

China's Economic Development Strategy

Roland Berger

The current phase of China's strategy for economic development dates from the Third Plenum of the Communist Party in December, 1978, two years after the downfall of the Gang of Four. At this meeting the principles of 'readjustment' were adopted, to be spelt out six months later at the National People's Congress. Intended to cover the years 1979 to 1981, the process is described by the Chinese as 'readjusting, restructuring, consolidating and improving'. It implies readjusting the relations between the sectors of the economy, restructuring the governmental and economic organs to suit current needs, consolidating industry and agriculture following the disruptions of the Cultural Revolution, and improving economic performance of the various sectors.

Yu Qiuli, head of the State Planning Commission, described the process as 'a major readjustment of the economic relations between the state, the collective and the individual'. It initiated, in fact, a new direction for China's economy.

Certainly more than a mere readjustment is the radical departure from previous practice by establishing priorities between the sectors as agriculture first, light industry second and heavy industry third.

This order of priorities, and the policy implications contained within it, was not new economic thinking on the part of the Chinese leaders in 1979. It was at the core of a policy adopted in 1956 at the conclusion of a major economic conference and summed up by Mao Zedong in the document 'The Ten Major Relationships'. It represented

a departure by the Chinese from the Soviet economic model. But, whilst lip service was paid in the past to the Ten Relationships, they were not until now put into practice in planning, investment policy or in any other aspect of the economy.

Whatever other problems beset the Chinese economy when the Gang of Four were toppled at the end of 1976—management, the restructuring of industry, the deficiencies of the technical infrastructure, the balance between the centre and the regions—the effective implementation of the three priorities, redressing imbalances in the country's economy, lies at the heart of successfully carrying through the readjustments.

A recent article in the *People's Daily* discusses this question and observes:

Only when the imbalances in the national economy are redressed can we create the necessary conditions for the comprehensive reforms in the system of economic management. . . .

In handling the relations between the readjustments and the reforms, we must focus our efforts on the former, subordinate the latter to it, and carry out reforms with the aim of promoting the work of readjustment.

The readjustment policy ushered in a period of economic realism. This is part and parcel of a 'new look' in economic as in political and social life—a more candid approach, an open exposure to examination of backward methods, outmoded practices left over from feudalism: stereotyped, generalized and inflexible responses to highly complex and diverse problems of economic policy and organization.

In looking at the direction China is taking and the challenge she is facing in the economic and other spheres, one should be careful

Roland Berger, a consultant to the British 48 group, has behind him a long experience in trading with China. This present article is based on a lecture delivered at the conference 'China's New Economic Strategies' organized by Zentrum für Unternehmensführung, Zürich, June 1980.

not to under-rate what is for her a monumental problem of casting off the burden of the feudal past—the building of independent kingdoms, pre-scientific notions and superstitions, exaggeration, flights of fancy and the papering over of difficulties. Paradoxically, the Cultural Revolution, through the operations of Lin Biao, Jiang Qing and the others, intensified and strengthened these feudal forms and attitudes.

An essential feature of the change in the readjustment process is to switch from a situation in which general political slogans were substituted for economic analysis and a study of the concrete conditions; a situation in which the economy was run by administrative orders from above—what the Chinese refer to as a ‘patriarchal, concentrated leadership’,—and to turn from this, to a recognition of objective economic laws, to be analyzed and then given appropriate organizational forms to put them into effective practice. In other words a move from economic management by administrative organs to management by economic organizations.

To illustrate what the Chinese have in mind, we can look at the Chinese factory as it has been run in the past. Under the Plan all finance, the wages fund, the welfare fund, the raw materials and components were supplied by the state and, at the end of the process, the output was turned over to the state. It came in one end and went out the other. The state decided on resource allocations, the size of the labour force, the specification of the product.

The responsibility of the factory itself, both management and workers, was limited. If production targets were met before time and further funds and raw materials were not available until the beginning of the next planning period, the factory stood idle, although wages were paid and the costs of overheads continued.

Another, and different, example may be taken from the operation of China's foreign trade where, until recently, all transactions were conducted through centralized importing and exporting corporations. Although these organizations have acquired considerable experience and skills in international trade, they are essentially administrative bodies one degree removed from the actualities of import requirements and export possibilities. For the foreign supplier there has been the problem hitherto of contact with the end-user to get to know his technical and

other requirements, and for the buyer to work out with the producer the specification of goods to suit the demands of the international market.

To bring foreign trade closer to the economic realities, some of the industrial ministries have now set up importing and exporting corporations, such as the First Ministry of Machine Building (mechanical engineering products) in Equipex, the Third Ministry (aerospace) in CATIC, the Fourth Ministry of Machine Building in the Electronic Import and Export Corporation.

The fact that China in the past 30 years has made significant and, at times, dramatic advances in industry and agriculture, which compare favourably with most other countries of the Third World, is not blinding the Chinese leadership to several weak features, taking the 30-year period as a whole, especially in relation to the massive inputs of manpower, materials and finance. A recent statement emanating from the Economic Research Institute of the State Planning Commission commented that, despite China's achievements, the social wealth created is limited, average per-capita GNP is still very low, the capital construction front steadily extending; construction costs higher than in 1965 and profits and income for every 100 yuan invested in the state industrial departments in 1978 and 1979 33 per cent lower than in 1957. Economic strategy must, therefore, look to a better return on funds invested, a narrowing of the capital construction program and reducing excessive consumption of raw materials.

To return to the adjustment process. The review of the economic situation at the end of 1978 took a hard look at the realities and moved away from the over-ambitious and impracticable targets of economic growth, particularly in the industrial sector, which had been adopted in the heady atmosphere of early 1977, in the wake of the Gang of Four's departure from the scene, opting for a steadier and more consistent pattern of development. Vice-Premier Bo Yibo commented to me in Beijing in March 1980 that the emphasis today is less on a high-rate of growth and ambitious targets but, essentially, on steady and consistent development which serves the effective readjustment of the proportionate relations between the three sectors; agriculture, light industry and heavy industry.

The target for industrial growth has been scaled down from 10 to 12 per cent to 6

to 8 per cent, and the number of major projects announced earlier reduced. At the same time priorities were firmly set with agriculture No. 1, light industry No. 2 and heavy industry No. 3, with the major focus within heavy industry on the laggard sectors—power, transport and communications and construction and other materials—which have been and still are hobbling the other sectors of the economy.

The Role of Market Forces

The role of the market forces is now being widely debated, in line with the emphasis on the observance of economic laws. Chinese economists are discussing the law of value and its place in developmental policies and questioning the received wisdom of past socialist, especially Soviet, economic thinking that the law of value has no function as a regulator of the economy and that, in any case, it applies only or chiefly in the sphere of the circulation of consumer goods. Rather than viewing central planning as antagonistic or in contradiction to the play of market forces, Chinese economists are suggesting an inter-play of the two which, having common aspects, can be made to work together complementarily with beneficial results. We are observing, and will continue with some fascination to observe, the endeavours of our Chinese friends to find an effective relationship which combines the advantages of central planning with the dynamic injected by the forces of the market, especially in terms of local initiative.

In studying this problem the Chinese have identified a number of adverse features which, they say, resulted from the past policy of treating the market forces as being in opposition to and inconsistent with planned development. These are:

- (i) that production was separated from demand;
- (ii) that prices were divorced from value. The Chinese realize, however, that some 'social' or 'rational' prices, not strictly determined by value, must be retained, especially for the basic necessities, many of which are sold to the consumer below cost. Thus, even before the uplift in prices paid to the production teams, rice was bought at 16 *fen* (or about 10 US¢) a *jin* (0.5 kg), and sold to the urban consumer at 14 *fen* (8.6 US¢), the state bearing the costs of handling and transport;

- (iii) that the financial responsibility fell entirely on the state;
- (iv) that local economic organizations and enterprises were encouraged to seek self-sufficiency, regarding themselves as small producers rather than part of large-scale socialist production.

In my talk with Vice-Premier Bo Yibo, who is also Chairman of the recently formed Machine Building Commission, he referred to this latter problem, commenting that not infrequently the local cadres tend to regard the enterprises as their own private property, although they are within the sector of state or all-people's ownership.

Flexibility to Meet Diverse Conditions

Utilizing the market forces meshes in with a shift towards a more flexible policy to take account of regional differences of climate, soil, and other natural resources as well as disparities in the levels of economic and social development. An article of 16 May criticizes past methods. It says:

We have unrealistically demanded uniformity in almost everything and messed things up by issuing subjective orders.

This trend towards diversification and the utilization of local strengths and resources came to light during my discussions in April last (1980) with the planning authorities of the municipality of Shanghai and the province of Anhui.

Shanghai has since Liberation built up a relatively self-reliant industrial base with a range of industries reasonably well coordinated. Most branches of industry, the exception being mining and forestry, are to be found within the jurisdiction of the municipality. Compared with the rest of China, Shanghai has a strong scientific and technical force.

The proportion of heavy to light industry, at present about fifty-fifty, will be changed in favour of light industry. Apart from two major projects, the Baoshan Steelworks and the Jinshan Petrochemical Complex, Shanghai will concentrate on sectors requiring technical expertise, precision and skills, areas of high technology involving relatively lower consumption of energy, imposing less of a burden on transportation and not requiring massive inputs of raw materials with which the municipality is not well endowed. Existing enterprises which do not fit into this general pattern will, over time, be shifted to other areas.

Anhui, on the other hand, with a popula-

tion of 47 million, is relatively backward, has little industry and a small industrial labour force (1 million). The province is, however, rich in certain basic resources (coal, iron ore, copper, zinc and timber). Under the plan, the ratio of heavy to light industry will be kept in rough balance. The average yearly increase of industrial growth in the period to 1990 will be of the order of 11.6 per cent, almost double that of the national average. The main features will be the development of two major coal fields with associated power stations—Huainan and Huaibei and the Ma'anshan Steel Works.

A recent circular of the Central Committee has initiated a development plan for Tibet taking account of the specific conditions of the area and giving the local people the major say on the policies and principles to be followed.

Development of Economic Advantage

Building on local strengths and resources implies that the localities well endowed will develop faster than others. The view currently advanced is that these differences have to be recognized as reflecting the speed of economic development; that the advantage to the economic health of the whole country will make it that much more feasible to help to narrow imbalances in the future.

This is reminiscent of the view expressed by Mao Zedong in the Ten Major Relationships where he dealt with the relationship between the industrially well-endowed coastal regions and the interior:

Making good use of the old industries in the coastal regions and developing their capacities will put us in a stronger position to promote and support industry in the interior.

The application of such a policy raises complicated questions of financial and other resource allocations. Unless carried out with both short-term tactics and long-term strategy carefully balanced and monitored, polarization could obviously become a problem.

Capital Construction

As early as 1957 Zhou Enlai was warning against excessive investment in capital construction and of undertaking too wide a range of projects. The problem has persisted. Part of the adjustment policy is to reduce the total number of projects and concentrate on those which serve current priori-

ties, provide a relatively quick return on investment for which power, transport, water and other essential supplies are available.

One feature of decentralization has been to increase the funds at the disposal of the localities. This has in fact militated against the policy of narrowing the capital construction front. Thus, in 1979, even though the level of capital construction investment covered by the national budget remained at the 1978 level of 39,500 million yuan, investments by departments, localities and enterprises rose by 25 per cent to reach 10,500 million yuan. The result was a rise of 4.4 per cent in the total investment in capital construction.

This situation has been corrected in the first half of 1980 as a result of a 20 per cent cut in the number of big and medium-sized projects under construction. Compared with the corresponding period of 1979, total capital investments in the first six months of the year dropped by 4 per cent.

Thus, implementing the policy of scaling down to suit China's financial, energy and raw materials availabilities is in the nature of a tug-of-war between the centre and the localities, with the provinces in many cases resisting the closing down or postponement of projects which, judged solely from the viewpoint of the locality, seem to be badly needed.

Decentralization

It is generally agreed that the economy has been over-centralized. However, to reach a satisfactory balance which combines the necessary controlling and allocatory functions of a central plan with scope to the localities to run their own affairs and exercise initiative is no easy matter. The play of market forces is one feature of this decentralization process.

As an experiment some 3,000 enterprises were given a larger measure of self-management. The first results seem to be positive with higher productivity, higher profits, economies in the consumption of power and raw materials and greater scope for workers' participation in management.

Various methods are being tried, usually based on a certain percentage of the profits retained by and at the disposal of the factory for bonus payments, welfare schemes, and for development.

Reporting on the first six months' experience of operating with enlarged functions of management, the Shanghai Textile Bureau and the Bureau of Metallurgy announced that profits handed over to the state increased by 28 per cent and 15.4 per cent respectively.

The Textile Bureau retained 130 million yuan and the Metallurgical Bureau 57.46 million yuan which were applied to the expansion of production, collective welfare services and bonuses for the workers. In these cases the formula approved by the State Economic Commission and the Ministry of Finance is for the Textile Bureau to retain 9.5 per cent and the Metallurgical Bureau 40 per cent of their annual profits over and above the 1978 figure. This arrangement will stay in force for the five years 1979 to 1984.

The Metallurgical Bureau has decided to devote 37 million yuan of its retained profits on 29 technical improvements to expand production of steel products for the textile and other light industries, and the building industry and for exports. The use by the Textile Bureau of its retained profits illustrates the new direct enterprise-to-enterprise relationships. The Bureau has invested 20 million yuan in the Wuhan (Hubei) City Metallurgical Bureau and Shanghai Metal Materials Corporation in exchange for steel products needed to expand the textile industry. Part of this sum will be used to improve the housing conditions of the textile workers.

In many cases the factory is free, having fulfilled the planned quotas, to dispose of its surplus production.

Increasingly a system of contracts between the producer and the user is being put into practice which ensures production according to the user's rather than a centrally decided specification, imposes appropriate quality standards and specifies delivery times. These contracts usually include provision for either side to have recourse to law, in the event of failure to fulfil the contract terms.

Distribution

The first steps are being taken towards a more rational distribution policy which in the past was organized in three categories: (i) state distribution; (ii) ministry control; (iii) local control. A tentative plan has been adopted which reclassifies the three categories, giving more emphasis to the character of the product and the level of production at which it operates:

- (i) Distribution under the State Plan covering means of production of national importance, fuel, vital raw materials and major equipment;
- (ii) Materials sold mainly by commissioned supplies enterprises—means of production of general use, machinery, electrical equipment, some metals, chemical products and construction materials. Producing enterprises working under the supplies organization are free to sell surpluses after fulfilling production quotas;
- (iii) Items sold mainly by the production enterprises themselves—all materials not in categories (i) and (ii) which, in principle, can be freely produced and sold by the enterprises.

In addition certain measures have been taken by the supply departments to promote the circulation of materials.

- (i) To adopt an open-door policy for goods in full supply;
- (ii) Supply to meet actual needs—especially replacements and maintenance items,
- (iii) Coupon system—allocation of coupons on quota basis—used in supply of non-ferrous metals,
- (iv) Product specifications—rigid product specifications formerly imposed on localities and departments have been abolished in favour of the buyer ordering according to specifications that meet his actual need.

Coordination

Effective coordination between the various sectors of government and the economy has been a besetting problem in China for many years. It is an area where feudal ideas, especially the striving for 'independent kingdoms' exert a negative influence. To quote one example, a recent Chinese report on the electronics industry is critical of the situation in which no less than five central bodies—the First, and Fourth and Sixth Ministries of Machine-Building, the Chinese Academy of Sciences and the Ministry of Posts and Telecommunications—have subordinate to them enterprises producing electronic equipment, with overlapping in production and construction projects. The first steps are being taken to effect some integration. Coordination becomes all the more essential in the current situation when there is a tendency for eco-

conomic organizations to proliferate and for functions to be decentralized.

In the days when Zhou Enlai was active, he and a group working with him exercised a coordinatory function. To meet present requirements, additional commissions under the State Council are being formed—the Import-Export Control Commission, Foreign Investment Control Commission and so forth. On the industrial side, a Machine-Building Industry Commission has been established under Vice-Premier Bo Yibo to coordinate the operation of the eight Ministries of Machine-Building. One result may be to divide into specialized ministries the multiple functions of the First Ministry of Machine-Building.

Agriculture

An exaggerated emphasis in past years on grain applied universally across the length and breadth of China, whatever the soil and other conditions, and a policy of 'uniformity in everything' has produced a lop-sided situation in which agricultural sidelines have been neglected, communes in areas unsuited to grain production have often stagnated and local economic advantages have not been exploited.

Today's policy is, therefore, one of diversification to suit local conditions and the setting up of agricultural bases for grains, industrial crops, animal husbandry, fishery and forestry in areas in which intensive cultivation is feasible.

Alongside this development, production teams, the basic level of the peoples' communes, are being freed from the shackles which imposed cropping programs from above and are encouraged to develop sidelines which provide the team with significant income.

There is less talk about mechanization as the key factor in raising agricultural production. The Minister of Agriculture, Yang Ligong, in an interview published in July 1980, stated that the original goal of mechanizing agriculture by 1980 has proved impracticable. 'China should concentrate its efforts, Li said, 'on mechanizing farming in the three Northeast China provinces and in some parts of Inner Mongolia, Xinjiang and the Yellow and Huai River valleys, where farm machinery can be employed to the greatest advantage. In fact, the policy from 1967 of utilizing farming aid funds mainly to finance the mechanization of agriculture has come under criticism

since in practice it favoured the better-off production teams, the really poor teams being unable to afford machinery at all and others, able to purchase equipment but not able to meet the cost of using it and the expense of maintenance and repairs.

With agriculture as the first priority, more funds in aid of farming and a larger proportion of capital construction investment is being allocated to this sector. The percentage of the Capital Construction Fund devoted to agriculture increased from 10.7 in 1978 to 14 in 1979 and will rise to 18 in the next few years.

At the same time, it is realized that finance to carry out all the large-scale capital construction projects required for the modernization of farming and supplying modern machinery to the rural areas is simply not available from state funds. The amount has been estimated to be of the order of 1,000,000 million yuan.

As in the case of industry, it is recognized that notwithstanding the limits on financial inputs, significant growth can be generated in the countryside by tapping existing potentials, given the size of China, the land, natural resources and available man-power.

Accepting that state financial assistance cannot meet the total demand for funds for the modernization of agriculture, steps are being taken to improve the ability of communes and production teams to generate their own funds and examples are quoted of advanced models who raise 70 per cent of their farming development funds through their own efforts.

A major source of accumulation are the 1,520,000 commune and production brigade factories with a labour force of 28 million which in 1978 realized an output value of 49,100 million yuan. Far from diminishing the role of these commune-run enterprises, the modernization program envisages not only their extension but also their integration with the main industrial sector by supplying components and equipment for state or collective factories at the county or provincial levels.

The allocation of funds to aid agriculture will in future have two prongs, one to focus on key localities developing bases for grains, cash crops, animal husbandry, fishery and forestry where quick returns can be expected, and the other to support the poorer regions in remote mountainous and border districts, minority nationality areas and certain regions

suffering from protracted low outputs and grain shortages.

Despite massive financial support over the years in the form of capital construction funds, circulating capital and operating expenses, the achievements of the 3,000 state farms have been far from satisfactory, especially in average grain output and financial losses. The financial management of these farms is being restructured with the purpose of making them responsible for their profits and losses. The state farms, with the exception of those in areas poorly endowed with natural resources, are being enjoined to turn their losses into profits within this year or next and to supply more grain and other commodities to the state.

Already some improvement has been recorded. In 1978, state farms and land reclamation departments suffered a loss of 90 million yuan. This situation was turned round in 1979 when a profit of 300 million yuan was realized.

Light Industry

Output of light industry rose in 1979 by 9.6 per cent (compared with a 7.7 per cent increase for heavy industry).

The rate of growth has accelerated in the first seven months of 1980, when the value of output of light industry registered a 23.3 per cent increase over the same period of 1979. The greater part of the higher production is absorbed by the domestic market with an increase of consumer spending resulting from increments in industrial wages and the stepping up of peasant income.

Light industry is given priority in supplies of power and raw materials and in transport as well as a foreign currency allocation of 300 million yuan for the purchase of foreign equipment and raw materials. Bank loans to the textile and other light industries are expected to reach 2,000 million yuan this year.

Heavy Industry

Within heavy industry the focus is on the laggard or precursor sectors which are at present holding back the growth of all other sectors, and on the needs of farming. A recent evaluation in the *People's Daily* suggests that generally speaking the products of heavy industry are in full or excess supply, while light industrial products are in short supply. This clearly does not apply to the laggard or precursor sectors, especially the energy industry.

For the present, energy will be supplied on a selective basis and the drive for a reduction of consumption, which already began to show results in 1979, will continue with the following targets for savings in 1980.

Coal	23,000,000 tons
Fuel oil	1,500,000 tons
Coke	1,500,000 tons
Electricity	7,000,000,000 kw

Other factors which will make for lower consumption of coal, oil and electricity are the slowing down of steel output and the stress on light industry which is less energy-intensive than heavy industry. For the longer term, a start was made in 1979 to increase production capacity which will begin to redress the inadequacies in coming years:

Coal	13,930,000 tons
Crude oil	8,000,000 tons
Natural gas	1,830,000,000 cu.m.
Power generating capacity	4,650,000 kw

China is exceptionally rich in *hydro-power resources*, less than 5 per cent of which have so far been tapped. An American report of May 1980 observes:

China has the world's largest hydro-electric resources. Although the bulk of these resources is located in remote areas of West and Southwest China, an estimated 145,000 to 220,000 mw of exploitable hydro-electric capacity can be transmitted to major industrial centres using China's existing technology. This is about three to five times China's total installed capacity (thermal and hydro) at year-end 1978.

The Ministry of Power has announced a program designed to achieve a rational distribution of hydro-electric power throughout the country, but because of the long leadtimes involved, the larger hydro-electric plants are unlikely to come into service much before 1987.

China is the world's third biggest miner of coal and new large reserves are being discovered. She will concentrate on coal as her major source of energy, at least until the large hydro-electric stations start to produce. The chief bottle-neck is transport from the mines. A large part of railway development will be devoted to moving coal from the pitheads to industrial centres and to the ports for export.

China's *petroleum* policy in the short term is to keep extraction at roughly its present level whilst exploratory surveys both on and

offshore are being completed. Several new large reserves have been found in Xinjiang, Henan, Shandong, Qinghai and Liaoning and seismic surveys are being conducted offshore in joint operations between China and some 16 foreign companies. Only when these surveys are completed will a production strategy be decided upon.

China has decided to cut back her target for crude steel in 1980 by 1,400,000 tons whilst increasing output of rolled steel and finished products. Imports of steel have been slashed. Meanwhile the concentration is on improving the performance of existing plants. The only foreign steel plant going ahead is at Baoshan near Shanghai which will eventually produce six million tons.

Whilst speeding up the growth of the lag-gard sectors, and the development of the textile and other light industries, the plan for industry will also give priority to aiding agriculture by increasing the production of chemical fertilizers, insecticides, farm machinery, building materials for rural use and providing technical services for farmers.

Accumulation and Consumption

As far back as 1958, the danger of excessive accumulation at the expense of consumption was being voiced by Chinese leaders. Despite these warnings the rate of accumulation rose to around 40 per cent during the period of the Cultural Revolution. At the National People's Congress in June 1979 Zhang Jingfu, Minister of Finance, advised that the rate of accumulation exceeded reasonable limits.

With the raising of incomes of both peasants and workers and the allocation of increased funds to improve housing and other social amenities, the rate between accumulation and consumption is being modified in favour of the latter. 'One lesson of post-Liberation economic experience', stated an economic commentator in the *Workers' Daily* of 23 July, 1980, 'is that high rates of accumulation slowed down the pace of developing the productive forces against the wishes of the planners'. At about 30 per cent, the rate is considered to be above a satisfactory level. The policy to bring it down to around 25 per cent is seen as a gradual process in order to avoid dislocations to the economy which could be caused by too abrupt a change.

Restructuring of Industry

The system of totally integrated factories, a number of them supplied by the Soviet

Union, may have been an inescapable necessity for China in the middle 1950's when she was at the start of her industry-building program, given the supply and transport conditions prevailing at that time and the level of technical manpower then available. The country was emerging from a pre-industrial agrarian economy in which the greater part of industry, such as it was, was of an handicraft and repairshop type.

The legacy of pre-Liberation China, as R. H. Tawney described it, bore heavily on these early attempts at industrialization:

What exists in China. . . is less an organized industrial system than a labyrinth or spider's web of small undertakings, each working under conditions peculiar to itself, and isolated by difficulties of communications from all but those in its immediate neighbourhood.

The totally integrated type of enterprise obviously cannot meet the needs in equipment and components sufficiently specialized and of a quality to satisfy the requirements of a diversified economy, still less match up to the demands of the Four Modernizations. A recent Chinese report observes that 70 to 80 per cent of the machine building factories have their own foundries. 'Their production is characterized by small batches, backward technology, high consumption and very low labour productivity.'

Steps toward specialization have already been taken in the textile and other light industries and tentative changes towards specialized component production instituted in the agricultural machinery industry. The province of Heilongjiang, one of the bases for grain and soya bean production, will be given priority in farm mechanization. It set up in July 1980 an integrated tractor company, in which two tractor plants and eight diesel engine and tractor component factories will cooperate. These changes have not been so difficult to bring about, but when it comes to the major integrated plants with all their complexity, such as the No.1 Truck Factory in Changchun, Jilin (Kirin), the change-over can only be gradual if a serious loss of production is to be avoided during the period of transition.

An experiment in restructuring of another kind was instituted in July 1980 when the Nanjing Radio Company was inaugurated, by an agreement between the Fourth Ministry of Machine Building, Jiangsu province and

Nanjing municipality. This company is described as a joint entrepreneurial venture combining plants under the jurisdiction of a ministry at the centre and plants under the jurisdiction of the province and the municipality, covering enterprises in state or all people's ownership as well as collective enterprises, and bringing under one umbrella plants producing complete sets of equipment and others only components. The jurisdiction, the financial system and the ownership of these individual enterprises, however, remain unchanged.

China's Way to Modernization

The 1978 decision to effect the readjustments was not merely to set a new direction for China's economy, it also represented a considerable shift of emphasis with less stress on foreign technology and the utilization of foreign loans. Much more attention is being given to China finding her own way to modernization and to avoid the negative effects which has accompanied industrialization in other countries. Here, a major factor is the realization that China has substantial industrial capacity which, at present, is only partially utilized owing to shortage of power, transport and materials, inefficient management and outmoded production methods. In industry, therefore, the first and major thrust is to modernize existing enterprises, by raising the technological level of the production processes, to realize higher productivity and improve the quality of the product.

There is a switch from building new factories to upgrading the production methods of the existing ones, many of which, the Chinese say, are at the level of international standards of the 1950's and 1960's.

Accompanying this move towards modernizing existing capacity is a turn from the blind drive for mechanization across the board—'microchips with everything'—which figured in industrial policy in the first flush of the modernization proposals. A more realistic approach has supervened, taking account of the present low level of the country's technical infrastructure, the financial stringencies which restrict the possibility of heavy investments in projects giving a relatively slow return and the problems of servicing, maintenance and calibration of highly sophisticated equipment. Overlaying these considerations is the spectre of unemployment which could be exacerbated by overhasty modernization of industry in the period before the policy of further restricting population growth has had its full effect.

Recent pronouncements suggest a more flexible and realistic policy for the next period, giving more attention to middle-level technology, which is an advance on existing equipment and which can be successfully and smoothly incorporated into the production process without unduly straining the present capabilities of the technical labour force.

The Chinese are squaring up to the fact that labour-intensive enterprises will have to continue for some time and that the way forward in industry will necessitate a blend of mechanization, semi-mechanization and, in places, manual methods.

The present is, for China, a period of questioning, reviewing past performance, experimenting with new methods, new organizational forms and new types of relationships between economic organizations. Some features are relatively clear, others still very fluid and many questions still unanswered. It is the intention that these various strands will, in due time, coalesce into a major economic reform.

As the process of readjustment opens out, new problems and new insights into the realities of the Chinese economy, both positive and negative, are coming to light. The readjustment period may well have to continue beyond the original target date of the end of 1981. Certainly the time required for the laggard departments—coal, power and transport—to catch up will be significantly longer, stretching into the Ten Year Plan now in preparation, the details of which should be announced by the end of this year.

What is important is that the economic results of 1979 and the first months of 1980 indicate that the process of evening out the disproportions has begun. Productivity in state-owned industries has risen by 6.4 per cent, quality levels have improved, in some cases surpassing previous peaks, the consumption of fuel has been reduced and the number of state enterprises operating at a loss is 15 per cent lower than in 1978.

Within the framework of these developments, the range of opportunities for foreign trade and technical cooperation are quite diverse.

The technical updating of factories will in many cases necessitate the importation of specialist equipment. In some enterprises the renovation of a complete workshop within the factory complex can be undertaken by

foreign experts. The Chinese are now realizing that the use of truly independent foreign consultants can prove to be a most economical method of jacking up their industrial technology.

New techniques developed in the West of materials substitutes, the use of additives and other techniques to enhance production without significantly adding to costs are of great interest to our Chinese friends in their search for higher output with minimum investment.

Several of the major projects now going ahead are linked with loans at favourable rates of interest—such as the Belgian power plant and the six Japanese projects to develop coal mines and the railway and port-handling facilities for coal and oil to be exported to Japan.

The purpose of joint ventures involving foreign capital is, as the Foreign Investment Control Commission explained to me, principally to inject new technology into Chinese industries. One should be clear that these will never represent a major portion of China's total investments or her foreign trade.

These new forms call for more ingenuity and adaptability on the part of China's trade partners and also require a deeper understanding of the specific conditions in China.

Foreign Trade

An encouraging feature is the rise of China's foreign trade in recent years, especially seen against a situation in which world

trade is slowing down. China's two-way trade increased by 28 per cent in 1979 to 45,000 million yuan which, even allowing for price inflation, represents a substantial rise.

Recently in Beijing, friends in the Ministry of Foreign Trade explained that they expected foreign trade to rise by about 20 per cent in 1980. Their forecast has been proved accurate so far, with the figures for the first half of the year not only showing a 20.2 per cent increase over the same period of 1979 but achieving a positive balance in visible trade with exports at 12,930 and imports at 12,730 million yuan.

Commercial relations with China, especially for manufacturers of sophisticated and specialized equipment, are becoming something more than a mere buying and selling operation. They extend into many other forms of cooperation in technology, consultancy services, training of Chinese technicians, methods of financing, and, on the larger projects, the stationing of foreign specialists and, in some cases, their families, in China. For some countries, collaboration between sections of industry and their Chinese counterparts rather than an enterprise-to-enterprise relationship is seen as a coming prospect.

We can expect to see commercial, economic, technical and even social relationships of a new type opening up—more challenging, more exciting, richer and wider in scope and, of necessity, mutually rewarding as China moves ahead into the 1980's with her program of modernization.

