints in the book. Following is an abridged translation of these two sections.—ED

## SOCIALIST RELATIONS OF PRODUCTION

Practice shows that socialism is not necessarily based on a unified public ownership; by the whole society. There has to be a stage in which two kinds of public ownership—that by the whole people and that by the collective—exist simultaneously. The analysis by Stalin of the socialist ownership was a contribution to Marxism-Leninism. However, Stalin's treatment of the forms of management under the two kinds of public ownership was over-simplified. He correctly emphasized planning in the economy owned by the whole people, but he underestimated the role of the law of value and the market. Under his leadership, a highly centralized state management relying mainly on administrative measures was instituted in the Soviet Union. This was regarded as the only feasible form of management for the part of the economy owned by the whole people. As to the rural collective economy, only the agricultural artel form was permitted. This disregarded uneven economic development and rejected other forms of management.

China also established two kinds of public ownership after the completion, in the main, of the socialist transformation of private ownership of the means of production. Due to "Left" mistakes, a tendency of blindly going after a higher level of public ownership emerged. This tendency went against the law that the relations of production have to correspond with the level of the productive forces. Therefore, the growth of the productive forces was retarded.

The productive forces in present-day China are multifarious. They include advanced modern large-scale production, mechanized production of the 1940s and 1950s, semi-mechanized and semi-manual production and small-scale production based entirely on manual labour. The situation also differs vastly from place to place. Under these conditions, it is impractical to institute a stereotyped form of public ownership everywhere nor is it appropriate to adopt a single form of management.



The socialist public ownership of the means of production holds the dominant position in China with the state-owned economy and the collective economy constituting the two basic forms. Given this predominance, the existence of a small number of other forms of ownership, for example, private ownership, should be allowed. It is also advisable to permit foreign countries to make investments and help run joint ventures in China and to encourage overseas Chinese to invest in our country.

In the socialist public economy diversified and flexible forms of management should be adopted. A single form is not even appropriate for the part of the economy owned by the whole people. Dissimilar trades and enterprises should have different forms of management. For example, some enterprises can be managed according to the demand of the market. Some can be managed individually; some, conjointly; some managed in co-operation with their counterparts in other provinces and regions; some together with collectively owned enterprises.

In the collective economy, the forms of management and the sizes of enterprises and of basic accounting units should not be uniform.

For a long time, we regarded the transition of ownership from the production teams to the production brigades and then to the communes as the only way to promote the transition of agriculture to a higher stage of socialism. Now this should be reconsidered. With the growth of a diversified economy, a commune or brigade will put some of its productive fields under specialized management. There will be co-operative management among several households, joint management between the collective and individuals, and between brigades or communes. Some commune- and brigade-run enterprises will develop co-operation with state-owned industrial and commercial enterprises. In this way boundaries between brigades and between communes as well as between collective and state-owned enterprises will disappear in this respect. On the basis of specialization and joint management, rural commodity production and exchange will develop further, and socialized mass production will gradually increase. Therefore, the collective ownership of the means of production in some rural areas may pass from small units to larger ones. But that form of transition may not be followed in other places.

Is it contrary to the Marxist-Leninist theory concerning scientific socialism to allow some economies not publicly owned to exist during the period of socialism? No, it is not. According to dialectical and historical materialism, everything in its development contains the remnant of the old and the embryo of the new. Ever since the primitive society, there has never been such a thing as a pure social form. Slave society had many freemen; feudal society embraced numerous peasants who tilled their own land. In capitalist society, even in the highly developed capitalist countries of today, there are numerous small producers. People never refute that they are capitalist countries just because they are "impure." Why, then, should the criterion of "purity" be applied to socialist countries? To uphold Marxism-Leninism and Mao Zedong Thought, we must establish China-type socialist relations of production by adhering to dialectical and historical materialism and in the light of the specific Chinese conditions.

#### PLANNED ECONOMY AND MARKET REGULATING

Some economists call socialist economies planned economies and capitalist economies market economies. This characterization expresses the difference of the two social systems in one aspect. But it is not an absolute. The market economies in capitalist countries are sometimes subject to state intervention and guidance by plans under certain circumstances; in a socialist country, the planned economy, instead of negating the market, makes wide use of market mechanisms under the guidance of state plan.

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Over the last two years, while searching for ways to improve the systems of management of the national economy, the phrase "combining regulation by the plan and by the market" has often been used (I used it myself). This is an example of our failure to find better terms to describe certain economic phenomena. This phrase is not very accurate. Comrade Chen Yun was more precise when he said: "Planned production is the mainstay of industrial and agricultural production, and it is supplemented by free production which operates within the framework of the state plan while taking into consideration changes in the market." We should not mechanically place planned management in opposition to regulation by the market. Planned production must consciously make use of the law of value and within a determined scope utilize the market's regulating role. In this way the state plan can be kept in line with the market's demand.

In planning the national economy, it is important to correctly handle the relationship between state construction and the improvement of the people's livelihood and to appropriately regulate the rations between various sectors of the national economy and the proportions of the various departments within each sector.

The state plan should ensure that investments in capital construction be rationally distributed among the different sectors of the national economy so as to bring about harmonious economic development between sectors and within each sector. For a long time, owing to our one-sided emphasis on developing heavy industry, the development of agriculture, light industry, transport and communications, and commerce and service trades was held back. In heavy industry, the ratio between the various departments was not adjusted well and the development of the energy industry clearly lagged behind. Hence a serious imbalance between the various sectors of the national economy. A lesson should be drawn from this.

In order to give full scope to the market's regulating role, the exchange of goods must first be enlivened. The measures to be adopted include:

(1) Change the system under which certain products were sold and purchased only by the state. With the exception of a few major commodities like grain, cloth, complete sets of machinery and equipment, and some industrial raw materials, the demand of which outstrips their supply all other commodities should be purchased by the commercial departments according to plans worked out on the basis of market demand. Factories should work out their own production plans in the light of commercial department's purchasing plans and market demand.

(2) Increase the channels for exchange of commodities and simplify the process of exchange. In addition to state-owned commercial establishments, large numbers of collective retail stores and some private ones should be set up and competition should be allowed among them. The number of urban markets for farm and sideline products must be enormously increased.

(3) Gradually loosen price control within a certain extent. Various localities and even enterprises should have some say in readjusting prices, or prices may be allowed to float within certain limits. Many commodities should have seasonal price fluctuations, and appropriate regional price differences should be permitted to encourage localities to supply each other's needs.

To give full scope to regulating by the market, it is necessary to use many other methods, such as readjusting tax rates and bank loans. These should be worked out through practice.



REPORT ON THE READJUSTMENT OF THE 1981  
NATIONAL ECONOMIC PLAN AND STATE  
REVENUE AND EXPENDITURE  
( Excerpts)

(53)

On February 25, at the 17th Meeting of the standing committee of the Fifth National people's Congress, Yao Yilin, Vice-Premier and Minister in Charge of the State Planning Commission, delivered a three-part report on the fulfilment of the 1980 national economic plan, and the major content as well as policies and measures for the readjustment of the 1981 national economic plan. The following are excerpts of the report.

FULFILMENT OF THE 1980 NATIONAL ECONOMIC PLAN

GENERALLY speaking, the results of the 1980 national economic plan were better than what had been predicted at the Third Session of the Fifth National People's Congress held last August.

RURAL AREAS. 'Clear evidence of the excellent economic situation is the steady improvement of conditions in China's vast rural areas which now have a population of 800 million. Due to the implementation of a series of correct agricultural policies of the Party and government and the arousing of enthusiasm of rural cadres and commune members for production, we reaped another comparatively good harvest in 1980 despite a serious flood in the south and a serious drought in the north, fairly uncommon phenomena during the last decades. The total grain output is estimated to have reached 316 million tons, second only to that of 1979, which was the highest since the founding of New China. Cotton output is estimated to have reached 2.6 million tons, a record high in the history of New China and an increase of 400,000 tons or 20 per cent over the previous year. The output of oil-bearing and sugar crops both showed increases of more than 10 per cent over 1979, which was also a bumper harvest year for these crops. The diversification of the economy and sideline occupations continued to develop and the rural economy became more lively. In 1979 and 1980, the peasants increased their incomes from the growth of agricultural production and the rise in the state's purchasing prices of major agricultural and sideline products. The increase in the state's purchasing prices alone brought an additional income of 25,800 million yuan to the peasants in those two years.

What is particularly inspiring is that, in a short period of one or two years, many poverty-stricken areas have effected a fundamental change, no longer depending on grain resold to them by the state, loans for production and relief subsidies. The income of the collective and individual peasants has shown a marked increase. The social order in the vast countryside is stable and the peasants feel secure and happy. The relationship between the cadres and the masses has greatly improved and the prestige of the Party and government among the broad masses of the peasants has risen.

INDUSTRIAL STRUCTURE. Additional evidence of the improved economic situation is the beginning of a rational and co-ordinated development within the industrial structure. In 1980, there was further development in the objective of having light industrial growth surpass that of heavy industry. Light industry output value in 1980 is estimated to have increased by 17.4 per cent over 1979 instead of the planned 8 per cent increase, while the comparatively low growth of 1.6 per cent in heavy industry, compared with the past years, was complemented by an



improvement of the quality, variety and specifications of heavy industrial products. While energy production dropped by 2.9 per cent from the previous year, total industrial output value for 1980 is estimated to have increased 8.4 per cent, topping the planned increase of 6 per cent.

The development of production has continuously improved the living standards of the workers and staff. The average annual wage of the workers and staff in state-owned enterprises or units in 1980 is estimated to have risen by nearly 80 yuan compared with 1979. Nine million people in cities and towns were given employment in 1979, and another 7 million in 1980. The speed of urban housing construction was further accelerated. It is estimated that over 78 million square metres of floor space were completed in 1980, an increase of no less than 15 million square metres over the previous year.

LIVELIHOOD OF THE PEOPLE. Owing to the development of industrial and agricultural production and the increase of income of the workers and peasants, the total amount of urban and rural purchasing power in 1980 registered an increase of more than 30,000 million yuan over 1979. The total volume of retail sales is estimated to have reached 207,100 million yuan, an increase of some 11 per cent over the previous year if the price rises are taken into account. Rural fairs and urban agricultural and sideline produce markets are brisk. They have played a fairly good role in supplementing the defects of state and collective commerce. The excellent situation of market supply in the cities in 1980 has not been witnessed in years.

The total volume of exports in 1980 went up by 32 per cent, and imports by 19.8 per cent (14.3 per cent and 2.1 per cent respectively if the price rises are taken into account). The foreign trade deficit dropped from 1,870 million U.S. trade dollars in 1979 to 570 million dollars in 1980.

The development of the national economy in 1980 is further proof of the correctness of the principles and policies formulated since the Third Plenary Session of the 11th Party Central Committee and the policy of readjustment, restructuring, consolidation and improvement. The economic situation is excellent, a situation rarely seen since the founding of the People's Republic.

RIDDING THE ECONOMY OF ITS POTENTIAL DANGERS: In such an excellent situation, why do we say that there are still potential dangers and it is necessary to carry out further readjustment? Because the fulfilment of the 1980 national economic plan has revealed several problems that call for our serious consideration. The major trouble spots are the successive big financial deficits, the over-issuance of currency and the price rises for many commodities.

In 1980, state revenues (not including foreign loans) exceeded the budget figure by 700 million yuan, whereas state expenditures were 4,800 million yuan above the budget figure. As a result, the deficit was 12,100 million yuan instead of the originally budgetary deficit of 8,000 million yuan. The larger deficit led to an increase in the overdraft from the bank. Originally, the bank had planned to issue 3,000 million yuan of currency in 1980, but it issued 7,600 million yuan, surpassing the planned figure by 4,600 million yuan. Because of the increased amount of currency in circulation on the market and the failure of the supply of commodities to correspondingly rise, the annual average retail prices in 1980 went up by about 6 per cent over the previous year. Among them, the retail prices for foodstuffs increased by 13.8 per cent.

These problems in state finances and commodity prices show that still better work must be done with regard to economic readjustment.



For a long time in the past, under the guidance of a "Left" ideology, the scope of capital construction was over-extended and over-high targets were set for industrial production. And Lin Biao and the gang of four sabotaged our economy for 10 years. The result was that some major sectors of the national economy were seriously out of proportion, and the livelihood of the people both in cities and the countryside did not improve as it should have for many years. In 1979 and 1980, we carried out the principle of economic readjustment, raised the purchasing prices of agricultural and sideline products by a big margin, found more jobs for people, raised the wages of workers and staff and instituted a bonus system. All these were necessary measures which played an important role in arousing the enthusiasm of urban and rural labourers for production and in promoting the development of industrial and agricultural production. Without these important measures, the excellent economic situation would not exist today.

Consumer expenditures for improving the livelihood of the people were greatly increased, state revenue decreased, and the investment for capital construction in the state budget was brought down a little, but not enough. The problem is that, under these conditions a number of administrative expenditures, including those for national defence and for state organs and public undertakings, continued to increase. China is developing country which has recently emerged from 10 years of chaos. It is faced with the dilemma of wanting to undertake so many things in accordance with the sentiments of the populace but, due to limited strength, cannot undertake all tasks at once. As we did not pay enough attention to the latter, total state expenditures for capital construction and consumption purposes surpassed revenues. If we allow this situation to continue, it will produce serious and multifaceted consequences. We must strive to avoid such a danger, though it is still in a hidden stage.

The policy of further economic readjustment was not formulated just to solve immediate problems and extricate the economy from its potential and extricate the economy from its potential dangers. It will have a far more positive and profound significance. It will enable our whole economic work to become disencumbered from the malady of aiming for quick results and to be based on actual conditions in China. In doing everything, it will help us accomplish what is possible and put the stress on practical results and steady development. Then we can closely integrate economic development with proper improvements in people's living standards and ensure a concerted, steady and healthy advance of the socialist modernization programme.

## II. MAJOR CONTENT AND MEASURES FOR THE READJUSTMENT OF THE 1981 ECONOMIC PLAN:

The principle of readjustment of the national economy adopted in 1979 clearly stipulated that, in view of the serious imbalances in the economy, the task of the readjustment was to readjust the disproportionate relationships so as to achieve a comparatively co-ordinated development between agriculture, light industry and heavy industry as well as between the various industrial branches, and to reach a rational ratio between accumulation and consumption.

BALANCING REVENUES AND EXPENDITURES: The primary task in the continued readjustment of the disproportionate relationships in the economy this year is to achieve, first of all, an overall balance between revenues and expenditures, and on this basis, to achieve a credit balance, to stop the issuance of currency for financial purposes and to stabilize prices in the main.

State revenues for 1981 were originally targeted at 107,400 million yuan (not including foreign loans). They were readjusted to 97,600 million yuan because of the readjusted cut in the output of oil and



coal, the decrease of income of industrial enterprises, and the decrease of revenue from industrial and commercial taxes, plus the increase in the foreign trade deficit and the subsidy used for grain purchases and sales. State expenditures, which were originally estimated at 112,400 million yuan, were reduced to 97,600 million yuan, were thus balancing revenues and expenditures.

THE CONCRETE CONTENT AND MAJOR MEASURES OF THIS YEAR'S READJUSTMENT  
are as follows:

-Further reduce capital construction investments. The 1981 appropriations for capital construction will be reduced from the originally planned 55,000 million yuan to 30,000 million yuan. We must suspend projects which lack suitable conditions for construction, or projects which, if built, would lack the conditions for production (including imported projects), as well as overlapping projects which compete with existing enterprises for raw material, fuel and energy. Capital construction investments should be concentrated on projects which can meet urgent production needs, can be completed and put into operation quickly or auxiliary projects, on housing for workers and staff and on urban public utilities.

-Reduce expenditures on national defence, public undertakings and administration. Every item must be carefully calculated and strictly budgeted. It must be below, not above, the planned sum.

-Run agricultural and industrial production well. It is necessary to make continued efforts to carry out rural economic policies and perfect and stabilize various systems of responsibility in agricultural production. The rural areas should strive to increase their harvests and achieve an all-round development of their diversified economy while raising the output of grain. Grain production must be given first place except in counties (banners) where animal husbandry and forestry occupy the dominant place and in areas of industrial crops.

We must attain at least an 8 per cent increase in light industrial output value, and should strive for more. All light industrial enterprises should endeavour to reduce consumption, raise product quality and turn out more products which sell well on the market.

The target for steel production this year, originally set at 35 million tons, is being lowered to 33 million tons, thus allowing the fuel, energy and transport facilities, which would have been used, to go to light industry. All heavy industrial enterprises with appropriate conditions (including military enterprises) must study the needs of the market and take an active part in manufacturing consumer goods in a planned way. Metallurgical, chemical and machine-building industries must carry out production in strict accordance with the social demands, reduce the production of goods whose supply exceeds demand and increase the production of goods whose supply falls short of demand.

-Economize on energy consumption. In order to gain a proper ratio between reserves and extraction and ensure safe production, the originally planned oil output of 106 million tons for 1981 has been reduced to 100 million tons and the originally planned coal output by mines whose products are distributed by the state has been lowered from 359 million tons to 338 million tons. Therefore, it is necessary to step up efforts to save energy in order to ensure increases in industrial production with decreased energy output.

- Consolidate and reorganize existing enterprises. All enterprises must work hard to improve production order and completely change the state of no one taking responsibility in many links of production and management and of great waste. In addition, the unhealthy tendency of raising prices without authorization and excessively issuing bonuses



must be corrected. Enterprises whose products are of poor quality and do not sell well on the market and which have high consumption and incur big losses must be closed down, stopped, integrated with other enterprises or changed to turn out other products. So should backward enterprises which compete with advanced enterprises for raw material, fuel, power and transport facility, especially backward small enterprises. Priority should be given to integration and shifting production to other items.

-Ensure basic stabilization of prices. For this purpose, in addition to strictly controlling the issuance of currency and striving to produce more consumer goods, the state will ask the commercial, foreign trade and materials departments to put part of their commodities in stock on the market and, at the same time, continue to withdraw the currency not issued for trading purposes.

-Improve people's living standards. Various steps will be taken to find work for urban youth who are waiting for jobs. The state will gradually provide for appropriate increases in the wages of the workers and staff members who work in scientific research cultural, educational and health institutions and government departments and do not receive bonuses and whose living standards are affected by the price rises. The state will pay basic wages to workers and staff members working on projects which are ordered to stop or postpone construction, and those in state enterprises which are instructed to close down or stop production. Every effort will be made to continue the construction of urban public utilities and residential housing.

-Strengthen the centralization and unification of management. Since economic readjustment is extremely complicated, unified measures and direction are required in the country as a whole to solve many important problems, especially that of keeping the whole nation's finances and credit in balance. (For details see box.)

-Issue treasury bonds and borrow from the surpluses of local governments. The State Council has decided to issue 4,000 to 5,000 million yuan in treasury bonds in 1981 to compensate for part of the central government deficit of 1980. The bonds will primarily be issued to state-owned enterprises, collectively owned enterprises, departments, organizations, army units, public undertakings and prosperous rural communes and brigades. They may also be bought by individuals out of their own will. Although revenues and expenditures in 1981 will be balanced in the country as a whole, the central government will still have a deficit of around 8,000 million yuan while quite a number of local governments will have financial surpluses. Therefore, these localities will be required to lend a total sum of about 8,000 million yuan of their surpluses to the central government. The necessary concentration of financial power, material and other resources by the central government might cause difficulties to various localities. But this is the only way at present to keep the country's whole economic situation stable and prevent overall economic instability which might inflict heavier losses on the various localities.

A POSITIVE POLICY.: Readjusting the national economy is a positive policy. To carry out this policy requires a certain amount of retrogression in some fields and full implementation. The temporary and partial retrogression will ensure all-round, stable and long-term development of the national economy. Other fields where progress is required can still go forward. Carrying out the policy of readjustment in an all-round way and fully practising the measures of this retrogression and progress where they are necessary will promote rather than delay the modernization of the country in the long run.



### MAINLY RELYING ON OUR OWN EFFORTS BUT NOT CLOSING THE COUNTRY TO THE WORLD.

In a populous, large country like ours, modern construction must mainly rely on our own efforts; that is, mainly rely on our own industrial foundation, on our technical strength and domestic market. This basic principle is inalterable. But this does not mean we will close our country to international exchanges. It is also our inalterable principle to develop economic and technical co-operation and exchanges with foreign countries on the basis of the principle of equality and mutual benefit. During the period of economic readjustment, we will adequately reduce the scale of importing equipment and will correspondingly rearrange certain joint projects with other countries. But this is not a signal of a change of policy. With the progress of our economic readjustment and the development of our national economy, the scope of our economic co-operation and technical exchanges with foreign countries will become increasingly larger.

### III. STRIVE TO RAISE ECONOMIC RESULTS, PROMOTE THE STEADY PROGRESS OF THE NATIONAL ECONOMY

The economic readjustment requires a cutback in capital construction investments. At present, the key to ensuring a steady advance in social production at a certain speed lies in raising the economic results by a big margin in all fields while doing a good job of carrying out the readjustment.

CHANGE THE PRINCIPLE FOR ECONOMIC DEVELOPMENT.: Ours is a country with a population of nearly 1,000 million, over 800 million of which reside in the countryside. As the country's economic foundation is weak, high accumulation will not help improve the people's living standards on the basis of expanded production. In order to develop our country's economy, careful calculations and strict budgeting are necessary along with efforts to raise economic results and reduce the funds and materials needed for creating more social wealth. Hence, a huge change must be effected in our principle of economic development.

One serious mistake we made in directing the economic work was that we always attached importance to capital construction the neglect of production and management. This readjustment must resolutely change this state of affairs. We must not hinge our economic development on increasing capital construction projects, setting up new enterprises and increasing energy and raw material consumption in large quantities. Instead, we must give full play to the role of our existing enterprises. Through this readjustment, we will set right the guiding principles of our economic work. We will enable our economic construction to base itself on China's reality and ability, advance in a systematic way and bring substantial results. We will also blaze a new road of steady development which is based on increased economic results.

ECONOMIC RESTRUCTURING TO CONTINUE: Another necessary way to markedly raise economic results is to continue to restructure the country's economy in a manner which is beneficial to the readjustment.

The country's poor economic returns in production, construction and circulation, and the irrational structure of the national economy cannot be separated from the drawbacks of our current economic setup. It is impossible for us to fundamentally improve management and raise of economic activities if this setup is not reformed.

The initial reforms made in restructuring our economy since the Third Plenary Session of the 11th Party Central Committee are correct in their orientation and have gained good results. Now, the rural



economy is prospering and industrial and mining enterprises are being revitalized. One of the major reasons is the structural reforms which have fired people's enthusiasm. Without these reforms, today's situation would be out of the question. Inavoidable defects and problems emerged during the process of restructuring and we are now adopting measures to solve them one by one. We will continue to restructure our economy, and this orientation is unshakable.

Reforms over the past period that have proved effective should be encouraged, resulting successes should be consolidated and developed, and new reforms should be made on a trial basis step by step under proper leadership. These measures include:

- Ensuring the rights of rural communes, brigades and teams to decide their production schedules under the state plan;

- Continuing the experimental work in the more than 6,000 enterprises which are involved in enlarging their rights to make their own decisions. Seriously sum up their experiences so as to gradually perfect the various measures adopted by them;

- Continuing to practise the enterprise fund system\* or the system of taking responsibility for one's own finances\*\* in those enterprises which are not involved in this experiment;

- Continuing the practice of a small number of enterprises and cities engaging in the experiment of paying taxes rather than handing over profits to the state, practising independent business accounting and taking responsibility for their own profits and losses. Summing up their experiences;

- Continuing regulation through the market under the state plan. Responsible departments should strengthen their work of market forecast and adopt necessary administrative measures so as to avoid anarchy;

- Allowing the adequate development of an urban economy of individual ownership, on the condition that public ownership remains the predominant element.

A good job done in the above reforms will not hinder but benefit the readjustment. As a matter of course, during the period of readjustment, all reforms should be subjected to the readjustment. Judged from a long-term view, those reforms which are rational and indispensable but contradict the present readjustment should be postponed until a more appropriate time. Slowing down and steadying the pace of the restructuring can help the leadership at various levels concentrate their attention on the readjustment and ensure that the restructuring will proceed smoothly. Good conditions for an all-round economic restructuring can be created when the economic readjustment has been well carried out, better proportioning has been achieved in the economy and supply and demand in the market are generally balanced.

**STABILITY AND UNITY.:** To ensure a smooth advance of our economic readjustment, further political stability is required. It is fundamental to the interests of the people of various nationalities that our present political situation, which is characterized by stability and unity, be continually consolidated and developed.

We must adhere to the four basic principles (the socialist road, the people's democratic dictatorship, that is, dictatorship of the proletariat, the leadership of the Chinese Communist Party and Marxism-Leninism-Mao Zedong Thought), strengthen socialist democracy and the legal system, strictly ban all illegal activities of elements who are hostile to socialism, and suppress criminal activities which sabotage



the socialist economy and seriously endanger public security.

To ensure the smooth implementation of the economic readjustment, it is necessary to strengthen ideological and political work so as to revitalize the revolutionary spirit of the broad masses of workers, peasants and intellectuals. It is important to enhance their sense of responsibility, and bring forth their enthusiasm and initiative to work hard and do their professional work well. With a spirit of being responsible to the people's cause, government cadres at all levels, particularly leading cadres, should go to the grass-roots levels, share weal and woe with the masses, work hard and seriously and responsibly handle various complicated problems.

We must revive and carry forward the Yanan spirit, the revolutionary spirit in the early post-liberation days and the spirit of overcoming hardships in the early 1960s. The present economic situation is obviously different from that in the early 1960s, in the Yanan period and in the years of the People's Republic. However, the militant spirit evinced in those times of being the first to bear hardship and the last to enjoy comforts and of fearing neither hardship nor death will never be given up and will remain a valuable weapon for us in overcoming all difficulties and achieving victory.

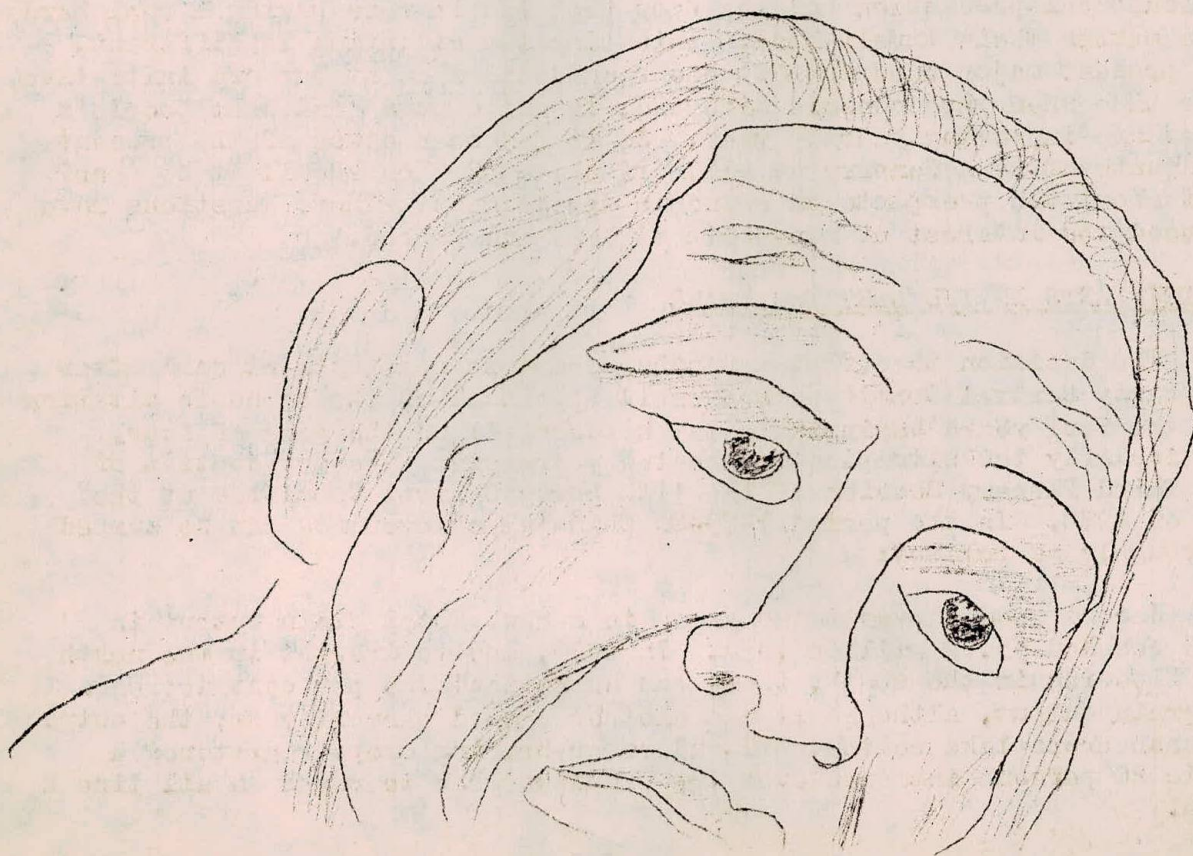
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\* Under this system a state-owned enterprise can receive a fund which is equivalent to a certain proportion of the total wages of its workers and staff members, if it fulfils the four state targets of output, quality, profit and contracts for supplying products. The fund is used for expanding production, developing collective welfare and issuing bonuses. This system has been adopted since 1978.

\*\* Since 1980, the state has implemented a system of overall financial responsibility in government administrative organs and public undertakings. Their expenses are fixed by the state according to their personnel and the amount of work. If they spend less, they may retain the surplus part. If their spending surpasses the fixed amount, they must make up for the difference themselves.

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SOURCE: Beijing Review, No.11 March 16, 1981  
Page No. 14 to 20 & 27.





FURTHER ECONOMIC READJUSTMENT:A BREAK WITH "LEFTIST" THINKING

*A Further readjustment will be made in China's national economy beginning from this year. This move, which follows upon the initial readjustment made in 1979-80 has been described as "soberminded and healthy." Why? What exactly does this readjustment mean and what effects will it produce? This special feature provides some background information. Part three deals with a principle put forward by Chen Yun, Vice-Chairman of the Central Committee of the Chinese Communist Party and a prominent leader of economic work in our country. This principle concerns the relationship between the scale of economic construction and national capabilities, and is a significant guideline both for the economic readjustment and for our future economic work.*

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ECONOMIC PROGRESS WITH HIDDEN DANGERS

As decided at the working conference of the Party Central Committee held last December, there will be a further readjustment in the national economy beginning in 1981. This means, first of all, drastically scaling down capital construction, making administrative spending cuts, bringing about a balance of revenue and expenditure and stabilizing prices, to remedy disproportions in some major economic departments and to bring the economy back to the track of steady, sound development. In order to effectively carry out this major decision, it is being studied and discussed throughout the nation.

A major economic readjustment of this kind, as may be recalled, took place before in the early 1960s. But then it was forced on us because of serious economic setbacks, the nosediving of industrial and agricultural production and the fact that people were having a real hard time making their livelihood. This time the situation is different. The present major readjustment has been decided on at our own initiative, at a time when the economic situation is quite good and when people's lives are improving year by year. So it has been asked if the present readjustment is necessary at all. If so, why? How should it be done? What about the prospects of economic development? These questions have aroused the interest of many both at home and abroad.

ACHIEVEMENTS IN THE LAST TWO YEARS

The decision to effect a further economic readjustment came after the Party Central Committee's overall appraisal of the economic situation for the four years beginning with the downfall of the gang of four, particularly the situation in the two years since the convocation of the Third Plenary Session of the 11th Party Central Committee at the end of 1978. In the period 1979-80 China's achievements can be summed up roughly as follows:

Record good harvests two years in a row. Total grain output in 1979 reached 33.12 million tons. In 1980, due to drought in the north and flooding in the south, there was an estimated 5 per cent decrease in grain output, although it was another record harvest year; the output of cash crops like cotton, oil- and sugar-bearing crops registered a 10 to 20 percent increase over the previous year to reach an all time high.



In the last two years, total industrial output value increased at the rate of 8.5 and 8.4 percent respectively, with the output value of light industry growing much faster than that of heavy industry. The share of light industry in the total industrial output value went up from 43.1 per cent in 1979 to 46.7 per cent in 1980.

The total volume of retail commodity sales registered an increase of 14.7 and 18.2 percent respectively in the last two years, reaching 207,100 million yuan in 1980, and unprecedented increase in the 31 years of the People's Republic.

Over 6,000 enterprises (which contribute 45 per cent of the nation's total industrial output value) effected reforms in their economic structures. Those reforms, which mainly consisted of expanding the right of autonomy on an experimental basis and introducing market regulating under the guidance of state planning, have activated the economy,

Jobs have been found for 26.6 million people in the four years between 1977 and 1980.

A marked improvement in people's livelihood.

In the case of peasants under collective ownership: Net per capita income is estimated to top 170 yuan in 1980 as against 117 in 1977, an average annual increase of 17.7 for the period. (In the 20 years between 1956 and 1976 the annual average increase was only 2 yuan.) The balance of peasants' bank deposits at the end of 1980 stood at 12,060 million yuan as against 4,650 million at the end of 1977, an average annual increase of 2,470 million yuan in the period. (The average annual increase in 20 years between 1956 and 1976 was 163 million yuan.)

In the case of workers and staff members under the ownership by the whole people: Average wage earnings jumped from 602, an average annual increase of 60 yuan in 1977 to 781 yuan in 1980. The average per-capita income of a worker's stall Member's family went up from 186 yuan in 1957 to 395 yuan (price hikes which affect the real income have not been deducted.)

Urban housing projects built in the two years had a floor space of 140 million square metres, about one-fifth of the total floor space of city housing projects built in the previous 29 years.

#### CAUSES OF FINANCIAL DEFICITS

Despite the excellent economic situation, there are hidden troubles ahead. The 1979 final state accounts showed 17,000 million yuan in the red; the deficit in 1980 was 12,100 million. An excessive issuance of currency inevitably gives rise to inflation. Although the prices for essential commodities have always been under control, those of many consumer goods are going up in one way or another. Compared with the previous year, retail prices in 1980 went up on an average 6 per cent those for non-staple food, 13.8 per cent. If this situation is not altered soon, the gains of workers and peasants made in the past few years will be forfeited.

While these difficulties have come to the fore only in the past two years, the factors that caused them have been in existence for a long time.

For many years our economic construction has been under the sway of "Leftist" thinking - over-anxious to make achievements and going after things beyond our capabilities. We have failed to understand that in a big, poor country like ours where peasants make up 80 per cent of the population, prolonged strenuous efforts are needed in raising the backward productive forces to an advanced level. We have instead, one-sidedly gone after unrealistic, high targets, an excessively high rate of accumulation and blindly expanded the scale of capital construction.



Accumulation in the Second Five-Year Plan period (1958-62) and in the years since 1970, for instance, were over 30 per cent of the national income. Enormous amounts of money and material resources were channelled into industrial construction on an ever-expanding scale, especially into the construction of heavy industrial projects. Then there was the damage done in the 10 years of turmoil, which caused an even more serious imbalance in the national economy (imbalance between accumulation and consumption, between agriculture, light industry and heavy industry between the base structure and the production structure).

#### UPS AND DOWNS OF SOME MAJOR ECONOMIC TARGETS (1953-79)

Period	Percentage of accumulation in national income	Average rate of growth of industrial & agricultural production (%)	Average rate of growth of national income (%)	Rate of increase of financial revenue (%)	Rate of increase of labour productivity in enterprises owned by the whole people (%)
1st 5-Year Plan (1953-57)	24.2	10.9	8.9	11	8.7
2nd 5-Year Plan (1958-62)	30.8	0.6	-3.1	0.2	-5.4
Period of Readjustment (1963-65)	22.7	15.7	14.5	14.7	23.1
3rd 5-Year Plan (1966-70)	26.3	9.6	8.4	7	2.5
4th 5-Year Plan (1971-75)	33.	7.8	5.6	4.2	-0.3
5th 5-Year Plan 1976	31.1	1.7	-2.3	-4.8	-8.6
1977	32.3	10.7	8.3	12.6	8.1
1978	36.5	12.3	12.3	28.2	12.3
1979	33.6	8.5	6.9	-7.9	6.4

But in the first two years following the fall of the gang of four (1977-78), we were still not sober enough to see the aftereffects of the 10 years of turmoil and the "Leftist" mistakes guiding our thought. Apart from more overambitious slogans and targets, we continued to expand the scale of capital construction. There is, of course, nothing wrong with the policy decision of importing advanced technology and using foreign funds, but due to a lack of experience, these imports were on too large a scale, thus serving to aggravate our financial and economic predicaments.

These "Leftist" mistakes were rectified at the Third Plenary Session of the 11th Party Central Committee held at the end of 1978. Soon afterwards the Party put forward the principle of readjusting the national economy and demanded a reduction in the scale of capital construction. But this principle was never followed in real earnest, as some cadres still lacked a proper understanding of it. The measures adopted in 1979 to raise the purchasing prices of 18 farm and sideline products and the wages of a part of the workers and staff members were correct as they helped arouse the masses' initiative and stimulate industrial and agricultural production. The trouble was that, simultaneous with uplifting the public's consumption level, we failed to scale down the excessively large capital construction investments and other spendings, resulting in financial deficits.



The aim of the ongoing major readjustment is to free our economic work further from the influence of "Leftist" thinking, to resolutely bring down the excessively high rate of accumulation and reduce the scale within the national capabilities, to get out of the red as quickly as possible and remove the latent troubles in our economic development. In other words, to underpin our economic position before making further major advances.

#### FORWARD AND BACKWARD

A RETREAT is a difficult matter, especially for revolutionaries who are accustomed to advance." (Political report of the Central Committee of the R.C.P. (B), 1922.) This was what Lenin had said on many occasions at the time when Russia was retreating from war communism to a new economic policy. Presently we are in the same difficulty.

For more than 20 years the "Leftist" thinking and the "Leftist" line have remained unchallenged, influencing many people from top to bottom, and becoming an obstinate force of habit. To get rid of it, patient persuasion and education are needed.

#### RETREATING FOR THE SAKE OF ADVANCING

Just as there are advances and retreats in a revolutionary process, there are also advances and retreats in the course of construction. When there is the need to shift from a certain revolutionary policy or to a reformist policy or to replace certain radical measures with modest ones because of a mistake of hasty advance in directing the work, or because of a change in the objective situation and conditions, a retreat is made out of tactical needs and, to revolutionaries, is merely for the sake of propelling history forward in a more successful way.

It is true that our socialist economic construction has gone through a number of difficulties, but our economic situation today is nonetheless much better than it was some 20 years ago. Accordingly, unlike the forced all-round retreat in the early 1960s, there will be both advances and retreats in the ongoing major readjustment. In other words, the present readjustment consists of backtracking in some fields to make way for advances in others.

#### AREAS OF RETREAT

In which areas are we to retreat?

We will lower the rate of accumulation bit by bit from over 30 per cent at present to about 25 per cent. This rate has been proved to be appropriate in our previous experience.

-A retrenchment will also be effected in the field of capital construction, the scale of which is to be reduced with a firm hand until it falls within the means of the state. Facilities and personnel belonging to projects whose construction is to be called off or suspended shall be properly handled. Some people will be diverted to service trades, commerce, repair services or trades requiring a concentrated work force; others will be transferred to projects for environmental protection or municipal construction; still others and their facilities will be used to found regular and technical schools as a kind of intellectual investment.

-Existing enterprises which have no adequate conditions of production, which have incurred losses for years, which consume too much raw material and whose products are not wanted on the market, shall close down, change their line of production or merge with advanced enterprises.

-There will be cuts in administrative spending, defence spending, in the management spending of all government offices, enterprises and undertakings. Efforts shall be made to increase revenues and save funds in every way, to get out of the red and to curb inflation and



stabilize prices.

### AREAS OF ADVANCE

During the readjustment the following areas will be reinforced and developed.

-Agriculture. The policy of agriculture being the foundation of the national economy will be followed in real earnest. There will be a readjustment of the inner structure of agriculture. While developing grain production, a diversified economy is to be promoted to achieve an all-round development of agriculture, forestry, animal husbandry, sideline production and fishery. Greater efforts will be made to modernize the key grain producing and cash crops areas.

-Light industry. Priority will be given to the development of light industry. Heavy industry should serve the development of agriculture and light industry; a part of the equipment and personnel in heavy industry will be shifted to the production of consumer goods needed in everyday life.

-Energy and communications and transport. Our policy is to attach equal importance to the development of energy sources and to energy saving. At present, in the circumstances where a readjustment inside the energy industry is necessary and where an increase in the energy supply is impossible, more attention must be paid to economizing energy sources, which should include the technical transformation of industrial equipment using large amounts of energy.

-Science, education, culture and public health. They must be developed as much as possible and there will be some increases in spending in these areas.

-Further efforts will be made to find jobs for the new labour force and better people's livelihood as much as possible.

### FACTORS CONDITIONING THE SCALE OF CONSTRUCTION.

UNLIKE the readjustment in the early 1960s, the present readjustment is being made by resolutely rectifying the "Leftist" mistakes in our economic work. If we look back to the course of socialist construction in the 30 years after the founding of the People's Republic, we can readily see that economic construction, be it an advance or a retreat, is conditioned from first to last by the country's material and financial means (in China, manpower has always been abundant and is no problem). But it was Chen Yun who first discovered this and came to the conclusion theoretically.

### AN IMPORTANT PRINCIPLE

Early in the Yanan days Chen Yun made *bu wei shang* not just to listen to the higherup), *bu wei shu* (not just to follow what is said in books) and *yau wei shi* (pay attention to reality) his principles in giving guidance to our work. And he himself has always strictly followed these principles. After the founding of the People's Republic, when he was in charge of China's financial and economic affairs, he and his colleagues succeeded first in curbing the runaway inflation in 1950s and early 60s caused by our hasty advances in economic construction. In resolving complicated economic problems, he is always cool-headed and realistic-minded. He takes only appropriate measures, revealing great talent in giving leadership to economic work. The regretful thing is that many of his correct economic views were not strictly followed. It is only after the criticism of the "Leftist" thinking in recent years that his views have come to be understood and accepted by a growing number of people and have been made the guiding principle in our economic work.



The principle discussed here, that is, the principle that the scale of economic construction must be commensurate with the nation's capabilities, was first advanced by Chen Yun in a speech he made in early 1957, the last year of China's First Five-Year Plan. With financial deficits in the previous year, 1956, and the country running somewhat short of goods and materials, he made the speech in the light of this situation.

"The scale of construction," he said, "must be commensurate with the financial and material resources of a country: Yes or no-this is the line of demarcation between a stable economy and a non-stable one. In a big country like ours with a population of 600 million, economic stability is a matter of utmost importance. When the scale of construction is larger than what the country's financial and material resources can afford, it means something rash that is sure to lead to economic chaos; economic stability can be achieved only when the two fit together perfectly. Of course, conservatism is just as bad because it holds back the right speed for construction. But conservatism can be remedied much more easily than a hasty advance can be remedied. In the case of the former, more items of construction can be added easily when there is plentiful of materials on hand; but in the case of the latter, it will not be that easy to reduce the scale of construction which has grown larger than what the financial and material resources can afford and, besides, a big waste will have resulted in process."

#### THE WAYS OF RESTRICTION

Chen Yun also listed ways for avoiding a construction programme larger in scale than what the nation is capable of. His main points are:

Undertake construction only when the livelihood of the people has been well arranged. Seeing that the aim of construction is to better the people's livelihood, he thinks that making good arrangements for the people's livelihood and working for the welfare of the people should be the major policy in a socialist state. Care must be taken of both construction and the people's livelihood; in China, only a strained equilibrium between the two can be achieved in the main because it is impossible to engage in very largescale construction and ensure a good livelihood at the same time.

While increasing the production and supply of the means of production and supply of the means of production, it is necessary to increase correspondingly the production and supply of the means of subsistence and maintain a balance between the two.

Agriculture is a very powerful restricting force on the magnitude of economic construction. The pace of agricultural development conditions the pace of the growth of consumer goods production, the pace of the growth of the nation's financial strength, and the pace of the growth of industrial and urban population.

Production first, then capital construction. When raw materials are in short supply, their distribution should be made in the following order: first ensure the production of people's daily necessities, then ensure the production of the necessary means of production. All that is left should go to capital construction.

A balance, a slightly favourable one, must be struck between bank loans and repayments. Only thus can there be an overall balance between social purchasing power and material supplies.

The public purchasing power must be on a par with the consumer goods available while the purchasing power which grows with the increase of the total wage payments and higher prices for farm produce should be properly controlled, the purchasing power which grows with an increased output of farm products is to be welcomed, the higher the better.



There must be an overall balance in planning. Chen Yun believes that only when the economy develops in a proportionate way can there be a real high speed of development. Accordingly, a proper ratio should be maintained between the national income and accumulation, between the national income and state budgetary revenue, between the state's budgetary expenditure and capital construction investments. In other words there is the need to achieve the four major balances between financial revenues and expenditures, between bank loans and repayments, between the supply and demand of materials and between foreign exchange earnings and spendings.

Planned targets must be feasible and be given a range of variation; productive capacity should be calculated in terms of a "short-line" balance rather than in terms of a "long-line" balance as "the biggest lesson to learn" from a "long-line" balance is imbalance. (These are special Chinese economic terms; a short-line means the weak link and a long-line the strong link in production in a factory or in an industry. -Tr.)

From this it can be seen that Chen Yun's economic principle is based on the Marxist theory of social reproduction and is. Therefore in accord with the basic economic law under socialism. Our experiences, both positive and negative, have borne out the correctness of this economic principle.

#### BLAZING A NEW TRAIL

This major readjustment will eventually do away with the great discord which has long been in existence in the national economy. But, apart from resolutely effecting reforms in the economic structure, we must search for a new way to boost the productive forces if the economy is to be kept on a track of steady, sound development. We must first of all, have a perfect knowledge of our national conditions and capabilities, free ourselves from the old habit of pressing ahead in a rash manner, always keep in mind that we should do only what is within our means—in a word, see to it that both production and construction make steady progress in an orderly way with an eye on the practical results. This, of course, does not preclude a leap forward after some steady progress is made and when conditions permit. But such a leap can only be the outcome of a steady progress in an orderly way, certainly not a thing based on wishful thinking to be achieved in a haphazard way.

#### HOW THE ECONOMY SHOULD DEVELOP

In developing the economy, we have in the past actually paid more attention to capital construction than to production and have had high accumulation with low efficiency. Our experiences are characterized by the following phenomena: Keen on building new factories using huge amounts of funds, materials and manpower, especially heavy industrial plants which absorb large investments and take a long time to build. In the case of many construction projects, preparatory work beforehand is often inadequate; in some cases, construction gets started in a hurry even before there is an overall picture of the resources and geological conditions. Sometimes, construction thus drags on and is never completed (known as the "beard-growing" projects): those completed cannot be commissioned for production on schedule, causing tremendous waste and yielding poor results. Compared with the First Five-Year period, the return on investments now made in our big and medium-sized projects are only half as much as before while the time of construction is twice as long. Little attention is paid to improving management and to the renovation of equipment and technical transformation in existing plants so that about one-fifth of the enterprises have long been suffering losses and only manage to keep things going with government help.



As some economists have pointed out, these phenomena serve to show that some people have a misconception about what is meant by expanded reproduction. In their opinion, which is one-sided and harmful, old plants can undergo only simple reproduction and the way to expand reproduction lies in building more new factories. In actual fact, less investment is needed and results are more quickly realized when the productive potentials of existing enterprises are tapped through technical renovation, while bringing about expanded reproduction.

### ACCENT ON RUNNING EXISTING ENTERPRISES WELL

Economists hold that in the course of the four modernizations, we still needed to build more new factories and mines, although their numbers should be rigidly limited. We should first of all focus our attention on how to operate in a more satisfactory way the existing industrial and communications enterprises (close to 400,000 in number). This means expanding production mainly by tapping the potentials of these existing enterprises, carrying out rational technical transformation, lowering the amount of materials consumed, improving the quality of products and raising productive efficiency.

To this end, a number of forceful measures are needed. They include.

Improving industrial management, setting up a normal order of production and rigid labour discipline, and introducing an independent business accounting system for enterprises;

Reorganizing industrial enterprises according to the principle of specialization and coordination in production, and developing various types of economic complexes;

Renovating equipment and carrying out technical transformation in existing enterprises step by step and in a planned way, with primary emphasis on technical transformation aimed at saving energy;

Strengthening scientific research and technological development, trial-manufacturing and developing new products which are needed on the market;

Making the machine-building industry serve mainly the technical transformation of existing enterprises instead of serving mainly capital construction as before;

Importing less complete sets of equipment, buying instead mainly technology and software so as to combine the import of technology with the transformation of the old enterprises;

Establishing a regular educational system for workers and staff members to gradually elevate the cultural and technical level of all personnel on the payroll.

### PROSPECTS

What are the prospects for our economic development after the readjustment?

The pace of development may not be very fast because we have to mainly rely on existing enterprises in developing production. But the economic results will be good, with a substantial increase in social wealth and more real benefits for the people.

This is the way to handle the relationship between accumulation and consumption, between developing production and improving the people's living standards. And this is the way to achieve a sustained, steady growth of the economy in a populous country with a weak economic foundation. In short, this is China's only path towards modernization.

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Planning is the instrument through which Socialist Societies scientifically guide their own transformation. A study of the economic plan, -- its failures and successes -- in a socialist society indicates the direction of its transformation. Within these perspectives, the document reproduced below is of great importance to any one who attempts to study the evolution of Today's China. This document is the full text of the communique on the fulfilment of China's 1982 plan for economic and social development. It was issued on 29 April 1982 by the State Statistical Bureau, Beijing. The text has appeared in "China Report", May-June 1983, from where it has been taken.

The People of all nationalities in China, under the leadership of the CCP and the people's government, continued to implement the policy of readjustment, restructuring, consolidation and improvement in 1982 and achieved new progress in economic and social development through a year's hard efforts. Total product of society reached 989,400 million yuan, up 9% from 1981. Total output value of industry and agriculture was 829,100 million yuan, 8.7% higher than 1981. Growth in production brought a brisk market and prices were basically stable. State revenue and expenditure were in basic balance. The living standards of the people continued to improve. New progress was made in building spiritual civilization. The major problems in development of the national economy were an excessive increase in investment in fixed assets and use of funds was not well concentrated; there was no marked improvement in economic results in production, construction and circulation; many places suffered shortages in energy supply and transportation.\*

### 1. AGRICULTURE

The rural areas continued in 1982 to institute and improve the job responsibility system which links output with economic benefits, thus continuing to mobilize the initiative of the vast number of peasants. The weather in most places was fairly good. All this contributed to the good harvest. Annual total output value of agriculture was 278,500 million yuan, up 11% from 1981, far exceeding the planned target of 4%. After deducting the industrial output value of 30,400 million yuan for enterprises run by production brigades and teams, the total value of agricultural output was 248,100 million yuan, up 11.2% from 1981.

Of this, farm crops brought 174,700 million yuan, 101% over 1981; the corresponding figure for forestry was 11,000 million yuan, up 8.5% for animal husbandry, 45,600 million yuan, up 13.2%; for fishery, 5,100 million yuan, up 12.1%; and for sideline production, 42,100 million yuan, up 12.8%.

The output of nearly all major farm products hit all-time highs reaching or surpassing planned figures. Total grain output was 353,430,000 t, topping the state plan by 6% or 8.7% more than the previous year and 6.4% over the previous peak figure of 332,120,000 t in 1979.

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\*Total product of society is the sum of the total output value of industry, agriculture, the building trade, communications and transport and commerce, including the supply and marketing of materials and equipment and public catering trade. National income is the sum of the net output value of the five above-mentioned material producing departments. All figures for gross national product, total industrial output value, total agricultural output value and national income cited in the communique are calculated in terms of 1982 prices and the rate of growth over the previous year is calculated with the comparable prices.



Total output of cotton was 3,598,000 t; topping the state plan by 19.9% or 21.3% more than in 1981. Total output of oil-bearing seeds was 11,817,000 t topping the state plan by 28.6% or 15.8% over 1981. Among grain and oil-bearing seeds, output of soyabeans and sesame decreased somewhat due to natural disasters in major producing areas. The output of jute and ambary hemp was also less than in 1981 because the acreage of these crops was cut due to overstocking.

Out put of major farm products follows:

	1982 output (t)	Increase over 1981 (%)
Grain	353,439,000	8.7
of which:		
Paddy	161,240,000	
Wheat	168,420,000	12.0
Tubers (counted on the bases of 5kg of tubers equivalent to 1kg of grain-	26,680,000	14.7
Soyabeans	9,030,000	-3.2
Cotton	3,598,000	21.3
Oil bearing seeds	11,817,000	15.8
of which:		
Peanuts	3,916,000	2.4
Rapeseed	5,656,000	39.2
Sesame	342,000	-32.9
Sugar bearing crops	43,594,000	21.0
Sugar cane	36,882,000	24.3
Beetroot	6,712,000	5.5
Jute, ambary hemp	1,060,000	-15.9
Silkworm cocoons	314,000	1.0
Tea	397,000	16.0

The nation-wide afforestation campaign developed vigorously. In all, 4,500,000 hawere afforested in 1982, a 9.4% increase over 1981. The survival rate of saplings improved. The output of most forestry products showed increases to varying degrees. Among them, the output of rubber increased 19.5% and chestnuts rose 7.2%. The output of tung production. The output of aquatic products in 1982 was 5,155,000 t, topping the state plan by 18.8% or 11.9% more than in 1981. The total catch of marine products increased 11.2% while fresh water products rose 13.6%.

State farms built on reclaimed wasteland reported increases for output of most major farm products. Grain output rose 12%; Cotton 19%, sugar-bearing crops 28%; and milk 12%. But the output of oil-bearing seeds and pork, beef and mutton dropped State farms produced profits in excess of 700,000,000 yuan.

The number of farm machines in use contined to increased, especially of economical and practical small and medkum-sized farm machines. Total power capacity of farm machines reached 226,000,000, horsepower by the end of 1982, 6% more than at the end of 1981. The number-of medium-sized and large tractors was 812,000, up 2.5%. The number of small-capacity and walking tractors was 2,290,000, up 12.3%. The corresponding figure for heavy-duty trucks was 206,000, up 17.7%; for irrigation and drainage power equipment, 76,700,000 horsepower, up 2.3%. A total of 15,130,000 t of chemical fertilizer was applied during the year, an increase of 13.4%. Of this figure, a 10.8% increase was registered for nitrogenous fertilizer, 16.6% for phoso-phatefertilizer, 39.6% for potash and 21% for compound fertilizers. The total consumption of electricity in the rural areas was 39,700 million kilowatt-hours, an increase of 7.3% over 1981.



	1982	Increase over 1981 (%)
Output of pork, beef and mutton	13,508,000t	7.1
of which:		
Pork	12,718,000t	7.0
Beef	266,000t	6.9
Mutton	524,000t	10.1
Milk	1,618,000t	25.4
Sheep wool and goat hair	215,000t	6.4
of which:		
Sheep wool	202,000t	6.8
Hogs slaughtered	200,630,000 head	2.9
Hogs in stock at year end	300,780,000 head	2.4
Large animals at year end	101,130,000 head	3.6
of which:		
Cattle	76,070,000 head	3.8
Sheep and goats at year end	181,790,000 head	-3.2

Forecasts of bad weather by the meteorological departments were fairly accurate and prompt. Specialized weather services were strengthened, contributing to the efforts by the agricultural and other departments to take advantage of favourable weather conditions and prevent losses from natural disasters.

## II. INDUSTRY

Industrial production continued to rise in the course of readjustment in 1982. Total industrial output value was 550,600 million yuan, an increase of 7.7% over 1981, topping the planned annual growth of 4%. Output value of industry, which includes rural industry run by production brigades and teams was 7.8% over 1981.

The output of 91 of the 100 major industrial products met or topped the state plans. They included cotton yarn, cloth, sugar, machine-made paper and paper boards, bicycles, sewing machines, television sets, coal, crude oil, electricity, steel, rolled steel, cement, plate glass, sulphuric acid, soda ash, caustic soda, chemical fertilizer, power generating equipment, motor vehicles, walking tractors and locomotives. Nine products failed to meet planned quotas, including beer, household washing machines and tractors. Light industry, which grew at an average annual rate of 14% between 1979 and 1981 continued to rise in 1982. Total output value of light industry was 276,600 million yuan, 5.7% over 1981. Output value of the food processing industry increased 9.5%; textile industry 2.3% since the production of chemical fabrics was restricted; and the output of daily necessities increased 7.2%. Many light and textile industrial enterprises paid attention to organizing production according to the needs of society. Quality of products improved and variety increased. Out of major light industrial products follows:



	1982	Increase over 1981(%)
Cotton yarn	3,354,000 t	5.8
Cloth	15,350 million metres (14,920 million sq.m.)	7.8 (9.4)
Chemical fibres	517,000 t	-1.9
of which:		
Synthetic fibres	375,000 t	-2.6
Woolen piece goods	127,000,000 m	12.4
Silk	37,100 t	-0.8
Silk textiles	914,000,000 m	9.5
Gunny sacks	500,000,000 t	16.6
Machine-made paper and paper boards	5,890,000 t	9.1
Sugar	3,384,000 t	6.9
Beer	1,170,000 t	28.6
Salt	16,380,000 t	-10.0
Chemical pharmaceuticals	42,200 t	13.1
Detergents	569,000 t	19.0
Bicycles	24,200,000	38.0
Sewing machines	12,860,000	23.8
Watches	33,010,000	14.9
Television sets		
of which:	5,924,920	9.8
Colour tv sets	288,000	89.5
Radio sets	17,240,000	-57.5
Cassette recorders	3,471,000	124.5
Cameras	742,000	19.1
Household washing machines	2,533,000	97.7
Household refrigerators	99,900	79.7
Light bulbs	1,070 million	10.3

Heavy industry total output value in 1982 was 274,000 million yuan, 9.9% over 1981. The upward turn in heavy industry production after two years of stagnation and decline was caused mainly by increased investment in fixed assets and a greater demand for the means of production in agriculture. Compared with 1981, output value of the machine-building industry increased 15.2%, that of the building materials industry rose 14.1%, and chemical fertilizer and insecticides 8.4%. Thanks to the restructuring of the previous two years, heavy industry was able to increase the scope of its services, provide more energy-saving products and more products for export and to serve the needs of agriculture and light industry.

Primary energy produced in 1982 was equivalent to 668,000,000 t of standard coal, 5.7% higher than the 1981 figure. Despite the increase, energy production still could not meet the needs for the development of the national economy.

Output of major heavy industrial products follows:



	1982	Increase over 1981 (%)
Coal	666,000,000 t	7.1
Crude oil	102,120,000 t	0.9
Natural gas	11,930 million cubic metres	-6.4
Electricity	327,700 million kWh	5.9
of which:		
Hydroelectricity	74,400 million kWh	13.5
Pigiron	35,536,000 t	3.9
Steel	37,160,000 t	4.4
Rolled steel	29,020,000 t	8.7
Coke (Machine-made)	33,110,000 t	4.4
Timber	50,410,000 cu.m.	2.0
Cement	95,200,000 t	14.8
Plate glass	35,460,000 standard cases	15.7
Sulphuric acid	8,170,000 t	4.6
Soda ash	1,735,000 t	5.0
Caustic soda	2,073,000 t	7.8
Chemical fertilizer	12,781,000 t	3.2
of which:		
Nitrogenous fertilizer	10,219,000 t	3.7
Phosphate	2,537,000 t	1.2
Potash	25,000 t	-3.8
Chemical insecticides	457,000 t	-5.6
Ethylene	560,000 t	12.0
Plastics	1,003,000 t	9.5
Calcium carbide	1,670,000 t	10.6
Outer rubber tyres	8,640,000	18.5
Mining equipment	158,000 t	37.4
Power generating equipment	1,645,000 KW	17.9
Machine tools	100,000	-2.9
Motor vehicles	196,000	11.4
Tractors	40,000	-24.5
Walking tractors	298,000	49.7
Internal combustion engines (sold as commodities)	22,960,000 hp	14.6
Locomotives	486	22.1
Railway passenger coaches	1,153	-0.5
Railway freight cars	10,561	20.3
Steel ships for civilian use	1,025,000 t	11.9

As a whole industrial economic results were relatively poor, although improvements were made in some aspects. Per capitaproductivity for state-owned enterprises designated to undertake independent accounting rose 2.3% over 1981. Turnover period for working funds averaged 2.4 days less Twenty-two of the 67 major quality indices for industrial products rose, and 30 maintained the 1981 level, while the remaining 15 dipped. Forty-three of the 99 major indices for unit consumption of materials fell, 26 maintained the 1981 level and the remaining 30 rose. Forty-five of these indices are for unit consumption of energy, of which 25 dropped, seven maintained the 1981 level and the 13 other rose. Total cost of comparable products dropped only 0.04%, far from meeting the originally scheduled target of 2.3%. Turnover in the forms of profit and taxes for each 100 yuan of industrial output value dropped from 25.5 yuan to 24.6 yuan. Some enterprises suffered losses, which totalled 4,200 million yuan. Warehouse overstocking of some light and textile industrial goods increased. Many enterprises continued to put onesided emphasis on output value to the neglect of economic results.



### III. INVESTMENT IN FIXED ASSETS

Total investment in fixed assets of state-owned units came to 84,500 million yuan in 1982, and of urban and rural collectively-owned units 17,400 million yuan. Individual housing construction investment was 18,100 million yuan.

Of the total investment in fixed assets of state-owned units, investment in capital construction accounted for 55,500 million yuan 11,200 million yuan more than in 1981, a 25.4% increase. This outstripped the readjusted planned figure of 44,500 million yuan by 11,000 million yuan. Of this, the investment in capital construction from funds raised by localities topped the planned figure by 5,200 million yuan; and that from domestic loans, by 3,700 million yuan. Investment covered by the state budget was 27,700 million yuan accounting for 49.8% of all investment in capital construction compared with 56.8% for 1981.

Of the investment in capital construction 54.5% or 30,300 million yuan was for productive projects, and 45.5% or 25,200 million yuan for housing, schools, hospitals urban public facilities and other non-productive projects. Investment in housing amounted to 14,100 million yuan, 25.4% of the total.

This capital construction investment helped add the following major industrial capacities: 8,200,000 t of coal, 3,170,000 t of oil, 2,940,000 kW of power generating capacities, 510,000 cotton spindless, 29,000 t of chemical fibres, 346,000 t of sugar, 306,000 t of salt, 59,000 t of machine-made paper and paper-board, 3,100,000 t of iron ore, 180,000 t of steel, 725,000 t of synthetic ammonia, 653,000 t of chemical fertilizer, 333,000 cum of logs, 2,370,000 t of cement, 1,200,000 standard cases of plate glass, 1,680,000 kinescopes, and 751 km of highway. Annual cargo handling capacity added at ports was 21,820,000 t.

A total of 116 large and medium-sized projects and 145 single items of large and medium-sized projects were completed and put into operation.

Completed energy projects that were put into operation included the Wujiangdu hydroelectric power station in Guizhou with a combined generating capacity of 630,000 kW, and the third stage project of the Suixi power plant in Hubei, Anhui province, with a generating capacity of 400,000 kW. Single items that were completed and put into operation included three power generating units each with a capacity of 125,000 kW at the Gezhouba hydroelectric power station in Hubei province, the No.1 power generating unit of 350,000 kW at the Baoshan general iron and steel plant, the No.1 Power generating unit of 200,000 kW at the Qinling power plant in Shaanxi province, the Gencun inclined shaft with an annual production capacity of 1,200,000 t at the Yima coalfield in Henan province, as well as three other coal projects each with a designed annual production capacity of 900,000 t the Taozhuang No. 2 vertical shaft at the Handan coal mining area and the Xiandewang inclined shaft at the Xingtai coal mining area in Hebei province, and Shihao shaft in the Songzao coal mining area in Sichuan province.

Complete projects and single items undertaken by transport and communications departments that went into operation included: electrification of the 116-km railway from Yangquan to the northern station of Taiyuan, 258km of double-track sections of eight railways including Jinan-Qingdao, Longhai, Beijing-Baotou and Shijiazhuang-Dezhou, and an added annual capacity of 20,000,000 t of ore at a deep-water wharf at Beilun port, Zhejiang province.

Complete imported plants that went into operation included: the Pingdingshan cord fabric plant in Henan designed to produce 13,000 t of nylon cord fabrics a year, the Anqing petrochemical works in Anhui and the Guangzhou general petrochemical works in designed each to produce an annual average of 240,000 t of synthetic ammonia and 420,000 t of urea, and a colour kinescope factory with a designed annual capacity of 960,000 tubes in Xianyang, Shaanxi province.



Financial resources for capital construction were not used in a concentrated way. Control of funds not covered by the national budget was inadequate and construction funds for some key departments were not guaranteed. Investment in agriculture was 3,400 million yuan, 500,000,000 yuan more than the 1981 figure, but the proportion of such investment in the nation's total capital construction investment dropped from 6.6% to 6.1. Investment in the energy industry was 10,100 million yuan, 1,000 million yuan more than in 1981, but the proportion dropped from 20.6% to 18.3%. Investment in transport and posts and telecommunications was 5,700 million yuan, 1,700 million yuan more, and the proportion rose from 9.1% to 10.3%. Investment in education was 2,500 million yuan, 300,000,000 yuan more but the proportion dropped from 5% to 4.5%. Investment in scientific research was 1,000 million yuan, 100,000,000 yuan more, but the proportion dropped from 2.1% to 1.8%. Investment in heavy industry, excluding the energy industry, commerce and foreign trade registered varying increases.

The scale of capital construction was over-extended and investment excessive, and there were cases of projects not covered by the national budget that were undertaken at the expense of projects covered. A total of 71,000 projects were under construction, 11,000 more than the previous year. Of this 34,000 were newly-started projects, including some duplicates. Of the 80 large and medium-sized projects that were to be completed and put into operation in 1982, thirty-three remained unfinished at the end of the year. Twenty-four of the 80 single items planned for completion and operation in 1982 were not completed on schedule. Thus capital construction investment yielded less than satisfactory results. Fixed assets worth 41,300 million yuan were added in 1982, but only 74.4% of the assets went into operation as against 86.6% in 1981. The year 1982 saw the completion of 143,570,000 sq.m. and the proportion of housing completed to the total under construction dropped to 50.5% from 52% in 1981.

Efforts were stepped up to revamp existing enterprises. A total of 29,000 million yuan was invested for renewal of equipment, technical transformation and other measures in state-owned units, 6,500 million yuan more than in 1981, a 29% increase. As regards break-down figures for investment by major economic departments, light industry accounted for 22.1%, compared to 23.1% in 1981; the energy industry rose from 23.9% to 24.7%; other branches of heavy industry dropped from 26.2% to 24.6%; transport, posts and telecommunications dropped from 11.2% to 10.9%; and commerce and foreign trade rose from 3.8% to 4.7%.

A total of 90,000 projects involving renewal of equipment and other technical transformation measures each requiring a total investment of no less than 50,000 yuan were undertaken in 1982, 24,000 more than in 1981. Forty-eight thousand were completed, 13,000 more than the previous year. These projects played a positive role for increasing production, practising economy, upgrading techniques and improving transportation. Nevertheless, a fairly large part of this investment was not used for technical transformation, improved quality of products and conservation of energy and raw materials.



Geological work was intensified in 1982. A number of oil and gas fields and 300 mineral-bearing areas were discovered and assessed. The known area of oilfields in the eastern regions grew as a result, and progress was made in general surveying and prospecting for oil and gas in the western regions. Fairly good results were achieved in oil prospecting on the continental shelf in the Beibu gulf and the Bohai sea. Newly-verified reserves of 14 minerals including coal, petroleum iron, copper, aluminium, gold, phosphorus and pyrites outstripped the planned figures. Of these, coal amounted to 71,160 million tons, and iron ore 1,480 million tons. New reserves were verified also for 54 other minerals including chromium, tungsten, tin, molybdenum, bismuth, silver, niobium-tantalum, blue asbestos, gypsum, graphite, kaolinite and natural stone building materials. The total drilling footage was 9,300,000 m, exceeding the 1981 figure by 458,000 m.

#### IV. TRANSPORT; POSTS AND TELECOMMUNICATIONS

The total volume of goods transported by all means of transportation was 1,304,900 million t/km, up 7.5% from 1981. Of this, the volume of railway freight was 612,000 million t/km, an increase of 7.1%; that of road goods was 94,900 million t/km, up 21.7%; that of waterway cargo was 547,700 million t/km, up 6.3%; and that of air freight was 200,000,000 t/km, up 17.6%. The volume of oil and gas carried through pipelines was 50,100 million t/km, up 0.4%. The volume of cargo handled at major sea ports was 237,64,000 t, 8.4% more than the previous year.

The volume of passenger travel handled by all means of transportation was 274,400 million person-kilometres, a 9-8% increase over 1981. Of this, the volume of railway carriage was 157,500 million person-kilometres, up 6.9%; the volume of road passengers was 96,400 million person kilometres, an increase of 14.9%; the volume of waterway passengers was 14,500 million person-kilometres, up 5.1%; and the volume of passengers by air was 6,000 million person-kilometres, a 20% increase.

Posts and telecommunications transactions throughout China amounted to 2,040 million yuan in 1982, topping 1981 by 4.6%. Letters increased 0.2%, combined circulation of newspapers and magazines, 8.1% more telegrams, up 0.8% and long-distance telephone calls, 6.9% more. The number of telephones in urban use increased by 7.9% over that at the end of 1981.

Departments of transportation, posts and telecommunications made real efforts to improve economic results. Per capita productivity for railway transport enterprises registered a 3.3% increase. The daily volume of freight hauled by locomotives averaged 0.3% more than in 1981. Oil consumption by diesel locomotives per 10,000 t/km of freight volume dropped by 2.9%. But consumption of coal by steam locomotives per 10,000 t/km of freight rose 0.7% due to internal readjustments. A 22.1% increase was achieved in the annual profit made by the entire railway system. Per capita productivity of waterway transportation enterprises under the Ministry of Communications rose 3.8%. The annual volume of cargo carried by ships per ton of loading capacity grew 4.6%. Time in port for foreign trade shipping was shortened from 10.4 days on the average in 1981 to 8.8 days in 1982. Posts and telecommunications enterprises yielded 31.1% more profit than in 1981.

Railway transportation, cargo-handling capacity at ports and posts and telecommunications still cannot keep pace with the development of the national economy. Serious accidents happened in railway, water and civil air transport, indicating that safety was inadequate.

#### V. DOMESTIC TRADE

The total value of commodities purchased by state-owned commercial departments reached 262,250 million yuan in 1982, topping 1981 by 6.2%.



This included 85,560 million yuan of farm and sideline produce, up 11.9% over 1981 (or 9.5% if the rise in prices is excluded), and 174,620 million yuan worth of manufactured goods, up 3.6%. Purchases of the major commodities surpassed 1981. Among them, the purchases of grain reached 72,085,000 t, a 14% increase; cotton, 3,413,000 t up 18.9%; edible plant oil, 2,930,000 t, up 10.4%; hogs, up 3.7%; eggs, up 5.3%; aquatic products, up 16.2%; cured tobacco, up 40.8%; sugar, up 10.5%; cloth, up 1.8%; knitted underwear, up 4.4%; sewing machines, up 23.8%; television sets, up 32.7%; and cassette recorders 100%.

The total value of retail sales in 1982 was 257,000 million yuan a 9.4% increase over 1981 (or 7.3% if the rise in retail prices is excluded.). Total value of retail sales by state-owned commercial units was 196,860 million yuan, up 4.7%; the corresponding figure for co-operative commercial units was 41,440 million yuan, up 21.3%; and that for individual commercial units, 7,460 million yuan, up 99.5%. The total value of retail sales by peasants to the non-agricultural population was 11,080 million yuan, topping the 1981 figure by 23.9%. The value of retail sales by state-owned commercial departments accounted for 76.6% of the nation's total, compared to 80% in 1981. The value of retail sales by co-operative units, however, rose from 14.5% to 16.1%; that by individual commercial units, from 1.6% to 2.9%; and that by peasants to the non-agricultural population, from 3.8% to 4.3%.

The volume of retail sales for the majority of the major consumer goods went up in 1982. The increase over 1981 for grain was 10.2%; for edible vegetable oil, 28.4%; for pork, 6%; for eggs, 9.9%; for aquatic products, 13.1%; for sugar, 8.9%; for knitted underwear, 8.3%; for woollen fabrics, 5.9%; for cameras, 17.5%; for radio sets, 17.9%; for television sets, 18.3%; for sewing machines, 23.9%; for bicycles, 39.9% and for cassette recorders, 65.8%. Retail sales of cloth were 1.7% below 1981. By the end of 1982, the state-owned commercial units had 8% more goods in stock than at the end of 1981.

The domestic market had a fairly ample supply of goods and greater variety. But owing to changes in market demand and consumers' demand for greater choice, some high-priced goods of inferior quality and other goods that could not find a ready market were overstocked.

In 1982, market prices remained basically stable. The purchasing prices of farm and side-line produce by and large remained the same as in 1981. But as more farm and side-line produce was purchased at negotiated prices or at higher-than-normal prices for produce purchasing price index for farm and side-line produce went up 2.2% over 1981. The 1982 overall level of retail prices went up 1.9%. The index for the cost of living of the non-agricultural population rose 2% over 1981. Retail prices of daily consumer goods rose by 2.1%, and the prices of services 1.4%.

In 1982 retail prices rose 2.1% in the cities and 1.7% in the rural areas. Among the retail prices for various consumer goods, the price of foodstuff went up 2.3% (the price for tobacco, alcoholic drinks and tea, up 16.4%), that of goods for cultural and recreational purposes, up 0.2%, pharmaceuticals, up 1.3%, fuel, up 0.8%, but the price of clothing dropped 2.1% and goods of daily use, 1%. There was a 1.9% increase in the retail price of means of farm production. There were still cases of disguised price hikes and of commodity and service prices raised at will.

The cost in commodity circulation of enterprises formerly under the Ministry of Commerce went up 9% in 1982 from 7.8% in 1981. The turnover period for circulating funds in 1982 was 15 days longer than in 1981 and profit decreased 34.2%. The expenses involved in commodity circulation in enterprises under the All-China Federation of Supply and Marketing Co-operatives rose to 10.5% in 1982 to 9.9% in 1981. The turnover period of circulating funds was five days longer and profit decreased 14.2%. This was due to poor management in quite a number of commercial enterprises and the drop in retail



price of some manufactured goods. Sales of most of the means of production under state control rose in 1982. Rolled steel rose 13.3%, coal 7.4%, caustic soda 8%, soda ash 6.4%, timber 10.9% and cement 13.1%. Department in charge of distributing state-controlled materials and equipment improved economic results. Costs for distributing such materials and equipment dropped to 8.2% of their cost in 1982 from 8.9% in 1981 and the turnover period for circulating funds was 31 days less. But some materials and equipment were over-stocked and the problem of slow turnover remains to be solved.

## VI. FOREIGN TRADE, TOURISM

Customs statistics show that the 1982 total value of imports and exports came to 77,200 million yuan, a 5% increase over 1981, or a 3.4% increase if price and foreign exchange rate fluctuations are excluded. Total value of exports in 1982 was 41,430 million yuan, a 12.7% increase over 1981, or a 6.5% increase if price and foreign exchange rate fluctuations are excluded; total value of imports in 1982 came to 35,770 million yuan, a 2.7% decrease from the 1981 figure, or a 0.3% increase if price and foreign exchange rate fluctuations are excluded. The value of exports was 5,660 million yuan more than imports.

The proportion of manufactured goods imported dropped to 60.4% in 1982 from 63.4% in 1981; and the proportion of primary products rose to 39.6% in 1982 from 36.6% in 1981.

A total of 7,924,000 people from 164 countries and regions came to China in 1982 on tours and visits and for trade, sports, scientific and cultural exchanges. There were 764,000 foreigners, a 13.2% increase over 1981; and 7,160,000 overseas Chinese and Chinese compatriots from Hongkong and Macao, up 1%. The foreign exchange income from these sources was valued at 1,570 million yuan RMB, a 14% increase over 1981.

## VII. SCIENCE, TECHNOLOGY, EDUCATION AND CULTURE

In 1982, 6,264,000 scientists and technicians were working in state owned units, 9.6% more than in 1981. The number of major research results in science and technology came to 4,100 items, 32% more than in 1981. This included 149 inventions and discoveries approved by the state, a 24% increase over 1981. The national defence scientific research departments successfully conducted tests in launching carrier rockets from submarines. Industrial and transport departments conducted research, manufacture or development of new products, new technologies and techniques. Agricultural departments succeeded in breeding and popularizing a number of goods strains of crops. All this illustrated the new progress in China's science and technology. Research work in social sciences also made headway and contributed to socialist modernization.

Institutions of higher learning enrolled 315,000 students in 1982, or 36,000 more than in 1981; 457,000 students graduated from these institutions, 317,000 more than the previous year. These institutions had a total enrolment in 1982 of 1,154,000 students, 125,000 fewer than in 1981. This was because the students who entered college in the spring and autumn of 1978 all completed their four-year courses in 1982. Work was done to improve higher educational programmes for adults (including TV college courses, correspondence schools, evening schools and colleges for workers and peasants). A total of 291,000 new students were enrolled in such institutions in 1982 and 204,000 graduated. These institutions had 644,000 students in 1982, or 108,000 more than in 1981.

Readjustment and restructuring were continued in secondary schools. The level of the teachers and educational quality as a whole improved, but the number of students in some schools decreased. Middle schools, secondary technical schools and apprentice schools had 46,844,000 students, 3,500,000 less than 1981. Agricultural middle schools and vocational middle schools had 704,000 students, 223,000 more than in 1981.



The total number of students in all kinds of middle schools was 47,548,000, or 3,277,000 less than in 1981. The major cause of the decline was the curtailment of regular middle schools while secondary vocational and technical education did not develop fast enough to fill the gap. Some 10,804,000 people were receiving adult secondary education 2,597,000 more than in 1981. This was because more training courses were arranged for workers and staff members in enterprises.

In 1982, there were 139,720,000 pupils in primary schools, 3,608,000 fewer than the previous year. The reduction was due mainly to a drop in the number of school-age children because of birth control. The number of adults receiving primary education was 7,566,000 in 1982, 2,170,000 less than in 1981.

New achievements were made in the building of socialist spiritual civilization by cultural undertakings including literature, the arts, films, the press, radio, television, cultural relics and publications, and a number of good works well received by readers and audiences appeared. One hundred and twelve feature films were produced in 1982, seven more than the previous year. One hundred and fifty-five full-length new films were distributed, 12 more than in 1981. The country had 140,000 cinemas and other film projecting units, 3,460 performing art troupes, 2,925 cultural centres, 1,889 public libraries and 409 museums. There were 118 radio stations throughout the country. 506 transmitting and relay stations, 47 TV centres and 328 TV transmitting and relay stations each with a capacity above 1,000W. A total of 14,000 million copies of national and provincial newspapers, 1,510 million copies of magazines of all kinds and 5,880 million copies of books and pictures were published in 1982.

#### VIII. PUBLIC HEALTH AND SPORTS

New progress was made in public health undertaking after the health departments restructured both urban and rural health organizations. The total number of hospital beds for the country reached 2,054,000 at the end of 1982, and increase of 1.8% compared with the end of 1981. The number of professional health workers totalled 3,143,000, a 4.4% increase. This included 1,307,000 doctors, an increase of 5.1%, and 564,000 nurses, an increase of 7.4%. The patriotic health campaign and prevention and treatment of diseases were strengthened.

News of victory with important break throughs kept pouring in from the sports field in 1982. Chinese contestants at the ninth Asian games won 61 gold medals and China came first in the number of gold medals and in the total score. Chinese women's volleyball team and sportsmen in gymnastics, diving, table tennis and badminton won honour for the motherland in international competitions. A total of 13 world championships were won during the year. Chinese sportsmen broke 11 world records and 120 national records. A total of 26,000 sports meets were held at the country level and above. As many as 8,450,000 people reached the 'state standards for physical training'. Mass sports activities were extensive.

#### IX. PEOPLE'S LIVELIHOOD

\*1982 saw a continued improvement in the people's living standards in both cities and countryside. A sample survey of 22,775 peasant households in 589 counties of 28 provinces, municipalities and autonomous regions showed an average annual net income per capita of 270 yuan, an increase of 15.2% over the previous year after deducting incomparable factors.\*

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\*In the past, farm produce allotted to commune members by production teams was calculated at low rates for internal distribution. Recently, since most parts of China adopt a contract system with the household as the unit, farm produce turned out by commune members was all calculated at 1982 state purchasing prices. The factor of price fluctuations has been excluded in the above listed rates of growth.



Of those surveyed, the percentage of households with an average 500 yuan of net income per capita rose to 6.7% from 3.2% in the previous year. A sample survey of 9,020 households of workers and staff in 47 cities of 29 provinces, municipalities and autonomous regions showed an average annual income per capita of 500 yuan which can be used for living expenses, 7.9% increase over the previous year which was 463 yuan. Deducting the rise in the cost of living index, real income rose by 5.8%.

In 1982, a total of 6,650,000 people were given jobs, including young people waiting for jobs in cities and towns, other categories of people and the year's graduates from colleges, secondary technical schools and apprentice schools who are covered by the state job assignment programme. By the end of the year, the number of workers and staff members in state-run and urban collective units came to 112,810,000, this being 3,410,000 more than at the end of 1981. Of these 86,300,000 were in state-run establishments, an increase of 2,580,000; 26,510,000 were in collective establishments in cities and towns, an increase of 830,000. The number of individual labourers in cities and towns reached 1,470,000, 340,000 more than at the end of 1981.

In 1982, the annual wages of workers and staff members in the country totalled 88,200 million yuan, a rise of 7.6% over 1981. The total for state-employed workers was 70,900 million yuan, 7.4% more and for collectively employed workers in cities and towns, 17,300 million yuan, an increase of 8.1%. Of the total annual wages of workers and staff members in the country bonuses and payments for work above quotas totalled 10,900 million yuan, an increase of 19.8% over the previous year.

The average annual monetary wage for workers and staff members in the country was 798 yuan, an increase of 3.4% over 1981. Of this the average annual monetary wage for workers and staff members in state-owned units was 836 yuan, 3% above the previous year; that for workers and staff members of collective units in cities and towns was 671 yuan, up 4.5%.

Labour safety work was strengthened in 1982. The number of deaths of workers and staff members on duty decreased 4.1% from 1981 and the number of seriously injured workers and staff members dropped 3.5%.

The total amount of savings deposits in the urban and rural areas was 67,540 million yuan by the end of 1982, or 29% more than at the end of the previous year. About half of the total savings deposits was long-term deposits of three years and more.

In 1982, housing projects completed by state-run and collective units in cities and towns totalled 117,900,000 sq.m., 20,210,000 sq.m. more than in the previous year. Houses built by rural commune members were about 600,000,000 sq.m., the same as the previous year. In many rural areas, because of a lack of overall planning and strict control of housing construction there was still serious excessive use of cultivated land.

With the development of the national economy, work was strengthened to support the aged, disabled, widowed and orphaned whose livelihood were not assured. The number of those supported by rural collective economy reached 2,688,000, a 3.6% increase over the previous year. Of these, old people in homes for the aged was 138,000, an increase of 20% over 1981. There were 864 social welfare institutes and children's welfare institutes in cities and towns, taking care of 62,000 people.

The main problems for people's living standards are: some enterprises still issued excessive bonuses and subsidies; some people with low income still have a rather difficult life; housing for part of the workers and staff members is still fairly crowded.



## X. POPULATION

Population by the end of 1982 was 1,015,410,000 which was 14,690,000 more than the previous year's figure of 1,000,720,000.\*

According to a sample survey of 556,188 people drawn at random from 3,503 production teams (residence groups) in 1,057 people's communes (streets) of 312 counties (cities) of 29 provinces, municipalities and autonomous regions, the birth rate was 21.09/1,000, the mortality rate was 6.60/1,000 and the natural growth rate 14.49/1,000.†

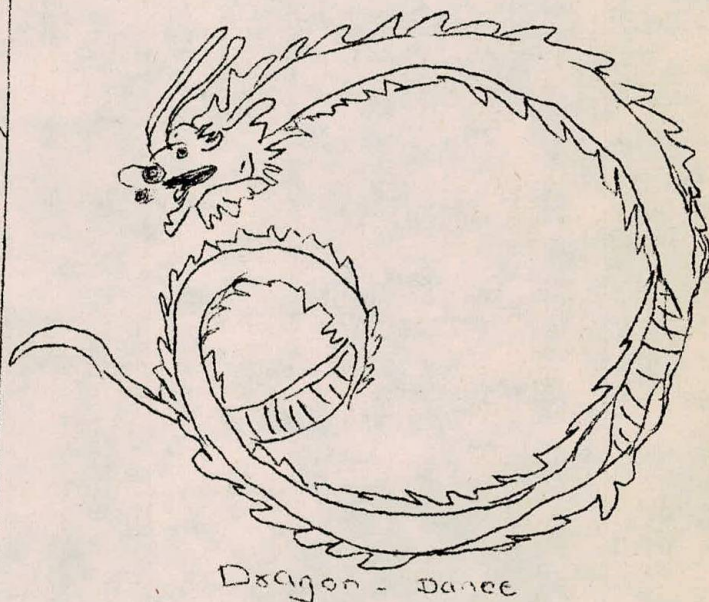
\*Figures for the population of 1981 and 1982 include that for servicemen.

†None of the figures in the communique include those for Taiwan province.

SOURCE: CHINA REPORT, Vol. XIX No. 3, May-June 1983, pp.43 to 55



A OLD SCENE



Dragon - Dance



A S U M M A R Y

The writings of Mao Tsetung brought together under the title "A critique of Soviet Economics", date from the period during and immediately after the Great Leap Forward, a time when the Chinese Revolution began to break decisively with the Soviet Union and its model of development. With the Great Leap, a distinctive Chinese road to socialism emerged. But it was a road paved with a decade of controversy over the course of China's socialist development. At the heart of many of those disputes within the Chinese Communist Party was the question of the applicability of the Russian experience to building Socialism in China.

"A critique of Soviet Economics" reveals the insights of Mao on the path which China should follow. These texts of Mao are most crucial documents without which one cannot grasp the basic issues at stake in the new developments taking place in today's China as well as in the controversies and debates that are going on.

We reproduce here a summary of Mao's critique of Soviet Economics by James Peck, an acknowledged competence on the subject. This summary had been written as an introduction to Mao's critique of Soviet Economics published by the Monthly Review Press and reproduced in the Indian Edition brought out by the Progressive Publications, New Delhi.

THE SOVIET MODEL

Throughout most of the history of the Chinese Communist Party, controversy over how to deal with the experience of the Russian Revolution has been at the heart of what the Chinese call the "two-line struggle". From its founding in 1921, conflicts within the party have in one way or other been linked to individuals who favored the orthodox Russian conception of revolution. The defeat of Li Li-san in the 1930s, Wang Ming in the 1940s, Kao Kang (Gao Gang) and P'eng Teh-huai (Peng Deh-huai) in the 1950s, and Liu Shao-Ch'i (Liu Shao-chi) in the 1960s have all entailed controversies over the nature and applicability of the Soviet model.

Until 1949, these disputes in China focussed on the appropriate strategy and tactics of the revolutionary struggle for power, the nature of the mass line, and the correct way to apply Marxism-Leninism to the concrete conditions of China. Stalin only reluctantly tolerated the methods and innovations associated with Mao and his followers, especially as they were worked out during the years in Yenan (1937-1945). In the 1940s, he even opposed the successful struggle for liberation. "The Chinese revolution won victory", Mao later said, "by acting contrary to Stalin's will... If we had followed Wang Ming's, or in other words, Stalin's method, the Chinese revolution couldn't have succeeded" (1).

With Liberation however, the Chinese saw the Soviet Union as the model for socialist development. Mao had warned his colleagues in 1949 that "our past work is only the first step in a long march of 10,000 li" -- "a brief prologue to a long drama". (2)

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- (1) Mao Tsetung, "Talks at the Chengtu Conference. Talk of March 10, 1958", in Chairman Mao Talks to the People. Talks and letters, 1956-1971, Ed. Stuart Schram (New York, Pantheon, 1974), p. 102
- (2) Mao Tsetung, "Selected works of Mao Tsetung, Vol. IV (Peking Foreign Languages Press 1965) pp. 422 and 374.



Yet in these early days, there was no model of socialist development other than the Russian, with its reliance on elite-planned and bureaucratically administered programs of economic development which unduly subordinate the needs of the countryside to the demands of heavy industry. The Soviet Union, despite all, was a society which had achieved industrialization and collectivization, key goals of all the leaders of the Chinese Communist Party. The Soviet victory over fascism in the Second World War was to many Chinese leaders proof of the success of that society. And at a time of intense American Government hostility, a U.S.-backed blockade and bombing of its coast, and later a world-wide economic embargo, it was quite natural that China leaned toward the Soviet Union in its defense and economic policies.

"In the early stages of Liberation", Mao writes, "we had no experience of managing the economy of the entire nation. So in the period of the first five-year plan we could do no more than copy the Soviet Union's methods, although we never felt altogether satisfied about it" (1) This growing dissatisfaction focussed around three main aspects of the Soviet model :

- 1) "primitive socialist accumulation"(2) at the expense of the peasantry;
- 2) a theory of productive forces and the dictatorship of the proletariat ;
- 3) a conception of the Communist Party in China.

#### PRIMITIVE SOCIALIST ACCUMULATION AT THE EXPENSE OF THE PEASANTRY

A Chinese slogan of the early 1950s, "the Soviet Union today is our tomorrow" captures the spirit with which many Chinese undertook to copy Soviet methods. China's first five year plan was notable for its almost exclusive reliance on heavy industry, highly centralized, bureaucratic methods of planning; and little emphasis on light industry and the production of consumer goods. The peasantry was considered largely as a source of savings. Powerful centralized economic ministries were established in Peking. They introduced rigid hierarchical systems of control and "one-man management" in the factories, and relied on highly paid specialists alone to direct them. To stimulate productive activity and monitor enterprise performance, material incentive were widely promoted.

The Soviet union actively encouraged such developments. And China's relations with the socialist world after 1949 quite naturally entailed giving a priority to those areas where cooperation was easiest and ~~most~~ most meaningful : heavy industry, an educational system designed to train professionals and technicians to administer the Soviet-style Five Year Plan ; the spread of professionalization in the armed forces. Indeed, what was happening in the people's Liberation Army symbolizes what was happening throughout the urban areas of China- With the adoption in February 1955 of the "Regulations on the Service of officers", the Chinese officer corps acquired the trappings of a regular army. And in introducing a system of ranks, titles and widely divergent pay scales for officers and enlisted personnel, the PLA was turning its back on the informal, egalitarian, and democratic character which had been molded in years of revolutionary warfare.

Opposition to this rapid "Sovietization" was not far below the surface even in these early days after Liberation. Many cadres were uneasy about the party's turning its back on the egalitarian traditions of Yanan. Others, including such leading members as Liu Shao-ch'i, came to oppose the concentration of economic power in the ministries in Peking, and the

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(1) Mao Tsetung, Selected works of Mao Tse Tung, Vol. IV (Peking Foreign languages Press, 1965) pp. 422 and 374

(2) Mao Tsetung, A critique of Soviet Economy, p. 122



highly centralized planning apparatus which they saw as threatening their conception of the role and authority of the Chinese Communist Party. In subsequent years, as some of the ministries were made less bureaucratic and planning less centralized after the mid 1950s the party did expand its role. One-man management systems were to give way to greater party involvement in the running of the factories. With the Great Leap Forward, the party also greatly increased its role in the rural areas.

Many party leaders, therefore, were not opposed to some of the criticisms which Mao began to raise about the dangers of copying the Soviet model. Yet for Mao, their criticisms did not go to the heart of the problem. In evaluating the application of the soviet model in the early 1950s Mao began to warn of the dangers it posed to the revolutionary transformation of the countryside. The growing gap between town and country, he argued, was reinforcing ingrained habits of looking down on those engaged in manual labor, especially peasants, an attitude that in turn nurtured bureaucratic and elitist methods of leadership. And Mao feared that the growing reliance on industrial and technical development concentrated in the cities at the expense of pushing the social revolution in the country side would exacerbate the very contradictions that had to be overcome to transform China into an industrialized socialist society.

In July 1955, Mao insisted that development in the cities and rural areas were intricately interrelated: "We must on no account regard industry and agriculture, socialist industrialization and the socialist transformation of agriculture as two separate and isolated things and on no account must we emphasize the one and play down the other" (1) But not until April of 1956, in his speech "On the ten Major Relationships" did Mao directly challenge the Soviet Model's reliance on primitive accumulation at the expense of the peasantry.

Mao sharply criticises the Soviet's "lopsided stress on heavy industry to the neglect of agriculture and light industry" (2). Calling for a reduction in the absolute priority given to heavy industry, he argued that increased investment in light industry and agriculture serves the daily needs of the people while actually speeding up the accumulation of "capital" for heavy industry. To implement this proposal Mao urged local authorities to take greater initiative, criticizing the Soviet Union for "concentrating everything in the hands of the central authorities, shackling the local authorities and denying them the right of independent action" (3). Administrative costs had to be cut, the staff of the national bureaucracies slashed by two-thirds. Unified planning and discipline under a strong center were still essential, he insisted, but this was not the same as the domination of ministries administering a Soviet-style centralization.

In this way, Mao went on to challenge the very basis of the Soviet method of accumulation from the peasantry. The Russians had made "grave mistakes" in handling the peasants and taken measures which "squeeze the peasants very hard". Their methods of accumulation "had seriously dampened the peasants' enthusiasm for production. You want the hen to lay more eggs and yet you don't feed it, you want the horse to run fast and yet you don't let it graze. What kind of logic is this?" (4).

On no account, Mao was saying, would the Chinese follow a development strategy for which the peasants had to pay the cost. Nor could China simply drain the surplus from the rural areas, as Stalin had done in the 1930s. Unlike what both Soviet orthodoxy and bourgeois economists then claimed, the "capital" could not come from any preexisting source of surplus in the rural areas. For precious little "capital" existed. Instead of taking the surplus from the rural areas, therefore, Mao argued that the Chinese labor force, agricultural and industrial alike, had to significantly increase its productivity. In this way, a truly industria-

(1) Mao Tsetung "On the question of agricultural co-operation" in Selected Readings from the works of Mao Tsetung (Peking foreign language Press, 1971) p. 406

(2) Mao Tsetung "on the ten Major Relationships", Peking Review 20, no 1 (January 1, 1977). Although various unofficial versions of this speech have long been available, this version is the first officially released one.

(3) Ibid. p. 16 (4) Ibid. p. 15.



lized socialist society could develop. The worker-peasant alliance would be strengthened rather than torn apart by a sharp clash between rural and urban interests. And by avoiding the imposition of a special burden on the peasants a powerful repressive state apparatus would not be needed to extract surplus production.

With his speech "On the <sup>ten</sup> major relationships", as Mao later said, we "made a start in proposing our own line for construction" (1). Mao for the first time clearly rejected the idea of development through a privileged sector (heavy industry, and only later the other sectors) and distinct phases (first in material progress and only later in social relations and ideology). The entire nation, he insisted, must undertake a massive commitment to social, political, and economic unification that, like in the methods used in the years in Yenan, would leave none behind and not benefit a few at the expense of the many. In this pathbreaking analysis on the contradictions in China, Mao firmly opposed any plans that would create new divisions in a nation already severely torn by imbalances between the various regions, between various social classes and groups, between the center and the regions, between the political and social spheres.

#### THEORY OF PRODUCTIVE FORCES AND THE DICTATORSHIP OF THE PROLETARIAT

While pointing out the dangers of blindly copying the Soviet model of accumulation, Mao was also criticizing another, closely associated aspect of that model, its theory of productive forces. Essentially, this theory, as it was formulated in the Soviet Union during the years of Stalin's leadership, maintained that state ownership of the means of production, together with a rapid growth of the forces of production, opens up the socialist road to communism. The dictatorship of the proletariat guides the development of the forces of production, while repressing the old ruling classes and defeating their inevitable counter-revolutionary attacks on the new order.

For the peasants and the workers, the dictatorship of the proletariat is held to be a genuine democracy. The abolition of private property and other forms of class society is argued to have ended all exploitation. Since exploitation is argued to be impossible under such new conditions, the hierarchy, subordination, and disciplining of the workforce, even when it appears to resemble sophisticated capitalist methods, is seen as merely the adaptation of rational patterns of work.

With the dying of the old bourgeoisie and feudal ruling classes, the development of the forces of production and the continuous elevation of the standard of living of the masses, class struggle will diminish in intensity and eventually disappear. Were it not for the international struggle ~~with~~ with capitalism, the state itself would "either away". Even though the state does remain as an apparatus to fight external enemies, the transition to communism can be worked out internally, dependent only on the development of the forces of production.

In essence the Stalinist theory of productive forces reduced the concept of the capitalist mode of production to little more than the system of private ownership of the means of production. And consequently, once political power is seized and a system of public ownership of the means of production instituted, no thought need be given to a thoroughgoing socialist revolution on the political and ideological fronts. The creative role of the masses and mass campaigns are viewed as anachronistic, the struggle to refashion one's world is ignored.

Mao's attack on this theory of productive forces grew out of the lessons he had learnt about revolutionary transformation during the years of guerilla warfare. The distinctive features of the Yenan model are well

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(1) Mao Tsetung, "Talks at the Chengtu Conference" p. 101

(2) John G. Gurley, "China's economy and the Maoist Strategy, (New York, Monthly Review Press, 1976) provides a valuable analysis of the formation of Mao's economic strategy from 1927 to 1949.



known : self-reliance, decentralization, antagonism to bureaucratism and elitism, collective aims and discipline, nonmaterial incentives, and the participation of the masses in all aspects of social and economic activity. Development was comprehensive, designed to bring up all sectors, not just a chosen part.

Out of the struggles for revolutionary land reform, Mao argued, the peasants' political consciousness had been raised through the mass line and the development of new cooperative work relationship. By changing the relations of production and encouraging the growth of new attitudes and ideas, rural productivity was increased. The party itself was only a part of the process, not its master. For like the peasants, its members were molded through a process of continuous, step-by-step transformation.

Mao's strong advocacy of rapid collectivization in the years after Liberation was predicated upon this experience of developing the productive forces through a step-by-step transformation of every aspect of rural life. Thus he criticized the idea of "mechanization first, cooperative later on", arguing instead that collectivization could and should precede mechanization of agriculture. Social transformation, followed and increasingly supported by technological changes, would release the productive forces while decreasing polarization in the countryside.

Many leading party officials, influenced by the Soviet model's reliance on the theory of primitive accumulation, opposed Mao's call for deepening the rural revolution in the early 1950s. Liu Shao-Chi reportedly criticized as "utopian agrarian socialism" the attempt to promote cooperativization before there was an adequate supply of agricultural tools and sufficient mechanization. Nor was Liu alone in his doubts. Remembering what had happened in the Soviet Union, many party leaders feared the that accelerating collectivization in China would lose them peasant support and disrupt their economic plans. As Mao commented in July 1955:

"Some comrades have found in the history of the Communist Party of the Soviet Union grounds for criticizing what they call impetuosity and rashness in our present work of agricultural cooperation...but on no account should we allow these comrades to use the Soviet experience as a cover for their idea of moving at a snail's pace " (1)

This debate was not just over the pace of collectivization. However, Mao perceived that behind the opposition to his policies was a more fundamental opposition to continuing class struggle and revolutionary methods of social transformation. In June 1953 he warned party leaders that the transition period to socialism was "filled with contradictions and struggle. Our present revolutionary struggle is even more severe than past army revolutionary struggle. This is a revolution to bury one and for all capitalism and all exploitative systems" (2)

Yet rather than demonstrating an ability to lead such revolutionary struggle, Mao saw numerous party leaders lagging behind the mass upsurge in the countryside.

"Some of our comrades are tottering along like a woman with bound feet and constantly complaining, 'You're going too fast'. Excessive criticism, inappropriate complaints, endless anxiety, and the erection of countless taboos -- they believe this is the proper way to guide the social movement in the rural areas " (3)

If Mao saw the campaign for accelerating collectivization as a testament to the mass line and the need for revolutionary struggle many party officials argued that successful collectivization set the stage for a new era in which such methods were no longer necessary.

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(1) Mao Tsetung "On the question of Agricultural Co-operation" p.407

(2) Mao Tsetung, "Refute Right Deviationist views that depart from the general line", "Selected Works of Mao Tsetung, Vol. V (Peking Chinese language Press, 1977) Translated from the Chinese.

(3) Mao Tsetung, "On the question of Agricultural Co-operation" p. 389



Thus even as they began to support Mao's position on primitive accumulation as expressed in "On the ten major relationships", Liu Shao-Ch'i and other Party Leaders concluded that China's collectivization had progressed to a point where the development of the productive forces required that "the principal method of struggle" could no longer be "to lead the masses in direct action" (1). Liu Shao-Ch'i said at the Eighth Party Congress in September 1956:

"Now, however, the period of revolutionary storm and stress is past, new relations of production have been set up and the aim of our struggle is changed into one of safeguarding the successful development of the productive forces of society, and thus a corresponding change in the methods of struggle will consequently have to follow..." (2)

With the collectivization of agriculture and the public ownership of the means of production basically accomplished by 1956, Liu and others stressed the need to focus all energies on promoting the productive forces. This they did in a way deeply marked by the Soviet model of development. For by maintaining as the Eighth Party Congress resolution stated that "the essence of contradiction in socialist society is a contradiction between the advanced social system and the backward social productive forces" they turned their backs on the need for a simultaneous and interrelated socialist revolution on the political and ideological fronts. Revolutionary struggle, they believed, would not unleash the productive forces, but would only undermine the needed stability for their rapid growth. Periods of acute ~~xx~~ class struggle were no longer essential to create the new cooperative organizations and attitudes favorable to economic growth. The "advanced social system" already existed and needed only to be consolidated.

In 1956 and 1957, Mao had himself argued that the turbulent class struggle characteristic of previous revolutionary periods had in the main come to an end. But unlike other party leaders, he insisted that "the class struggle between the different political forces, and the class struggle in the ideological field between the proletariat and the bourgeoisie will continue to be long and tortuous and at times will even become very acute" (4). Thus he soon came to reject the Eighth Party Congress resolution that the contradiction in socialist society was between the "advanced social system" and the "backward social productive forces". Rather he argued that:

the basic contradictions in socialist society are still between the relations of production and the productive forces, and between the superstructure and the economic base.... survivals of bourgeois ideology, bureaucratic ways of doing things in our state organs, and flaws in certain links of our state institutions stand in contrast to the economic base of socialism (5)

There were thus serious weaknesses in the "advanced social system" which has to be struggled against. In essence, Mao insisted that only continued struggle could combat the powerful hold of bourgeois ideology and bureaucratic ways of doing things. The seizure of the state power and the public ownership of the means of production, therefore, were insufficient for the building of socialism. By themselves, they could not consolidate the gains made. The mere growth of the economic base could not automatically engender the very attitudes and organizational forms necessary both to drive the revolution forward and unleash the productive forces of the masses.

- (1) Liu Shao-Ch'i "The political report of the Central Committee of the Communist Party of China to the Eighth National Congress of the Party" in "Eighth National Congress of the Communist Party of China" Vol. I Documents (Peking, Foreign Languages Press 1966) p. 82
- (2) Ibid.
- (3) "Resolution of the 8th National Congress of the Communist Party of China", in "Eighth National Congress of the Communist Party", p. 116
- (4) Mao Tsetung, "On the correct handling of contradictions among the people", in "Selected Readings from the Works of Mao Tsetung" p. 463.
- (5) Ibid. p. 443-44



In his critique, Mao spells out for his party colleagues what he saw as the long term consequences of such an exclusive emphasis on building up the economic base. As Mao notes "in many ways (mainly production) the Soviets continue to progress, but with respect to the production relations fundamentally they have ceased to progress" (1). By resisting revolutionary social changes and not working to transform the basic relations among people in production and society as speedily as possible, the Soviets ensured that no qualitative changes occurred at all. The relations of production were all but frozen. By excluding the creativity and initiative of the masses, the Soviets could not develop the new attitudes and organizational forms necessary for a socialist society and the transition to communism.

Indeed, at the heart of the Soviet Theory of productive forces, Mao argued, was a profound fear and distrust of the masses and mass struggle. This was what : the Soviet Political Economy text and Stalin's Economic Problems of Socialism" revealed in their preoccupation with the base at the expense of the superstructure. For Mao, a host of closely related Soviet position flowed from this preoccupation : disregard for the masses as the creators of history and a reliance on planners ; preoccupation with technology and expertise ; confidence in hierarchy and one-man management , reliance on material incentives, and a total lack of interest in the transformation of an individual's worldview. The end result was the growth of a powerful bureaucracy and bureaucratic apparatus completely alienated from the masses.

#### CONCEPTION OF THE COMMUNIST PARTY

Mao's denunciation of such bureaucratic ways ran throughout his entire revolutionary career. But with the seizure of state power Mao faced the questions for which he found no answers in Soviet revolutionary experience. How, for example, was the party to retain its intimate ties with the masses when the tendency toward bureaucratic methods and elite privilege was so powerful ? How was the revolution to be continued after state power was seized and the means of production brought under public ownership ?

Khrushchev's attack on Stalin in February 1956 pointedly raised such questions for Mao and other party leaders. Although the Chinese Communist Party sharply criticised Khrushchev's lack of a cogent theoretical perspective for evaluating Stalin, at the same time the dangers of Stalinism were not dismissed. In the first official Chinese Communist Party response in April 1956, the party strongly reaffirmed the mass line and warned of the dangers of its neglect when a communist party was in power :

"the personnel of the Party and the state, beset by bureaucratism from many sides, face the great danger of using the machinery of state to take arbitrary action, alienating themselves from the masses and collective leadership, resorting to commandism and violating Party and State democracy." (2)

As Mao argued in "on the correct handling of the Contradictions among the people" there are "contradictions between the government and the people in socialist countries." (3). By always talking about unity and consolidation, the Soviet Union was actually blocking the correct resolution of the various contradictions in society, impeding the development of socialism. The real problems facing society remained hidden. And a convenient ideological cover for bureaucratic domination was created.

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(1) Mao Tsetung, A Critique of Soviet Economics p. 101

(2) Chinese Communist Party, "The historical experience of the Dictatorship of the Proletariat" ( Peking , Foreign Languages Press, 1959)

(3) Mao Tsetung "On the correct handling of Contradictions among the People", p. 434



But while various party leaders warned of the dangers of bureaucracy and spoke of the mass line, there were very pronounced differences in how they understood them and the role of the Communist Party.

Liu Shao-ch'i was often labeled in the Chinese Press during the cultural Revolution as the main ideological critic of Mao's view on the Mass Line. If so, he assuredly had significant support for his views; his position in many ways followed the conception of the Communist Party as it was enshrined in official Soviet doctrine. For Liu, the party, and only the party, could see what was necessary and could see to these necessary changes. To the masses, it would appear as a united selflessly dedicated organization. Purity of devotion and ideological orthodoxy were the ultimate safeguards for the ability of the party to act correctly on behalf of the masses. Only after its members had been taught "how to be good communists" could the party effectively help the masses to solve their problems. A selfless party elite should thus be above external supervision, its mistakes could be satisfactorily rectified through intra-party channels. As Mao said in the fall of 1957, "Some seem to think that once in the Communist Party, people all become saints with no differences or misunderstandings, and that the Party is not subject to analysis, that is to say, it is monolithic and uniform ..." (1)

At the heart of Mao's disagreement with Liu's orthodox conception of the Communist Party was his insistence that the party itself is only an instrument involved in, but not dominating, the dialectical process of continuous revolution. Knowledge, he points out in the critique, is not first the exclusive domain of the party elite. The party does not stand outside the revolutionary process with foreknowledge of its laws. "For people to know the laws they must go through a process. The vanguard is no exception" (2). Only through practice can knowledge develop; only by immersing itself among the masses can the party ~~lead~~ lead the revolution.

Throughout the history of the Chinese Revolution, Mao criticized those who believed exactly what had to be done and relied on Marxism-Leninism as an abstract doctrine filled with ready-made answers. Revolution, Mao insisted, is an extraordinary painful and difficult process. There are no easy answers, no laws which can be simply applied. As he argues in the critique, years of arduous struggle had been necessary before the correct methods emerged to enable the Chinese revolutionaries to win the bourgeois-democratic phase of the revolution. The building of socialism and communism would require an equally arduous struggle.

Mao saw the masses as the real creators of history, those from whom the Communist Party had to learn. Mistakes and setbacks would emerge in any mass struggle; revolution is sometimes brutal and violent. But the creative breakthroughs which lead to new cooperative methods and attitudes only come out of revolutionary struggle. This was how the soviets had ~~emerged~~ emerged in the Russian Revolution, Mao maintained, and how the communes developed in China. Nor should one fear failures. "People must go through practice to gain results, meet with failures as problems arise; only through such process can knowledge gradually advance" (3). Failures correctly analysed, are often illuminating as much as successes. By studying those which occurred in the Great Leap Forward, for example, Mao sought to uncover the guidelines with which consolidation of the communes could be accomplished.

No leadership, in short, can create the new social forms and political and economic innovations out of its own heads, then apply them through administrative decree. New forms and methods will emerge, Mao insisted, if cadres and the masses are allowed to experiment, if they are mobilized and encouraged by a party leadership willing to learn from their potential breakthroughs and capable of both shaping and being shaped in the process.

(1) Mao Tsetung, "A dialectical approach to Inner-Party Unity", in Selected Works of Mao Tsetung, Vol V (Peking Foreign Languages Press, 1977) p. 515

(2) Mao Tsetung, A critique of Soviet Economics, p. 73

(3) Ibid. p. 72.



As Mao said during the period of accelerating collectivization in 1955: "Both cadres and peasants will remold themselves in the course of the struggles they themselves experience. Let them go into action and learn while doing, and they will become more capable." (1)

Unlike Liu Shao-Ch'i, therefore, Mao never saw ideological devotion and intraparty rectification movements as sufficient to maintain the revolutionary role of the party. Only by being immersed in the masses, subject to their criticism, and sensitive to their needs could the party truly combat bureaucracy, privilege, and elitism. And since for him the party did not stand above society, Mao came to see the contradictions within the party as intrinsically interwoven with those in the society at large. In his editing of "Socialist upsurge in China's countryside" in 1955, Mao first mentioned the theme which he was to raise in the critique and elaborate further in later years. There is a practice, he then warned, "prevalent almost to the point of being universal: right opportunists in the party, working hand in glove with the forces of capitalism in society, are preventing the broad masses of poor and middle peasants from taking the road to the formation of cooperatives" (2). The emphasis on rights in the party linked to social forces was to undercut further the orthodox Soviet conception of the party and was used in the coming years as another reason for deepening the mass-line conception of politics.

#### THE GREAT LEAP FORWARD

Mao's writings in this critique of Soviet economics can also be read as an analysis of the Great Leap Forward. Here for the first time in his known writings, Mao is extensively exploring the process of uninterrupted revolution and the nature of the transition to socialist and communist society (3). In so doing he defends the Great Leap against unfounded attacks both from within and outside the party. At the same time he is seeking to elaborate the context within which the Great Leap's negative features can be corrected and its positive aspects preserved.

These writings can be read for the fine insights they give in the way Mao understood his own methods of study. He does not start from rules, principles, Marxist laws or assumed definitions, "a methodology Marxism-Leninism has always opposed" (4). Only through concrete investigation can new principles be discovered. Indeed, one of his strongest criticisms of Stalin and the Soviet political economy text is that "it does not proceed from concrete analysis of the contradictions between the economic base and the superstructure. It always proceeds from general definitions and general conceptions. It gives definition without giving reasoned explanations." (5)

Thus, Mao studies Stalin's "Economic Problems of Socialism" in order to think through specific practical and theoretical problems facing China, in this case the creation of the communes. With their creation as a new unit in society, analysis of how production and exchange should be carried out within and between communes and other units was a pressing necessity. Therefore, Mao's comments are largely focussed on the first three sections of Economic Problems of Socialism, those concerned with the character of economic laws, commodity production, and the law of value under socialism. What Mao finds useful in Stalin's writings is carefully separated from what he concludes is unclear or inaccurate.

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(1) Mao Tsetung, "On question of Agricultural Co-operation", p. 390

(2) Mao Tsetung "Socialist upsurge in China's Countryside" (Peking Foreign Languages Press 1957) p. 159

(3) For a development of the theme of uninterrupted revolution see Victor Nee and James Peck, "China's Uninterrupted Revolution", (New York Pantheon, 1975).

(4) Mao Tsetung, "A critique of Soviet Economics" pp. 73-74

(5) Ibid p. 108



Mao argues that one of the most useful reasons for having the cadres read Stalin's "Economic Problems of Socialism" is to enable them to understand the ultra left current (the "communist wind") which had quickly appeared over China with the beginning of the commune movement. As Mao later said at the Lushan Conference in July 1959, the cadres

"had not studied political economy. They had not clearly understood the laws of value, exchange of equal values and remuneration according to work done... If they have <sup>not</sup> understood the textbooks, let them study ~~x~~ them some more. If the top cadres in the communes do not understand a little political economy, this won't do ." (1)

To Mao a better understanding of the economics of socialism and the nature of the transition period would allow the cadres to cope with the problems arising in the Great Leap. In some areas, both cadres and peasants had been swept away by a desire to leap directly to the stage of communism rather than going through the many stages that Mao argued were necessary to get ther. The "strong tendency to do away with commodity production" had to be countered and its role in socialist society correctly understood. " People get upset the minute they see commodity production",, Mao writes in his critique, "taking it for capitalism. But it looks as if commodity production will have to be greatly developed and the money supply increased". And explaining this "poses a problem for the ideology of several hundred thousand cadres as well as for the solidarity of several hundred million peasants" (2)

In some areas of China, the cadres, in their impassioned desire to leap to communism, had simply seized the property of the production brigades and the teams. Were such practices to go unchecked, Mao warned, the peasants would rise up and turn their wrath on the Communist Party itself. Study of Stalin's "Economic problems of Socialism", because it defends the survival of the commodity form into the socialist period and discusses the principle of exchange of equal value, could help provide theoretical guidance against this dangerous ultra-left current.

In his critique of the Soviet Political Economy Text, Mao further examined the lessons to be drawn from the Great Leap . He studied the relationships that exist between the two kinds of ownership of the means of production (socialist ownership by the whole people and collective ownership, largely by the peasants) and compared them with those which existed in the Soviet Union. The abortive attempt to immediately make the commune rather than the production team the basic accounting unit is examined. Questions of distribution of consumer goods are probed in terms of why the principle of "from each according to his ability ,to each according to his work" is still necessary during the stages of socialism. Mao, in brief, is working out the consequences of the use of the commodity system, exchange through money, and bourgeois right, particularly as they are reflected in the three major differences : between workers and peasants, between town and country, and between mental and manual labour.

Running through all his comments is the argument that Soviet experience is in the final analysis utterly inadequate as a positive model for China's drive to build Socialism. The political economy text, Mao concludes, does not satisfactorily cope with the "whole new series of problems" that have appeared with the period of socialism. It does not suggest how to move from one stage of the revolution to another, or the special characteristics of each stage. For example, he argues, it fails to consider how to advance the process of transformation of the small producers, what kinds of contradictions may be found in

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(1) Mao Tsetung "Speech at the Lushan Conference", in Schram, Chairman Mao talks pp. 135-36

(2) Mao Tsetung, "A critique of Soviet Economics2, p. 140



each stage of the transformation, and how they can be solved. Indeed, the text speaks of "consolidating fully" each and every stage. Rather than becoming a transient goal which is to be surpassed once it is partially achieved (and thus truly consolidated), the stage becomes an end in itself. In this way, Mao concludes, the Russians simply repressed all consideration of a continuing revolutionary process on the economic and political and ideological fronts.

Mao's writings in this critique are transitional documents : they stand midway on the path to the Great Proletarian Cultural Revolution. As Mao's criticisms of the Soviet Model of socialism deepened during the Great Leap, so did his conviction that the transition to socialism was an arduous, protracted struggle that might take an entire historical epoch. Like Lenin, Mao became increasingly concerned with the obstacles and difficulties in this transition. The drive toward socialism requires that every aspect of society undergo tremendous change. In his critique, Mao writes of those forces fighting tenaciously to resist such change, calling them "conservative forces" and "rightists". But Mao is still working out the nature of such opposition and its relationship to the Communist Party; he is not stating it precisely. Nor is he saying precisely what is meant by class struggle during the period of socialist transition. Old bourgeois and feudal elements remain in Chinese society, but it is the hold of old values, ideas, and habits of thought which increasingly concerns him. These writings also demonstrate his efforts to challenge those in the party in position of authority, the managers, technicians, administrators, and other assorted experts who, compared to the workers and peasants, occupy positions of financial reward and power. He finds the children of the cadres disappointing, too protected and with too many political airs. But the dangers to the revolution are still seen in terms of spreading bureaucratism rather than a question of class. This is particularly evident in Mao's cautious explanation of the bureaucratic nature of the Soviet Union and ~~in~~ in his lack of a complete study of the material base of the bureaucracy's privileged role. Not until July 1964, in "On Khrushchev's Phoney Communism and its Historical Lessons for the World", did Mao state that "the contradiction between the Soviet people and this privileged stratum is now the principal contradiction inside the Soviet Union and it is an irreconcilable and antagonistic class contradiction" (1)

The struggles with those in China who opposed the Great Leap Forward forced Mao to deepen the analysis of his critics. Out of this attack on the Great Leap Forward, led first by Peng Teh-hui and continued by others in the coming years, Mao was to elaborate his conception of "continuing the revolution under the dictatorship of the proletariat". Not until 1962, however, would rightists within the party be labeled revisionists. And not until the Cultural Revolution would the conception of the "capitalist roaders" be developed.

## 8 ALIN AND THE RUSSIAN REVOLUTION

A Critique of Soviet Economics is quite suggestive for reevaluating the Russian Revolution and the role of Stalin. Although these pieces can usefully be read from this perspective they were not written by Mao as a historical study or even as a critical evaluation of the historic contribution of Stalin. Mao's real purpose was to think through problems facing the Chinese Revolution in terms of the perspective offered by a careful examination of aspects of the Soviet experience.

Although these writings were circulated for inner party discussion in China during the Cultural Revolution, they have never been made officially available. The Chinese preface to these materials warns that they may not be fully accurate and complete. Yet even so, they are on the whole quite accurate and provide a remarkably valuable and detailed analysis of Stalin and the Soviet experience, the like of which have never been publicly available in China.

(1) "On Khrushchev's Phoney Communism and its Historical lessons for the world : Comment on the Open Letter of the Central Committee of the CPSU (P.C.)" in Peking Review 7, No 29 ( July 17, 1964)



Officially ,the Chinese have for most part defended Stalin since Khruscchev's attack on him."When Stalin was criticized in 1956", Mao said,"we were on the one hand happy, but on the other hand apprehensive. It was completely necessary to remove the lid, to break down blind faith, to release the pressure and to amancipate thought. But we did not agree with demolishing him at one blow" (1)

Publicly Stalin is seen as a "great Marxist-Leninist" who inherited the cause of Lenin, led the Soviet people in achieving socialist industrialization, agricultural collectivization, and victory in the struggle against fascism. But he is acknowledged to have made serious mistakes. Over the last two decades these have been said to inclde the following : departing from Marxist Leninist dialectics in his understanding of the laws of class struggle and the contradiction between socialist ~~xxx~~ and capitalist roads would continue ; failing to ----- rely upon the working class and the masses in the struggle against the forces of capitalism and reducing the threat of capitalist restoration to one of armed attack from international imperialism; seriously neglecting agriculture and peasant living standards and lopsidedly stressing heavy industry ; lacking vigilance before the German attack on the Soviet Union ; excessively widening the scope of suppression of counter-revolutionaries in the purges of the 1930s.

Mao's criticisms of Stalin in this book. A critique of Soviet Economics look to the very heart of the methods used to industrialize the Soviet Union. Because of this, they provide an important Marxist analysis of the Soviet Union which in the futrue may well be integrated into official Chinese views, even as they should now contribute to a Marxist understanding of the Soviet Union.

SOURCE Introduction by James Peck to "Mao Tsetung : A Critique of Soviet Economics", Progressive Publications, New Delhi 1982 (Indian Edition) ( English Edition by Monthly Review Press, 1977).

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(1) Mao Tsetung, "Tlaks at Chengu : On the Problem of Stalin", in Schram, Chairman Mao Talks, p. 101.



## U S S R

FIVE-YEAR PLAN IN TROUBLE

NINETEEN eighty-one is the first year of the Soviet Union's 11th five-year plan. Figures recently published by the Soviet Central Statistical Board reveal that the Soviet Government is facing some knotty problems, with both industry and agriculture beset with troubles in the first six months of this year.

LOW ECONOMIC GROWTH RATE.

The Soviet economic growth is slowing down, a trend which has steadily become more serious in recent years. Industrial output value in the first six months failed to reach the growth rate set for the new 11th five-year plan, a rate which is lower than ever before. It was reported that the output value increased 3.4 per cent compared with 4.2 per cent for the same period last year. The planned annual increase rate for this year was 4.1 per cent. The industrial labour productivity increased 2.5 per cent, less than in the same period of 1980 and the target for 1981. The output of 19 industrial products including coal, rolled metal, generators, cars and equipment for the chemical industrial was less than that of the corresponding period of 1980. The output of some items has steadily dropped over the last two years.

Capital construction is still depressed, and the long-standing problems of scattered investments and far-flung capital construction have not yet been solved. The important projects which were put into production in the first six months according to schedule only account for half of those planned for the period and 13 per cent of those for the whole year of 1981. Some projects scheduled for completion in 1980 have still not been finished, and the plans for putting projects into production, housing, culture and the construction of residential and other facilities were unfulfilled in the first six months. Greatly worried, the Communist Party of the Soviet Union has called special meetings to seek solutions.

AGRICULTURE.

Agriculture has been a vulnerable spot in the Soviet economy. Farm output targets set for the ninth and 10th five-year plans were unfulfilled, and this has had adverse effects on the whole national economy. Though the Soviet authorities were anxious to change the backward agricultural conditions in this new five-year plan, they are facing troubles ahead.

This summer, the crops suffered from a heat wave, similar to 1972. In some areas, temperatures reached 40 degrees centigrade. The grain, potato and beet harvests will certainly be affected. An editorial published in pravda therefore had to again call on people to practise frugality, especially in food consumption.

The Soviet Union has imported more than 1 million tons of American grain since President Reagan lifted the partial grain embargo four months ago. It was reported that Moscow imported 33.5 million tons of grain in the fiscal year of 1980-81. Western agricultural experts estimate that if the drought in the Soviet Union continues, Moscow will then have to import more grain than ever in fiscal year 1981-82.



The Soviet press has acknowledged that the failure to meet the production targets has caused shortages of manufactured goods and a decrease in supply.

It is obvious that Moscow has not done well in the first year of its new five-year plan. Its deep-seated economic ills have not been cured and the economic policy set by the 26th Congress of the CPSU is beset with difficulties. Therefore, the trend is that the decline in the Soviet economic growth rate will not be checked.

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SOURCE: Beijing Review, No.34 August 24, 1981. Page 13.



"shall we dance"



shanghai leads in modernizationMarch

Shanghai, which has undergone numerous vicissitudes, is a model to emulate, to catch up and to seek economic co-operation with in China's modernization drive. This is not only because, as China's largest industrial centre, it plays a decisive role in the national economy, but also because it has accumulated rich experiences in the development and management of a modern socialist economy. Furthermore, its economic results are superior to other parts of China. Recently, Premier Zhao Ziyang called for blazing a new trail in economic development. Central to this task is the need to improve economic results.

In the new historical period, Shanghai has a twofold economic mission: Modernize itself and help localities in the interior advance. What is Shanghai doing to fulfil this mission?

In China's economic life, Shanghai's existence has never been so widely known and strongly felt as it is today. Even the elderly and children living in the remote and mountainous areas know and like Shanghai commodities.

Since the beginning of this decade, Shanghai has annually shipped 10,000 million yuan (about 7,000 million U.S. dollars) worth of industrial goods to other parts of China, still supplies fall short of demand. After increasing their selling of surplus grain to the state, some peasants have expressed the wish to buy certain famous brand Shanghai products which are in short supply, such as Yongjiu (Forever) bicycles or Feiren (Flying Man) sewing machines.

Last spring the State council called on the nation to learn from Shanghai, the coastal provinces and the advanced." Responding to this call, an increasing number of people have visited Shanghai on study tours, seeking technical assistance and proposing economic co-operation. Also a special radio series on enterprise management in Shanghai was broadcast, and the magazine Shanghai Enterprises began publication.

People naturally link the popularization of this new example with China's current policies because a model invariably reflects the intentions embodied in policies and this is particularly true in China. Viewed from the angle of policy, what strong points does Shanghai have which are worth popularizing?

## THE TEST OF HISTORY

SHANGHAI'S modern industries have a history of 140 years. But from the Opium War in 1840 to liberation in 1949, besides its light and textile industries which were fairly developed, Shanghai only had industries for processing goods and machinery repair. Metallurgical industries were practically non-existent. As a result of imperialist aggression and the decadence of the old regime, national industries were on the verge of extinction by 1949.



Shanghai, the birthplace of the Communist Party of China, has a fine revolutionary tradition. During the new-democratic revolution, it was a seed-bed for the revolution. In the period of socialist revolution and construction, it was the focus of major political and economic struggles. The Party and people there were tested and tempered in struggle.

Revolution and construction over the last 32 years have fundamentally altered this city and ushered in a new epoch of vigorous development.

During socialist transformation 1950-56 Shanghai stood on the front line in struggle between the proletariat and the bourgeoisie. After repeated tests of strength between the classes, corruption and attacks by lawless capitalists were overcome and socialist transformation of capitalist industry and commerce, handicrafts and suburban agriculture was accomplished. Shanghai, which had been overrun like a colony and divided into concessions by foreign powers, was transformed into a new socialist city.

Shanghai demonstrated its dynamism during the 10 years (1957-66) of all-out socialist construction. By relying on a small amount of investment and its existing industrial base through readjustment, reorganization and construction, Shanghai established most of its 145 industrial branches during this period. As an old industrial base, it assisted the nation's socialist construction with equipment, funds and technology. Since the founding of New China (mostly in these 10 years), Shanghai has moved 300 factories to localities in the interior and provided on million technicians and workers.

During the "cultural revolution" (1966-76), the gang of four, which had risen to power from Shanghai, kept the city under their control. They tried hard to turn it into a counter revolutionary base for the usurpation of supreme power in the Party and the state, and thus brought disaster to Shanghai. The Shanghai people resisted in various ways and struggled against the gang of four and its remanant forces and substantially reduced the losses.

Since the downfall of the gang of four in October 1976, the Party Central Committee has made the strategic decision to shift the focus of work to the four modernizations and adopted the policy of readjusting the economy. Shanghai shoulders two important tasks in this effort: modernizing itself and helping the underdeveloped areas in the interior to develop and catch up.

TABLE 1

## SHANGHAI'S BASIC STATISTICS (1980)

Total area a:	6,185 square km
Urban area:	158 square km
Total population:	11.46 million
Urban population:	6.01 million
Workers & staff members total:	4.47 million (including 330,000 scientists & technicians)
Number of enterprises:	7,149
Retail shops:	34,000
Industrial output value total:	62,616 million yuan
Light industry:	32,937 million yuan
Heavy industry:	29,679 million yuan
National income:	28,300 million yuan
Handling capacity of port:	84.4 million tons
Value of exports:	6,300 million yuan



Over the last 32 years, Shanghai has built up a comprehensive industrial base which integrates big, medium and small enterprises. It has most types of industry, a high level of specialization in production and a certain level of science and technology (see Table 1 ).

Today, Shanghai is one of China's largest economic centres. Its economic strength has grown tremendously. Its industrial output value was 26 fold higher than that of 1949. Production of some major industrial goods has increased even faster (see Table 2).

TABLE 2

OUTPUT OF MAJOR INDUSTRIAL ITEMS		
Products	1980 Output	Compared With 1949 (fold)
Steel	5.21 million tons	1,002
Steel products	4.13 million tons	275
Metal-cutting machines	16,900	
Cotton yarn	2.12 million bales	24.5
Cotton cloth	1,600 million metres	2.9
Sewing-machines	2.26 million	502
Bicycles	3.76 million	854

Shanghai plays a vital role in the nation's total economy. In 1980 the value of Shanghai's industrial fixed assets accounted for only 5 per cent of the national total; industrial output value, one-eighth; value of exports, one-seventh; revenue, one-sixth; the volume of industrial goods distributed to outside markets, 45 per cent. Per capita national income amounted to 2,486 yuan (about 1,500 US dollars), 6 times the national average.

From these figures it can be deduced that Shanghai's management of technology and industry is effective for it has achieved these economic results. (Poor economic results remain a common failing of China's economic work.) The Party and government have called on enterprises to blaze a new trail in economic development through readjustment and reform; the heart of the call is the need to improve economic returns.

Shanghai's experience is of significance to others because it has obtained results.

#### ADVANCE AMIDST READJUSTMENT

No model is perfect and Shanghai also has its deficiencies. Influences of many years of "Left" ideology, imbalance between some major economic sectors, stress on economic construction to the neglect of people's livelihood, unwieldy structure and industrial pollution—all these affected Shanghai to some extent.

Since 1979 when the readjustment of the national economy began, Shanghai has carried out concrete work in order to gradually solve these problems and has achieved some successes.

READJUST THE ECONOMIC STRUCTURE? INCREASE THE PRODUCTION OF CONSUMER GOODS, IMPROVE THE PEOPLE'S LIVELIHOOD AND SERVE ECONOMIC CONSTRUCTION.

A change has taken place in the situation in which the development of light industry for many years lagged behind that of heavy industry. In Shanghai's total industrial output value, the portion of light industry has increased from 49.3 per cent in 1978 to 44.4 per cent in 1981. In 1980, total industrial output value was 62,616 million yuan an increase of 17,666 million yuan over 1976, of which 68 per cent of the increase is from light industry.



Heavy industry is now adjusting its orientation, changing from serving mainly its own capital construction to serving the development of production of consumer goods, the technological revation of the economy and the expansion of exports. For a time in early 1981. this change caused a decline in production but an upswing is reported for the fourth quarter.

Light industry is developing in the direction of increasing the production of medium and high-grade goods which are in demand. Quality is improving; designs and varieties are increasing. In 1980, the city trial produced 2,324 new items and 30,000 products with revised designs or specifications. In nationwide appraisal of the quality of 596 kinds of products, Shanghai products were considered the best in 270 divisions. In addition, 154 kinds of its items were judged to be equal with advanced world levels.

During the readjustment of the industrial structure and in line with the principle of specialization of production, the industrial departments in Shanghai have developed various forms of economic integration and co-operation between city and countryside, between regions and between enterprises. At present, 300 economic agreements have been signed and progress is being made in the setting up of these economic integrations. The emergence of these integrated operations is beneficial to rational utilization of factory buildings, equipment and work force and to the tapping of production potential. Initial changes have reaped notable economic results.

The question of how Shanghai's economy should be developed is now under study. Since Shanghai has a solid industrial foundation and a substantial scientific and technical force, but is located a considerable distance from most natural resources, some experts recommend that the tasks of producing ordinary products be shifted to localities in the interior. Shanghai can then concentrate its efforts on manufacturing top-quality and technology-intensive products, such as computers, precision machines, instruments and meters, quality steel products, synthetic fibres and large ships.

#### READJUST THE ORIENTATION OF INVESTMENT, SPEED UP URBAN CONSTRUCTION.

Owing to the long-standing tendency to stress production and neglect the people's welfare, Shanghai is faced with a mountain of problems in the area of urban construction and the citizens' livelihood. Acute shortage of housing, poor communication service inadequate public utilities and pollution—all these problems have surfaced and have hampered Shanghai's utilizations of its advantages as an old industrial base.

While readjusting its economic structure in recent years, Shanghai has realigned its investment priorities. Since 1979, the city has cancelled or postponed the construction of 339 industrial projects and thus eliminated 2,000 million yuan in expenditures. Investment in non-productive projects such as housing, environmental protection, and public utilities has increased from 18.6 per cent of the total investment in 1979 to 20.3 per cent in 1980. A total partially completed in 1980. Housing units with floor area totalling 3.04 million square metres were finished, 40.9 per cent more than 1979.

Treatment of industrial pollution has also begun. Since 1980 pollution control has been tightened: 60 per cent of the city's chimneys have been installed with purification devices and poisonous pollutants like mercury and cadmium have been controlled.

#### REFORM THE MANAGEMENT SYSTEM, STIMULATE THE ECONOMY.

Since 1980, 1,284 major industrial enterprises have been designated experimental units and invested with greater decision making power.



Initial results show that the rate of increase in their production and profits is higher than before they became experimental units and also higher than that of other enterprises. Of the profits they obtained, 92 per cent were handed over to the state, 8 per cent were retained for reinvestment and bonuses for workers and staff members.

Under the guidance of the state plan, importance has been attached to the regulation of production by market mechanism and the law of value. In 1980, the city set up 500 sales and service outlets and 60 rural fairs in order to facilitate the circulation of commodities. In addition, markets for transaction involving some means of production have been opened. They have established ties with 14,000 units and signed agreements with 103 companies for sale of their products.

Of the 193 kinds of materials which are distributed according to the plans of materials departments, their sales volume outside the plan constituted one-fourth of the total volume. The purchasing volume outside the plans of commercial and supply-and-marketing departments made up about one-third of the total purchasing volume.

#### EXPAND EXPORT TRADE; SHIP MORE PRODUCTS TO INTERNATIONAL MARKETS.

Since 1979, Shanghai's foreign trade has developed rapidly: the value of exports rose to 6,300 million yuan in 1980. Changes have also taken place in the export mix. Formerly, agricultural and sideline products were the bulk. Now, textile and light industrial products constitute 70 per cent of the total export volume; machinery and chemical products, 19 per cent. Exports not only go to third world countries, but are beginning to penetrate the markets in the first and second world.

In order to enable their products to meet the international market's demands, Shanghai's enterprises have devoted particular efforts to increasing varieties and improving quality of products and paid attention to imports of technology. In recent years, they have adopted diverse methods of trade such as compensatory trade, manufacturing goods according to requirements set by foreign businessmen, joint ventures with Chinese and foreign investment, and sales service networks set up abroad. All this has created favourable conditions for a further expansion of Shanghai's foreign trade.

#### " LEARNING FROM SHANGHAI "

ACCORDING to incomplete statistics, between April 1981 when the State Council issued the call for " learning from Shanghai " and October, 122 groups (3,400 people ) led by leading members from provinces, cities and prefectures have taken study tours of Shanghai's enterprises. Shanghai has signed 122 contracts for integrated economic projects with 26 provinces and cities of compensatory trade, joint enterprises and technical co-operation. This is the initial stage of "learning from Shanghai".

What is to be learnt from Shanghai? A brief account follows.

#### SPECIALIZATION AND CO-OPERATION

Shanghai provides an example of socialized mass production. As its division of labour is becoming increasingly elaborate, its level of specialization in production is getting higher and higher, reflecting the general trend of modern economic development.

In the machine-building industry, the division of labour is made in accordance with different categories of products and similarity of technology. Some factories produce complete machines; others specially manufacture castings, spare parts, forgings, accessories, or components; a few just do a certain process like electroplating. This presents



a striking contrast to the autarkic practice commonly seen in other localities of the whole process from the manufacturing of components to assembly of the whole machine being undertaken by one enterprise.

Deputy mayor Han Zheyi pointed out that since the accomplishment of socialist transformation in 1956, Shanghai's industry has undergone four large-scale readjustments and reorganizations. These restructurings have been carried out in line with the principle of specialization and co-operation and in accordance with the needs of national construction and the new market conditions. Now, Shanghai has 71 specialized industrial companies, running 2,256 enterprises. They total one-third of the industrial enterprises and produce two thirds of the city's industrial output value.

The combination of specialized production in enterprises with co-ordination between enterprises has created favourable conditions for adopting new technology, simplifying enterprise management and raising productivity. This also has facilitated specialized scientific research and market surveys.

#### EXPANDED REPRODUCTION

People often think that the development of production requires the building of plants, recruitment of more personnel and purchase of new equipment. In fact, this is a common practice in other localities. In contrast, Shanghai, by relying mainly on the existing enterprises and by improving technology and management, has raised productivity. This is the example Shanghai has set.

Between 1949 and 1980, Shanghai turned over 291,000 million yuan to the national government while it received from the state a total capital investment of 23,200 million yuan or only 8 per cent of its contribution. Industrial investment was 14,100 million yuan; deducting the investment in the construction of the Baoshan Iron and Steel Complex and in enterprises outside the city proper, the actual national investment in the city's industries amounted to only 9,600 million yuan. In light, textile and handicraft industrial bureaus, the accumulative total of taxes and profits turned over to the state in the last 31 years was 96,600 million yuan while capital construction investment from the state was only 1,200 million yuan.

Since Shanghai's liberation, the increase of output value derived from investment in capital construction accounts for about one-fourth the total while that from tapping the potential of old enterprises makes up three-fourths. To accomplish this, Shanghai relied on technological renovations.

The Shanghai No. 12 Cotton Mill still uses a spinning frame which was produced in 1921; it turns at high speed. Deputy chief engineer Wei Zhanmo explained that through repeated technical renovations of their key parts, such as spindless, this type of spinning frames has been transformed into a machine using new spinning technique of high rpm and medium package with a Chinese character. The adoption of this new technique requires twice as much labour as in foreign countries to produce a bale of yarn, but the per-unit output by each spindle is one-third higher and the consumption of electricity per bale is one-third less. This suits the conditions of China where funds and fuel are in short supply but labour is in abundance.

Although the number of spindles has been reduced from 2.43 million in the early post-liberation years to 2 million at present, the annual cotton yarn output has increased from 740,000 bales to 2,12 million bales and the average denier has been raised from 23 to 28.



## PA YING ATTENTION TO IDEOLOGICAL EDUCATION

Zhou Bi, chairman of the municipal economic commission, reiterated that China aims not only to build a socialist material civilization but also to develop a socialist spiritual civilization. As the number of young workers and staff members is increasing, it is particularly important to educate them and to foster in them lofty revolutionary ideals and high morality. They must not consider everything in terms of money or indulge in seeking material enjoyment without any thought of making contributions.

In a Shanghai bicycle plant, some peasant representatives from Yuncheng country of Hubei province came to visit the workers. One of them, Yang Xiaoyuan, had sold five tons of surplus grain to the state from the last harvest. He wrote to Renmin Ribao expressing his desire to buy a Yongjiu (For Ever) bicycle. The paper published this letter; this evoked discussion in the bicycle plant. What should be done? The factory Party committee organized a meeting for the workers. After discussion they unanimously decided to meet the peasants' demands through increased production. Yang Xiaoyuan's wish was fulfilled and these peasants' representatives had come to express thanks to the workers and discuss with them problems in launching an emulation drive. As a result of this discussion, the plant for the third time raised its production target.

In the Shanghai Machine Tool plant which produces precision grinding machines, the equipment used is quite sophisticated. In a large constant temperature workshop, there is first-rate equipment while the cadres still worked in old, dark rooms. In recent years, when there was extra money derived from economic reforms, the cadres preferred to use the money first in developing production. They maintained a correct attitude in handling the relationship between the overall interests and their partial interests.

When visitors praise Shanghai for its great contributions, the Shanghai people often say: "Shanghai's development is inseparable from the whole country". As a matter of fact, most of Shanghai's industrial raw materials come from other parts of the country, and without the support of those localities, Shanghai could not advance.

When visitors express their determination to learn from Shanghai, the Shanghai people often say: "We still lag behind other localities in many fields." This is not merely modesty. In fact, Shanghai's manufactured goods are not only subjected to stiff competition on international markets but are challenged by many latecomers in the domestic market. Although 45 per cent of Shanghai's products were the best in the nationwide evaluation of the quality of the same kind of products, "gold medal" did pass to new hands sometimes. Many of its products still lag behind those of other localities. Leading cadres often remind Shanghai workers and staff of the above facts and their weaknesses in other aspects, so that they will not become complacent but will keep forging ahead.

## NEW MISSION OF AN OLD INDUSTRIAL BASE

*What are the tasks, special features and prospects of the city's industries during the current economic readjustment? These questions were addressed when our correspondent recently interviewed Zhou Bi, the chairman of the Shanghai Economic Commission.—Ed.*

Question: China's current economic readjustment is scheduled to last at least until 1985. In this readjustment also necessary in Shanghai? What is its aim?



Answer: The goal is to solve the serious imbalance in our national economy, a nationwide problem which is the result of many years of influence from "Left" ideology. Shanghai is no exception.

Shanghai is an old industrial city and has its own special characteristics. Having a good harbour and an advantageous location on the rich Changjiang (Yangtze) River Delta and central to China's coastline, it has traditionally been a commodity distribution centre. Its industry has been fairly developed and efficient. Its economy, however, has some imbalances.

Before liberation, Shanghai had some light industries, but practically no heavy industry. Its present industrial complex, which is rather complete, was set up during the period of the all-round development of socialist construction (1957-66). At that time we emphasized the development of all branches of industry while paying inadequate attention to the balance between them. The result is that 6 million people live in an area of 158 square kilometres in the city proper with over 4,000 factories and 20,000 separate production units. Problems such as heavy traffic, pollution, and inadequate public facilities and housing are serious. Obviously, readjustment is essential to Shanghai; other wise its industries cannot continue to advance.

However, Shanghai's readjustment is being carried out under the conditions that the whole national economy is undergoing readjustment and the rate of increase of industrial production should be stable. This requires us to take the partial and the overall interests into consideration. As the economic ability of the country is still weak, there is an increasing demand for Shanghai products, funds and technology from the state, and Shanghai should make greater contribution. On the other hand, the state's support to Shanghai is limited; readjustments made by Shanghai should be gradual and without infringing upon the interests of the whole country. As premier Zhao Ziyang said: During the period of readjustment, Shanghai must breathe while swimming, not pant on the shore.

What should Shanghai achieve by 1985 through this readjustment? I think Shanghai should rationalize its industrial and products structure reform its economic management system and renovate its outdated equipment, thereby achieving a base for future sustained, stable and coordinated development in economic construction. On this basis, the urban dwellers' standard of living can be further improved. Pollution of the Huangpu River caused by electroplating plants, printing and dyeing factories and air pollution such as that from steel mills must all be controlled. These involve altering energy sources, renovating equipment and environmental engineering and will take money and time.

Q. Industries are over-concentrated in the city proper, Is it possible to move some of them to the outskirts?

A: It's not easy to change the location of factories, only a small number of them can be moved out of the city or stop operation. In August 1980 a chlorine leakage from the Liao yuan Chemical Plant threatened the safety of the nearby residents. I went to the plant with several other leading comrades of the city. At first we planned to move it out of the city, but we discovered that more than 100 factories in the city depend on it for caustic soda. If this chemical plant stops production, all other factories will be affected (both their production and employment) and Shanghai's total production might decrease. Thus far we haven't decided whether to move the plant out of the city or not. But we have adopted steps to reduce the production load on this plant and improve its management so as to prevent a second accident.



Readjustment of the disproportionate sectors of Shanghai's economy can only be carried out on the condition that the overall interests are not impaired. It takes time and patience to find solutions.

Q: What is the primary task in the current readjustment of the city?

A: First of all, we must make rational use of the existing industries and do our best to carry out technical renovations so as to improve economic results, increase the variety of products, upgrade quality and increase the income of the enterprises. At the same time, we must gradually change the location of some industries and tackle questions of environmental protection.

While it is required to meet domestic needs for its products, Shanghai should also do its best to develop foreign trade so that more Chinese industrial products enter the world market. There should be an increase in the types of exported goods. Light industrial products and textiles should be further supplemented by heavy industrial products, particularly machinery. There is a recession in the world market, but we should not slacken our efforts. Our products are well-received in the third world countries, because these products suit their needs. In the past, Shanghai had close trade relations with many foreign countries. So long as our products are competitive, export trade is promising.

Q: In 1981 the investment in capital construction and orders for heavy industrial products were drastically cut. Do you think this will cause a cutback in production?

A: Only temporary. It is important to grasp the essentials in order to move ahead. The primary problem in 1981 was to stabilize the economy. Curtailment of capital construction, reduction of expenditures, increased production of consumer goods, withdrawal of banknotes from circulation, and reduction of financial deficits were all aimed at solving this problem. Results are already apparent.

The central authorities had already taken notice of some resulting problems of extensive reproduction. Construction of some engineering projects (including some imported ones) that had been postponed or suspended but are feasible will be continued. Heavy industry will be oriented to serve the technological renovation of existing enterprises. Therefore, in working out the 1982 plan, we will take into account both capital construction and technological renovation. Production task for heavy industry will be increased to some extent.

During the Sixth Five-Year Plan period, the speed of economic development will not be high, but will be "steady, reliable and sustained" as described by a leading comrade in the central authorities. That is to say, we should strive for the best economic results.

Q: The Central Government has called on Shanghai to pass its experiences on to the interior and to support others' economic construction. What do you think of this proposal?

A: Our main concern is how to have economic co-operation with other provinces and cities. In this regard we have some positive and negative experiences to learn from.

In the late 50s, Shanghai set up jointly operated factories with Jiangsu, Anhui, Shandong and Jiangxi, and later with Nanjing and the southwestern provinces. At that time we proceeded from the need of Shanghai to get raw materials from them, and did not take into account the economic development of the other parties. We did not adopt a method of true economic co-operation, so these jointly operated factories did not last long. In the end all of them were handed over to the localities.



Beginning from 1979, we decided to utilize the method of economic co-operation. Shanghai dispatched technicians, skilled workers and managerial personnel to other provinces and cities to help the local factories learn techniques and improve management and efficiency. The expenses of these personnel were covered by factories which received help. The results were satisfactory.

Now many provinces and cities hope to set up jointly owned enterprises with Shanghai or turn their factories into branch factories of Shanghai companies, using Shanghai's trade marks. This creates some policy problems such as the co-ordination of finances and fair distribution of economic benefits to the parties concerned. We have started on a trial basis the first group of jointly run enterprises. Such joint undertakings will be set up step by step because Shanghai enterprises have to look after their own technological transformation first. Nevertheless, economic co-operation is correct and we are going to improve work with other provinces and cities.

SOURCE: Beijing Review, No. 1 January 4, 1982. Page No. 19-27.

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(For Private Circulation)

WHY SPECIAL ECONOMIC ZONES ?

(196)

Why does China want to set-up special economic zones?  
Foreign firms will get profits from the investments they  
make. Isn't this exploitation on Chinese Soil ?

A series of new policies and measures have been taken by the Chinese Govt., for the realization of the four modernizations. These include the implementation of special policies and adoption of flexible measures in coastal Guangdong and Fujian provinces in economic dealings with foreign countries. The setting up of special economic zones and adoption of an open-door policy, the use of foreign capital and import of advanced technology and managerial experience as well as the training of personnel - all are aimed at quickening the pace of the modernization drive.

It is now decided to set up special economic zones in four places, i.e., Shenzhen, Shuhai and Shantou in Guangdong and Xiamen in Fujian, where special areas will be designated for the purpose. For instance, the Shenzhen special economic zone is in the Shekou district of Shenzhen city, about 20 nautical miles from Xianggang (Hongkong). Building of this special zone began in August 1979 and will cover 327.6 square kilometres when completed.

In these special economic zones foreign firms can invest their money in building factories and running enterprises and other undertakings or participate in joint ventures with their Chinese counterparts. They will be provided with the necessary conditions and accorded preferential treatment by the local government. While the Chinese Government protects their assets, due profits and other legitimate rights and interests, they have to abide by the laws and decrees of the country.

Regulations governing the setting up of special economic zones were promulgated by the Guangdong provincial people's government last year. They give ample scope for the foreign businessmen's activities, with necessary conditions and stable locations guaranteed. Preferential treatment will be given them with regard to the use of land, foreign currency control and income tax. In addition, their import of goods and the entry and departure of personnel.

Like other international economic activities, the principle of equality and mutual benefit will be followed in the case of special economic zones. Foreign businessmen making investments or running factories in these zones will be allowed to get a reasonable amount of profit which is indeed a kind of exploitation. But with the socialist economy holding the dominant position, the economy in the special economic zones is only a very minor supplement, and the kind of exploitation involved is nothing to be afraid of.

Speaking of joint ventures with foreign capitalists in 1921, when economic construction in the Soviet Union was at its early stage, Lenin said: "we shall not grudge him even 150 per cent in profits, provided the condition of our workers is improved."

The preferential treatment given to foreign businessmen in the special economic zones is based on an overall consideration of the economic situation at home and abroad. It accords with the interests of China's socialist construction.

-Economic Editor  
WANG DACHENG

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CHINA'S SPECIAL ECONOMIC ZONES

- Xu Dixin

*The Chinese Government has set up four special economic zones. They are located in the cities of Shenzhen, Zhuhai and Shantou at Guangdong Province and the city of Xiamen of Fujian Province.*

*Politically, the special economic zones are based on assurance of China's state sovereignty and governing authority is entirely in China's hands. Economically, they are essentially based on state capitalism.*

Why Special Economic Zones

Approximately 300 special economic zones have been established in about 75 countries and regions in the world today (some are called free trading zones, some processing-exporting zones and some tax free trading zones). Practices vary between countries. Special economic zones are set up when a country delimits a special area where, through exemption of customs duty, it formulates various preferential conditions and provides public facilities so as to attract foreign investors to set up factories whose finished products are mainly for export. Insofar as capitalist social systems are concerned, few problems arise for those countries which set up special economic zones because the characteristics of such zones are essentially compatible with the development of capitalism.

Some people wonder why China, a socialist country, has set up special zones which permit the manoeuvre of foreign capital. They ask: Concessions were eliminated a long time ago, why are a few areas with foreign investment being operated in the manner of concessions? They also want to know whether the four special economic zones represent a revival of the former concessions.

Although important, such concerns are over-simplified and superficial. The situation can be best understood within context of the past and the nation's present state of development. At the end of the 19th century, foreign capital poured into China. This was a result of invasion by imperialist powers which used 'gunboat diplomacy' to impose unequal treaties on China and infringed upon its state sovereignty. The foreign capital presently being invested in China is not based on "unequal treaties," but on the assurance of China's state sovereignty. The special economic zones do not represent the revival of former concessions because authority over them is entirely in China's hands. Be they joint ventures with Chinese and foreign investments set up in the special zones or enterprises run exclusively by foreign or overseas Chinese capital, they must observe the Chinese Government's decrees and regulations, pay business and income taxes according to provisions and abide by China's labour laws.



Although they represent a minor change in state economic policy, the special economic zones are not in basic conflict with China's socialist economic system. The economy in the special zones encompasses the socialist state economy, the collective economy and the individual economy, but state capitalism has the lion's share. Processing materials for foreign countries, compensatory trade, co-operative enterprises and joint ventures are all state capitalist economic activities. Strictly speaking, the enterprises run by foreign or overseas Chinese capital constitute a kind of capitalist economy, but the activities of such enterprises are subject to control and regulation by the governments of the special zones. As a result, they are special kinds of capitalist enterprises. Lenin clearly said: "State capitalism is capitalism which we shall be able to restrict, the limits of which we shall be able to fix." This provides us with a theoretical explanation of the nature of the enterprises financed individually in the special zones.

Some people worry that the capitalists will exploit the surplus value of the labourers. It should be admitted that some exploitation does exist in the joint ventures or individually financed enterprises in the special zones. According to China's regulations, joint ventures or enterprises individually financed by foreign capital or overseas Chinese capital can remit their share of profits abroad after they have paid their income tax according to relevant provisions and with the approval of the authorities concerned. The profits remitted abroad and the profits retained for reinvestment in the special zones obviously represent the surplus value of the labourers. But allowing foreign or overseas Chinese capital to gain profits is, in a sense, a policy of redemption (that is, in a sense, a policy of gradually nationalizing the means of production of the exploiting classes at a certain price).

Shortly after the founding of the People's Republic the government adopted a redemption policy towards the national bourgeoisie in order to win its co-operation. Now we are employing a redemption policy to win the co-operation of foreign and overseas Chinese capital. This is necessary for the development of the economies of the special zones.

One of the characteristics of special zone economies is the fact that they open the door to foreign countries. Take Shenzhen and Zhuhai for example, their economic ties with Xianggang (Hongkong) and Aomen (Macao) are much closer than with the interior. This situation may result in the close relationship and mutual-effect between the role of regulating production according to market demands and the market fluctuations of Xianggang and Aomen. Within the special zones, it cannot be said that the regulation of production by state planning does not exist does not function. However, if regulation of production by planning is made to cover too large an area, if it becomes the main body of the economy of the special zones, then it will be disadvantageous to absorbing foreign capital and developing the economies of the special zones.

#### Special Zones' Functions

Because the special economic zones in Guangdong and Fujian Provinces have only been established for a short period of time, their role has not been brought into fully play. The following points address the concerns most frequently expressed regarding their operation.



- \*They serve as bridges for introducing foreign capital, advanced technology and equipment and as classrooms for training personnel capable of mastering advanced technology. Both in the process of production and circulation and in the joint ventures with Chinese and foreign investments in the special zones, we can learn the latest techniques and scientific methods of management.
- \*To develop the national economy and expedite China's enterprise production and management, it is imperative to promote competition between regions, between trades and within a certain trade. In the development of the economies of the special zone - and during their competition with Xianggang and Aomen - it is possible to win in the competition by learning how to make comparisons regarding the regulation of production according to market demands, improve the quality of goods, develop new products and reduce production costs.
- \*It is possible to absorb considerable amounts of foreign exchange. It is also possible to transfer part of the foreign capital, technology and equipment through the special zones to other regions concerned and set up new enterprises there.
- \*The country's special zones can serve as experimental units in economic structural reform and as schools for learning the law of value and the regulation of production according to market demands.
- \*By developing the economies of the special zones, it is possible to employ many young people waiting for jobs.

#### A Special Form of Supplement to the Development of China's Socialist Economy

Some people wonder why it is necessary more than 30 years since the founding of the People's Republic, to set up special economic zones. They also wonder whether the special zones signify that China is seeking help from capitalist countries. Such concerns are understandable, but unwarranted. Since its establishment, New China has scored brilliant achievements in many fields of work, including economic construction. But it has also traversed a tortuous path. Compared with the world's most advanced nations, China's level of production is still rather low. Its funds and technology are incompatible with the requirements of modernization drive. Furthermore, while implementing its policy of self-reliance in economic construction, China does not exclude co-operation with capitalism. Facts will prove that through developing the economies of the special zones, we will be able to make use of foreign and overseas Chinese capital, as well as state capitalism, to develop China's socialist economy. Economic construction in the special zones will possibly become a special form of supplement to the development of China's socialist economy. The total economies of the special zones will only constitute a very small portion of the national economy. Although the socialist economy will continue to dominate, the role of the special zones must not be overlooked.

#### A Planned Economy : Policies and Measures

The development of the special economic zones requires emphasis on the word "special". For instance, in opening the door to foreign countries, it is necessary to simplify procedures for entry and exit and make things easy for visitors. In tax rate, it is essential to give preferential treatment to



Imported goods in customs duties. Tax exemptions for some goods are needed. A portion of the profits gained by foreign financed enterprises is allowed to be remitted abroad.

The essence of developing the special economic zones lies in the import of foreign capital; making foreign capital serve China's socialist modernization drive. Given this, the lives of the people residing in the special zones are bound to change. Capitalist ideology is bound to increase. This will require us to devote special attention to the ideological education of people in the special zones. Of course, education and training in science and technology should not be neglected, either.

The currency used in the special economic zones is mainly Renminbi (people's currency), the use of foreign currencies is limited to designated areas. Renminbi represents the currency of the People's Republic of China, but in view of the characteristics of special economic zones, it may prove necessary to issue different currency for them. This is a very complicated problem which calls for further study.

It would be impossible for the special zones to develop without the support of China's interior regions. Only when they operate in co-operation with the interior can the special zones gain necessary materials. Of course such co-operation is based on mutual benefit. And it can be successful only when the special zones produce commodities needed by interior. This co-operation must be carried out in a planned way.

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GROWTH OF THE MULTINATIONALS

by Teng Weizao and Jiang Zheshi

How do Economists in China look at the Multinationals, the role they play in the world economy? The present article written by Teng Weizao, professor and director of the Research Institute of Economics at Nankai University and Jiang Zheshi, lecturer in the same institute gives some answer to this question.

The article has appeared in "Beijing Review", No 7, February 16, 1981, p. 16 to 20.

TRANSNATIONAL, Multinational, or international corporations-these are all different names for the same thing. Generally speaking, they are a form of international monopoly organization with branches and affiliates in many countries and regions established through direct investments by an enterprise owned or controlled by certain financial groups of one of the major capitalist countries. Multinational corporations produce, sell and engage in other business operations on an international scale, and practise a "global strategy" to grab super profits through monopolies they have created for themselves.

Multinationals are a product of monopoly capitalism developed to a high degree. After World War II, multinationals, especially those of the United States, grew rapidly. To an increasing degree, they have dominated production, distribution, trade, and finance in the capitalist world and become a powerful force internationally. This world's two biggest multinationals, Exxon and General Motors, are said to have in 1979 a turnover of 79,100 million and 66,300 million U.S. dollars respectively and net profits of 4,300 million and 2,900 million U.S. dollars and employ 169,000 and 853,000 people. Although domestic investments fell off on many occasions in major capitalist countries, the foreign investments of transnationals rose steadily. While the multinationals invest chiefly in the developed countries, the developing countries are their main source of super profits. The rate of profit from direct investments by the multinationals in the developed countries was 11 per cent in 1977, while in developing countries it was 23 per cent.

In the last decade some new trends have been observed with regard to the multinationals, chiefly as below:

\* The uneven political and economic development of capitalism in different countries is reflected in the uneven external expansion of their respective multinationals. In recent years, overseas expansion on multinationals based in the United States, Britain and France have slowed down, while those of West Germany and Japan have speeded up. More significantly, West European and Japanese capital has been flowing into the United States and the differential in direct investments in each other between the former two and the latter has narrowed.



° The proportion of investments by the multinationals in the developing countries has dropped from some one-third to less than one-fourth. Investments also tend to be concentrated in the oil-producing countries, the politically more stable and economically better-off developing countries, as well as certain tax havens such as the Bahama, Barbados, Bermuda, Cayman islands, the Dutch Antilles and Panama.

° Multinationals now operate more flexibly in the developing countries. To retain control of the enterprises in the developing countries to reap big profits as before, some no longer rely on their majority shares but go through other channels, such as management, technology and sales.

° In order to hedge risks and improve their competitiveness in a world of ever-changing techniques, multinationals frequently bring together enterprises in various countries producing different products or offering different services to form international conglomerates and diversify production.

### BEHIND RAPID RISE OF MULTINATIONAL CORPORATIONS

There are political and economic causes behind the rapid and extensive development of the multinationals after World War II.

1. Fundamentally, it is the result of an acceleration of capital accumulation and concentration, a greater degree of monopoly and growing "surplus" capital. The big monopolies possessing advanced technology and management skills and tremendous amounts of capital are exporting capital to seek monopoly profits. The United States is illustrative. After World War II, the big monopolies grew steadily bigger and their domination of major industrial sectors and the national economy as a whole was vastly strengthened. Now a few companies control practically the whole U.S. market for motor vehicles, computers, aeroplanes, iron and steel, oil, electricity and chemicals. Since the market is dominated by a few equally powerful oligarchies, it becomes increasingly more difficult for one oligarchy to capture a larger share of the market. In a word, as production more and more overtakes consumer ability to pay in a particular sector, the area for profitable investments inside the country shrinks. This leads to a relative surplus of capital which leaves the monopolies no way out but to export their capital. Consequently, countries and regions with cheap raw materials and cheap labour and large potential markets become the natural and chief targets of investments for the multinationals.

Furthermore, to maintain their dominance, the industrial oligarchies adopt the strategy of "investing to stop others from investing" which in turn accelerates their expansion abroad. According to a Harvard University study, this is the way the monopolies operate: When a new product appears, they manufacture it at home to seize control of the home market and export it to open up foreign markets. When the new product gradually becomes perfect and the market abroad grows larger and the technology becomes more widely known, they start building factories in other countries where the income and technical levels and comparatively high, the labour costs are fairly low and there is demand for a similar product, so as to prevent overseas competitors from copying them and to maintain control of the foreign market. Then, when the new product reaches the stage of standardization and competition is manifested mainly in prices, its production is shifted to areas of abundant cheap labour.

2. The technical revolution has swiftly developed the productive forces, bringing about a greater degree of socialization of production and calling for the internationalization of production and capital. While automation demands rigid quality of products, it also turns out a greater diversity of products. This requires the monopoly enterprises to specialize production, to research and introduce various special



equipment and technologies, to carry out greater specialization and co-ordination among their departments and even to go outside their countries to organize large-scale co-ordination of production between their branches and affiliates. Only in this way can they improve productivity and lower costs. This is why the multinationals have taken to international specialization and co-ordination.

The technical revolution in communications and transport has vastly reduced transport costs and has economically shortened distances between countries to create favourable conditions for the internationalization of production and capital.

3. Assistance from state monopoly capitalism. After World War II, the developed capitalist countries encouraged and urged their multinationals to expand abroad by various ways and means. These governments invested directly in the mining and other sectors and set up "state-owned" or "state-private" companies which expanded abroad. They funded the private monopoly companies' buying of new equipment to become more competitive in the international market and shouldered the risks and invested heavily in research and the development of science and technology on behalf of the multinationals. They granted them preferential financial aid and encouraged them to re-invest in foreign countries by deferring, reducing or remitting tax on their overseas profits. They also passed legislation to guarantee foreign investments of the multinationals. They supported them in their business operations abroad through diplomacy and through the state exporting capital abroad as aid to other countries and forcing the recipient country to accept all sorts of conditions, which created a favourable atmosphere for the multinationals to invest there. They also set up various international co-operation, created conditions for the multinationals to expand abroad. These measures have greatly spurred the multinationals of the developed capitalist countries to expand into other countries.

Since the rise of vigorous national-liberation movements in Asian, African and Latin American countries, colonies and dependencies became independent one after another after World War II. Some developed capitalist countries have maintained their political and economic influence in these countries through their multinationals' investments. In some countries and regions, the multinationals actually became instruments of neocolonialist policies. It must be pointed out that investment by the multinationals in the developing countries is different in nature from their investment in the developed countries. In the former investments are usually one-way, while in the latter investments are two-way. The multinationals frequently exercise control over the economies of these newly independent developing countries by taking advantage of their pressing desire to develop their industries and agriculture and their lack of funds and technology, through direct investments and using the recipients' cheap labour and securing cheap raw materials to undermine recipient countries' economic interests and political sovereignty. One of the main tasks for the developing countries today is to change this situation and fight for the establishment of a new international economic order.

### THEIR ROLE IN THE WORLD ECONOMY

In view of their huge economic might, their flexible strategy in management and in their means of expansion, and their monopoly of production, sales and technologies, multinational corporations play an important role today in the development of the world economy. Specifically as follows:

1. The process of concentration of production and the accumulation of capital is speeded up, internationalizing production and capital operations and bringing production in the capitalist world increasingly under the control of a small number of big multinationals.

As production and sales of the multinationals cross national boundaries, they need greater capital. This has impelled enterprises to take over other companies at home and abroad.



In establishing organizations abroad, some multinationals set up branches, but most of them take over existing enterprises, swallowing up the production, sales and research facilities of the host countries, and then reorganizing, expanding and developing them. The larger the multinationals, the more they resort to this form of expansion. After the Second World War, the big U.S. monopolies made inroads into Europe mainly on the strength of their abundant capital, new technology and the strength of the U.S. dollar. U.S. dollars were used to buy up enterprises in Europe to swiftly establish their own networks and intensify the dominance of U.S. monopoly capital in the world. This invasion of the U.S. multinational corporations roused the opposition of the monopoly capitalists of Western Europe. When they gradually recovered their economic strength they formed merger, which were supported if not organized by their national governments. Many formed corporations with branches abroad, amalgamated or combined to improve their position to challenge the U.S. multinationals.

2. In a certain period and to a certain degree, multinational operations promoted the development of productive forces in certain regions of the capitalist world. In the early post-war period, when the economies of Western Europe and Japan were recovering, investments by U.S. multinational corporations in these areas objectively played an important role. New industries in Western Europe, such as the petrochemical, synthetic fibre, synthetic rubber industry and so on, were all first set up with American capital. Over the past decade, the activities of the multinationals have had a lot to do with the economic development of Brazil, Mexico, and capitalist countries in the Far East, including members of the Association of Southeast Asian nations. The experience of many developing countries proves that so long as a policy of independence is maintained and the right steps and measures are taken, the import of transnational capital and technology in a planned way, step by step, selectively and within limits, can play a positive role in the economic growth of developing countries.

However, the activities of the transnationals bring in their wake a rash of problems. In Western Europe, some of the most advanced branches of industry such as the electronic computer industry such as the electronic computer industry are controlled by U.S. capital, which gravely affects the development of these industries in that part of the world. And since the U.S. multinational corporations occupy a dominant position in the economies of West European countries, the economic developments in the United States and changes in management strategy of its corporations directly influence economic developments in Western Europe. In developing countries, the operations of the multinationals have made them more economically dependent. Certain countries (particularly the smaller countries), whose enterprises rely on export processing zones, become merely the processing workshops of foreign multinational corporations, places supplying cheap labour and resources. If an independent policy cannot be maintained and no proper management measures taken, the direction of economic development of these countries can be manipulated by the multinational corporations.

3. The growth of the multinationals had an immense impact on international trade.

Post-war capitalist international trade developed very rapidly and its speed overtook industry and agriculture. The volume in trade of industrial products to be processed between the developed countries increased much more rapidly. One major reason was the greater size of the multinationals. As they built new plants, enlarged facilities and merged and reorganized, they sent out machinery and various kinds of production equipment to their subsidiaries and affiliates. Sometimes they even export certain raw materials and semi-finished goods to boost exports from the home country. It is the common practice of the multinationals to divide work among their subsidiaries and affiliates and assemble the parts and orientate sales and this requires moving parts and components, semi-finished and finished products around the different



countries, thus enlarging the volume of trade of the capitalist world. The result is that the domestic and foreign trade of the multinational corporations occupy a very large segment of both the total world trade and the total import-export trade of any one country.

Their dominance of world trade has allowed the multinationals a role in spurring the growth of international commodity exchange and, at the same time, influenced changes in the structure and flow of world trade, particularly influencing the economy and trade of the countries in which the subsidiaries of the multinationals are based. Here is an illustration. As the multinational corporations plan their import-export trade according to their own global strategy and the countries where these corporations are based cannot intervene in their trade orientation and quantity of product, not even subjecting to the regulatory measures of the exchange rate of those countries, they frequently directly hurt the interests of the countries where they are based. To evade taxes, pull out capital and adjust the rate of profits of their subsidiaries as well as to avoid fluctuations of remittance rates and other risks, the multinationals artificially, manipulate prices in their internal trade to the loss of the government of the host countries.

4. With plenty of capital and an immense flow of funds they influence the stability of the international money market.

The multinationals, especially U.S. multinationals and U.S. multinational banks in Europe, always have in hand huge sums of bank deposits and liquid assets. In the early 1970s, short-term liquid assets held by the multinationals all over the world came to more than 260,000 million U.S. dollars, with the U.S. multinationals holding the most. They are a primary source of the Eurodollar. A huge amount of capital is constantly being transferred between the head offices and their subsidiaries and also among the subsidiaries themselves because of business operations. This internal flow of funds among the subsidiaries and is directed and adjusted by the head offices in pursuit of profits around the world, and state governments have no way to control this. This internal constant flow of short-term funds between countries is the main source of funds international speculative activities frequently disrupting the international balance of revenue and expenditure, the stability of the exchange rate and effectiveness of the credit policy of the host countries. In recent years, the multinationals have used the instability of the capitalist monetary system and the many crises of the U.S. dollar to engage in large-scale currency speculation and to avoid losses because of rate fluctuations through exploiting changes in the exchange rate and the interest rate and the different methods of monetary control of the various countries. This has caused grave making state governments devalue or revalue their currency or clamping down tighter foreign exchange controls.

In a word the operations of the multinational corporations have brought the degree of socialization of production beyond national borders to the stage of internationalization of production. But the means of production are still privately owned and the trend to concentrate continues unabated. This will inevitably aggravate the basic contradictions of the capitalist world. The struggle to control and against control among the developed capitalist countries grows more acute. While utilizing the funds and technology of the multinational corporations to develop production, the developing countries are also doing their best to safeguard state sovereignty, adopting planned controls over the activities of these multinationals and struggling to establish a new international economic order based on equality and mutual benefit. Today, the scope of exploitation of the multinational corporations is of an unprecedented scale: not only are the workers and labouring people of the developing countries and of their own countries being directly exploited, but those of other developed industrial countries as well. The sharpening of the labour capital contradiction caused by the multinationals and the proliferation of multinational trade unions within the respective corporations will have a profound effect on the development of the international workers movement.



CHINA EXPANDS FOREIGN TRADE AND  
ECONOMIC RELATIONS

(116)

*China will continue to follow an "open-door" policy and expand economic, trade and technical co-operation with other countries on the principle of equality and mutual benefit.*

A Spokesman of the Administrative Commission on Import and Export Affairs earlier this month spoke about China's trade and economic relations with other countries during the period of economic readjustment. He pointed out that there was a healthy development in trade relations and economic co-operation with other countries in 1980.

Foreign trade and economic relations will grow in general during the on-going economic readjustment. Trading in the world market and economic and technical co-operation with other countries will improve China's production capacity, enliven the home market, strengthen weak links in the national economy and thus improve the country's degree of self reliance.

TECHNICAL CO-OPERATION:

Economic and technical co-operation last year focused on the development of energy resources such as coal, petroleum and power, the modernization of rail transport and port construction and the revamping of existing enterprises.

Contracts were signed between China and French and Japanese oil corporations for joint exploration of off-shore oil in the Bohai Sea and the Beibu Wan Gulf. Drilling has already started.

Technical imports were concentrated on introducing key technology in the future will be coordinated with revamping of old enterprises. This will be a long-term policy.

FOREIGN LOAN AND JOINT VENTURES:

In economic co-operation, China last year accepted both government and non-governmental foreign loans, based on the ability to repay. Included were a low-interest loan from the government of Japan and a long-term interest-free loan from the government of Belgium.

Both the International Monetary Fund and the World Bank last year restored China's representation and later sent delegations to China to discuss the prospects of economic and technical co-operation. More delegations are coming this year for further technical studies with the view of bringing about early results.

Joint ventures, which have attracted great interest in international trade and financial circles, continued to build up momentum in the latter half of 1980. More than 500 joint venture agreements with foreign firms were ratified by Chinese central and local governments. These include joint enterprises and items of Co-operative production, mainly in light industry, textiles, electronics and machine building, as well as hotels. Twenty joint ventures will be set up abroad.



Last year the state passed the income tax law concerning joint venture and detailed regulations for its implementation. (For the income tax law, see Beijing Review, No 40, 1980. -The relevant regulations will appear in Beijing Review Soon) Further regulations and measures will be formulated to define more clearly the laws of taxations, loans and foreign exchange control.

#### RESTRUCTURING FOREIGN TRADE

The current restructuring of China's foreign trade is intended to spur the expansion of China's foreign trade and economic relations under a unified policy by changing over-centralized management and outdated regulations.

Readjustment last year focused mainly on giving local departments and enterprises the right to retain a part of their foreign exchange, opening more channels to foreign trade, including the establishment of 17 new import and export corporations and the founding of foreign trade cooperations in Beijing, Tianjin, Shanghai and Guangdong and Fujian Provinces. Special flexible measures have been adopted in coastal Guangdong and Fujian Provinces where special economic Zones are being set up.

Foreign trade last year showed a fairly big increase and the trade deficit was less than planned. Total value of import and export in 1980 reached 54,600 million yuan, an increase of 20.7 per cent over 1979. Import rose by 15.2 per cent and export 27 per cent. Last year the proportion of industrial products in total volume of export continued to increase with a corresponding drop in farm and sideline products. More goods from remote areas and areas further inland were exported, too.

To facilitate transportations of imports and exports from inland areas, Wuhan, Chongqing and six other ports along the Changjiang River were opened to handle foreign trade.

China had trade relations with more than 170 countries and regions last year and import and export commodities exceeded 50,000 in variety.

This year, efforts will be made to rise the quality of export commodities, add new varieties and improve packaging to meet world market standards. At the same time, improvement will be made in such weak links as transportation, port facilities and storage.

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SOURCE: Beijing Review, NO 8, February 23, 1981. pp. 20-21.



*Historical experience proves that the collective economy in Chinese villages is basically successful, but problems remain. At present several forms of the production responsibility system have been implemented all over China and are being developed into an all-round direction of the reform process is to investigate and experiment with diverse methods so as to find socialist production forms and to formulate systems of socialist economic management best suited to Chinese villages.*

*- Du Runsheng*

The Party Central Committee's rural policies, pursued for the past two years throughout China, have led to a better rural situation than we anticipated. In areas where there were no severe natural disasters, not only has grain output increased, but there has been an overall improvement in other farm production, fishery, forestry, animal husbandry and sideline occupations.

To accompany the reinvigorated collective economy, the household economy has been restored and developed. Even in areas which have suffered extreme difficulties, the peasants' livelihood is turning for the better.

With the nationwide implementation of the production responsibility system, an all-round reform of the rural economic system is taking shape. Its main goals are: to grant the right of self-determination for the collective economy to the localities and to pay attention to the peasants' material interests in order to stimulate their enthusiasm for work.

This process has just begun. Our task at the moment is to perfect the responsibility system while solving the problem of commodity exchange between the cities and the countryside and the relationship between farming and commerce.

Then, we shall have to tackle the problem of perfecting the overall socio-economic structure and superstructure in the rural areas.

#### HISTORICAL AND PRESENT SITUATION

Our Party began the socialist transformation of agriculture in 1952. In 1958, rural people's communes were set up all over the country.

Now it has become necessary to reconsider: In a vast country like China, is success possible if we allow only one form of rural economy? What are the advantages and disadvantages of this economic form? Is reform necessary? How should reform be carried out?

These were our approaches when we first introduced the production responsibility system in the late 70s. Of course, the reforms include more than the responsibility system alone.

The advanced agricultural producers' co-operatives were established in the 50s through a gradual process initiated by Comrade Mao Ze-dong. Initially we set up mutual-aid teams and later we organized elementary agricultural producers' co-operatives. Both involved co-operation on the basis of private ownership.



The transition period for transforming elementary co-ops into advanced agricultural producers' co-operations was expected to last 15-20 years. But, within three years the transition was completed and the advanced form was adopted all over China.

Only one year after the advanced co-ops were formed and, prior to their consolidation, they were reorganized into people's communes. A "communist wind" was stirred up.

Therefore, the Party Central Committee and Comrade Mao Zedong resolutely guided the peasants to retreat to a system of "three level ownership with the production team as the basis," i.e., ownership at the commune, production brigade and production team levels, with the production team as the basic accounting unit.

A review of our experience over the past 30 years reveals that:

1. From a national perspective, it is correct and successful for China's agriculture to take the path of socialism, to have public land ownership and to produce crops on a co-operative basis. We have basically solved the problem of feeding a population of 1,000 million, and have provided the basis for industrialization. More significantly, we ended the plunder of land by the landlords, which had gone on for thousands of years, and abolished the system of exploitation.

2-. Currently, about one-third of the production teams are well-run. At present price levels, a peasant needs an annual income of 120 yuan to subsist. In these teams, the peasants' annual average income (including income from sideline occupations) is generally more than that amount, and in some places they earn 400-500 yuan or even 1,000 yuan.

In the Liuzhuang Production Brigade of Qiliying Commune in Henan Province, for example, a commune member's annual income from the collective is 470 yuan. Stipends for welfare facilities and recreational entertainment come to 67 yuan per capita, and other subsidies add 50 yuan per person, adding up to a total of 587 yuan per year.

The commune family pays no rent and is typically housed in a single-story dwelling with an average of one room for each person, within the walls of a private courtyard. Some even have TV sets, electric fans and other appliances.

Production brigades or teams like this have worked collectively and have already acquired or developed machinery, chemical fertilizers, insecticide and irrigation systems. In addition to farm production, they engage in sideline occupations and industry, which form the embryo of a comprehensive new structure for the rural economy. An individual economy is certainly incapable of such large-scale projects.

3. Another third of the production teams are not as wealthy as those in Qiliying, but if they work hard, it is within their capability to catch up. These teams have not yet diversified production, but they possess certain fixed assets which provide the basis for farm modernization, such as farm machinery and irrigation systems as well as some industry.

4. The average annual per-capita income for peasants in the remaining third of the production teams is under 60 yuan, not enough to support themselves.

They must rely on sideline occupations, on government relief or on frugality to make ends meet. That means they are free from exploitation but have not yet shaken off poverty. So the superiority of the collective economy has not been fully displayed.

5. Returns from peasants' private plots have always been comparatively high. Investigations show that in parts of Guangdong Province, the private plots can produce six crops a year. The return on private plots is several times higher than on collective ones.



This leads people to wonder if peasants can possibly give equal consideration to collective and private production. The present system of assigning output quotas for individual labourers on collective tasks has, to a certain extent, resulted in their equal attention to both kinds of production.

Thus, as we said earlier, the collective economy is for the most part successful but still has some problems.

The trouble lies in the incorrect integration of collective and individual interests, such that individual interests are often neglected.

There is no longer exploitation under the system of public ownership. However, if the means of production and the fruits of labour are not fully at the disposal of the labourers, they will feel that they are not working for themselves.

Therefore, to stimulate the workers' incentive to produce, we need a form of management which puts the labourers in charge of the means of production and the fruits of labour, provided it also adheres to the collective economy.

#### PRODUCTION RESPONSIBILITY SYSTEM

Marxism teaches us that no new relations of production can be successfully established unless the productive forces suited to them have developed to their fullest extent. Therefore it is necessary to choose relations of production that suit the current productive forces in the light of the differences in the economic development in various regions.

This is a task that should be tackled consistently and earnestly. Pursuing the form of "large in size and collective in nature" while neglecting the level of development of productive forces would only obstruct their development.

In Yunnan Province, there is a national minority still in the stage of primitive communalism, in which private ownership has not yet come into being. A tribal chief leads his people to work together to perform simple tasks and cultivate the land. Crops are divided equally among all.

Soon after liberation, it was decided to give the tribe and permit them to work according to their own primitive practices for several years, and to work towards a mutual-aid organizational form.

But when co-ops and then people's communes were set up throughout China, this primitive commune was not exempt. Even though the changes were too sudden and were inappropriate for them, the tribal people accepted the people's commune. Why? Because they were used to working together and distributing crops in a unified way.

When the co-op and subsequently the commune were formed, the tribe's organization remained the same, with the tribal chief assuming the title of production team leader.

To this day their economy is virtually unchanged. I visited them and found that with the exception of a pot and a knife which they bought from the market, all of their daily articles were home-made, including cooking ladles, bamboo water pails and cotton cloth.

Since they have no commodities, exchange is undeveloped and commodity exchange is considered shameful. The present form of organization has postponed the disintegration of the tribe's natural economy.



This example shows that development of productive forces can actually be slowed down if the relations of production are not suited to them. Only by speeding up the growth of productive forces and developing commodity production can socialism be built up.

The level of development in most parts of China is much higher than in that Yunnan commune, but a few others retain their original semi-natural or natural economies. In such areas it is necessary to readjust the relations of production to correspond to the level of productive forces, so that the original productive forces will expand and develop, and the natural economy will eventually be transformed into a commodity economy.

In this way production can develop along specialized lines but nonetheless on a socialized basis.

It is imperative to ensure that individual interests are guaranteed. with the collective economy as the precondition, and the collective economy is strengthened on the basis of developing individual interests, so that both the collective and the individual are responsible for commodity exchange, both are rewarded economically, and both are motive forces in economic development.

Our goal must be to develop a commodity economy as we consolidate and develop co-operative farms. Throughout the country the commodity economy is underdeveloped; the net rate of marketable grain (the percentage of grain that can be sold as compared to the total amount that is produced) is only 15 per cent. The commodity rate of other farm products is similarly low. socialist relations of production cannot be established soundly unless a commodity economy is fully developed.

It should be pointed out that we are firmly following the road of collectivization in China's villages. Multiple forms of the responsibility system should serve to improve collectivization.

The recent rural economic reforms have engendered the following forms of the responsibility system:

In economically developed areas, the form of giving remunerations according to output is encouraged. Within a diversified economy, production quotas are set separately for each specialized task, such as growing a particular grain, growing one kind of industrial crop, breeding cattle, operating vehicles, building houses, doing processing jobs or performing services.

Everyone works under a unified management, and each specialized task is performed by a group, a family or an individual. Remuneration is based on work accomplished—more work more pay, less work less pay.

In poorer areas where commodity production is still rare, the form of *bao chan dao hu*, or "fixing output quotas based on the household" has been instituted. That is, under the unified management of a production team, each household is responsible for all of the tasks of production on a certain amount of land, including the costs of production. The produce is distributed centrally, with surplus produce retained by the producer.

In some cases, under the unified management of the production team, each household retains everything produced on the land assigned to it after paying taxes and contributing its share to the accumulation and public welfare funds as a member of the collective. This form, known as *BAO GAN DAO HU*, allows the households greater autonomy and independence in management.



I found that in areas where the two forms have been instituted, production has increased by an average of 30 per cent. A few production figures have doubled or even tripled.

Production teams in an intermediate state of development are expected to assign output quotas to individual able-bodied labourers under the unified administration of the production teams.

The difference between this form and BAO GAN DAO HU is that production team planning and management is under unified leadership, and the portion of income from industry and sideline occupations is distributed in a unified way, as is income from agriculture.

All the above-mentioned forms together could be called "the contract system according to production." Besides, the peasants make other choices with regard to the production responsibility system.

In short, diversified forms should be adopted while unified patterns should be opposed. Our goal is to attain an economic co-operation which displays the superiority of unified management, can inspire the enthusiasm of the individual, and combine unified leadership with the workers' right to manage and distribute the fruits of their labour. This will provide perpetual renewal of motivation for the forces developing the rural economy.

#### SOCIALIST PATH UPHELD

Some say the form of BAO GAN DAO HU is good, and some say it is terrible. What are the facts?

Do those peasants who favour this form tend to degenerate from the collective economy? In some cases, yes. Once their initiative for individual production is roused, there is a tendency to pull away from the collective.

However, peasants of present-day China are no longer like the peasants prior to liberation, nor are they like the peasants of the 50s.

The majority of today's peasants want to get rid of not the socialist road, but rather the heavy burden of intolerable equalitarianism, undemocratic orders and the arbitrariness of a few, problems left untackled for many years.

In the poor districts, BAO GAN DAO HU has helped the peasants eliminate these practices, which is one reason it has been so well-received.

This form differs from the individual economy of the post-land reform era, because the situation and conditions have changed. Objectively there are more factors binding today's economic forms to the socialist path.

First of all the leadership of the Party and the people's democratic dictatorship are actively guiding the peasants along the path of socialism.

Secondly, in the 50s the capitalist class was abolished as a class so that now both our industry and commerce are socialist, as are our banks which provide credit. In the countryside, the socialist economy is in an absolutely dominant position, with a system of collective or state-owned property that cannot be transferred or divided, like water conservancy facilities and large-scale agricultural machinery.

Furthermore, the law stipulates that buying or selling of land is forbidden, in order to restrict concentration of land as well as polarization between rich and poor.



As a result, the form of "fixing output quotas for households" and the form of BAO GAN DAO HU resemble neither the small private economy before liberation, nor that of the period after land reform and before co-operation. Therefore these two forms are consistent with socialism and remain a component part of the rural socialist structure.

Then what are the prospects for the development of these two forms? After the problem of livelihood has been solved, peasants will ask for further economic improvement. They will need new means of production: chemical fertilizers, pesticides, machinery and irrigation facilities.

Contradictions will arise between production growth on the one hand and lack of capital and individual management on the other. The only way out will be to pool capital and labour.

This can already be seen in villages in Anhui, Henan and Shandong, where peasants have developed collective sideline occupations.

An advanced form of association will only appear when the commodity economy has developed and conditions for specialization of labour have matured.

By then, the associations will need to extend their work to specialized production and services, such as the associated production of fruits, silk and tobacco, as well as pig-raising and chicken-breeding. Techniques, supplies, marketing and services will be handled in a unified way.

Eventually, such organizations will evolve into a kind of associated economic entity covering farming, manufacturing and commerce embracing several regions.

In short, with the growth of productive forces, development of commodity economy and the introduction of new technical equipment, small production that is currently carried out under the system of BAO GAN DAO HU will be transformed into associated big production.

The transformation will be possible because of material conditions, rather than the people's will.

Some hold that BAO DAO HU is the sole form of the production responsibility system and that it should be implemented uniformly in all areas.

This is wrong. Any form of the production responsibility system will go through a process of initiation, growth and improvement. The system of BAO GAN DAO HU is no exception.

In the course of development, some peasants will increase their incomes, some will become rich quickly, while some households short of labour will make economic gains more slowly. Assistance must be given to the latter.

It would be wrong to expect that everyone will achieve prosperity at the same pace, but that does not mean we will forget the principle of general prosperity in the long run.

While looking after the interests of the individual, we must also consider the interests of the state and the collective.

While guaranteeing the state's interests, we should turn to economic measures and the law, such as the contracting system, to solve the problems of economic association between collective and individuals, and the sharing of rights and obligations.



The livelihood of the poorer families who are short of labour will be improved by means of taxation and through the social welfare and pension systems.

In the meantime, it is essential to educate the peasants that the purpose of "fixing output quotas for households" is to develop production, increase income and strengthen the collective economy.

Therefore, public resources and wealth such as trees and water conservancy projects should be well-protected and not divided up. Powerdriven wells and tractors should be used collectively as usual.

And every peasant should feel obligated to do a certain amount of voluntary labour, such as planting trees or working on public projects.

The growth of the production responsibility system signals the desire for reform among the peasants who have been mobilized. This is a social current which cannot be held back.

(Title and sub-titles are ours.- Ed.)

SOURCE: Beijing Review, no.48. November 30, 1981, Page No.15-20

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# CHINESE LEADERS PUT AGRICULTURE

## ON THE AGENDA

*Fairly large developments have occurred in China's rural economy in the last two years as a result of the new agricultural policies. This report deals with how these policies were formulated and what problems they have solved.*

China's leaders began to seriously grapple with the situation in agriculture at the Third Plenary Session of the 11th Party Central Committee, a meeting of historic significance held in December 1978.

Since then the Party has adopted flexible rural economic policies, raised the purchasing prices of agricultural and sideline products, relegated decision-making power for agriculture to the grass-roots level and reaffirmed the principle of "to each according to his work" so as to overcome absolute equalitarianism.

### GUIDANCE GIVEN ACCORDING TO SPECIFIC CONDITIONS

To seek better methods of agricultural management, many places have begun to adopt different forms of responsibility system in production. Some introduced the system of fixing output quotas based on groups (each comprises several peasant households) and some adopted the system of fixing output quotas based on households or on individuals. But there are still a few cadres who do not understand or support this practice, thinking that it deviates from a correct orientation.

During the spring-summer season of 1980, some Party Central Committee leaders made separate trips to nine provinces to carry out investigation and study. That September, the Secretariat invited provincial Party leaders to a meeting in Beijing where the responsibility system was discussed, ~~diffusing by the newspaper~~ and reports were given on the local

Leading cadres from Gansu Province in the northwest reported that over 95 per cent of the production teams in their province had adopted some form of responsibility system, with 39 per cent having introduced the system of fixing output quotas based on households. This development reflects the common desire of the peasants in the poor and backward areas of the province.

Participants from Guizhou province in the southwest, where the situation is similar to that of Gansu Province, declared: With enlarged power of decision for production teams as a tremendous impetus, Guizhou has a bright future.

Leaders from Henan Province in central China affirmed that the adoption of the responsibility system had yielded remarkable results. In places which had depended on state relief over the years, people are now getting more food and clothes through their own efforts and thereby lightening the burden of the state.



Leading cadres from Jilin Province in the northeast confirmed that the introduction of the responsibility system had helped consolidate the collective economy. Since mechanization is fairly widespread in Jilin, most places did not adopt the system of fixing responsibility for output on households. But no measures are being taken against those places which have instituted this system.

About 10 million people in Yunnan (40 per cent of the province's population) were adversely affected by severe calamities in 1979, according to a report by leading members from Yunnan Province in southwest China. The system of fixing output quotas based on households was adopted, prompting a turn for the better in 1980. Food supplies increased and food prices at the rural fairs either remained stable or declined somewhat.

There is no need for the rural areas around the suburbs of Shanghai, said leading members from the city, to adopt the system of fixing output quotas on the basis of households. The level of collective economic development is high and the tasks confronting agriculture are to continue to develop production and better serve the city.

Leaders in the Party Central Committee stated that these various opinions reflect the uneven economic development throughout the country. Therefore, different methods, and not only one, should be adopted to guide our work according to specific local conditions.

After holding this discussion, the Party Central Committee issued a document on the policies relating to agricultural production, which affirmed the various forms of responsibility system, including the fixing of output quotas based on households, under the leadership of the production teams.

After making an inspection tour of the rural areas early this year, Premier Zhao Ziyang pointed out that different forms of the responsibility system should be adopted to suit different levels of economic development.

- Advanced regions (where the collective economy is relatively consolidated, production develops year by year and peasants' lives improve annually) should mainly adopt the system of responsibility for a special line of production under a contract. The peasants should voluntarily organise themselves into groups based on a division of labour

#### THE RESPONSIBILITY SYSTEM

The system of responsibility in agricultural production is a form of management adopted for the collective economy. Offering a diverse and flexible organization of labour and remuneration methods which are popular among the peasants, this system was widely adopted in China's rural areas after 1979.

The general practice is to reduce the size of the labour groups in the production team, which is currently the basic accounting unit in the countryside and which is in charge of 20 to 30 households. A group formed voluntarily by several peasant households, individual peasant households or peasants regularly make a contract to undertake a certain production task with the production team. According to the terms of the contract, the contractor has certain rights and responsibilities. He is paid for his actual work and will be awarded for overfulfilling production, so as to ensure more pay for more work. The peasant is bound to honour the time set in the contract but is free to arrange his farm work. This represents a change from the customary practice of the past in which the team leader directed daily production and the system of payment by the day without regard to work efficiency was adopted.

Even though the system of fixing output quotas based on households or individuals has been adopted, the public ownership of the means of production will not change. The peasants only have the right to use, not to buy, sell or transfer, the land, farm machinery and farm tools, and irrigation facilities, owned by the production team. The production team can retain a certain amount of the accumulation funds and welfare funds and use them to develop production, improve public welfare and help those families with financial difficulties.



and specialization and undertake tasks given by the production teams.

- Regions in an intermediate state should adopt the system of assigning output quotas to individual able-bodied labourers under the unified administration of the production teams. (More or less similar to the piece-work wage system in factories)

- Poor and backward regions should introduce the system of fixing output quotas based on households.

The results have been encouraging. The Liaocheng Prefecture in Shandong Province, one of the nation's 10 areas of dire poverty, achieved a rich grain and cotton harvest in 1980. Its per-capita income was 126 yuan, 3.3 times that of 1979.

Chuxian County of Anhui Province, known for its numerous beggars in the past, was hit by a serious drought in 1978 and a flood in 1980. Grain output last year reached half a ton per person and cotton output set a new record.

According to the nation's statistics, although one-third of the farmlands was stricken by calamity in 1980, the total grain output was just slightly below the record level of 1979; cotton output, pork supplies and the floor space involved in the new construction of rural housing were the largest in the last 30 years.

#### DIVERSIFIED ECONOMY

The Secretariat also dealt with the important problem of diversifying the rural economy. Under the influence of the "left" ideology, the idea of a diversified economy was condemned as "capitalist" and rejected accordingly. Although a stop was put to this ridiculous labelling, the diversified economy did not experience a vigorous recovery.

The Secretariat discussed this problem at its 88th regular meeting on March 2, 1981.

At the meeting, Zhao Ziyang said that it is necessary to proceed from China's actual conditions to develop agriculture. The general principle is to completely and rationally use our agricultural resources. As an example he listed a number of places which had yielded better results in growing non-staple crops.

Hu Yaobang, General Secretary of the Secretariat and currently Chairman of the Central Committee of the Chinese Communist Party, said: We should not slacken our efforts in grain production and at the same time we must pay special attention to diversifying the economy. Although China has limited arable lands on the plains, it possesses vast mountainous, hilly and water areas where about 30,000 kinds of plants and crops can be grown.

Since the founding of the Secretariat a little over a year ago, Hu Yaobang has conducted investigations in the rural areas of a dozen or more provinces and autonomous regions. Based on his field notes, he summed up that there were 50 kinds of diversified economies which he grouped into five categories.

Talking about his investigation in the rural areas, Hu stressed that diversified economies are essential to developing the rural economy.

Wan Li, Fang Yi, Song Renqiong and Yu Qiuli and other members of the Secretariat also commented on this question. They pointed out: Developing diversified economies makes it possible to absorb the surplus labour force in the country side. The steps we have taken in readjusting the structure of agriculture should be firm and steady. They also suggested that small plots of land for the peasants' private use should be appropriately expanded, more organic fertilizers should be used and power and energy economized.



After this regular meeting, the Party Central Committee and the State Council jointly issued a circular to the nation about actively diversifying the rural economy. This circular now serves as a guideline for mobilizing hundreds of millions of peasants to open up more avenues for production and bring about a prosperous rural economy.

#### CONTINUATION OF CORRECT POLICIES

A responsible member working at the Secretariat said that the question of peasants and agriculture has always been a question of paramount importance to the Chinese Communist Party in carrying out revolution and construction.

#### *DIVERSIFIED ECONOMIES*

There are about 50 kinds of diversified economies in China's rural areas, which can be roughly divided into five categories:

1. Cropping: includes, in addition to staple crops, plant fibre, oil-and sugar-bearing crops, fruit, vegetables, Chinese medicinal herbs, spices and melons.
2. Fish breeding and poultry farming: includes livestock, poultry, fresh-water fish, bee-keeping and rare birds and animals.
3. Handicrafts: includes spinning and weaving, embroidery, brewing, pottery, furniture, sculpture, stationary and handicraft products;
4. Extracting and collecting: includes ore-mining, quarry, and collecting various kinds of wild animals and wild plants with economic value.
5. Service trades: includes catering, sewing, repair, hotel, medical, hair-cut, laundry and dyeing services.

He recalled that Comrade Mao Zedong pointed out in his report to the Second Plenary Session of the Seventh Party Central Committee held on the eve of liberation: In China's national economy, industry accounted for about 10 per cent and agriculture and handicrafts 90 per cent. This constituted the basic point of departure for considering every issue during the considerably long period of the Chinese revolution and after its victory.

Since the founding of New China, the proportion of industry in the national economy has been greatly increased (75 per cent in 1980). But the rural people still make up 80 per cent of the nation's population. Farm work is done mostly by hand and the peasants' lives are still quite difficult. Since this situation has remained fundamentally unchanged, we still must consider this basic point in tackling every question.

In 1954, Mao Zedong suggested that the emphasis of work in various provinces be placed on agriculture. Then in 1957 he again pointed out: "The whole Party should attach great importance to agriculture. Agriculture has a vital bearing on the nation's livelihood." He stressed that agriculture is the foundation of the national economy and it is necessary to arrange the national economic plan in the order of agriculture, light industry and heavy industry.

Unfortunately, these guidelines were not implemented conscientiously for a long period of time. But since the Third Plenary Session, the responsible member stressed, policies have been adopted which are precisely a continuation and development of Mao Zedong's theories and principles that have been proved correct in practice.

SOURCE: *Beijing Review* No. 34.  
August 24, 1981.



AGRICULTURAL PRODUCTION

*The system of fixing farm output quotas on the household basis is now being followed in China's rural areas. Is this a restoration of capitalism?*

This system is carried out in some rural areas. They are mainly poor and backward areas where the collective economy has not been well developed and hilly areas where the cultivated plots are scattered and the inhabitants live far apart.

Under this system, with the production team as the accounting unit (each team has generally over a dozen to 20 or so households), the plots of lands are put under the management of the individual households on a long-term basis. After harvesting, the peasants have to hand over a fixed amount of their output to the production teams for unified distribution, but are allowed to remain whatever surplus they may have. This is one of the forms of responsibility in farm management that takes output in to accounts.

A flexible rural policy has been adopted in the past two years. Proceeding from their own actual conditions, the people's communes in different places have through experiment established various forms of responsibility in production management. After the implementation of the system of fixing output quotas on the household basis, production in the aforementioned areas has developed and the livelihood of the peasants has improved. These notable economic results have been widely acknowledged.

The system of fixing output quotas on the household basis has the following advantages:

\* The principle of "To each according to his work" is effectively implemented. Under this system the commune members not only get their share of the fixed amount of output handed over to the production team for distribution, but can also keep that part of the output in excess of the fixed quotas. The result is: the better the management, the greater the amount of output in excess of the fixed quota, and the more the income of the peasants. All this has enhanced the enthusiasm of the commune members for production.

\* As the commune members are directly responsible for production and are given certain powers to make their own decisions, they can thus give scope to their special skills and improve management, thereby averting losses resulting from poor management of the collective economy and arbitrary directives not suited to local conditions.

\* This system of responsibility is simple and convenient and therefore easy to popularize. The peasants can make the best use of their time for farm work and household side - occupations so as to increase their income.

The system of fixing output quotas on the households basis, however, is not practised everywhere in the country. In those places where the development of production is normal and where the commune members get increasing benefits from the collective economy year after year, with their living standard steadily raised, other measures than the system discussed above are taken to improve further the management of agricultural production. In short, the question of what kind of responsibility system in farm production should be adopted hinges on local conditions and the peasants' wishes. Any system that is conducive to an increase in output and improvement of livelihood is welcomed by the commune members.



*Since the end of 1978, China has adopted a less rigid rural policy by granting production teams more right of autonomy with a view to arousing the peasant's labour enthusiasm and bringing prosperity to China's socialist countryside. One idea underlying the policy is to allow some localities and an advanced section of the peasantry to become better off first.*

*Why this policy? will the result be good? In this special feature, "Beijing Review" commentator gives an explanation of the Party Policy towards these questions. "What the Peasants Say" sums up some of their current views, and the article "Back to the Right Track" is a report on the vicissitudes of a production brigade in Shandong Province over the last 30 years.*

SINCE the Third Plenary Session of the 11th Party Central Committee in 1978, the Chinese Party and Government have adopted a host of new policies aimed at arousing the peasants' enthusiasm for production and activating the rural economy, alongside the slogan "Let some localities in the country and a section of the peasants prosper first." Peasants as well as cadres at the grass-roots level in the countryside have shown their support for this policy. There are, however, also people who consider it a "bourgeois slogan" because, they say, it departs from the socialist ideal of common prosperity and will lead to a polarization where the poor will become poorer and the rich increasingly richer, and eventually to capitalism.

In my opinion such a view is mistaken and I wish here to state my views.

#### UNEVEN ECONOMIC DEVELOPMENT

The idea is in fact not new. It is actually recognizing the objective fact in the present stage of socialism that economic development in various localities and the ability to labour among the peasants are uneven. Former "Left" deviationist thinking led to a refusal on our part to acknowledge this fact and to a policy of trying to achieve an equilibrium artificially. This penalized the more advanced and favoured the backward; it failed to achieve an equilibrium. Today we recognize this and are offering guidance in policy that should lead in achieving step by step by step a relatively balanced development.

Socialist transformation of the Chinese countryside was effected in a situation that was extremely backward, semi-feudal and semi-colonial. China's size makes its various localities and perhaps even the communes and production brigades and teams in one locality differ in natural and production conditions; their management is also as varied as their unevenness in economic development. Although we put agriculture on a co-operative basis in 1956, eliminated exploitation, instituted public ownership of means of production, and despite quadrupling the total agricultural output value and tripling total grain output over the past 30 years, we have encountered difficulties in promptly overcoming the disequilibrium in the various localities' development.

According to statistics compiled in 1977, the level of production of 200 of the 2,000-odd counties in this country was not far from that in the early days of the young People's Republic. Most of these counties are located in the northwest and southwest frontier regions, fairly poor and backward areas through the ages. Places often leading



As to the nature of the system of fixing output quotas on the households basis, there has been much talk among the foreigners, and in China a few people have differing views. They consider that the implementation of this system has thus deviated from the socialist road; some even call it a "retrogression to capitalism". That some people should hold such views is probably because the influence of "leftist" ideology and mistakes over the years has not been eliminated. Manifestations of "Leftist" errors mainly are: as regards managements, there was the tendency to go after big labour organisations with large numbers of people working together; and in distribution the principle of absolute equalitarianism was adhered to. The system of responsibility and *san zi yi bao* (means extension of plots for private use and of free markets, the increase of small enterprises with sole responsibility for their own profit or losses, and the fixing of farm output quotas for individuals households with each on its own) were for a long time criticized as "capitalist".

If the influence of "leftist" ideology is eliminated and an analysis made objectively, then the nature of fixing farm output quotas on the households basis can be discerned easily.

According to Lenin's thesis, the basic characteristics of Socialism are: (1) public ownership of the means of production and (2) the principle of "to each according to his work". If these two principles are upheld, then a clear line of demarcation is drawn between socialism on the one hand and capitalism and all other systems of exploitation on the other. As regards management, labour organisation and method of remuneration, they can take diversified forms in accordance with actual conditions, and should not be indiscriminately dubbed "capitalist".

The fixing of output quotas on the household basis is a form of organisation and management within the collective economy; it cannot be regarded as a retrogression to individual economy. Under this system, the peasants are still members of the collective economy, with corresponding rights and obligations. Moreover, the means of production are still collectively owned. The peasants have the right to use the land, farm machinery, draught animals and big farm tools, but they do not own them. In addition under this system the production team is still the basic accounting unit.

It is a fact that implementation of this system will result in some peasants households getting more income than the others because of the difference in manpower. Those households with a stronger labour force may become better off than the others. But this is essentially different from the polarization caused by exploitation. Facts prove that fixing output quotas on the household basis has promoted production, with more public welfare funds for the production team to help those families in difficulties, so the difference in living standard will not become increasingly big. Some peasants will become well-off first, and this will spur the others on so as to achieve common prosperity.

Of course, the system of fixing output quotas on the household basis has its shortcomings too. For instance, it may deter the purchase of farm machinery and might prove to be unfavourable to concentrating big forces to combat natural disasters. But the primary aim in areas carrying out this system is to enhance the commune members' enthusiasm for production and improve their livelihood as a whole. When this is achieved, the other contradictions can be tackled more easily.

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SOURCE: Beijing Review, No. 11 March 16, 1981. pp. 3-4 ; by Wang Dacheng.



the country in economic development are areas in the Songhua-Liao valley in the northeast, on the Changiang (Yangtze) delta and the Hangzhou-Jiaxing-Huzhou plain in the east, on the Zhujiang (Pearl) River delta in the south. The outskirts of large cities do well also, thanks to prime geographical location, comparatively prosperous conditions and to proximity to large industries. Most of the 1,622 "outstanding" production brigades (about 2.3 per cent of the total in country) which in 1979 received an average income of over 300 yuan per person (this refers to the income distributed by the collective economy, not including that from small plots reserved for private use and family sideline production) were located in these regions. Among these, 26.1 per cent was located in farming areas, 8.5 per cent in pastoral areas, 5.8 per cent in fishery areas and, 1.9 per cent in forest areas and 57.7 per cent on city outskirts. Over 400 of these most prosperous production brigades are located on the Shanghai periphery alone.

There are differences in income within a commune, brigade or team depending on the peasants' physical strength, skill and willingness to work. Because in the historical period of socialism a pertaining principle is: from each according to his ability and to each according to his ability and to each according to his work. Hard workers, the physically strong and skilled are better paid—a normal and the only situation which encourages advancement while spurring the less advanced. This tends to increase the wealth of society as a whole and also, the peasant's personal incomes. But to attempt to remove this difference by introducing absolute equalitarianism would be to seriously affect the peasants' enthusiasm for labour, stagnate and undermine the rural productive forces and collective ownership; for peasants are practical people and usually have a way to protest against equal pay for unequal work. They may just go slow or stage a sit-down strike; in their own words, "to go to work without really doing any work."

#### THE KEY TO PROSPERITY

Will allowing a section of the peasants to prosper before other lead to polarization and give rise to a new exploiting class? The answer depends on whether socialist principles are adhered to or not.

Polarization springs from the exploitive system, which was eliminated in China with the establishment of public ownership of the means of production and of the policy of distribution according to work done. In China, therefore, the social conditions for polarization do not exist.

Land (including grassland in pastoral regions) in the Chinese countryside, as well as water space, forests, large farm implements and machinery, draught animals—all principal means of production—belong collectively to the communes production brigades and teams. Peasants may use them according to a countrywide contract system, but buying or selling them is prohibited, and this applies also to the small private plots reserved for peasants' own use. Exploitation is thus ruled out as a means of gaining wealth, and so also is polarization.

Under socialism, the collective economy is the main source of the peasants' income, and in fact at present, from 70 to 80 per cent of their income is derived from distribution from the collective while the rest comes from family sideline production and the small private plots.

Great effort is needed therefore to stimulate the collective economy and make it prosper. This applies especially to places with more favourable conditions where more investments may be made for them to go ahead before other places with agricultural modernization. The present task, apart from making continued efforts to mechanize farming and improve management of the collective economy through the introduction of the latest achievements in agricultural science, is to gradually change the rural economic structure geared to grain production alone into a diversified economy appropriate to the resources of the localities concerned.



Following is the first of three special reports on the changes which have taken place over the past two years in the rural areas of Chuxian Prefecture in east China's Anhui Province. Parts 2 and 3 will appear in succeeding issues.

Chuxian Prefecture is an historically poverty-stricken area which had not made any substantial progress in farm production for many years. But the recent introduction of more flexible agricultural policies has made a dramatic difference in the lives of Chuxian's peasants.

Peasants support the adoption of various forms of responsibility system in farm production, including the fixing of output quotas on the basis of individual households, and the development of household sidelines and a diversified economy. The Party Central Committee formulated appropriate policies in compliance with the peasants' wishes and after investigations of local conditions.

For many years, fixing output quotas at the household level was mistakenly criticized as attempts to "restore capitalism." The reappearance of these things in poor and backward areas has given rise to many questions among friends of China in other countries. We hope that publication of these reports will help clarify those questions.— Ed.

CHUXIAN Prefecture includes seven counties in eastern Anhui Province with an agricultural population of 2.95 million. During my visit I talked with a considerable number of Chuxian peasants and rural cadres. Their favourite topic of conversation was the new policies, which had allowed them to achieve a prosperity they had never known before. Their enthusiastic approval of the new forms of responsibility system was obvious from their every tone and gesture, from every smile that creased their sunburnt faces. The story of Xiaogang Village is typical of what has happened throughout the area.

In 1978 Anhui was hit by serious drought. That September, the Party committee secretaries of over 240 communes of Chuxian Prefecture met to discuss ways of helping the peasants recover from the natural disaster. One of them raised an issue that toughed a nerve in all of them: "Why on earth are the peasants here so poor? One or two of us secretaries might be charged with incompetence, but can all of us be incompetent? Could we make some changes in the organizational and managerial methods of our collective economy?"

A commune Party secretary of Lai'an County replied with an account of recent developments in his area. To combat the drought, one commune's production team had decided to subdivide itself into several small work groups. Each group had signed a contract with the team accepting the responsibility for meeting specific production quotas. Everything they produced within the quota went as usual to the team for unified distribution. But if they surpassed the quota, the surplus would belong to the work group members. They settled among themselves the hours of work, the division of labour and other matters.



This was a big improvement over the old days, when individual responsibilities were not clearly defined and incomes often did not reflect the amount and quality of the work people did. As a result of these measures, the team's grain output had increased by 50 per cent in just one year.

Cadres all over the prefecture started talking about this responsibility system. Then the Third Plenary Session of the 11th Party Central Committee held at the end of the same year called upon people to emancipate their minds and adopt more flexible rural policies. Before long, experiments in assigning production quotas to small groups were going on throughout the prefecture.

#### THE XIAOGANG EXPERIMENT

THE Xiaogang production team in Fengyang Country's Liyuan commune in the northern part of the prefecture was selected as one of the experimental units. The 20 households and 115 people of Xiaogang were very poor. They had no tractors, only a few cattle; most farm work was done by hand. When they could not find a satisfactory team leader by election, they decided to try setting quotas on the basis of households.

The team's 25.3 hectares of cultivated land was divided and allocated among the households according to the number of people each had. The land is still owned by the collective; household members have only the right to use it. In accordance with the number of people each household was assigned quotas—so much to go towards meeting the overall state quota, so much towards repayment of state quota, so much towards the team's accumulation and welfare funds. The income from any surplus above these quotas could be kept by the families themselves.

Yan Hongchang, a 32-year-old Xiaogang resident, recalls the days before the new system went into effect: "From 1976, the peasants here had to depend on grain and relief funds from the state for six months out of every year. The collective income was so low that each person got an average of only 25.8 yuan a year as his share. The prolonged hard life left us so discouraged that many saw no point in working at all, much less working hard. We let weeds grow wild in the fields. Some lost hope altogether, and left for other places to make a living."

Ten years ago, Yan himself left home to do odd jobs elsewhere. He returned only after the fall of the gang of four in 1976. At the end of 1978 he was elected deputy team leader because he proposed to "work out a way to feed all of us." Soon after the election, he found the peasants unwilling to try setting quotas even at a small work group level. So he and Yan Junchang, the team leader, decided to try household quotas.

#### REMARKABLE CHANGES

Before the new system was introduced, the peasants were so dispirited that few would take any initiative, and planning and organizing was left to the team leaders. The leaders had to try to arrange production schedules, urge people to go out to the fields, to work, and solve any problems that arose. And leaders were blamed for the low levels of grain and income distribution.

But now the peasants themselves have taken the initiative. Many not only cultivate the land they have contracted for, but have also started to reclaim wasteland (21 hectares so far). Family members are out in the fields early and work hard all day, with the able-bodied taking on the heavier jobs while the very young or very old do lighter tasks. During the summer rainy season, peasants go out to the fields in their raincoats.



There is new concern about soil fertility, weather changes and water resources. Each household tries to get better varieties of seed to plant. Those who never bothered about insect control have bought sprinklers and even the older generation has begun to learn about scientific methods. From sowing to harvesting, Xiaogang peasants watch over their crops as carefully as mothers tending their babies.

The results are plain to see. Xiaogang's 1979 grain output was 69,500kg.—an amount equal to the total five years' output from 1966-70. In the same year 17,600 kg. of oil-bearing crops were harvested, surpassing total amount grown in the preceeding 20 years. The number of pigs raised exceeded any year in history. The team not only set aside some grain and money as reserves and repaid part of the state loans, but also handed over or sold to the state more than 12,000 kg. each of grain and oil-bearing crops. The average per-person farm and sideline income reached 311 yuan (the 1977 figure was 41 yuan). Even the household which gained the least earned an average per-person income of 240 yuan.

#### SUMMING UP THE EXPERIMENT

Xiaogang's history of backwardness in agricultural production had several causes, including poor farming conditions, frequent natural disasters and an inadequate material base. But local people believe the root cause lay in the lack of enthusiasm on the part of the peasants. This initiative and enthusiasm had been suppressed again and again by ultra-Left practices in the rural areas.

What happened during the "cultural revolution" (1966-76) serves as a typical example. One year Liyuan commune sent an 18-member work team to Xiaogang (there were only 19 households in the village at the time). A leader of the work team told the peasants: "You are no longer permitted to take the capitalist road. The work team will not leave here until you've been driven back to the socialist road."

The two things he labelled as capitalist were, first, the small differences in income due to the practice of "to each according to his work," and second, the income from plots for personal needs and household sidelines, both of which were permitted by state policies. As one might expect, peasant initiative was seriously damaged. Low labour efficiency and equalitarian distribution have become long-standing problems in the management of collective economy.

After the "cultural revolution" ended, plots for personal needs were given back to the peasants and family sidelines were encouraged and supported. The economic situation improved a little and the peasants were happier. But the above-mentioned problems still existed in the collective economy, and stood in the way of real progress.

With some experience of the new system, the peasants themselves identify three advantages for the household quota method.

—Serves immediate interests of the peasants. After handing over a set proportion to the state and the collective according to contract, the peasants can keep all the remaining products of their labour. Their income depends directly on their work. The old equalitarianism, which meant no differences in income whether one did meant no differences in income whether one did a good job or a sloppy job, is gone. Because quotas include allocations to the collective, funds are still available for public welfare and subsidies to families and individuals with financial difficulties, so the superiority of the collective economy in this respect is maintained.

—Fixes responsibilities. The new system has solved the problem of ill-defined responsibilities and low labour efficiency. Instead of leaving everything to the leaders, the peasants themselves now take



the initiative in deciding such things as hours of work, crop rotation and the use of more scientific farming methods.

-Is easy to administer. Instead of trying to manage every aspect of farm production, production team leaders can concentrate on overall planning for the team, while leaving details of farm work to each household. Contracts are drawn up in clear and simple language, and are signed once a year. This system of management seems more suitable for poor and backward areas.

#### THE STRENGTH OF RESPONSIBILITY SYSTEM

In 1979 many rural cadres who had been influenced by "Left" ideas opposed the fixing of output quotas for each household. In Liyuan People's Commune the Party secretary forbade this practice under the pretext of preventing a "restoration of capitalism."

Chen Tingyuan, the Party committee secretary of Fengyang County, went to investigate the situation in Xiaogang team in the company of the Liyuan commune Party secretary. After they examined the newly sprouted peanut crop and held discussions with various commune members they went to deputy team leader Yan Hongchang's thatched cottage for a rest. Party secretary Chen asked Yan: "Can you peasants do if quotas are assigned to each family?" Yan Hongchang declared with assurance: "Yes," Chen Tingyuan then turned to the commune Party secretary and said "Let's give them a chance. Maybe this method suits their conditions."

Chen Tingyuan's remarks seemed quite spontaneous but actually he had thought about rural problems for many years. In the 1950s, Chen Tingyuan raised controversial opinions concerning the problems in implementing the Party's agricultural policies and protecting the peasants' interests. For this he was wrongly labelled as a "Right opportunist."

This county Party secretary has worked in the countryside for 30 years and knows well the difficulties the peasants face. He was convinced that the distinction between socialism and capitalism is not decided by collective or individual labour, but by the form of ownership of land and other major means of production and by whether there is exploitation or not. He believes that there is no correlation between fixing output quotas for households and capitalism. In poor and backward areas like the Xiaogang team, fixing output quotas for households may be a fuller expression of the socialist principle of more reward for more work and distribution according to labour.

Chen Tingyuan again visited Xiaogang after the summer harvest. He investigated the results of the new system and observed that the harvest had been good and the peasants' food supply was adequate. In February 1980, Wan Li, then the provincial Party committee secretary and now Vice-Premier and Minister in Charge of the State Agricultural Commission, visited Xiaogang. He went from house to house to talk to the peasants and subsequently commended the way Xiaogang was managed.

In 1980, the Xiaogang team signed contracts with every household. The contracts set clearly the responsibilities of both sides. They fixed: (1) Output quotas, including the land area to be sown with each crop, output per unit and total output; (2) quotas to be supplied to the state, including annual and seasonal quotas for grain, edible oil, hogs, poultry and eggs; (3) money and grain to be handed over to the production team for the collective accumulation fund, the public welfare fund, collective grain reserves, and to be used to repay loans, to compensate for the depreciation of fixed assets and to subsidize the cadres of the production team. Many of these items were recorded in a table in the contract when they were fulfilled.



The contract for fixing output quotas for households is a legal document. With it, the people in Xiaogang feel reassured. They have opened up more wasteland and their enthusiasm for production has been enhanced. In 1980, despite three months of cloudy and rainy weather, the quotas of oil-bearing crops to be sold to the state remained the same as in the previous year. While the output of oil-bearing crops fell slightly, the total grain output went up by 64 per cent compared with the previous year when fixing output quotas had just begun to be implemented. Grain sold to the state increased by 114 per cent, and the average per capita income, 41 per cent. In the last two years, 82 new rooms have been built in Xiaogang and the number of draught animals has increased from one to 19.

Xiaogang is a miniature of Fengyang County. In the years 1953 to 1978, the state had supplied on the average 8,650 tons of grain annually to Fengyang. In 1979 and 1980, the situation changed drastically as a result of the adoption of fixing output quotas for households and other forms of the responsibility system. For these two years, Fengyang handed over and sold to the state an average of 50,500 tons of grain per year. The peasants in Fengyang had not had so much grain before. Many observed that fixing output quotas for households is really an effective way of eliminating poverty.

Various forms of responsibility system have been practised in Chuxian Prefecture. Those production teams which carried out the system of fixing output quotas for households account for 92.9 per cent and they have achieved good results in increasing production. So far they have only taken the initial steps in meeting the needs of the people. The government policy is that this system will remain unchanged for a relatively long period of time. How long the period will be and when and how it will be changed depend on the wishes of the peasants.

#### THE TEST OF THE BIG FLOOD

When fixing output quotas for households is practised, each household becomes a production unit. If there is a natural calamity, can the people be organized to resist it?

Last summer, rainy weather lasted for nearly three months in Chuxian Prefecture. As a result, 40 per cent of the land suffered from waterlogging and crops were destroyed on 13,000 hectares of land; houses embracing more than 30,000 rooms were damaged and some 30,000 people were endangered by the rising waters. The prefecture experienced its second largest flood in the 32 years since liberation.

In fighting the flood and draining the waterlogged fields, water conservancy projects built by the state and collectives played a role. More than 100,000 peasants from seven counties served as a shock force to protect dykes and deal with emergencies. This enabled three flood peaks to pass safely. Those left in the villages drained water from the fields and replanted them, and cultivated the new crops.

All the seven counties in the prefecture reaped bumper harvests under these conditions. The total output did not decrease, but, for the first time, went above 1.5 million tons, the highest level in history.

Jia Changzhi, former Party secretary of Jiashan County in the northern part of Chuxian Prefecture, recalled that last July water in a lake in Jiashan went up rapidly and the 22-kilometre-long dyke was in danger. In the evening when the county announced this 13,700 commune members rushed to the site. After five days of hard work, the danger was fended off. Why did the commune members who were responsible only for their family's production rally in face of such a natural calamity? They realized that no matter how well the rice in their own fields grew, it would come to nought if they did not join hands to fight the flood.



Jia Changzhi revealed: "At first I was not sure myself if the commune members under this responsibility system could be mobilized to fight such a big flood. Now I think, with necessary ideological education and organizational leadership, this system in production is excellent, because the peasants work not only for the state and the collective, but also for their immediate interests. That is why they are as active in fighting the flood as they are in production."

#### LET THE PEASANTS CHOOSE

Now most production teams in Fengyang County have adopted the system of fixing output quotas for households, but there are also some which practise fixing output quotas for production groups or keep the team as a production unit. The opinion of the county people's government is: Let the peasants choose; no unitary pattern should be forced. In poor production teams like Xiaogang, fixing output quotas for households is a good way to eliminate poverty and provided the peasants with enough to eat and wear. However, in areas where the collective economy is fairly developed and mechanization and economic development have reached a higher level, the peasants do not want to implement this system of fixing output quotas for households. They want to establish responsibility systems which suit their own conditions and can further develop their collective economy.

The Jiangzhuang Production Brigade in the mountainous area of southeastern Fengyang County is one such case. It is composed of 2,250 people who are divided into 11 production teams. Taking advantage of its remoteness, its Party branch reduced to the minimum the influence of "Left ideology when the gang of four held sway. Since the early 1970s, it has led the peasants to develop agricultural, industrial and domestic sideline production in a planned way. They have planted 80,000 trees, cultivated 80 hectares of economic forest, raised 2 million fish and set up seven industrial enterprises. Their income from industry and sideline occupation has surpassed that from agriculture and the total value of fixed assets and collective accumulation is 1.09 million yuan. Everyone is guaranteed 350 kilogrammes of grain annually. In agricultural production, tractors have replaced heavy manual labour and the peasants are satisfied with the low-cost co-operative medical service. In addition, the brigade has a permanent construction team to build houses for the brigade members. Already 40 per cent of the brigade members have moved into new houses.

In order to carry forward to the strong points of collective management and overcome its shortcomings, i.e., not clearly defined responsibility and inflexibility, since the beginning of this year, the Jiangzhuang brigade established a new responsibility system in production. The brigade-run enterprises carry out independent accounting and have introduced a more flexible system of awarding compensation. Most of the wages are fixed (decided according to skill, amount of labour and productivity); the rest is given as bonuses based on monthly production figures. With regard to agricultural production, rice and wheat, two major crops, still remain under the care of the production teams or groups, while other crops (oil-bearing crops, cotton maize and sweet potatoes) which are not planted in large quantities are the responsibility of households with fixed output quotas.

Jiangzhuang adopted this formula completely on their own accord and it has received approval from the county Party committee. If necessary, the brigade has the right to change it in the future.



## FARM OUT PUT AND COMMUNE MEMBERS' INCOME IN CHUXIAN PREFECTURE

	1979	1980	Percentage increase
Total output of grain (1,000 tons)	1,416.5	1,608.5	13.6
Total output of oil- bearing crops (ton)	49,530	75,710	52.9
Per-capita income from agriculture (yuan)	82	103	25.6

Note: The responsibility system in production began to be implemented in 1979. By 1980, 85 per cent of the production teams in Chuxian prefecture had adopted this system.

Since the introduction of the responsibility system, agricultural production and the standard of living in Chuxian Prefecture have gone up (see table). Its achievements represent the hope of China's backward countryside to eliminate poverty and develop prosperity.

SOURCE: Beijing Review, No. 34 August 24, 1981. Page no. 21-26.

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*ECONOMIC REFORM IN POST-MAO CHINA:  
AN INSIDER'S VIEW*

This paper reviews general developments in the economic and political situation of Post-Mao China; in particular, it focuses on the weakness of economic institutions in that country, the necessity for reform, and some political aspects of economic development and reform.

The discussion is organized as follows: Part I analyses the failure of the "Ten Years Plan" of February 1978, as a means of highlighting the principal problems affecting China's economy. Part II treat the nature and limits of the economic reforms that began in the latter part of that year and the change in the underlying political conditions. The policy of readjustment, which halted the spread of reform, is taken up in Part III. Finally, brief speculation is offered as to possible future developments in China's political economy.

THE "TEN YEAR PLAN" AND ITS FAILURE

INDUSTRY

In general, the process of economic development in post-Mao China can be divided into three stages: the "Ten Year Plan," the Economic Reform, and the Economic Readjustment. The "Ten Year Plan" was formally put forward by the First Session of the Fifth National People's Congress in February 1978. Although economic reform was also mentioned at that time, it was not initiated until the end of 1978, when the profound weaknesses of the "Ten Year Plan" became apparent and the political situation changed. Finally, Economic Readjustment was introduced in the middle of 1979 and actually became the main economic strategy from mid-1980.

It is not necessary to dwell in detail on the over-ambitious Ten Year Plan, which is now moot. Suffice it to say that the Plan rapidly added to the difficulties already faced by the economy. Accumulation increased to 36.5 percent of net material output, but at the expense of efficiency and living standards. Large numbers of heavy industrial projects, based on imports of equipment from Japan and Western Europe, were begun only to be cut back or abandoned before completion. The government ran a deficit of over ten billion yuan annually from 1978 to 1980; and open price inflation became a problem for the first time in many years.

Because the Plan itself was poorly conceived, an explanation of its failure must include the reasons for its adoption in the first place. These are essentially two: first, policy-makers understood at that time that after more than ten years of "Cultural Revolution," the majority of Chinese people were impatient for improved living standards and increasingly weary of political slogans. Second, the power struggle in the leadership was at a delicate stage. Consequently, the "Four Modernizations" became a banner by which Hua Guofeng, the formal Chairman of the Chinese Communist Party (CCP), and his supporters sought to bolster their popularity among the people.

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1. For details of the Plan, see Beijing Review, March 1978, pp.7-40



Most economists in China were later to ascribe the failure of the Plan primarily to imbalances in the development of the national economy, i.e., (a) the rate of accumulation was too high; (b) investment in heavy industry, chemical industry, basic construction, and military industry was too great, while investment in agriculture and light industry was inadequate. Certainly, unbalanced development of the national economy was an important reason for the failure of the Plan, but it was not the major one. The most important and general reason was the overcentralized and bureaucratic system of economic planning and management. This was recognized at the time, and explains why, in the latter half of 1978, both academic people and the Reform Group<sup>2</sup> in the leadership claimed to favor political as well as economic reforms.

The process of making the Ten Year Plan itself expressed the dangers of the Chinese-type planning system. First, as suggested above political factors were always more important than economic realities to planners, whose political power and positions determined their economic benefits,<sup>3</sup> and whose decision making went unchecked by any market mechanism.<sup>4</sup> For example, when the Petroleum Group<sup>5</sup> controlled the planning process, the greater part of total investment was put into heavy industry, chemical industry, basic construction, and military industry, which led directly to the imbalance described above.

Second, the ability to construct a reasonable macroeconomic plan was lacking. Economists and technicians were not given an important role in plan making, and most of them could not even get basic data about the national economy because of the "security system." On the other hand, many planners lacked the technical knowledge needed for economic planning. The statistical system was so backward and confused that planners at the central level also were deprived of accurate information. This was in part because the arbitrary pricing system did not link social demand with supply, and in part because managers and cadres on every level were able to—and did—falsify figures. For instance, the Dazhai Production Brigade, an "advanced" unit in the nation, falsely reported its output by more than twenty percent for many years.<sup>6</sup> Thus, despite the fact that some forty percent of iron and steel output could not be sold, ten new large-scale iron and steel complexes were included in the Ten Year Plan; and the decision to build ten oil and natural gas fields was made before it was known whether and where such oil and gas resources existed in China.

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2. The Reform Group, which included people such as Deng Xiaoping, Vice Chairman of CCP and Chen Yun, Vice Chairman of CCP, claimed to favor economic and political reforms from 1977 to 1979.

3. Those who lose their political position or power lose their economic privileges. On the other hand, people might commit terrible mistakes in their plan making and waste over a billion yuan of investment without any punishment, if they are still in power.

4. Concerning this point, W. Brus as well as O. Sik provide some excellent arguments. See: W. Brus, *The Market in a socialist Economy*; Ota Sik, *Plan and Market Under Socialism* (Prague: Czechoslovak Academy of Science, 1967), and *The Communist Power* (New York: Praeger, 1981).

5. The petroleum group, backed by Li Xiannian, Vice-Chairman of the CCP, includes people who were heading the Ministry of Petroleum and controlling the State Planning Commission and many other industrial ministries from the early 1970s to the first half of 1980.

6. *Renmin ribao*, December 24, 1980, p. 2; November 22, 1979, pp.1-2; and December 29, 1979, p.2, and *Hongqi* 1981, no.2, p.2.



The system of management, like that of planning, has been insufficient and bureaucratic. At every level of management, from ministry and local industrial bureau to company and factory, down to the workshop, there are two separate lines of control: the Party organization and the state administration. Unlike in most Eastern European countries, the the Party organization directly controls the administration. For example, ministers are usually first secretaries of the Party organization in their ministries. The director of a company or factory, however, is often only vice-secretary of the Party organization in the unit. All important issues have to be first discussed and decided upon at the Party meeting. Nevertheless, unlike most Eastern European countries or even the Soviet Union, where a large number of cadres and Party members received advanced training in technology and management after World War II, in China some cadres attended colleges in the 1950s, but most of them studied the social sciences. Moreover, not only were many of these (along with many intellectuals) criticized during the ensuing political movements, but the political opinions and background of the cadres became the overriding, if not the only, criterion for promotion. As a result, most surviving managers were pure political people, and management became politics. In addition, because "redness," i.e. political loyalty, and "political education" were emphasized, managerial training was underdeveloped. Before 1966, China had a total of only four or five colleges to train managers, and students even in these colleges spent the greater part of their time studying politics rather than management and technology. During the Cultural Revolution, all programs of management training were stopped and management became synonymous with "class struggle," i.e. direct political control. As a result, the general standard of management in industry was very low.

A second reason for failure was that most intellectuals did not and could not play an active role in production. No doubt, after the failure of the "Gang of Four," most intellectuals have felt much freer than before. However, the continuing problem of bureaucratism remains a source of discouragement. In addition, most intellectuals were not Party members, and therefore could not make important decisions about production. On the contrary, in many cases managers or political people erected obstacles to technicians' work, which threatened to expose the technical incompetence of the former. Moreover, because the system of allocation of labor was very rigid and bureaucratic, especially for intellectuals, no one could choose or change jobs without permission from the cadres. Finally, most intellectuals' living conditions were unsatisfactory even compared with the workers'. For example, many got a lower salary than workers, and husbands and wives were often assigned to different cities. Especially in large urban centers, very few young families were able to get an apartment with two rooms. All of this undermined the intellectuals' enthusiasm.

Third, since the end of the 1960s, the working class has undergone important changes. More than thirty million young graduates have left high schools or technical schools to enter factories. Certainly, they have much stronger training than older generations both in reading and analysis. Half of them spent several years working in the countryside, where the serious shortcomings of the social structure were more apparent than in cities. More importantly, people learned a deep lesson

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&. 7. For example, in 1957, more than half a million intellectuals were criticized as "rightists," and, according to Mao, China had a total of 5 million intellectuals (including primary school teachers in the countryside) at that time.

8. Lack of a strong Party-Technology stratum is an important difference between China and most Eastern European countries or even the Soviet Union, where this group has strongly influenced processes and effects of economic and political reforms. In China, the Reform Group complained that the cadres' standard of education was too low.



from the ten years of political upheaval, the bureaucracy's privileges, the worsening situation of the national economy, and greater information from abroad after 1976. As a result, worker alienation and the practice of "work slowdown" became very popular, and young workers were called "a (independently) thinking generation."

Fourth, the system of wages (including bonuses) did not accord with "equal pay for equal work" and was not linked with the social value of production. For more than fifteen years, wages and salaries remained unchanged. Finally in 1978, some workers' wages were raised, but partly according to their seniority and partly by managers' and cadres' decision. Before 1978, bonuses were fixed (five percent of total wages) and distributed evenly as an additional wage to everyone except absentees. Since 1978, many factories have changed this system and workers bonuses now accord more closely with their performance in production. However, the following problems remain: (a) managers and cadres consistently get the highest bonuses everywhere. (b) The production targets are raised too quickly, and are used to control the workers. (c) Because of differences in the technical structure of production in different industrial sectors or different product types, some enterprises find it easy to exceed their production target while for others it is difficult or even impossible. As a result, gaps in bonuses between different sectors and factories became large. (d) For the Government, the new system contributed to widening the budget deficit. On one hand, the government spent more money for bonuses; on the other, the bonus system led many enterprises to exceed their target by wasting energy, raw materials, and labor. Here again the culprit was the absence of a link between bonuses and the social value of products due to the lack of an efficient price structure based on some kind of market mechanism.

Fifth, large imports of capital, technology and equipment constituted the main strategy of the Plan. The results were disastrous, in part because of the pitfalls of the planning system, weaknesses in the process of decision making for investment, and inadequate management. However, weaknesses in the foreign trade system itself should also be mentioned. For the import of large-scale projects, each industrial ministry could usually negotiate directly with foreign companies without intervention from the Ministry of Foreign Trade. But much unofficial information suggests that trained personnel were often kept from playing much of a role in such negotiations, while the cadres who made the important decisions lacked knowledge or experience of technology and world market conditions.

Finally, there was the problem of assimilating and digesting the imported equipment and technology. Not only did the "Cultural Revolution" interrupt technical education for ten years, it also disrupted scientific research. Many technicians were left doing work they were not interested in or which did not utilize their knowledge.

By the latter half of 1978, it had become apparent that if China were to avoid an economic or even a political crisis and at the same time implement the "Four Modernizations" policy, a change in economic strategy from the "Ten Year Plan" to economic reform was needed. From the lessons of the Plan the following conclusions were drawn:

- *Bureaucratic control of the economy had to be reduced.*
- *Economic planning and decision making had to make use of the market mechanism.*
- *A direct link was needed between economic benefits for planners and managers and their record of performance.*
- *The pricing system had to express the relation between social demand and supply.*



- Politically oriented managers had to be
- " gradually replaced by technically oriented managers, and workers given a significant role in enterprise management.
- Direct links were needed between production
- " and social demand and between the quality and quantity of workers' output and their income.
- Enterprises needed greater autonomy in
- " deciding what, how, and how much to produce for the market.

### AGRICULTURE

The situation in agriculture was different. In general, because of the lack of capital and technology, as well as the low standard of education, geographical location and the weather are still very important determinants of output and income. Moreover, institutional shortcomings had an even greater negative effect in agriculture than in industry.

The "People's Commune" has been the basic economic, political, social, and militia unit in the countryside. Before 1979, local government at the province and county levels sent production target figures (determined by the central government's economic plan) to each commune. Cadres in the communes directly controlled production (what, how, how much, in what proportions, or even when peasants had to plant) and completion of state purchase quotas. On the production brigade and production team levels, cadres were able to decide how every household and peasant did their work each day and how products and income were distributed after taxes and sales quotas were fulfilled. Theoretically, peasants' incomes depended on the harvest, which would determine the "value of a work point," and on how many work points they accumulated. Nevertheless, because of cadres' power and loopholes in the accounting system, the cadres' income was usually several times that of the peasants.<sup>9</sup> Even when the harvest was very poor and many peasants had to leave their villages to become beggars, the government could still get agricultural products from the cadres, while the latter still enjoyed economic benefits and privileges.

The state economic plan and political movements strongly influenced agricultural production, because the whole process of production and distribution was controlled by cadres, the state's representatives, whose economic and political benefits were not linked to their success in stimulating production, and because many cadres were political people and knew little about agriculture. For example, the movements to "Learn from Dazhai" and "take grain as the key link" destroyed agricultural production in many places.

Therefore, both the cadre privileges and the arbitrary leadership of production gave rise to "work slowdowns" among peasants and retarded agricultural growth.

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9. In fact, accountants were appointed or dismissed by cadres; usually the accountant's work was not supervised by peasants. One reason was that many peasants were illiterates or semi-illiterates.

10. No statistics can show this situation; however, during the past three or four years, many newspapers in China, such as People's Daily, Renminribao, have published articles criticizing this situation. See People's Daily, July 30, 1982, p.5, August 27, 1982, p.5, and September 16, 1982, p. 4.



11 In addition, because of the large gap between prices of agricultural and industrial products and the state monopoly of purchase and marketing peasants could not earn enough to permit investment and savings.

Consequently, mitigation of the conflict between peasants and cadres, relaxation of state control of production and distribution, and increased peasant autonomy in production became the peasants' chief demands and the principles of economic reform in agriculture.

### POLITICAL DEVELOPMENT

The failure of the "Gang of Four" did not stop the struggle among the top leadership. Alignment and realignment of political forces was continuously occurring. Before the Third Plenary Session of the 11th Central Committee, held in December 1978, there were basically three contending forces: the "New Gang of Four" 12 (including their followers), who achieved their position during the Cultural Revolution; the Reform Group; and the Moderates, 13 who at that time were concentrated in the Army and the Petroleum Group. The position of the "New Gang of Four" was weak since it was opposed by both the Reform Group and the Moderates, and, more importantly, by the majority of Chinese people as well. On the other hand, because the "New Gang of Four" retained some power at the center while the Reform Group itself was not very strong there, the political support from the populace was very important to the latter. To mobilize this support, the "liberation of thinking" was put forward, several important theoretical discussions were held, and "Democracy Wall" was created. 14.

Compared to "Prague Spring" of a decade earlier, the Beijing Spring" at the end of 1978 and the beginning of 1979 was very short and weak. In Beijing and other large cities, "Big-Character Posters" at first mainly criticized the "New Gang of Four," and leaked information about the struggle at the top to support the Reform Group. Consequently there was high-level indirect support for the "Democracy Wall" before December 1978, probably from Deng Xiaoping himself. However, after the Third Plenary Session of the Eleventh Central Committee, the situation began to change. On the one hand, the "New Gang of Four" lost power and the Reform Group was strengthened. On the other hand, the nature of "Democracy Wall" (some people called it the Democracy Movement) was also changed. Some young students and workers, 15 not satisfied with confining their criticism to the "New Gang of Four,"

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11. For example, in many places, especially in poor areas, output of private plots was two to five times that of collective fields.

12. The "New Gang of Four" included Wang Dongxing, former Vice Chairman of CCP and three other members of the Political Bureau.

13. The "Moderates" in this case means the people who viewed the pre-"Cultural Revolution" situation as the best model for China's future. Basically, they are a majority in the Party, the government, and the Army.

14. "Democracy Wall" was a wall in Xidan close to Tian An Men Square, Beijing. At that time, "Big-Character Posters" were put up on it. Most of them criticized the bureaucracy and discussed "socialist democracy." Therefore, people called it "Democracy Wall." In the autumn of 1979 it was "cancelled."

15. Several points about young students and workers should be mentioned here: (a) Many of them were Party members or League members. (b) Most of them opposed the "Gang of Four" before Mao died although some of them were Red Guards at the beginning of the Cultural Revolution. (c) After 1968 many of them were sent to the countryside. (d) Although most of them did not have an opportunity to study in colleges, they organized study in groups to discuss social, political, economic, and theoretical problems before 1978. (e) The failure of the "Gang of Four," especially the liberation of thinking" and the creation of the "Democracy Wall," afforded them an opportunity to express their opinions. (f) The policy



of openness after Mao dies gave them more information from abroad. (g) Theoretically, they can be divided into "left" and "right" as with people in some Eastern European countries and the Soviet Union.

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TRIED to criticize the system itself. In addition to "Big-Character Posters" on "Democracy Wall," many private magazines and newspapers were published; mass rallies and discussions were held; small groups were organized; and demonstrations occurred in many cities. No doubt, such a "Democracy Movement" strayed far from the permission granted by the system. In particular, Army criticism of the movement became stronger and stronger.

Many workers and intellectuals sympathized with some aspects of the Democracy Movement." However, they were also becoming increasingly weary of political movements in general and more interested in economic benefits. Moreover, at that time they placed great hope in the Reform Group's ability to bring about political and economic changes. And, although the "Democracy Movement" made some incisive criticism of the bureaucracy, theoretically its arguments were still very weak and at times confused. For all of these reasons, political support for the movement from workers and intellectuals was limited and passive.

#### THE ECONOMIC REFORM

From the latter half of 1978, reforms began to be implemented in industry, foreign trade, and agriculture. This process lasted about a year, after which the main economic strategy began to change to one of Readjustment, the momentum of Economic Reform was stopped, and high level centralization was once again emphasized.

In general, the Reform was more talked about than acted upon, and most arguments were made by scholars and professors rather than by planners and managers with practical experience in economic work. More importantly, the Reform never had behind it the requisite political conditions for success. Besides the change of political line by the Reform Group (see below), it was in fact the Petroleum Group and not the Reform Group that controlled power in the economic sphere during the crucial period. In addition, the cadre system remained intact, and the Reform Group could not find a strong Party-technician stratum to support its policies. Discussion and implementation of the Reform therefore were left to political people at every level, who in fact, directly or indirectly, opposed most of its measures.

Basically, the central administrative planning system was not changed much; i.e. plans and targets from the central level still commanded the activities of enterprises. Compared with the situation before the Reform, localities (especially provinces) received more rights and were freer to make decisions regarding finance, investment, price regulation, and foreign trade. However, the fulfillment of state plans and targets was still the precondition for such freedom. Similarly for most enterprises selected as "reform experiment" sites, the "expansion of enterprise autonomy" did not go very far (see below).

On the other hand, the process of plan making on the high level was not changed; that is, it was still a top-down process, and more importantly, the plan was not based on an accurate perception of social scarcities. The central level still controlled price making, allocation of most in raw materials, energy, taxation, wages and most investment. Thus, the reform of the planning system actually amounted to: (a) the attempt to fashion a reasonable state plan without recourse to a market mechanism; and (b) the attempt to stimulate local and enterprise plan fulfillment by permitting enterprises to keep a somewhat higher percentage of total enterprise profits. Consequently, the Reform was basically modeled after the Soviet type.



Generally prices in China were "planning prices"; they were directly made and controlled by the central and local price bureaus. Certainly, except on the free market, every commodity's price was equal to its cost of production, plus enterprise profits, commercial cost, commercial profits, and taxes. However, rates of enterprise profit and taxation were decided arbitrarily and not in accordance with enterprise productivity or the social value of the commodity. Therefore there was not a direct or even an indirect link between price and productivity, or between profit and productivity. In addition, because the planned price usually was stable or even fixed, there was no movement of prices to express social demand or the changing productivity of the individual enterprise. As a result, planners were not able to get correct information about the relationship between social demand and supply to make a reasonable plan.

In some Eastern European countries, such as Hungary and Czechoslovakia (1968), commodities were divided into three groups in the reform of the price system:

- (A) food, energy and some basic necessities,
- (B) general consumer goods,
- (C) luxury goods and means of production.

For type A, both government made it their policy to keep prices stable; they understood that price reform would suddenly and sharply increase the price of Type A goods, since both supply and, especially, demand for such goods had been constrained for a long time. Such a sudden and sharp inflation of type A would be very dangerous for their reforms, both economically and politically. This was the case with respect to Poland's economic reform. Therefore at the beginning of their reforms, only prices of type C goods were allowed to float freely, while type B prices were allowed to float within limits. This contrasts with the approach taken by China, which did not change the prices structure for type B and C goods, but raised in agriculture, price of (type A). At first, because of the reform in agriculture, price of stable and subsidiary foods on the free market increased, which had a strong impact on the state market. Then the government tried to control the inflation by fiscal (and even administrative) measures, such as by subsidizing prices of agricultural products. But this contributed to enlarging the budget deficit, and did not in any case stop inflation in the free market. At the same time, imbalances and inefficiency in industry prevented the supply of sufficient industrial products to meet the demands of the peasants. Therefore, though prices on the state market were controlled, the potential inflation was very strong. Finally, the government raised the retail prices of eight main subsidiary foods by an average of 33 percent. The effects of this planned inflation were as follows: (a) the government spent a lot of money on a food subsidy for workers and staff members (five yuan per worker per month), which is still maintained; (b) many workers and low level staff members were made unhappy by the fact that, for most families, the food subsidy was not enough to compensate for the increase in inflation; (c) the budget deficit grew larger.

16. The food subsidy is given to each worker or staff member but not to their nonworking family members. For most families, food expenditure is 50 to 60 percent of total income, and 80 percent of the food expenditure is to buy subsidiary foods. For example, if a family's income is 100 yuan per month (two persons, i.e. both husband and wife work and have one child), plus the food subsidy, 10 yuan, the total income is 110 yuan per month. On the other hand, if the food expenditure was 55 percent of total income before planned inflation, i.e. 55 yuan, the expenditure for subsidiary foods became 44 yuan. Now the expenditure for subsidiary foods would be  $44 \times 133 \text{ percent} = 58.52 \text{ yuan}$ , but the price of that for this family, real income decreased 4.52 yuan, or 4.47 percent



of its total income per month. In addition, prices of many other manufactured consumer goods and social services were also raised. Finally, many families have more than one child.

The system of allocation of energy and raw materials was relatively unchanged during the Reform. The State Planning Commission still controlled most raw materials and energy, although communes could get more agricultural products than before for their small-scale and less efficient industry because of the reform in the countryside.

INVESTMENT DECISION-MAKING was reformed. The system of bank loans for industrial enterprises was given a greater role than before, but that of allocation of financial resources was weakened. The banking system was given greater freedom to make loans without the permission of the general bank. As a result, it was much easier than before for local governments, enterprises, and communes to borrow from local banks at low interest rates (less than 1 percent per year). However, there were two problems. Because the price structure was not reformed (i.e. price was not linked to either productivity of enterprises or the relation between social demand and supply), inefficient enterprises could still make profits if they produced high price but low cost commodities. Second, such decentralization of the financial system had a strong impact on the national economic plan with respect to the allocation of both financial resources and raw materials: the government lost control of both finance and investment.

The system of labour allocation was partially reformed. For example, in 1979, some cities established an examination for placing high school graduates in jobs. However, their parents' social position remained a very important determinant of their employment prospects. For an ordinary graduate, the type of job held by a brother or sister usually was a determining condition for getting a job or qualifying for "waiting for employment." But very soon the examination system was given up. Later, an important change was made to solve both the problem of unemployment and the problem of backward social services: the government permitted skilled unemployed persons to organize small workshops, stores, restaurants, and some private services. The interesting thing is that some of them have been permitted to hire up to five workers.<sup>17</sup> However, a person already in a job could not leave that position. Certainly, this measure has been very helpful in providing more jobs for young graduates, and it also has created a competitive situation in the social services. On the other hand, although people, especially intellectual, are still not allowed to choose or change their jobs or to emigrate from one city to another, they are allowed to exchange jobs with each other, if they are fortunate enough to find another person in a similar position and willing to make such an exchange and if both sides can get permission from their units. Such exchanges have been more difficult for intellectual than for unspecialized workers.

In general, the wage system was not reformed much. For most workers and staff, the number of years employed was still the most important determinant of wage level. During the Reform, only a few people (less than 5 percent) received differentially high (by six or twelve yuan per month) wage increases, and most of these were cadres and model workers. On the other hand, the bonus system was reformed in several ways, but because the compensation system as a whole remained largely unchanged, the bonus reform was of limited effectiveness. Later, the government announced a policy of limiting bonuses to less than 10 or 15 percent of wages, and some workers and staff reached to this policy with "work slowdowns."

17. <sup>4</sup> At last count (the end of 1980) there were 700,000 private individuals engaging in handicraft and small commercial services.



In publications, many people (from the Reform Group to many economists) talked extensively about the reform of the management system, and, in fact, experiments with decentralization were made in some enterprises. Nevertheless, in general the system of management was not markedly changed, especially at the enterprise level. Concerning this situation at least four problems should be discussed here: autonomy of the enterprise; the relationship between the political and the technical people; the position of workers and democratization of management; and scientific methods of management.

The "expansion of enterprise autonomy" was implemented in a large number of enterprises. In this experiment an enterprise was able to produce limited types of commodities for the local market after fulfilling its plan target. It was also permitted to pay higher bonuses than other enterprises if it exceeded its target and successfully made profits from its market sales. In addition, an enterprise was able to keep a percentage of its profits (enterprise funds). Finally, it held the right to appoint its own middle-level managers without permission from high level administration officials. Some investigations indicated that this experiment was successful—most of the experimental enterprises increased their output and exceeded their plan targets, and they made higher profits than other enterprises in the same sectors. Consequently, their workers and staff received higher bonuses. However, the experimental enterprises were carefully chosen: they held some prior advantages over other enterprises in the same sectors. Also, the government favoured the experimental enterprises with superior access to credit, energy, raw materials, technology, and markets. 18 Therefore, their experience was of limited relevance to other enterprises, for the government would not have been able to provide similar advantages to all.

Moreover, the success of the experiment was further limited by developing contradictions with the old planned and overcentralized system. For example, the old arbitrary price system could not properly reveal the strengths and weaknesses of the experiment, and the old system of allocation of raw materials and energy was not always able to provide enough energy and raw materials. In addition, for the government, there was a conflict between the experimental units and other enterprises.

Besides this moderate change, a handful of enterprises in 1980 experimented more radically with a system called "self-responsibility for profits and losses." These enterprises could make their own decisions about what, how, and how much to produce, according to the market situation. They were permitted to keep about half their gross profits, on the average. Very few enterprises were involved in this experiment, and its scale has not subsequently been expanded. 19.

The relationship between political and technical people concerned not only the system of management, but the political system of management, but the political system as well. The government emphasized that it wanted to promote more intellectuals to positions of leadership, and that the political people had to study technology and management. However, only a very few technicians were appointed leaders of enterprises (and then usually only as assistants), and the power was still held by the political people. The reason many political cadre opposed management reform was not only that they feared losing their positions (which entitled them to political and economic benefits) to technical people, but also that they really were not able or willing to learn more about technology and management after thirty years of political indoctrination.

18. See Jingji guanli 1981, vol.6, nos.16-23, and nos.24-26; and 1980, vol. 6, nos.13-21.

19. Carl Riskin: "Market, Maoism, and Economic Reform in China," Bulletin of Concerned Asian Scholars, vol.13, no.3 (1981), p.37.



According to publications, some elections of leaders, and managers were held, and Congresses of Workers and Staffs took place in many enterprises. Nevertheless, un-official information indicates that political cadres often won such elections; and the Congress of Workers and Staff were often controlled by these people. In fact, the situation of alienation in enterprises was already very serious. Both "political education and the "class struggle" had already lost their appeal to workers. During the Reform, the new bonus system and a system of heavy penalties for nonfulfillment of production targets, absences, etc., became the "economic method" for cadres to control workers. Nevertheless the cadres' widespread incompetence, bureaucratism, non-responsibility, privileges, waste, and inefficiency all contributed to increasing worker alienation, and also provided an important basis for the sympathy and support that many young workers extended to the "Democracy Movement."

Although scientific management was greatly emphasized during the Reform, very few enterprises actually employed it. The reasons were that general knowledge of modern management science was quite underdeveloped in China, most managers were not trained in economics, business, or management, and under a socialist system, modern scientific management should also be democratic management in which workers and low-level staff play a more active and important role in shaping the enterprise's activities. However, such a role was in conflict with the bureaucracy's position.

Some important reforms were made in the foreign trade area. In Particular, the system of foreign trade was decentralized, the import of capital, especially direct foreign investment, was permitted, and Special Economic Zones (SEZ) were established. All this affected both the economic and political structures.

Decentralization of foreign trade took the following course. First, the old overcentralized top-down system was changed into a more pluralistic system, in which local governments, particularly on the provincial level, and even some enterprises, became increasingly active and had greater freedom to engage in foreign trade. They could, for instance, directly negotiate and sign contracts with foreign companies. Second, they were allowed to keep a percentage of foreign exchange earned. This policy was a strong stimulus to local governments and enterprises to increase exports. However, a number of problems arose. The large price gap between the domestic and world markets generally caused importing enterprises to enjoy high profits but exporting enterprises to incur losses; decentralization of foreign trade conflicted with the state macro-economic planning system; inefficiency and low productivity due to weaknesses in the domestic system of planning and management were exposed by international competition, and hindered the development of trade; and people skilled in foreign trade work were in short supply. Actually, except for the last, these problems could be solved only by further and more thorough reform of the whole economic system.

By the end of 1980, the government had borrowed \$ 14 billion from Japan, Italy, West Germany, Sweden, Belgium, Argentina, Canada, and Britain. To facilitate the borrowing, the Bank of China had 114 branches abroad, and 20 branches of foreign banks were established in Beijing. In 1980, China became a member of the World Bank and the International Monetary Fund. Perhaps more importantly, by the end of 1980, three SEZ's were created under the "open door" policy, and these absorbed more than \$500 million in foreign capital. From the SEZ, the government could get foreign exchange, learn about international competition, and train managers. However, the SEZs have also made the China's people more aware of the major problems of Chinese people in their own economic system. In addition, the management system in the zones might well be seen as a threat to the cadre system outside of the zones. Moreover, the income gap between workers within and outside the SEZ threatens to become a political problem.



20 Finally, there is the broader issue of what ought to be the relationship between the Special Export Zone and the whole national economy.

Another area where the Reform had been significant is agriculture. As mentioned earlier, for the Chinese peasants, there were three overriding issues: autonomy in production from bureaucratic control; distribution according to output and without the bureaucracy's economic privileges; and expansion of the free market to make cash. The Reform in agriculture spoke to all three issues.

First, since the end of 1978, the system of fixed farm output quotas for each household, or the system of production responsibility, has become widespread. Cadres' control of production has therefore been able to make their own decisions about production. Because income has become directly linked to output, and team and brigade cadres have had to take full responsibility for output quotas on a piece of land and earn their own income through labour, it has been more difficult for them to command special privileges. Second, the size of private plots has grown, permitting peasants to produce more subsidiary foods for the market. Third, state monopoly of purchase and marketing has been limited to grain, cotton, and some oil crops, allowing the free market has been a very important way to make cash, since without it they could only get cash annually at the end of the year. Finally, because the government's control in the countryside has been weakened, small-scale industry has had more opportunities to develop.

It has been a very difficult process to implement the Reform in agriculture. Many cadres in the countryside have opposed it. Their view has gained strength from the fact that the free market has contributed to inflation, especially with the government unable to provide enough industrial products to the countryside. Competition for raw materials, energy, and markets between urban large-scale industry and usually inefficient rural small-scale industry has been another complicating factor. Moreover, this Reform with its fragmentation of land poses a barrier for the mechanization of agriculture. However, the rural population is still more than 80 percent of the total population in China, and spending large amounts of foreign exchange to import grain and cotton is a heavy burden on the government; it will thus be difficult for the policy-makers to stop the Reform, though there may be continuing struggle over it in the future.

POLITICAL DEVELOPMENT DURING THE REFORM occurred at both the leadership and the grass roots levels. At the top, the power structure was being continuously reorganized. After the Third Plenary Session of the Eleventh Central Committee, more and more "old cadres" were returned to their former positions and regained power. Many of these old cadres opposed the Reform, and favored restoring the pre-Cultural Revolution situation. Together with the Army, they became the new Moderates among the leadership. At the grassroots level, as we have seen, the younger generation continuously expanded the "Democracy Movement," especially in large cities during the first half of 1979, and their arguments became more and more philosophically challenging, systematic, and radical. In the face of this, the Moderates exerted strong pressure upon the Reform Group to suppress the movement. The movement was banned, private publications were limited, and some people were arrested and sentenced to prison terms.

In the end, the Reform Group itself changed its emphasis from the "liberation of thinking" to the "Four Persistences": to persist in the Party's leadership, the Proletarian Dictatorship, the Socialist Road, and Marxism, Leninism, and Mao Zedong Thought.

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20. Workers and staff working in the zones have an income which is over 40 percent higher than outside the zones, on the average. See "China's Special Economic Zones as Seen from Conditions in Export-Processing Zones in the Developing Countries and Areas," by Tang Huai, June 1981 Jingji Yanjiu, pp. 62-68.



As a result, economic reform in China lost its necessary political foundation, in contrast to what occurred in Yugoslavia, Hungary (1968), and Czechoslovakia (1968).

### THE ECONOMIC READJUSTMENT

Although the Economic Readjustment was put forth in the middle of 1979, in fact, it replaced the Reform as the main economic strategy in the first half of 1980. At that time, the Moderates had gained considerable power in the economic sphere and the Petroleum group had begun to come under criticism. Except in agriculture and foreign trade, the Reform had made little headway, and the government now seemed alarmed at the continuing budget deficits and the development of open inflation.

In general, the strategy of Economic Readjustment is recentralization, strengthening the central government's control of planning, finance, and investment decision making. According to official opinion, the Readjustment should solve the problems of imbalance in the national economy, inflation, and deficit spending. The following measures were taken: the amount of investment in the state plan was cut down, experiments with the expansion of autonomous jurisdiction of enterprises were slowed down, wages and bonuses were generally frozen, many enterprises and institutions in heavy industry and military industry were closed, and some uncompleted large-scale projects were stopped.

However, the Reform in agriculture and foreign trade has not yet stopped, since the government has required more grain and raw materials from agriculture for light industry and for the reduction of imported grain and cotton in order to create more foreign exchange and to attract more foreign capital.

The results of the Readjustment have not been encouraging. The central government has cut expenditure for and investment in heavy industry and military industry. However, on the local level, investment has not been reduced but has increased quickly since the banking system has been encouraged, and more importantly the price system has not been reformed. As a result, on the national level, total investment has increased according to government initiative.<sup>22</sup> Furthermore, the efficiency of investment, productivity, and the condition of management have been poor because the management system has not been markedly reformed. And finally, the political cadre have continuously controlled production, but technicians and workers have not yet played an active role and the system of wage and bonus, and the economic plan have not been based on the market mechanism.

According to official statistics, the inflation rate decreased markedly in 1981. However, the price of food as a whole rose 3.7% (4.1 percent for non-staple foodstuffs, including a 10.6 percent increase for vegetable prices.)<sup>23</sup> In addition, some enterprises sold shoddy goods as quality goods, decreased the quantity of produce per unit price, and otherwise raised prices in disguised forms. This increased the burden on the consumer. The reasons were that industrial production, including light industry, has been poor; there arose a conflict between the free market and the state market; the pitfalls of the old pricing system have not been overcome; and the management of the commercial sector has not been improved.

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21. Unfortunately no statistics about such "stopping, closing, and changing" have been found yet, but unofficial information suggests that the losses suffered were heavy.

22. See Jingji yanjiu, March 1981, pp.3-12.

23. See Beijing Review, May 18, 1981, p. 17 and May 17, 1982.



The structure of industrial production has been readjusted to the extent that the proportion of investment, raw materials, energy, and labor force going to light industry has been increased. As the result, the value of output of light industry increased to over 50 percent of the total gross industrial output value in 1981. Nevertheless, the government has continuously criticized this situation because a larger number of light industrial products could not be sold.

The economic strategy of Readjustment is to continue for several years. These are to witness more decrease in total investment, investment in heavy industry, and budget expenditures at both the central and local level; further strengthening of the centralized planning system; tightened control of prices; and a return to centralized decision making regarding investment, finance, prices, wages, foreign trade and the allocation of important raw materials and energy. However, the Reform in agriculture will continue and greater "openness" in foreign trade will be maintained.

However, the Readjustment has given rise to and will continue to encounter the following problems.

- ° Recentralization has strengthened and will further strengthen the power of planners of the central level but weaken that of planners at the local level. As a result, the activity of the local level has diminished and the pitfalls of the overcentralized planning system, which are the most important reasons for imbalance in the national economy, have been deepened.

- ° The conflict between the Reform in agriculture and the Readjustment in the national economy has been and will continue to be sharp. For example, when the government is not able to provide enough industrial products for peasants, the production responsibility system and the development of the free market must strongly stimulate inflation. In addition, the decline of cadre control in agriculture has been in conflict with the recentralization in industry, and it has been in and will be opposed further by the bureaucracy (and even the Army) in both countryside and cities. Moreover, the development of small-scale but inefficient industry has not only become a threat to the state-owned light industry in cities, but has also disrupted the state market and price structure.

- ° The contradiction between the recentralization and the Reform in foreign trade will be another difficulty for the government. For foreign trade, a reformed price structure and management system are necessary conditions for competition in the international market. However, those measures conflict with the strategy of Readjustment.

- ° The attitudes of workers and intellectuals toward their work will be a continuing problem. On the one hand, during the Readjustment period, wages and salaries have been frozen, bonuses have been limited, and the reform and democratization of management have slowed down. On the other hand, inflation has still been a problem to the government, and the bureaucracy's position has been strengthened.

- ° Even local cadres have opposed the Readjustment, because their power and privileges have been reduced.

- ° Lack of energy resources has been and will further be an important problem for the Readjustment, particularly under the planned but bureaucratic system of allocation of energy. In addition, at the present time, many heavy industrial enterprises have closed or stopped their production under the Readjustment, and, according to some publications, the utilization rate of equipment in industry is only about 75 percent because of the lack of energy. However, further development of small-scale industry in the countryside and increased production in the petrochemical industry are still the Readjustment's focal points.



° The international environment is not very helpful to the Readjustment. The economic situation in most western countries and many semi-industrialized countries is not good, and international competition especially in manufactured goods is very sharp. Therefore, if China does not reform its inefficient economic structure, its position in international competition must be weakened. Also, although several measures (for example, the establishment of the SEZ and the Investment and Trust Company) to attract foreign capital have been taken, the stability of the political situation and of economic policy, the incomplete legal system governing foreign investment, and the dangers of the overcentralized economic system are still concerns of foreign investor. For example, the Readjustment stopped some large-scale projects, which were imported from Japan and West Germany. This measure had a strong impact on Japanese and other investors.<sup>24</sup> And finally, in the near future, China will continuously have to import a lot of grain and cotton for its food supply and textile industry. However, the price of grain and cotton is increasing and will continue to increase on the world market.

Officially, Readjustment is a necessary precondition for further reform of the economic system in the "future." But to sum up the above arguments, it is unlikely that the Readjustment will succeed fully, especially with respect to efficiency of investment. Readjustment is a process of recentralization of the economic system, and it therefore will further strengthen the position and power of the central bureaucracy, which is an important obstacle to future reform.

Recently, Hu Yaobang, the Secretary General of the CCP, clearly stated at the Twelfth Party Congress that by the end of this decade the basic economic strategy will still be "Readjustment." In particular, he emphasized a necessity to "concentrate funds on key development projects." In addition, upholding both the "leading position of the state economy" and a planning system of a "mandatory nature" were strongly emphasized, while economic reform was given very little attention. It is still unclear how the government can improve balance in the national economy without further reform of economic institutions, and how central administrative control of industry can be made compatible in the long run with decentralized agricultural policy relying heavily on the free market.<sup>25</sup>

#### A BRIEF PROSPECTUS

The future course of events will probably depend heavily on whether the strategy of Readjustment succeeds or fails. If it succeeds, a number of results would follow. The sectoral proportions of the national economy would be changed. Although no concrete proportions of models are proposed, the government obviously is determined to bring about a "strategic change"—that the output value of the light industry, as indeed happened in 1981. The rate of accumulation would be kept at 25 percent, although there is no satisfactory explanation of why this particular rate would be the perfect one for China. The government deficit and inflation would be reduced or eliminated by means of fiscal austerity. Industry would become somewhat more efficient in the use of energy, and the problem of unemployment would be solved. Finally, export of manufactured goods would increase, although it seems very difficult or even impossible to make further reforms in the management system of foreign trade.

At present, people avoid discussing what type of economic system would be created by the Readjustment. However, analysis of the strategy of Readjustment suggests that it will further strengthen the centralized administrative planning system and thus lead back to the Soviet model, even though the issue of Reform in agriculture will cause some struggle.

24. See, e.g., Shijie Jingji daobao (World Economy Herald), July 27, 1981.

25. See Beijing Review, September 13, 1982, pp. 11-40



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The problems of chronic inefficiency, low labor productivity and absence of incentive to innovate would thus remain endemic to industry. In addition, except for the Special Export Zones, which are very weak and strictly controlled, and other projects of direct foreign investment, the system of foreign trade would again be likely to become more centralized. Moreover, although the system of allocation of labor has benefited from the revival of independent businesses, their position is very weak and opposition and criticism from cadres is becoming increasingly strong. Therefore, if the economic situation should improve, some kind of control (for example, transforming them into cooperative enterprises) would be likely to be imposed.

Finally, the problem of agriculture is more complex. On the one hand, the Reform in agriculture has increased both output and peasant income. On the other hand, it has been more difficult than before for the government to procure agricultural products from the peasants. Additionally, the development of the free market has contributed to inflation. More importantly, the bureaucracy's power, position, control, and privileges have been reduced in the countryside, which has also weakened the political system. Chinese peasants much be worrying about whether the new policies will be rolled back, as happened in 1964-65 after a similar period of liberalization.

In case of the failure of the policy of Readjustment to surmount the difficulties discussed earlier, both the economic and political situation will be very complex. On the one hand, the Moderates will search for new policies with the support of the Army. On the other hand, the "Democratic Movement" may well become active again. As a result, there would be the possibility of a situation arising similar to that of Poland. In comparing the situations in China and Poland, however, there are at least three questions that must be addressed: (a) What role do the armies of each play in political life? (b) What opinion do most cadres hold about political and economic reform? (c) What international environment does each country operate in? \*

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