



CHINA STUDIES SERIES

New Strategy for China's Economy

Ma Hong



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NEW STRATEGY FOR CHINA'S ECONOMY

By Ma Hong

Translated by

Yang Lin

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Ma Hong, who also writes under the pen name Niu Zhonghuang, was born in 1920. He studied at the Yan'an Marxist-Leninist Institute in 1938 and undertook research on social sciences in 1941 at the Yan'an Central Research Institute. He was an editor of the journal *The Communist*. He is currently the President of the Chinese Academy of Social Sciences and also serves as an adviser to the State Planning Commission. He has written the following books: *Socialist Reproduction and the Distribution of the National Income, Accumulation and Consumption in China's National Income, The Relationship Between Production and Consumption During the First Five-Year Plan Period, The Problem of Socialist Industrialization in China* and *The Technological Transformation of China's Agriculture*. He has also authored books about his surveys in the rural areas and his investigations of factories in the urban areas. He was the chief editor of the book *Enterprise Management in China's Socialist State-Owned Industry*.

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AUTHOR'S PREFACE

The purpose of the present volume is to discuss the latest developments in China's economy and the significance and prospects of its new economic strategy. This is a subject in which many people abroad quite properly take a great interest, for China, as the home of more than one-fifth of the world's population, occupies an important position in the world today, possessing considerable national strength* and immense potential for future development.

Since the founding of the People's Republic of China in 1949, there have been many twists and turns in the country's development, but by and large China has advanced in the direction of the goal as enunciated by Mao Zedong in 1956: "It is only 45 years since the Revolution of 1911, but the face of China has changed entirely. In another 45 years, that is, by the year 2001, at the beginning of the 21st century, China will have undergone an even greater change. It will have become a powerful industrial socialist country."**

A fundamental change in China's approach to socialist economic construction came with the introduction of the

* Based on 1980 statistics, China's output of grain and cotton ranks second in the world, while its output of cotton cloth is the greatest worldwide. Coal production in China ranks third and its oil output sixth; its electric energy production ranks sixth, pig iron fourth and steel fifth. Cement, sulphuric acid and chemical fertilizer production each ranks third.

** Mao Zedong, "In Commemoration of Dr. Sun Yat-sen," *Selected Works*, Foreign Languages Press, Beijing, 1977, Vol. V, p. 330.

current program of economic readjustment and reform formulated according to the spirit of the historic Third Plenum of the Eleventh Central Committee of the Chinese Communist Party held in December 1978. It signifies a major shift in the development strategy of China's economy — a strategic shift based on the experiences and lessons gained during earlier periods of economic construction.

During the Fourth Session of the Fifth National People's Congress, held in December 1981, Premier Zhao Ziyang summed up China's historical experience since 1949 and pointed out that China should blaze a new trail in economic construction, one which will ensure a fairly steady tempo of advance, attain better economic results and bring more substantial benefits to the people. This refers precisely to the new strategy for the development of China's economy adopted three years ago, which has already scored achievements in many areas as described in Chapter II of the present book. Premier Zhao went on to state that, during the Sixth Five-Year Plan (1981-1985), China will continue to implement the policy of readjustment and reform and further appropriately lower the ratio of the accumulation fund to the consumption fund in favor of the latter in order to raise the people's standard of living. During the plan period, we will devote our main efforts to readjusting the economic structure, consolidating existing enterprises and carrying out the technical transformation of key enterprises.

If we can eliminate existing defects in the economy and establish proper ratios between its various branches during the current plan, we shall have laid a solid foundation for future development. The momentum thus created will lead to more rapid development during the Seventh Five-Year Plan (1986-1990), and still more rapid development in the following decade. It is hoped that in the last decade of this century we shall enter a new period of economic renewal. Our objective is to quadruple

the gross annual value of industrial and agricultural production during the two decades between 1981 and the end of this century. We will then be able to achieve a relatively comfortable standard of living for our people, and our economy will be in a position to take off from a new starting point, from which it will be able to advance more swiftly and catch up with the economically more advanced countries. In this way, China's contribution to humanity and the world at large will be much greater than is now possible.

May 1982

Chapter I

**A STRATEGIC SHIFT IN CHINA'S
SOCIALIST ECONOMIC
CONSTRUCTION**

**1. The Strategic Shift Following the Third Plenum
of the Eleventh Party Central Committee**

China is in the midst of an extensive economic readjustment and reform. Started three years ago after the historic Third Plenum of the Eleventh Central Committee of the Chinese Communist Party, the current readjustment and reform aims not only to overcome the serious imbalances in the economy but also to blaze a new trail in China's economic construction, which will ensure a fairly steady tempo of advance and better economic results, yielding more substantial benefits to the people. The introduction of such readjustment and reform represents a major shift in the development strategy of China's economy — a strategic shift based on the experiences and lessons gained during the years since the founding of the People's Republic in 1949, and especially since the basic completion of socialist transformation in 1956.

In September 1956, the Chinese Communist Party held its Eighth National Congress and mapped out the path for the country's development in the context of the great changes that had been effected in the relations of production. By that time, agriculture and handicrafts under individual ownership had for the most part been trans-

formed into the collectively-owned economy, and capitalist industry and commerce had in the main become a part of the state-owned economy. The Congress declared that the socialist system had been basically established and that the principal contradiction within the country was no longer the contradiction between the working class and the bourgeoisie, but rather that between the people's demand for rapid economic and cultural development and the existing state of the economy and culture which fell short of the people's needs. The chief task confronting the whole nation was, therefore, to concentrate all efforts on developing the productive forces, industrializing the country, and gradually meeting the people's constantly growing material and cultural needs.

Based on the correct line laid down by the Eighth National Congress, the Party led the entire people in shifting the focus of work to large-scale economic construction, and conspicuous successes were achieved. But due to lack of experience and inadequate understanding of both the general laws of economic development and also of the basic economic situation in China, as well as impatience for quick results, the "Great Leap Forward" and the movement for the establishment of rural people's communes were rashly initiated in 1958. As a result, "Left" errors, characterized by excessively high targets, the issuing of arbitrary directions, boastfulness and the stirring up of a "communist wind",* spread unchecked throughout the country. It was due to these errors, together with a succession of natural calamities and the scrapping of contracts by the Soviet Government, that the national economy encountered serious difficulties between 1959 and 1961. In the winter of 1960, the Central Committee of the Party decided on the policy of "readjustment, consolidation, filling out and raising standards"

* This referred to the tendency towards extreme egalitarianism prevalent at that time.

for the whole economy. The national economy recovered and developed fairly smoothly between 1962 and 1966. However, "Left" errors were not only not thoroughly rectified in the guidance of economic work, but actually grew in the spheres of politics, ideology and culture. These increasingly serious "Left" deviations eventually culminated in the ten years of the "Cultural Revolution," which spread havoc throughout the country.

With the overthrow of the Jiang Qing counter-revolutionary clique in 1976, the national economy began to improve, but the "Left" influence in the guidance of economic work still persisted. The Third Plenum of the Eleventh Central Committee of the Chinese Communist Party in December 1978 marked a crucial turning point in the situation. It firmly discarded the slogan "Take class struggle as the key link", which had become unsuitable in a socialist society, and made the strategic decision to shift the focus of work to socialist modernization. At the same time, it stressed the urgent need for overcoming serious imbalances in the economy and adopted resolutions on the acceleration of agricultural development.

In order to carry out the spirit of the Third Plenum, the Party Central Committee held a work conference in April 1979 and formulated the policy of "readjusting, restructuring, consolidating and improving" the economy as a whole, and stressed that economic construction must be carried out step by step within the limits of our own resources and with emphasis on practical results, so that the development of production will be closely linked with the improvement of the people's livelihood. In addition, active efforts must be made to promote economic and technical cooperation with other countries on the basis of independence and self-reliance. Thus, with the shift in the focus of work, a new strategy for China's socialist economic development was put forward.

In order to gain a deeper understanding of the new strategy, it is necessary to recall the history of China's socialist construction and to review the achievements as well as the shortcomings, mistakes, and main problems which still exist.

2. The Achievements of China's Socialist Economic Construction

Socialist construction in China has passed through four periods.

The first period was from the founding of the People's Republic in 1949 to the basic completion of the socialist transformation of the private ownership of the means of production in 1956. During those seven years, economic construction in China was integrated with socialist transformation, and economic development was fairly rapid. The relations between the different branches of the national economy were relatively well-coordinated. With markets flourishing and prices stable, the people's livelihood improved remarkably.

The second period covered the ten years from the basic completion of socialist transformation in 1956 to the eve of the "Cultural Revolution". This period marked the beginning of all-round socialist construction, and major successes were attained despite some serious setbacks. Industrial fixed assets grew by 300 per cent, and a more rational geographical distribution of industry was achieved. New industries such as electronics and petrochemicals were developed, and the output of major industrial products increased considerably. China also attained complete self-sufficiency in oil during this period. In agriculture, large-scale capital construction was initiated, and its results gradually became evident.

The third period covered the ten years of the "Cultural Revolution", when the national economy suffered enor-

mous losses. However, as a result of the concerted efforts of the masses of workers, peasants and intellectuals, the economy still made some progress. Grain output increased relatively steadily. Significant achievements were scored in industry, communications, capital construction, science and technology. New railways were built and the Changjiang (Yangtze) River Bridge at Nanjing was completed. A number of large enterprises using advanced technology went into operation. During the same period China's first hydrogen bomb tests were successfully undertaken and man-made satellites were also launched and retrieved. Needless to say, none of these successes can be attributed in any way to the "Cultural Revolution", without which we would have made far greater achievements.

The fourth period began with the overthrow of the Jiang Qing counter-revolutionary clique in October 1976, which enabled our country to enter a new historical period of development. In the two years from October 1976 to December 1978 when the Third Plenum of the Eleventh Party Central Committee was convened, the entire people enthusiastically devoted themselves to the task of construction. Industrial and agricultural production was fairly swiftly restored.

Achievements have been even more remarkable since the Third Plenum. In agriculture, various forms of the production responsibility system have been introduced in which remuneration is tied more directly to output. Many other measures have been taken to further enhance the peasants' enthusiasm. Family plots have been restored and appropriately extended, country trade fairs have been revived, and various sorts of sideline occupations have been developed. Furthermore, the purchase prices paid by the state for grain and sideline products were raised, thus contributing to a substantial rise in peasants' income. Grain output in 1979 and 1980 reached an all-time high, and at the same time industrial crops

and other farm and sideline products also registered a big increase. The development of light industry has accelerated as well, and the structure of industry has become more rational and better coordinated. Reforms in the system of economic management, including extension of the decision-making powers of enterprises, have gradually been carried out in conjunction with economic readjustment. Thanks to the development of agriculture and the economy as a whole, the living standards of the people have improved markedly.

In short, China has effected a fundamental change in its socio-economic system since the founding of the People's Republic as a result of the arduous efforts of the Chinese people. It has been transformed from an old semi-feudal and semi-colonial country into a new socialist one. Great achievements have also been made in economic construction, and the social productive forces have been developed significantly.

During the years since 1949, there has been a remarkable change in the conditions prevailing in agricultural production. The number of water conservancy facilities and farm machinery has risen considerably. The quantity of chemical fertilizer and pesticide applied, as well as the amount of electricity consumed in the countryside, have greatly increased. By the end of 1980, there were a total of 86,000 reservoirs and 2.09 million wells with electric motors throughout the country, while the amount of land under irrigation had grown from 20 million hectares in 1952 to 44.67 million hectares. Flooding by the major rivers has been brought under initial control. By the end of 1981, the number of large and medium-sized tractors reached 792,000, a 605-fold increase over 1952, while the number of small-sized and "walking" tractors totalled 2,037,000. Irrigation and drainage equipment in agriculture had a total capacity of 74.98 million horsepower, and there were also 175,000 lorries available for agricultural use. The quantity of chemical fertilizer ap-

plied in 1981 was 13.35 million tons, an average of 134 kilograms per hectare; the amount of electricity consumed in the rural areas was 37,000 million kilowatt-hours. In 1980, the total area ploughed by tractors was 40.091 million hectares, or 41.3 per cent of the total cultivated area.

The progress made in the development of industry has been even more rapid. On the eve of the founding of the People's Republic in 1949, industrial fixed assets only amounted to 12,800 million yuan, the result of almost a century of accumulation in old China. In 1980 industrial fixed assets exceeded 410,000 million yuan, 32 times greater than there had been before 1949 and more than 26 times greater than in 1952 when economic rehabilitation was completed. Since 1949, the steel, power, petroleum, coal, chemical, engineering, textile and light industries in China have all made significant advances. Many new industries, such as the petrochemical, electronics, atomic energy, and space aeronautical industries, have developed either entirely from scratch or from very small to very large. In the vast expanse of China's interior regions and in the areas of minority nationalities where there was virtually no industry before 1949, new industrial bases have now been set up.

Rapid progress has also been achieved in transport, post and telecommunications and other fields.

In brief, since the founding of the People's Republic, we have built an independent and fairly comprehensive industrial and economic system on the foundations of the poverty and backwardness of old China. This has laid down a relatively solid material base for accomplishing the cause of socialist modernization.

Over the past 32 years, agricultural output has increased by 300 per cent, an average annual growth rate of 4.4 per cent, while industrial output has risen by 47 times, an average annual growth of 12.9 per cent. There was a 15.8-fold increase in the total output value of industry

and agriculture, an average annual increase of 9.2 per cent. National income grew 8.1 times, thus averaging an annual increase of 7.1 per cent.

Compared to the situation before 1949, the people's livelihood improved considerably on the basis of the development of production. The average real wages of workers and staff members* in units owned by the whole people** rose from 446 yuan per year in 1952 to 514 yuan in 1978, an increase of 15.2 per cent. The average real wages further increased by 7.6 per cent in 1979 and by 6 per cent in 1980. The improvement in workers' and staff members' livelihood can also be shown in the growth in government-provided funds for labor insurance and welfare benefits and different kinds of subsidies. In 1952 the labor insurance and welfare funds for workers and staff members in units owned by the whole people, not including subsidies of various forms, amounted to 952 million yuan, which was equivalent to 14 per cent of total wages. These funds increased to 6,691 million yuan in 1978, an amount equivalent to 14.3 per cent of the total wages. Based on the estimates of the relevant government organs, each worker and staff member in state-owned enterprises derived an average of 526.70 yuan from the labor insurance and welfare funds and from the various kinds of subsidies; this amount was equivalent to 81.71 per cent of the average wages for the same year.

The living standards of the peasants have also improved remarkably. Average per capita incomes derived by commune members from the collective have risen over the years: from 40.50 yuan per year in 1957, the average

* The distinction between worker and staff member in China could be roughly compared to that between blue collar and white collar or worker and office staff in Western terminology.

** "Ownership by the whole people" in China means state-owned, as distinct from collectively-owned and privately-owned.

rose to 73.90 yuan in 1978 and further increased to 85.90 yuan in 1980. The commune members' incomes from private household sideline production have grown even faster in recent years.

Although the rapid development in production and construction and the marked improvement in the people's livelihood represent merely a beginning, they nevertheless undeniably demonstrate the superiority of China's socialist system.

The attainment of China's present level of industrial development would be very difficult to imagine under the conditions existing in the pre-1949 China. One good way to measure the achievements attained so far is to compare pre-1949 production totals with the 1981 totals in corresponding categories of industrial activity.

The first mechanized coal mine was built at the end of the 19th century. For the period up to 1949 the average annual output of coal only reached 32.43 million tons, with the highest annual output not exceeding 61.88 million tons. The total for 1981, on the other hand, was 622 million tons.

The first power plant was set up by foreign business interests in Shanghai in the year 1882. Up until 1949, the average annual output of electrical power amounted to 4,310 million kilowatt-hours, with the highest one-year total reaching 5,960 million. In 1981, electric power output totalled 309,300 million kilowatt-hours.

China's steel industry was started at the end of the 19th century. The average annual output of steel for the 50 years preceding 1949 came to 158,000 tons. During this period, the highest annual output was 923,000 tons. In 1981, conversely, 35.60 million tons of steel were produced.

The machine-building industry was first established in 1850, also by foreign interests. By 1949 annual production of machine tools averaged only 1,582 sets, with the

highest annual output of 5,390 sets. The 1981 total was 103,000 sets.

Another worthwhile way of judging new China's economic achievements is by holding up for comparison the Republic of India, which is also a developing country with a very large population. In 1950, China's output of certain major industrial products in comparison to India's were as follows: crude oil, 115.4 per cent; coal, 134.6 per cent; electric power, 51.5 per cent; steel, 37.2 per cent; cement, 52 per cent; chemical fertilizer, 90 per cent; and cotton cloth, 66.3 per cent.

From 1950 to 1979, India's crude oil production increased 45.1-fold, whereas China's increased 352.8 times. In coal production, the same comparison amounted to a 2.7-fold increase for India but a 13.7-fold increase for China. The story is similar for the other products: electrical power, for India, a 7-fold rise, for China, a 64.2-fold increase; cement production, 7.2-fold for India, 52.1-fold for China; chemical fertilizer, 112-fold for India, 675.4-fold for China; and cotton cloth, 1.4-fold for India, 3.8-fold for China.

Thus, by 1979, China's output of these industrial products compared to India were as follows: crude oil, 884.5 per cent; coal, 529.1 per cent; electric power, 268.5 per cent; steel, 431 per cent; cement, 336 per cent; chemical fertilizer, 335.1 per cent and cotton cloth, 121.5 per cent.* China has caught up and even surpassed India in the production of various industrial products in which China was behind, while in the case of products in which China was originally ahead, China's lead over India has grown even bigger.

China and India, both of which won national independence or liberation at approximately the same time (1947 for India), are distinguished first of all by the fact that

* Guangming Daily (*Guangming Ribao*) March 3, 1981, p. 3.

one is socialist and the other capitalist. With China's obviously greater achievements in its post-liberation period, we can clearly see the superiority of the socialist system.

The rate of industrial growth in new China has also surpassed the rates in the economically-developed countries. The output value of China's industry grew at an average annual rate of 12.9 per cent from 1949 to 1981, while that of Japan increased at a rate of 12.4 per cent from 1950 to 1977. The corresponding figures for West Germany, the United States, and the Soviet Union are 6.9 per cent, 4.5 per cent, and 9.7 per cent, respectively.* But we must be careful in comparing China with the developed countries, because their levels of production, technology, science, education and management are very much higher than ours, and these are direct factors in modern production which play a tremendous role in industrial growth. Thus it is sometimes difficult to tell which social system is better with this kind of comparison. Although China's industrial development is still very backward in many respects compared to the developed countries, its rate of development has surpassed the rates of these countries. Moreover, China's achievements in socialist construction were attained despite several setbacks. Otherwise, we could have made much greater achievements, and the superiority of the socialist system could have been more clearly demonstrated.

3. The Major Problems in China's Economic Development

Whether compared to other developing countries or to any country in the world, the growth rate of China's

* *Social Sciences in China (Zhongguo Shehui Kexue)*, No. 4, 1980, p. 4.

economy cannot be considered to be low; in fact it is quite high. However, China's economic development has been very unstable, with sudden ups and downs and major swings in direction. Economic results have been relatively poor and have had a tendency to decline. Thus, the growth in national strength has been fairly slow and the people have not derived much in terms of material benefits. These are the major problems in our economic development since the founding of the People's Republic.

Although the growth rates of China's industrial and agricultural production have on the whole been fairly high, these rates have not been maintained in a sustained manner. The annual growth rate in agricultural output value was 14.1 per cent during the period of national economic recovery from 1949 to 1952, 4.5 per cent during the First Five-Year Plan (1953-57), and then it dropped by a big margin to -4.3 per cent during the Second Five-Year Plan (1958-1962). The growth rate was 11.1 per cent on the average from 1963 to 1965 (this of course incorporated the recovery from the previous period), 3.9 per cent during the Third Five-Year Plan (1966-1970), and 4 per cent during the Fourth Five-Year Plan (1971-75). The annual growth rates in the industrial output value during the same periods were as follows: 34.8 per cent, 18 per cent, 3.8 per cent, 17.9 per cent, 11.7 per cent and 9.1 per cent.

Although production and construction have developed since the period of the Second Five-Year Plan, there has, however, been a marked decline in economic results. In industrial production, the amount of profits realized per hundred yuan of fixed assets in industrial enterprises under the ownership of the whole people has declined by 48.8 per cent, from 23.6 yuan in 1957 to 12.1 yuan in 1976. The amount of profits and taxes realized per hundred yuan of funds has also declined by 45 per cent from 34.7 yuan in 1957 to 19.3 yuan in 1976. The costs of construction projects have increased by several times

since the First Five-Year Plan period, and the time period for completing construction projects has also become much longer. The rate at which investments turned into fixed assets was 83.7 per cent during the First Five-Year Plan period, 71.4 per cent during the Second Five-Year Plan period, 59.5 per cent during the Third Five-Year Plan period, and 61.4 per cent during the Fourth Five-Year Plan period. If the rate during the First Five-Year Plan period had been maintained, an additional 100,000 million yuan of fixed assets could have been created from 1958 to 1978.

The investment needed to increase national income by one yuan was 1.68 yuan during the First Five-Year Plan period but 3.76 yuan during the Fourth Five-Year Plan period, an increase of more than 100 per cent. If the investment coefficient during the First Five-Year Plan period had been maintained, the national income during the Fourth Five-Year Plan period could have been increased by more than 300,000 million yuan.

The growth of the national income is a comprehensive index of the growth in national strength. Due to the ups and downs in industrial and agricultural production and the decline in economic results, it is inevitable that the growth rate of the national income will also have a tendency to decline. The average annual rate of increase in China's national income was 8.9 per cent during the First Five-Year Plan period, -31 per cent during the Second Five-Year Plan period, 14.5 per cent from 1963 to 1965, 8.4 per cent during the Third Five-Year Plan period, and 5.6 per cent during the Fourth Five-Year Plan period. If we compare the growth rate of the national income with the growth rates of the industrial and agricultural production, we can clearly see that the rate of increase in national strength was not fast at all. From 1950 to 1981, the average annual growth rate of the gross output value of agriculture and industry was 9.2 per cent, while the average annual growth rate of the national in-

come was only 7.1 per cent, significantly lower than the former.

These figures show that the people's livelihood in China did not improve at the same rate as the rate of growth in production for much of the time, and at times even declined. Aside from the First Five-Year Plan period when the average wages of workers and staff members in units owned by the whole people increased quite rapidly from 446 yuan in 1952 to 637 yuan in 1957, the average money wages for workers and staff members have increased very little since the Second Five-Year Plan period. The average wages of workers and staff members rose from 637 yuan in 1957 to 644 yuan in 1978, an increase of only 1.1 per cent over the 21-year period. However, since the cost of living index for workers and staff members rose by 14.3 per cent during the same period, real wages declined as a result. The average real wages of workers and staff members dropped from 581 yuan in 1957 to 514 yuan in 1978, a decline of 11.5 per cent.

The peasants' livelihood was even more difficult. According to statistics, there were 770,200 basic accounting units,* making up 16.5 per cent of the total, in which the average yearly per capita income derived by commune members from the collective was 40 yuan in 1978. In the case of 463,000 basic accounting units, comprising 10.6 per cent of the total number, the average amount of grain distributed from the collective was less than 300 jin** per capita. There were 32.94 million agricultural households whose expenditures exceeded their incomes, making up 19.5 per cent of the total number of households participating in the communes' income and grain distribution.

* The term "basic accounting unit" refers to the rural collective unit, usually the production team, at which level the collective income is distributed.

** 1 jin equals $\frac{1}{2}$ kg.

What are the reasons behind these problems in China's economic development?

Insofar as objective conditions are concerned, the prolonged blockade and provocations by imperialism and the sabotage and threats by the Soviet Union compelled us to strengthen the national defense in order to guard against foreign aggression. In addition, there was the aid given to the Korean and Vietnamese people during their wars of resistance against U.S. aggression. As a result, a considerable amount of material wealth could not be directly used to develop the economy and improve the people's livelihood. This certainly was an important reason.

Insofar as subjective conditions are concerned, we committed the "Left" error in our guiding ideology of being impatient for quick results. As a result, we made a number of serious mistakes in selecting the strategy and goals of our economic development and the methods to achieve these goals. If we had not committed these errors, we would certainly have made greater achievements in our economic construction.

Our principal error in the selection of our economic development strategy and goals was that for a long period of time we did not have an adequate understanding of the basic economic law of socialism.* Although we often spoke of the aim of socialist production as being the satisfaction of the people's needs, in reality we did not carry this out in our economic work due to the influence of "Left" errors. There was instead a certain tendency to carry out production for the sake of production and an impatience for quick results, so that we often neglected

* This refers to the law which was defined by Stalin as "the securing of the maximum satisfaction of the constantly rising material and cultural requirements of the whole society through the continuous expansion and perfection of socialist production on the basis of advanced techniques."

economic and natural laws and proceeded to do certain things which were objectively impossible to do.

What have been the mistakes in our methods to achieve our economic development strategy and goals? These may be summarized in the following points:

First, we one-sidedly sought high targets in production and construction and neglected economic results. Take for example the 20-year period from 1958 to 1978. The gross value of industrial and agricultural output increased annually by 7.6 per cent, with industry growing by 9.7 per cent. Such growth rates are actually not at all low. However, compared to 1957, the total output value produced per hundred yuan of industrial fixed assets declined 25.4 per cent by 1978, while the profits and taxes turned over per hundred yuan of funds fell by 30.3 per cent. With more input and less output, the economic results clearly declined.

Second, we placed undue emphasis on the development of heavy industry at the expense of agriculture and light industry. During the First Five-Year Plan period, investments in heavy industry made up 38.7 per cent of total investments, a proportion which was already excessive. But then the investment share of heavy industry continued to increase from 1958 to 1978, to 52.8 per cent of the total. This phenomenon could not but adversely affect agriculture and light industry. During this period, agricultural production developed slowly, with very little increase in the per capita output of agricultural products; there was even a decline in the case of some products. The average output of grain per capita in China was 306 kilograms in 1957 and 318 kilograms in 1978; in the case of cotton, it was 2.57 kilograms in 1957 and 2.26 kilograms in 1978. In the case of oil-bearing crops, it was 6.58 kilograms in 1957 and 5.45 kilograms in 1978. Light industrial production also fell far short of meeting demand.

Third, we only depended on new capital construction projects for expanded reproduction and neglected to give

full play to the role of already existing enterprises. We also failed to emphasize the importance of technical transformation of these enterprises. The general practice abroad is to use about 70 per cent of their investments for technical innovation and transformation of existing enterprises. It was the opposite case in China: we used 70 per cent of our investments for new construction projects.

Fourth, we overemphasized the output of primary and intermediate products in such industries as iron and steel and neglected the production of final consumer goods. In recent years, the unsold inventory of steel products exceeded 20 million tons, which is almost equivalent to the annual output of steel products, while the unsold inventory of mechanical and electrical products amounted to over 60,000 million yuan, equivalent to the output of such products for half a year. In the case of consumer goods badly needed by the people, including durable consumer items, the supply is far short of demand.

Fifth, we placed a one-sided emphasis on high accumulation at the expense of the people's necessary consumption. The accumulation rate exceeded 30 per cent during the 1958-1960 period as well as during the 1970s, while during the First Five-Year Plan period it was only slightly over 20 per cent. Due to the excessively high rate of accumulation, people's consumption levels relatively declined.

Sixth, we failed to control population growth as a result of our undue emphasis that with more people, things would be easier to handle. We are now bearing the disadvantages of this kind of thinking.

Seventh, we closed the country to international contacts due to our narrow interpretation of the theory of self-reliance, resulting in waste which could have been avoided.

Eighth, we became too impatient in carrying out the transformation of the relations of production and un-

realistically stepped up the pace of transfer to public ownership. For example, we rashly transformed collective ownership into ownership by the whole people, and hastily negated the role of the individual economy in cities and towns. In 1952 there were 8.83 million self-employed laborers in cities and towns; this number declined to 1.04 million in 1957 and by 1975 only 240,000 self-employed laborers were left. An overcentralized system of economic management was also carried out within the sector owned by the whole people.

As a result of these mistakes, an unsound economic cycle of "high speed, high accumulation, low efficiency and low consumption" was formed to some extent.

4. The Significance of Formulating a New Economic Strategy

The Third Plenum of the Eleventh Party Central Committee, held in the winter of 1978, corrected the "Left" errors which had existed for a long time. It firmly and clearly pointed out that the focus of work of the nation should be shifted to socialist modernization.

To implement the resolution of the Third Plenum and save the economy from the brink of collapse as well as to blaze a new trail in developing China's economy, the Party Central Committee further laid down the policy of "readjusting, restructuring, consolidating and improving" the economy.

This marks a great strategic shift in China's socialist economic development which is of major theoretical and practical significance. This shift is two-fold: first, a shift in the strategic goals of economic development, and second, a shift in the methods for attaining such goals.

When we speak of such a shift, it means that the fundamental aim of socialist economic construction should be the satisfaction of the people's needs. As a socialist

country engaged in economic construction and in realizing the four modernizations,* we are not after construction for the sake of construction, nor are we after modernization for the sake of modernization alone. We are doing so in order to enable the whole people to satisfy as much as possible the material and cultural needs of the people by means of developing the economy. Our current policy of readjustment and reform seeks to thoroughly correct the tendency which existed in the past of engaging in production for the sake of production, so as to shift the economic work as a whole to the path of satisfying the material and cultural needs of the people.

This shift means that we will no longer aim only for high targets of output value without paying attention to the economic results. That is to say, we can only attain the aim of satisfying the people's needs if we attach importance to the improvement of economic results.

The strategic shift signifies that we will change the former undue emphasis on heavy industry, which adversely affected agriculture and light industry. That is to say, we will strive to set up an economic structure suited to our national conditions in which agriculture, light industry, and other industries such as energy, raw materials, machine building, construction, communications and transportation, as well as commerce, service trades, science, education and public health can develop in a coordinated way.

When we speak of such a shift, it means that we will no longer overemphasize the production of primary and intermediate products in such industries as iron and steel at the expense of quality, variety and the production of final consumer goods needed by society. We should base our production plans on the needs of the consumers and

* The four modernizations consist of modernizing agriculture, industry, national defense and science and technology.

the market as well as the needs of the state, including the needs of national defense.

This shift means that future increases in production will no longer depend principally on undue expansion of the scale of capital construction, but instead will rely mainly on tapping the potential of existing enterprises. We will actively promote the technical transformation of the national economy on the basis of the consolidation and reorganization of existing enterprises in order to increase the productive capacity. In the meantime, we will no longer adopt the wrong method of one-sidedly aiming for high accumulation by reducing the consumption levels of the people; instead, we will rationally arrange the relationship between accumulation and consumption. Only in this way can we attain rapid economic growth with more accumulation and good results, at the same time better satisfying the people's needs.

Another important aspect of the strategic shift is that we will no longer isolate ourselves from international contacts; rather we will actively promote economic cooperation and technological exchanges with foreign countries on the basis of self-reliance and maintaining independence and initiative.

This shift also means that we will practise family planning and will no longer allow the country's population to grow at its former uncontrolled rate.

In addition, we will gradually reform the irrational system of economic management and set up a rational management system which brings into full play the initiative of enterprises and their workers, promotes the development of the productive forces, and ensures the satisfaction of the people's reasonable needs. At the same time, the relations of production will have to correspond to the nature and level of the productive forces, and, with public ownership occupying an absolutely dominant position as a prerequisite, different economic components and different modes of management may coexist. We will

carry out economic planning on the basis of public ownership and at the same time bring the supplementary role of market regulation into full play.

To sum up, by implementing the policy of readjustment and reform, China's economy will gradually conform to the model described by leading members of the State Council, in which the economy develops in a coordinated manner with a stable growth rate and a sound cycle, and in which the superiority of the socialist system can be brought into full play, so that the people can derive greater material benefits.

The shift in China's economic strategy not only has major theoretical and practical significance, but also has historical significance. After all, problems of strategy are not new to us. The term "strategy" refers to fundamental and far-reaching decisions which have a bearing on the whole situation. Mao Zedong wrote *Problems of Strategy in China's Revolutionary War* and other well-known works which had tremendous significance in the victory of China's revolutionary war. As everyone knows, the revolutionary war in China suffered serious setbacks but victory was achieved in the end. A fundamental reason for this victory was the shift from a wrong strategy to a correct strategy. Without a correct strategy, it is impossible to win a revolutionary war. Without a correct strategy, it is likewise impossible for socialist economic construction to become successful.

By viewing economic problems from a strategic perspective, we can realize just how important is the current readjustment period which China's economy is undergoing. The Communist Party underwent several strategic shifts with major historical significance during the revolutionary war period: once was during the Zunyi Meeting in 1935, another was on the eve of the War of Resistance Against Japan (1937-1945), and the third was after the victory of the War of Resistance Against Japan. We are all very well aware of the success of these strate-

gic shifts. In a very real sense the current shift in economic development strategy has a historical significance corresponding to that of these earlier shifts during the revolutionary war period, and it will just as certainly achieve victory.

Leading members of the State Council have stated that we should gradually bring about, by means of readjustment and reform and on the basis of stable economic development, the rationalization of the economic structure, the system of economic management and the organizational setup of enterprises. This aims to blaze a new trail in developing China's socialist economy to be characterized by a fairly steady tempo of advance, better economic results and more substantial benefits to the people. Realizing the rationalization of these three aspects is closely related to the new strategy for China's economic development and the methods for attaining the goals of this new strategy. In the following chapters, we shall deal with some questions related to the rationalization of the economic structure, the system of economic management and the organizational setup of enterprises.

Chapter II

TOWARDS A RATIONAL ECONOMIC STRUCTURE

Fundamentally speaking, the readjustment of China's economy is aimed at readjusting the economic structure and changing step by step the serious imbalances in the major proportions of the national economy, thus enabling the economy to develop in a planned and proportionate manner with the ultimate objective of satisfying the people's needs.

1. The Present Economic Structure and Its Major Problems

We should analyze China's present economic structure and its major problems in order to explain the necessity for its readjustment.

China's economic structure has undergone fundamental changes since the founding of the People's Republic in 1949. Old China was a semi-feudal and semi-colonial society with an extremely irrational economic structure and stagnant productive forces. After 1949, we did a great deal of work and attained considerable achievements in transforming the economic structure of old China.

First, we have established an independent and fairly comprehensive industrial and economic system. Before 1949, agriculture and handicraft industry occupied a dom-

inant position in China, with modern industry having only a very small proportion, and the national economy was dependent on foreign imperialist powers. After 1949, we carried out large-scale industrialization, gradually establishing the various branches of industry and continuously raising their level of modernization. China has already been transformed from an agricultural country into an agro-industrial country.

Second, socialist agriculture in China has already been established and consolidated. After the land reform, in the early post-1949 period, the peasantry took the road of collectivization. Over the past 32 years, we have carried out large-scale construction of irrigation and water conservancy projects, and the conditions for agricultural production have improved remarkably. There have been fairly big increases in the levels of agricultural production. Before 1949, agriculture in China depended almost entirely on manual labor, but since then there have been definite gains in agricultural mechanization. Particularly after the Third Plenum of the Eleventh Party Central Committee, the productive forces in agriculture were further developed as a result of the introduction of the different forms of the production responsibility system.

Third, big gains have been made in the area of communications and transportation. The transportation network left over from pre-1949 China was very limited and irrationally distributed. Such a state of affairs has now been changed. Aside from Tibet, all the provinces, municipalities and autonomous regions are now linked by railroad; except for Motuo County in Tibet and Derong County in Sichuan, all counties in the country are now connected by roads. In 1979, the civil aviation routes within the country totalled 160,000 kilometers, and there were already 15 international air routes to over 10 countries. China has already set up an oceangoing fleet which travels to more than 100 countries and regions.

Fourth, domestic and foreign trade has developed rapidly. The vast countryside in old China was basically a self-sufficient natural economy,* but now the situation has changed significantly. The total domestic sales of commodities amounted to 17,060 million yuan in 1950 and 235,000 million yuan in 1981, a 13.8-fold increase. In foreign trade, the total value of exports and imports was U.S.\$1,130 million in 1950, U.S.\$14,800 million in 1977, U.S.\$20,640 million in 1978, and U.S.\$29,330 million in 1979. The volume in foreign trade has also increased rapidly during the past two years, and the composition of exports and imports has also changed. By promoting foreign trade, we can accumulate funds for modernization and the import of advanced technology and equipment.

Fifth, the technological makeup has also improved remarkably. Aside from large quantities of mechanized equipment, there are also facilities for automation in industry. A large amount of agricultural machinery and new technology have also been employed in agriculture. Whereas before 1949 mainly manual labor was relied on, now the technological makeup of China's economy consists of a mixture of automation, semi-automation, mechanization, semi-mechanization and manual labor.

Compared to the situation before 1949, the people's livelihood has also improved greatly on the basis of the growth in production.

The fundamental reason for these changes in China's economic structure lies in China's establishment of the socialist system, which provided the conditions for the

* Natural Economy is an economic form opposite to that of commodity economy. Production under such economy is not for the purpose of exchange; rather there is self-sufficiency of the producer or economic unit (a clan or a feudal manor, for instance). It was the predominant economic form in primitive, slave and feudal societies. With the development of the productive forces and the social division of labor, however, natural economy was gradually replaced by commodity economy.

rapid development of production and the reform of the economic structure. By contrasting the economic structure before and after 1949, we can see many positive factors in the present structure, as we have just demonstrated above. The foundations for modernization have been laid down.

There is tremendous potential in China's agriculture. The country is also rich in mineral resources as well as in water resources. If properly utilized, our large labor force can also become a favorable factor for developing production. As long as we make full use of the superiority of socialism and the favorable factors mentioned above, we can surely set up a rational and modern economic structure which is suitable to our national conditions.

However, our present economic structure is irrational in many respects, which entails grave consequences. Due to its irrationality and the serious imbalances in the national economy, reproduction cannot be carried out smoothly. Many factories are operating below capacity due to power shortages. It is estimated that the annual shortfall in electricity amounts to 40,000 million-50,000 million kilowatt-hours. Because of this, the value of industrial output was reduced by over 75,000 million yuan. In capital construction, many projects had to be discontinued due to the shortage of power, while those which were continued could not be completed and put into operation for a prolonged period of time. This led to the waste of a lot of electricity, materials and other resources. Indeed the irrationality of the economic structure has led to a serious problem with wasted energy consumption in many branches of the economy. In terms of national income produced per ton of coal consumed, China's rate is less than one-fourth that of Japan's.

Other problems include a very low utilization rate of various types of equipment and large numbers of people awaiting employment. The irrational economic structure

has also resulted in a decline in economic results. For example, our utilization of fixed assets and the turnover in circulating funds are only one-third of those in the developed countries. The irrational economic structure has also affected the improvement in the people's living standards and hampered the reform of the economic management system. We must sufficiently recognize that the existing problems in present economic structure are serious obstacles to the achievement of the four modernizations.

What are the major problems existing in our present economic structure?

1. Agricultural development cannot keep up with the needs of national economic development, and this has become an important factor limiting the rapid development of the national economy. Since the founding of the People's Republic, the proportion of agriculture in the gross output value of agriculture and industry has gone down sharply from 70 per cent in 1949 to 29.7 per cent in 1979. Agriculture is becoming increasingly backward in comparison to industry, and there is a danger that industry will continue to develop one-sidedly at the expense of agriculture. The productivity of agricultural labor is low. Although the agricultural population comprised 83.8 per cent of the total population, and the agricultural labor force made up 84.9 per cent of the combined industrial and agricultural labor force, the supply of agricultural products still cannot meet the needs of the developing economy.

The structure of China's agriculture is also very irrational. Because of the undue emphasis on the policy known as "taking grain as the key link" in the past, the forests and grasslands were damaged; natural resources could not be utilized fully, and the ecological balance was upset. The rate of increase in grain output was even lower than the rate of population growth for a certain period of time. Since the Second Five-Year Plan

(1958-1962), China has had to import several thousand million *jin* of grain annually. If there is a crop failure or if state purchases are too high, severe food shortages will occur in some areas. This situation is inappropriate for a big agricultural country.

Since the Third Plenum of the Eleventh Central Committee, the Chinese Communist Party has adopted a new agricultural policy. The decision-making powers of the production teams have been expanded, remuneration is now linked more directly to output, and different forms of the system of production responsibility have been set up. In addition to grain production, more diversified farming activities have rapidly developed. Thus, favorable conditions for transforming the backwardness of agricultural development have been created.

2. Light industry is also backward and cannot meet the increasing needs of the people in both rural and urban areas. Light industry in China has never been given the standing it deserves, and its investment share in the total capital construction investments has been too low. It stood at only 5.9 per cent during the First Five-Year Plan period; subsequently its share of total investments actually declined. On a per capita basis, China's production of major light industrial products is very much lower than that of the world's advanced countries. In fact, the supply of some products cannot even meet the minimal needs of the people's livelihood. The production technology in China's light industry generally belongs to the level of the 1940s and 1950s abroad, with some even dating back to the 1920s and 1930s. As a result, labor productivity is very low.

The ratios within light industry are also badly coordinated. The composition of raw materials in light industry is very irrational. The proportion of agricultural raw materials is too large while that of industrial raw materials is too small, a situation which hampers seriously

the development of light industry. The backwardness of light industry has resulted in a shortage of light industrial goods on the market, with the market gap in the supply and demand of commodities amounting to several thousand million yuan in recent years.

3. Heavy industry developed in a lopsided manner at the expense of agriculture and light industry. Heavy industry in China is not very developed and should still be further developed, but viewed in the context of the current economic situation, its scale and rate of growth have exceeded the material and financial capability of the national economy. Thus, it has crowded out agriculture and light industry and hindered its own development.

There are also serious imbalances in the internal composition of heavy industry. First, the energy industry is backward. While China's industrial output value grew annually by an average of 11.1 per cent from 1953 to 1980, energy production only increased by 9.6 per cent on the average annually. The shortage in energy has already become a serious problem in the national economy at present. Second, the raw materials and processing industries are not well-coordinated. The processing capacity of China's existing machine tools is 3 to 4 times bigger than the capacity to supply steel products, and the proportion of machine tools for roughing is much bigger than the proportion of machine tools for precision work. The efficiency of our machine tools is also very low compared to other countries, and the machine-building industry falls far short of meeting the needs of the technical transformation of the national economy. Third, the building materials industry is also lagging behind. From 1953 to 1980, the building materials industry grew at an average annual rate of 11.5 per cent, which is lower than the 13 per cent average annual growth rate of heavy industry. Except during the First Five-Year Plan period

and the economic readjustment period of the early 1960s, the major output of building materials increased at a rate lower than the industrial growth rate for the same period. The proportions within the different branches of heavy industry are also out of balance; for example, within the oil and coal industries, there is an imbalance between excavation and extraction, while within the iron and steel industry, an imbalance exists between iron mining and steel smelting, as well as between steel smelting and steel rolling. Because of all these circumstances, heavy industry has not been able to fully play its leading role with respect to agriculture, light industry and the national economy as a whole.

4. The development of communications and transportation is also lagging far behind the rate of economic growth. The total length of our railroad network is less than one-sixth that of the United States and less than one-half that of the Soviet Union. It is also less than that of India. China's highway and water transport system also cannot meet the requirements for developing agricultural and industrial production. The handling capacity of our coastal harbors is highly inadequate and adversely affects the development of foreign trade. China's postal and telecommunications system is also a weak link in the national economy.

5. Commerce and service trades have not kept up with national economic development. From 1957 to 1978, China's population increased by 48 per cent, the total number of workers and staff members grew by over 200 per cent, and the total volume of commodity sales rose by over 200 per cent, but there was very little increase in the number of personnel engaged in commerce and service trades. During the same period, the number of people served per person employed in these trades rose as follows: retail trade, from 114 to 213 people; catering trade, from 563 to 912 people; and service trades, from

1,056 to 1,699 people. As a result, workers and staff members have to spend a lot of time queuing up every day, thus adding to the inconvenience in people's lives. Although the situation has improved since 1979, the problem is still a very serious one.

6. Foreign trade cannot cope up with the demands of accelerated modernization. The total volume of world trade in 1978 was U.S.\$2,621,200 million, of which China's share stood at 0.8 per cent. The proportion of China's export commodities (calculated on the basis of the domestic purchase price of these export commodities) to the total value of the country's industrial and agricultural production is very small — 3.9 per cent in 1977 and 1978. The slow growth in exports limited our ability to import technology and equipment, and the composition of exports and imports was also very irrational. Complete sets of equipment were imported in large quantities, and the problem of duplication in imports was extremely grave.

7. The scale of capital construction was excessive. During the First Five-Year Plan period, the expenditures for capital construction made up 37 per cent of the total financial expenditures. At present, this is generally considered to be an appropriate proportion. During the Second Five-Year Plan period, the percentage rose to 46.2 per cent, which went very much beyond the country's capability and had adverse effects on production. It was 40.2 per cent on the average during the Fourth Five-Year Plan (1971-75) and 40.7 per cent in 1978. The excessive scale of capital construction seriously affected investment results and likewise affected normal production as well as the people's normal consumption levels. Definite results have been achieved in the reduction of capital construction in recent years, but it is still excessive in scale. The task of readjusting it remains a very formidable one.

8. The proportion between productive and non-productive investments is not in balance. During the First Five-Year Plan period, productive investments made up 71.7 per cent of the total investments in capital construction while non-productive investments made up 28.3 per cent. This ratio basically suited the requirements of national economic development at that time, and production and construction rapidly developed while the people's livelihood improved correspondingly. During the Second Five-Year Plan period, the share of productive investments rose to 86.8 per cent while that of non-productive investments declined to 13.2 per cent. From 1967 to 1976, the share of productive investments increased further to 87.3 per cent while that of non-productive investments decreased somewhat to 12.7 per cent, resulting in an acute imbalance in the proportion between them. Because of insufficient non-productive investment, the average floor space per person in Chinese cities was only 3.6 square meters in 1977, smaller by 0.9 square meters than the average of 4.5 square meters in 1952. There were 6.26 million families without adequate housing, comprising 37 per cent of the total households in the cities.

The problems enumerated above are by no means comprehensive, and there are other problems which should gradually be solved in the course of readjusting the economic structure. These other problems include the following: an irrational price structure, the lack of coordination between industries for national defense and industries for civilian use, serious industrial pollution, the slow development of collectively-owned enterprises in towns and cities, the gap between science and education and the requirements of modernization, the low technical level of workers and staff members, the low level of management, and the large number of people awaiting employment.

Among these problems, the most crucial is the imbalance in the proportions between agriculture, light industry and heavy industry. This relationship is, in essence, the relationship between the means of production and the means of consumption. The fundamental problem in our present economic structure is that the production of the means of consumption cannot keep up with the production of the means of production. Solving the contradictions in this relationship should be our point of departure in solving the series of problems relating to the economic structure.

There are a number of reasons behind the irrational economic structure, and we have already discussed some of these. Here I would like to make an additional explanation regarding some of the more important reasons.

First of all, the narrow pursuit of high targets of output value disrupted the overall balance. The primary task in economic planning is to attain an overall balance. Starting from 1958, we one-sidedly aimed for high targets in terms of output value and ran counter to the requirements of developing the national economy proportionately. There used to be a prevalent formulation which held that proportion should be subordinated to speed and that unrealistically high targets were "Marxist," while realistic targets were denounced as "right opportunist" or "revisionist." Those who adhered to this mistaken formulation also criticized the attainment of an overall balance, calling it "passive balance," and even advocated the disruption of an overall economic balance as "active balance." Practice has already shown that this formulation is completely wrong.

On the question of socialist construction, a kind of thinking which could be called "the theory of quick success" existed over a long period of time. It viewed economic construction as a very simple and easy matter which could be completed overnight. With this kind of thinking, we unavoidably adopted a subjective ap-

proach and set unrealistically high targets in narrow pursuit of a high growth rate. To require that all provinces to become industrial provinces with their respective independent and comprehensive industrial systems is also a manifestation of this impractical kind of thinking. In the future, we should oppose this obsession with quick success in economic construction, while at the same time preventing and overcoming any feelings of passivity.

Second, we gave too much emphasis to the preferential development of heavy industry at the expense of agriculture and light industry. Mao Zedong repeatedly pointed out that the relationship between agriculture, light industry and heavy industry in the course of socialist construction should be correctly handled. But in practice we often neglected agriculture and light industry and over-emphasized the preferential development of heavy industry. In particular, we carried out the policy of "taking steel as the key link" for a long time, which led to a serious imbalance even within heavy industry. There used to be a widely held theory which considered it the capitalist road to start industrialization with light industry, and the socialist road to start industrialization with heavy industry. Practice proves that this theory has no scientific basis. Actually, the transition from an agricultural to an industrial country usually begins with the development of light industry and only after a certain stage in the development of light industry and agriculture can the priority be given to the development of heavy industry. This can be considered a law. When we carried out large-scale socialist industrialization in 1953, we considered it necessary to implement the policy of giving priority to heavy industrial development, because light industry accounted for a fairly big proportion of the country's industrial production and it had a certain latent capacity which would allow for speedy development of the extremely backward heavy industry. This emphasis on heavy industrial development was also related to the

international situation at that time. We scored great success with this policy during the First Five-Year Plan (1953-57). But the preferential development of heavy industry cannot be isolated from the development of agriculture and light industry, and it does not necessarily mean that the rate of heavy industrial growth should be faster than that of light industry at all times. Problems later arose when we failed to develop heavy industry on the basis of agriculture and light industry, but rather put undue emphasis on heavy industrial development.

Third, we aimed for an excessively high accumulation rate. During the First Five-Year Plan period, the accumulation rate in China was basically stable at 23 per cent to 25 per cent, which was quite suitable to the situation at that time. The accumulation rate has been too high ever since the Second Five-Year Plan, and this has been an important cause of the irrational economic structure. We formerly thought that the national economy would develop faster with a higher accumulation rate. In fact, this was not the case. Practice has shown that an excessively high accumulation rate invariably leads to an imbalanced economy and a serious decline in investment returns and production results. If the accumulation rate is too high and the proportion of productive investments is too big, these will not only be incompatible with the increase in the means of production, but will also inevitably result in decreasing consumption to abnormally low levels and dampening the workers' enthusiasm, thus adversely affecting production.

In the fourth place, certain "Left" practices during the process of organizing the people's communes dampened the initiative of the peasants. The problem with China's economic structure, fundamentally speaking, is that agriculture is too backward. With agriculture and light industry lagging behind, it is difficult for heavy industry to rapidly develop. There are many reasons for the backwardness of agriculture, but an important one is the

"Left" policy which was carried out over a long period of time. The movement to organize agricultural cooperatives in China in the 1950s made great achievements, but there were also shortcomings in some areas where the agricultural cooperative movement was carried out hastily. Particularly during the movement to organize people's communes in 1958, the peasants got discouraged as a result of the stirring up of a "communist wind", excessively high quotas for state purchases of agricultural products, and the issuing of arbitrary directions. Later on, Lin Biao and the "Gang of Four" time and again called for the so-called "cutting off the tail of private ownership", abolished private plots and country trade fairs, and advocated a higher form of public ownership despite a poor development of productive forces. All these tendencies prevented a number of correct policies from being consistently implemented.

Finally, the system of economic management has serious defects. It is overcentralized, with enterprises lacking the decision-making powers they should have and the market unable to correctly play a regulatory role. We have not paid serious attention to, nor have we brought into full play, the role of collectively-owned enterprises, whether in industry, communications and transportation, or in commerce. In addition, there is no clear distinction between government administration and enterprise management, and we stressed the use of administrative rather than economic methods of management. In a socialist planned economy, social production lacks an effective regulatory mechanism which can promptly discover and solve problems as they emerge in the national economy. Problems related to this aspect will be discussed in more detail in Chapter III.

What type of economic structure does China have at present? Various kinds of interpretation have been proposed in answer to this question. Many people think that our economic structure is a lopsided one in which

steel production was overemphasized in industry, while grain production was given too much stress in agriculture for a fairly long period of time. There is an element of truth in this view. In my opinion, the economic structure in China can be summarized in the following way: due to the influence of "Left" errors in our economic work over a long period of time, we unduly stressed the development of heavy industry at the expense of agriculture and light industry. We increased the total value of both production and revenues and provided employment for the labor force, mainly by allocating a large amount of funds and energy for capital construction and building new factories. However, industry was not linked with agriculture to form an integrated production system, nor was heavy industry linked with light industry. Heavy industrial development in particular, which placed too much emphasis on "taking steel as the key link", consumed a large amount of energy and used the bulk of the country's transport capacity. Moreover, an enormous amount of investments was made in heavy industry at the expense of agriculture and light industry; this also adversely affected the energy, communications and transportation industries. Consequently, heavy industry developed in an unbalanced way, with energy, communications and transportation becoming the weak links in the national economy. Neither did the iron and steel industry itself develop in a proper way. Thus, in the course of time a lopsided economic structure gradually formed in which certain branches of heavy industries were overly developed while agriculture, light industry, energy, communications, transportation, construction, commerce and service trades remained fairly backward. Different regions also set up their separate and self-sufficient economic systems, while various departments and enterprises, regardless of size, likewise had their own complete production systems. Thus, China's economic structure had come to be characterized by imbalanced proportions,

looseness in organization, low efficiency and serious waste.

Were we to allow such an economic structure to persist, the relations between the different branches of the economy would never be coordinated. The structure linking the various branches, sectors (by types of ownership), organizations and regions as well as linking the various aspects of reproduction in the national economy would inevitably be rather loose, since they lack closely-connected internal relations. Specialization, division of labor and cooperation would be hindered, and commodity circulation could not proceed smoothly. The planning mechanism and the market mechanism would not function properly, and the contradictions between production and marketing, as well as between production and circulation, could not be solved promptly. The role of the market in providing feedback for economic planning could not be brought into play. All these would inevitably result in excessive investments, serious wastage, excessive consumption of resources, low economic results, few material benefits for the people and an unsound economic cycle.

From the preceding discussion, we should recognize the seriousness of the problems in the present economic structure as well as its positive elements. Only by doing so can we have an all-round understanding and a correct estimate of these problems, and thus find the correct method to solve them.

2. Fundamental Requirements and Methods for Readjusting the National Economy

One aspect of the superiority of the socialist relations of production lies in the fact that it enables the national economy to develop in a planned way. If there are mistakes in macroeconomic policies which put the propor-

tionate relations of the national economy out of balance, it is possible for the proper balance to be restored by means of planned readjustment.

Economic readjustment is aimed precisely at readjusting the irrational economic structure with its lopsided development and poor coordination between the different branches, and setting up a rational economic structure. Such a rational economic structure requires that the guiding policy should redirect its objective from the development of heavy industry to the production of final consumer goods. This means that the production of final consumer goods will be determined on the basis of the needs of the people and society, while the production of intermediate products and primary products such as raw materials will in turn be determined on the basis of the needs of the production of final consumer goods. In other words, an economic structure will be established in which industry and agriculture can develop harmoniously for the production of final consumer goods. After this kind of economic structure has been established, the industries producing raw materials and processing intermediate products will be geared to the production of final consumer goods, and all trades and enterprises will have a clear notion of whom they intend to serve and what goals to strive for. In this way, their products will become necessary components in the process of reproduction, and the supply of products will be linked in a much better way to social needs. Thus can maximum economic results be attained from the labor force and the material and financial resources invested by society. The continually increasing material and cultural needs of the people can thereby be better satisfied. With such an economic structure, our country's human, material and natural resources can be utilized more fully, while the various branches of the national economy and the different links in social production can develop harmoniously and a sound cycle can be realized. These are the fun-

damental requirements of readjusting the national economy.

In exploring ways to readjust our current economic structure, we must have a grasp of the basic characteristics of our economy and, proceeding from actual conditions, give full play to our strong points while overcoming our weaknesses. China's economy has a number of basic characteristics. First of all, China has a population of 1,000 million people, with peasants numbering 800 million. This is fundamental. Secondly, we have a big labor force and abundant natural resources but are short of funds. Thirdly, although our socialist construction has scored major achievements, our economic foundations are still very weak, and our technological and management levels are still very low. And last of all, the socialist economic system has already been established, but the economic structure and system of management still have many imperfections.

Taking the basic characteristics of our economy and the problems existing in our economic structure as the point of departure, there are several principles which should be borne in mind in formulating policies for readjusting the economic structure. First, our socialist system requires that our economic structure be geared to the satisfaction of the people's basic needs such as food, shelter and clothing. Second, the development of agriculture and light industry should be taken as the primary problem to be solved, while special attention should also be given to energy, communications and transportation. Within the next ten years, there should be more emphasis on developing labor-intensive and energy-saving industries in order to solve the employment and energy problems. Third, we should adhere to the policy of self-reliance. This involves giving full play to existing enterprises by devoting ourselves to tapping their full potential and carrying out the technical transformation of these enterprises. Fourth, we should expand exports, import

technology and utilize foreign funds to strengthen the weak links in our country. Fifth, military and civil industries should be integrated for the benefit of the people. Sixth, the development of science and education should be given importance, and efforts should be made to do a good job in the fields of population planning, environmental protection, improvement of working conditions, urban construction, and health care and sanitation. In brief, the main aim in improving China's economic structure should be to suit social production to the consumption needs of the people.

Based on these principles, we shall now discuss the specific methods for the readjustment of the national economy.

1. We must first develop agriculture in a comprehensive way to lay a solid foundation for national economic development. The problem of grain production has not been solved; this constitutes a major obstacle to the comprehensive development of agriculture, which includes crop farming, forestry, animal husbandry, sideline occupations and fisheries. However, historical experience in China and abroad has shown that the grain problem can only be solved in the course of an all-round development of agriculture; rather than concentrating on grain alone, the production of industrial crops should also be developed. What's more, we cannot promote grain production by resorting to the destruction of forest areas, grasslands and areas for industrial crops. Otherwise, we will not only fail to solve the grain problem, but also will damage the rural economy and the ecological balance. This of course would entail serious consequences.

In order to develop agriculture in an all-round way, the series of important principles and policies adopted by the Party since the Third Plenary Session of the Eleventh Central Committee should be conscientiously implemented. The major ones are as follows:

(1) Uphold the collective ownership of production teams and respect their decision-making powers. Different kinds of responsibility systems linking production directly to remuneration and other management systems which are effective and conform to the level of development of the productive forces should be implemented. There should be a stable long-term policy on private plots and family sideline occupations of commune members.

(2) Formulate scientific plans for agriculture on a regional basis. There should be a guaranteed supply of grain rations for peasants and herdsmen in forest areas, pasturelands and other areas where industrial crops are grown. Various regions should be allowed to strengthen cooperation so as to help in supplying each other's needs and to bring their respective natural and economic advantages into full play. We should strive for a faster development of forestry, animal husbandry, sideline occupations, fisheries and different kinds of industrial crops. Various regions should promote diversified farming which makes full use of local conditions and attains the best results.

(3) Formulate a policy for agricultural mechanization which is suitable to the conditions in China, rather than indiscriminately copying from abroad the practice of carrying out total mechanization of agriculture. We should utilize fully the big rural labor force to carry out scientific farming and increase the yield per unit area. With the exception of northeast and northwest China which have vast but sparsely populated areas, other regions should first of all utilize agricultural machinery for rural transport, storage and rush seasonal tasks. Within the foreseeable future, measures should also be adopted to encourage the use and development of draught animals. At present, the total quantity of chemical fertilizer applied is not too great and the amounts of nitrogen, phosphorus and potassium applied are not in proportion. In

the future, we should fill up the gaps in chemical fertilizer production and attain a balanced development. We should likewise increase the amount of organic fertilizer. In developed capitalist countries, it is already a universal phenomenon for the organic composition of agriculture* to greatly exceed that of industry, with agriculture having a high ratio of fixed assets and circulating funds per unit of agricultural output and an excessive energy consumption. We should pay close attention to this phenomenon.

(4) Stress actual results in agricultural construction projects. The scale of agricultural capital construction built over the years through state investments and the labor of production team members has been fairly big, and it has played a significant role in agricultural production. However, the actual results of a considerable number of these projects have been very poor, and some have even damaged the environment and disrupted the ecological balance. In the future, we should alter our previous practice of concentrating only on construction measures in building irrigation works; we should combine the building of such projects with necessary afforestation work so as to guarantee the sources of water. We should pay attention to the addition of accessories to the projects already built and give full play to investment returns.

(5) Readjust the price parities between industrial and agricultural products in a planned way, and gradually narrow the "scissors" gap between the prices of industrial and agricultural products.

2. We must accelerate the development of light industry. The growth rate of light industry should be more rapid than that of heavy industry for a certain period of time.

* This refers mainly to the proportion of investment in machinery.

In order to accelerate light industrial development, there are a number of changes which must be made, as listed below:

(1) Gradually change the composition of raw materials for light industry. In view of modern industry's trend of development, the growth of China's heavy industry (particularly the metallurgical, petrochemical and coal industries) and the market demand, our idea is to first strive to change the proportional composition of industrial and agricultural raw materials in light industrial products. Whereas the current ratio is 3:7, we would hope by 1985 or soon thereafter to have achieved a ratio of 4:6, or even 1:1. Then we will aim for 1:1 or 6:4 by approximately 1990.

(2) Gradually change the product mix of light industry. Based on past experience in China and abroad, as the people's living standards rise, the proportions between three types of goods — food, clothing and various consumer items — will change. The proportion of clothing and that of consumer items will particularly increase. The proportions of durable consumer items, and medium and high-grade goods purchased will also increase. Corresponding changes should be made in the product mix of light industry. In addition, traditional handicrafts should be preserved and developed to gain more foreign exchange.

(3) Readjust the structure of ownership in light industry. For a long time to come, handicraft production must not be neglected, and collectively-owned industries should be further developed. Collectively-owned industries should account for a bigger proportion of the light industrial output value compared to industries under the ownership of the whole people. In addition, individual handicraftsmen should be allowed to develop production and operate with several assistants and apprentices.

(4) Firmly implement the policy of "six priorities"* for developing light industry. The number of scientific and technical personnel in light industry should be increased.

(5) The various branches of heavy industry should make efforts to produce consumer goods, particularly durable consumer goods, which are suited to the people's needs.

3. We must readjust the internal structure of heavy industry and give full play to the role of the engineering industry in technical transformation. Heavy industry plays a leading role in the national economy. It supplies energy, raw materials and equipment to the different branches of the national economy. It also supplies durable consumer goods to the people and exports products as well. Production and construction in heavy industry should be closely linked to the above-mentioned aspects if heavy industry is to effectively promote the rapid development of the national economy. Thus, the proportion of heavy industrial products which directly serve agriculture and light industry should be increased. In order to improve the structure of the national economy, the service orientation and product mix of heavy industry needs to be appropriately readjusted, and its rate of development as well as its proportion in the total industrial output value should also be correspondingly readjusted.

To realize the four modernizations, technical transformation must be carried out in the different branches of the national economy. The engineering industry should shoulder this task and realistically readjust its service orientation and product mix. Its orientation should be

* That is, priority in the supply of raw materials, fuel and electricity; priority in measures regarding the tapping of potential, technical innovation and technical transformation; priority in capital construction; priority in bank loans; priority in foreign exchange and the imports of technology; and priority in communications and transportation.

shifted from mainly serving the capital construction of new factories to serving the technical transformation of old factories. It should also contribute more in serving agriculture, light industry and urban construction, particularly residential construction; in the area of the people's livelihood, particularly in the production of durable consumer goods, there is also much need for the skills of the engineering industry. Instead of concentrating on the domestic market only, it should gradually increase its output of products for export.

In order to effect the changes described above there are a number of problems which must be solved as enumerated below:

(1) Accelerate the technical transformation and updating of equipment in a planned way. The equipment in the majority of China's enterprises is already obsolete, and we should strive to replace it within the next 10 to 15 years. In this way, we can increase the sources of scrap iron and promote the development of the iron and steel industry. The utilization rate of equipment in the engineering industry can also be increased, thus alleviating the problem of under-utilization. Technical transformation is also advantageous for improving the technological levels of enterprises and increasing the rate of labor productivity. Furthermore, energy consumption and waste in raw materials can be reduced.

Technical transformation should be put forward as a strategic task in the ten-year plan. The updating of equipment is an important aspect of technical transformation; in the process of updating equipment, however, the surplus in China's labor power should be taken into consideration and automation should not be unduly emphasized. Instead, the aim should be to improve quality, increase variety, reduce the consumption of raw materials, economize on energy, prevent environmental pollution, raise the technical and economic indices of products, and expand the productive capacity. The aim of

course is to make advanced products that are also internationally competitive. The level of automation should be increased based on the actual needs of production. Whenever it becomes more expensive to repair equipment than to buy new equipment, or when the value of wasted energy exceeds the value of buying new equipment, we should buy new equipment. The excessively low rate of depreciation currently being implemented should be raised gradually so that technical transformation will have a stable source of funds and will be included in the state plan.

(2) Utilize fully the productive capacity of enterprises in military-related industry. The specialized production of the military industry and the civil engineering industry must be integrated according to the types and characteristics of their production lines and manufacturing technology. A considerable number of the country's machine tools, particularly large-sized, high-precision and numerically-controlled machine tools, are in enterprises of the military industry, and these are hardly being fully utilized at present. Therefore, in organizing the production of the engineering industry, the dividing line between national defense industry and civilian industry should be broken down. Specialized corporations should be organized according to product lines requiring similar technology, and the production of similar products should be integrated. When enterprises in the military industry produce goods for civilian use, some equipment may have to be added, but it is not advisable to expand capital construction without controls. It is also not advisable to blindly increase the number of production lines; a production line should be utilized to produce goods both for military and civilian use.

(3) Improve the quality, reduce production costs and enhance the competitiveness of heavy industrial products on the international market. China is among the world's leading producers of machine tools, but its machine tools

are characterized by poor technical performance, short service-life, poor reliability and high production costs. Only by improving quality and reducing production costs can we do a better job of equipping the various branches of the national economy and entering the international markets. Machinery products should gradually constitute the major portion of China's exports, and the exports of complete sets of equipment should be increased. This should be the strategic thinking for developing the engineering industry.

The iron and steel industry is an important branch of heavy industry. Its development should take into full consideration the requirements of the different branches of the national economy, particularly the engineering industry, in regard to the quality, variety, specifications and quantity of steel products. In order to change the overemphasis on the iron and steel industry, the metallurgical sector should shift the stress in iron and steel production to increasing the variety and improving the quality of steel products. It should also strive to reduce the consumption of energy and other materials, thereby improving overall economic results. The development of iron and steel production involves an enormous amount of investments and energy; the question of exactly how much iron and steel are needed in the different stages of the march towards modernization needs to be carefully studied.

Japan at present has an annual steel production of 100 million tons, of which 30 million tons are exported. The products of the shipbuilding and car manufacturing industries, which are the biggest consumers of steel products, are also mainly exported. The exports of the other machine-building industries, which likewise utilize a portion of the domestic steel output, are also considerable. West Germany only produces 50 million tons of steel per year and in the case of Britain, less than 30 million tons, but these are sufficient to meet the needs of their domes-

tic manufacturing industries. There should be a realistic estimate of exactly how much steel we need.

The internal structure of the iron and steel industry should also be readjusted: the current ratio of iron to steel in China is 1.09 to 1, compared to the international average ratio of 0.7 to 1. If we can reduce the ratio to 0.9 to 1, over 9 million tons of coal can be saved every year. To accomplish this, there should be more recycling of scrap iron. Thus steel output can be increased without increasing energy consumption. Furthermore, we should strive to produce more steel products of satisfactory quality with the same gross steel output, thus increasing both use-value and exchange-value.

China's petrochemical and coal-chemical industries are still very backward and fall far short of meeting the needs of light industry and other branches of the national economy. Within the next ten years, we should strive to achieve a more rapid development of these industries within the limits of available raw materials and funds, so that they can supply light industry and other branches of the national economy with more raw materials as well as other supplies. In this way they contribute more towards the modernization of agriculture.

4. We must set a long-term and stable energy policy as soon as possible and establish a rational energy structure. Energy is an important factor restricting the scale and rate of industrial development. Average per capita energy consumption is a general yardstick of a society's productive capacity and standard of living. There is an acute energy shortage in China at present. If the energy problem is not solved, it will be impossible for the national economy to develop smoothly or for the people's livelihood to continuously improve.

Energy resources in China are not very abundant compared to the requirements of realizing the four modernizations. According to current estimates of recoverable reserves, the per capita average of energy resources in

China is only one-half of the world's average, one-tenth of the United States, and one-seventh of the Soviet Union. Therefore, we must formulate a far-sighted and scientifically-based energy policy.

(1) As dictated by the situation of our country's energy resources, coal will remain the principal source of energy for a fairly long period of time. The proportion of coal in the composition of energy consumption should be maintained at the current level of over 70 per cent. There should be major efforts to exploit coal resources, particularly those in Shanxi, Inner Mongolia, Guizhou, Anhui, Henan and Shandong, and large bases for coal production should be set up in a planned way. At present, we should first concentrate our efforts to develop the coal resources of Shanxi, which has the richest reserves, the best conditions for exploitation and excellent economic results. In this way we can best meet the needs of coal-deficient regions within the country and increase exports. Extraction should be carried out rationally, and the percentage of recovery should be increased. Working conditions should be improved and safety in production should be ensured. The gasification and liquefaction of coal should be carried out in a planned way in the next ten years. However, since no major developments can be expected in these fields in the immediate future, the main method of consumption will continue to be the direct burning of the coal. Thus, the technology in this aspect should be correspondingly improved to increase heating efficiency, while measures for environmental protection must also be adopted.

(2) Geological prospecting for oil must be intensified, and oil should be rationally extracted and utilized. In the future, we will move towards the use of petroleum mainly for the production of industrial chemicals; the portion directly utilized as fuel will be greatly reduced.

(3) Hydroelectric power is a cheap, clean and renewable form of energy. China has fairly abundant hydro-

power resources. If 1,000,000 million kilowatt-hours of electricity could be generated, this would be equivalent to 600-700 million tons of coal. At present, however, only 3 per cent of the total resources have been developed. Seventy per cent of the country's potential hydroelectric resources is located in the southwestern border areas, and the question of how these resources can be rationally exploited and utilized needs further research. In terms of investments and the time period needed for construction, the development of hydroelectric resources is not at all inferior to the development of thermal power if the coal mines and transportation network necessary for thermal power generation are taken into account. Therefore, we should pay special attention to the development of hydroelectric resources in the future.

(4) The energy problem in the countryside must be solved. Methane gas, small-scale hydroelectric stations, and firewood resources should be developed to solve the energy problem in the countryside and mountainous areas. In the allocation of investments and materials in the future, we must create conditions for the development of different forms of energy in the countryside.

(5) We must vigorously economize on energy. Our country has very great potential in energy savings. The energy consumption coefficient in the past was about 1.2 (that is, energy consumption increases by 1.2 per cent for every 1 per cent increase in output value). Since we began to stress the need to economize on energy in 1979, the coefficient has declined by 0.12, which shows that there are bright prospects for further economies. The main energy-saving measures will include a resolute reduction in the production of goods which consume a lot of energy but are not needed by society, and the development of energy-saving industries. Furthermore, energy-saving measures must be adopted in the course of technical transformation. We should be resolute in stopping the operation of those small-scale industries which have

consumed energy excessively and incurred big deficits over the years.

5. We will have to develop the building materials and construction industries in a planned way.

The housing shortage is the most conspicuous problem facing urban residents in China today. The housing problem in the countryside is also very serious. We should therefore pay special attention to the development of the construction industry and especially the building materials industry. If we neglect the latter it will be akin to "cooking a meal without rice," and the construction industry will be unable to develop according to plan. We should implement the following measures:

(1) Strengthen urban planning in order to carry out construction in a planned way. This is necessary to overcome the current state of anarchy in construction. Construction in the countryside should also be carried out according to plans which are in accord with local conditions. The indiscriminate occupation of farmland for the purpose of building houses must be stopped.

(2) Speed up the production of such building materials as cement, glass, bricks and tiles. We should also develop new types of building materials. Local collectively-owned building materials industries should be further developed. Non-metallic mining bases should also be selectively developed in order to provide the national economy and national defense with sophisticated non-metallic materials.

(3) Ensure balance and coordination between the construction industry and related branches of the national economy.

(4) Gradually divert construction products into the realm of commodity circulation so that they can be bought and sold.

(5) Introduce a savings scheme for housing and a system of payment by installments, to encourage individuals to buy or build houses. There should also be correspond-

ing improvements in the method of allotting and using housing space and of collecting rent.

6. Another important aspect of our efforts to readjust the national economy is a two-pronged approach involving both an appropriate reduction of the accumulation rate and a rational readjustment of the investment structure.

(1) Many problems have arisen as a result of the very high accumulation rate which we have maintained in China over a long period of time. Based on historical experience in China and abroad and the current level of our national economy, it is quite appropriate to maintain the accumulation rate at about 25 per cent.

(2) Capital construction should be carried out on an appropriate scale, and in line with our country's conditions and capability. There are limits to be observed. First, the people's living standards cannot be lowered. Second, budget deficits cannot be allowed to occur, and third, the materials required by construction plans cannot exceed the available supply. The present scale of capital construction therefore should be effectively reduced; consequently a number of big heavy industrial construction projects must be resolutely stopped or postponed.

(3) In accordance with the principle of first paying attention to production before engaging in new capital construction, the requirements for the technical transformation of existing enterprises should first be ensured. Acceleration of technical transformation of existing enterprises is the basic way to realize the four modernizations. Instead of allocating investments principally for the construction of new projects, investments should now be allocated mainly for the replacement and transformation of equipment. In the future, the proportion of funds allocated for technical transformation of existing enterprises compared to the total amount of capital construction investments by the central and local authori-

ties should gradually increase from 30 per cent in 1978 to 70 per cent. Imports of technology and equipment from abroad must be used first of all for the technical transformation of existing enterprises. Imports should not always be devoted to the construction of new projects. All this represents an important change in the principle of investment allocation.

(4) Investment priorities should be rationally determined in line with the need to readjust the structure of agriculture, light industry and heavy industry. Necessary investments for light industry should be guaranteed first. This can help alleviate the tight market situation and increase the accumulation fund much faster. At the same time, investments for agriculture should also be appropriately increased. The previous method of investment allocation which favored industry at the expense of agriculture, and which stressed heavy industry at the expense of light industry, should be changed. Investments for heavy industry itself should also be distributed properly. Investments for the development of the energy industry should come first; investments in the metallurgical industry should be mainly used for increasing the variety and specifications and improving the quality of products needed by society. The construction of necessary mines must also not be neglected.

(5) Investments in service trades should be increased appropriately to speed up their development. This is an important aspect of the setting up of a rational economic structure.

(6) Investments in education and science must be increased so as to accelerate further development in these areas. The backward state of education and science in China has become a major obstacle to the four modernizations. In the allocation of investments, therefore, an extremely important problem to be considered is how to increase as much and as fast as possible investments for scientific research and education.

(7) Top priority must be given to the economic returns of investments. The various departments should fix a reasonable time limit for recovering investments, as well as minimum standards for rational investments. Projects which do not meet these standards should not be given a go-ahead. Enterprises which continue to incur business losses should not be allowed to operate in the future.

7. The successful readjustment of the national economy will require the readjustment of the composition of imports and exports.

This will help to promote the coordinated development of agriculture, light industry and heavy industry. Necessary components of a new policy towards imports and exports include the following points:

(1) Technology and equipment which are crucial to China's modernization should be imported from abroad, as well as materials which cannot be produced within the country either due to a shortage of needed resources or because of a lack of advantageous economic conditions. Imports of complete sets of equipment should be strictly controlled. We must strengthen our ability both to reproduce imported equipment and to manufacture new types of equipment as needed. Certain types of equipment, which could be manufactured domestically or which could be made if only some additional technology were imported, should not be imported. Furthermore, all duplication in imports must be eliminated. A policy of protection suited to our country's conditions should be formulated.

(2) In regard to exports, an overall estimate of domestic resources and the needs of the domestic market should be made. Based on the capacity of domestic production and international market demand, China should gradually undergo a transition from exporting mainly agricultural and primary products to exporting mostly heavy and light industrial products, particularly machinery and high-grade processed products. While the ex-

port of individual industrial machines could be increased, we must make greater efforts to export complete sets of equipment. Labor-intensive products should be actively developed for export, particularly handicraft articles in which Chinese skills are well-known. Commodities which are big foreign exchange earners should be exported in bigger quantities.

(3) In readjusting the composition of imports and exports, particular attention should be paid to the use of economic methods and the formulation of different kinds of policies and measures which restrict imports and encourage exports, such as setting up a reasonable system for settling accounts in foreign exchange, tax policy, and price policy.

8. Another way of promoting the readjustment of the national economy is to map out regional economic zones and to establish a rational regional economic structure to give full play to the relative advantages of different regions.

A rational economic structure requires that, on the basis of overall planning, the superior natural and economic conditions of different regions should be brought into full play. A commodity economy should be developed in these regions so that they are able to supply each other's needs. Towards this end, a number of steps should be taken:

(1) Based on the distribution of natural resources, the level of industrial and agricultural production, the condition of communications and transportation, and the nature of historical economic linkages, several economic zones should be differentiated throughout the country. Initially these zones need not conform to existing administrative boundaries, but in the future the latter ought to be appropriately readjusted.

(2) Different regions should set up their respective economic structure which can take advantage of their superior conditions, including natural conditions (climate,

soil, resources, etc.) and economic conditions (productive capacity, technical force, management experience, etc.).

The economic structures of the individual regions will not be cut from a single pattern. On the contrary, they will have different characteristics and different areas of emphasis. The various regions should put their manpower and resources, both material and financial, into those spheres of production which will ensure high economic results and produce goods with the lowest production costs. It is only on the basis of optimal regional economic structures that we can establish a national economic structure which will promote coordinated development of agriculture, light industry and heavy industry, thus achieving the best economic results.

(3) To set up regional economic structures which can fully express their individual strength, a number of corresponding conditions need to be created. For example, the transport of necessary materials in and out of the regions should be ensured, and prices in the inter-regional exchange of materials should be based on mutual benefit. Regions which ship out certain commodities must be able to receive on time the specified varieties and quantities of commodities they need. In addition, the interests of both the raw material-producing regions and the processing regions should be taken into consideration.

(4) We should overcome the kind of thinking which calls for the establishment of a comprehensive economic structure in each region. Because of differences in natural conditions and the unevenness of economic development in various regions, it is unrealistic to require that all regions develop in an all-round way. Even in those regions where conditions exist for the all-round development of agriculture, light industry and heavy industry, we should still concentrate our forces appropriately in order to develop the more beneficial departments. Only

by so doing can the whole society attain relatively high economic results.

9. An important pre-condition for rationalizing economic structure is the prior development of transportation. As the socialization of production (the movement towards large-scale production) develops, there are increasingly closer links between the various branches of the national economy, between production and consumption, and between the different regions. This phenomenon, as it develops, will exert far greater demands on the transportation, postal and telecommunications systems. China's economic development and the readjustment of its economic structure will require a major development in these areas, as described below:

(1) In order to lessen the excessive burden borne by railroad transport, we must arrive at a rational division of work among the various means of transport. The railroads should be used mainly for transporting large quantities of goods and materials over long distances. Water transport should in the future be used wherever possible. Active efforts will be made to develop coastal shipping routes between south, east, and north China. Highways should handle as much short-distance transport as possible. The role of domestic air transport in the movement of passengers and goods over long distances should be increased. Transshipment of goods among the various means of transport must be well organized. Coordinated transport by railroad, water and highway, as well as along the coasts and inland rivers should be gradually popularized.

(2) Modernization in all its aspects entails the rapid transmission of information. With the growing importance of the postal and telecommunications systems, we need more thorough planning so as to accelerate their rate of development. Aside from the military service and the railroad administration, which require independent systems, various economic departments will have to in-

stitute unified planning, construction and management in communications. The expansion of postal and telecommunications networks in large and medium-sized cities must be included in urban construction plans.

(3) The different production departments should locate their production units in a rational way so that the products can be distributed in a rational direction. In this way we can reduce the incidence of circuitous transportation routes. The capacity to wash the products from coal and phosphorous mines must also be improved so that huge amounts of waste rock and ash will no longer be included in the transported products.

10. In the course of economic readjustment, we must reform the system of economic management to promote the rationalization of the economic structure. Experience shows that without a thorough reform of the economic management system it is impossible to set up a rational economic structure in which agriculture, light industry and heavy industry can develop in a coordinated way. For a long period in the past, the system of economic management relied mainly on administrative methods with government administration replacing enterprise management. Under this system, heavy industry was mostly controlled by the central ministries, while agriculture and most of light industry were under the control of the localities. Such a state of affairs hampered the coordinated development of agriculture, light industry and heavy industry.

Using purely administrative methods to manage the economy was one of the major factors which hampered the development of commodity production and circulation. This in turn promoted the misguided attempts to set up comprehensive economic structures at the local level.

The rationalization of the economic structure and the harmonious development of the economy can thus only be promoted by reforming the system of economic man-

agement in accordance with objective economic laws. An expansion of the decision-making powers of enterprises, while still conforming to the state's unified plan, will help to bring the supplementary regulatory role of the market into play.

3. The Achievements in Economic Readjustment over the Past Three Years

Remarkable gains have been made over the past three years in readjusting the two basic disproportions in the Chinese economy, namely the imbalance between agriculture, light industry, and heavy industry, and the excessive accumulation rate compared to the consumption rate.

To begin with, there has been a certain degree of improvement in the former. The Party Central Committee has adopted a series of effective policies and measures for developing agriculture, including the upholding of production teams' ownership rights and decision-making powers, the implementation of the principle of distribution according to work done, the protection of private plots, sideline family occupations and country trade fairs, and particularly the implementation in recent years of different forms of the responsibility systems. Other important changes have included the significant increase in the prices paid by the state for agricultural products, reduction or remission of some agricultural taxes, an increase in the state's financial aid to agriculture, and the setting up of a special development fund for helping agriculture in underdeveloped regions.

All these policies and measures have greatly aroused the enthusiasm of the peasantry, and the slow pace of agricultural growth has begun to change for the better. In 1980, the value of total agricultural output amounted to 162,700 million yuan, an increase of 11.5 per cent over that of 1978. The proportion of agriculture in the total

value of industrial and agricultural output increased to 30 per cent, up from 27.8 per cent in 1978. In 1979, grain production grew by 9 per cent over the previous year's bumper harvest and totalled 332.12 million tons; cotton output amounted to 2.207 million tons, an increase of 1.8 per cent, and oil-bearing crops reached 6.435 million tons, an increase of 23.3 per cent.

Although the country was hit by serious natural disasters in 1980 — floods in the south and drought in the north — which were among the worst in decades, agricultural production still registered a fairly good harvest. Grain output in 1980 was 320.56 million tons, a decrease of 3.5 per cent compared to the previous year, but it was still bigger than the harvest of 1978 by 15.79 million tons and was the second largest harvest (after 1979's) since the founding of the People's Republic. Cotton production in 1980 grew by 22.7 per cent, totalling 2.7 million tons, the highest production total ever. The output of oil-bearing crops increased by 19.5 per cent over the previous year's bumper harvest, amounting to 7.691 million tons. In 1981, the value of total agricultural output amounted to 172,000 million yuan. Grain production that year was 325.02 million tons, an increase of 1.4 per cent over 1980; cotton output amounted to 2,968,000 tons, an increase of 9.6 per cent, and oil-bearing crops reached 10,205,000 tons, up by 32.7 per cent.

The relatively rapid growth of agriculture has provided more favorable conditions in terms of increased output of grain, farm by-products and agricultural raw materials for the speedy development of industry, particularly light industry. In 1979 the total volume of purchases of agricultural products made by commercial departments was 58,680 million yuan, 27.6 per cent more than the year before. It further increased by 15.4 per cent in 1980, amounting to 67,700 million yuan. The quantity of cotton purchased in 1980 reached 2.6 million tons, 25.8 per cent

bigger than the previous year and the biggest amount of purchases ever recorded.

After the Third Plenum of the Eleventh Party Central Committee in December of 1978, the Party Central Committee and the State Council stipulated that during the readjustment period, the growth rate of light industry should equal or exceed the growth rate of heavy industry. In order to give priority to the development of light industry, the State Council mandated special treatment to light industrial units in the provision of fuel, power, raw materials, funds and foreign exchange. The State Council further decided in 1980 to implement the policy of giving priority to light industry in six aspects.* Furthermore, the Central Committee stressed that greater efforts should be made to develop collectively-owned industries, which make up a very big proportion of the country's light industry.

These important factors have enabled light industry to develop rapidly. The output value of light industry grew by 7.7 per cent in 1979 and by 18.4 per cent in 1980. Heavy industry, on the other hand, grew by only 1.4 per cent in 1980. In 1981, the output value of light industry increased by another 14.1 per cent while that of heavy industry decreased by 4.7 per cent. During the past three years, the proportion of light industry in the gross industrial output value increased from 43.1 per cent in 1979 to 46.9 per cent in 1980 and 51.4 per cent in 1981, while the proportion of heavy industry declined from 56.9 per cent in 1979 to 53.1 per cent in 1980 and 48.6 per cent in 1981.

In spite of the slowdown in the growth rate of heavy industry, however, there has been an increase in the available varieties of heavy industrial products and an improvement in the quality of products. New progress has also been made in heavy industry's service to agriculture,

* See the footnote on p. 53.

light industry and both domestic and foreign markets. For example, encouraging steps have been taken to transform the production structure of industrial enterprises under the former First Ministry of Machine-Building.* First, the orientation was changed from primarily serving heavy industry to serving light industry and agriculture as well. In 1980, the Ministry decreased the production of large machinery for heavy industry and increased the output of equipment for use in agriculture and light industry. Based on incomplete statistics from 503 enterprises under machinery bureaus in 28 provinces, municipalities and autonomous regions, 174,000 pieces of special-purpose machinery worth 220 million yuan were supplied to light industry (excluding the textile industry) in 1980 alone.

Second, the orientation has also begun to change from mainly serving the needs of capital construction and new factory building to serving the technical transformation of existing enterprises. For example, the machinery bureau in the city of Anshan, Liaoning Province, supplied 411 sets of special equipment for the technical transformation of light and textile industries, installed two production lines, and newly organized ten enterprises with strong technical capacity to assist in the technical transformation of ten light industrial and textile enterprises.

Third, the orientation of enterprises under the former First Ministry of Machine-Building has also begun to change from mainly serving industrial production and construction to directly serving the people's daily needs as well. A large quantity of electric fans, washing machines, refrigerators, and other items was produced for the market in 1980 by these enterprises. Based on incomplete statistics, they produced 70 more types of light in-

* The First Ministry of Machine-Building was merged in May 1982 with the Ministry of Agricultural Machinery and two other units to form the Machine-Building Ministry.

dustrial products in 1980 than in the previous year and increased their output value by about 200 per cent.

Fourth, there has been an increased emphasis on serving the needs of international markets by expanding the exports of electrical and mechanical products. Enterprises under the former First Ministry of Machine-Building increased their exports in 1980 by 57 per cent, selling more than 100 kinds of products to over 120 countries and regions.

There has also been a change for the better in the serious disproportion between the rates of accumulation and consumption. The prolonged imbalance between the two has been manifested in a number of ways. The overall accumulation rate was too high, and the proportion of productive versus non-productive accumulation in the accumulation fund was too big. The heavy industrial portion of productive accumulation was too large, while the amount for agriculture and light industry was too small. This irrational situation began to change somewhat in 1979. The accumulation rate was readjusted from 36.5 per cent in 1978 to 34.6 per cent in 1979, 31.6 per cent in 1980, and 28.3 per cent in 1981.

There are two important ways of analysing the nation's total amount of investments in capital construction. One is in terms of funds for productive versus non-productive construction; another is in terms of construction funds allocated for heavy or light industry, or for agriculture.

In the former category, there was formerly an over-emphasis on productive construction, with non-productive construction (serving the material and cultural needs of the people) being neglected. As a result of the readjustment of our economy during last three years, the percentage of total investments in capital construction devoted to non-productive construction rose from 17.4 per cent in 1978 to 27 per cent in 1979, to 33.7 per cent in 1980 and to 41.1 per cent in 1981. The proportion of funds in

the non-productive construction category devoted to residential construction during this three-year period rose rapidly, going from 7.8 per cent in 1978 to 14.8 per cent in 1979, to 20 per cent in 1980 and to 25.5 per cent in 1981. The total residential floor space built in 1979 equalled 62.56 million square meters, an increase of 66 per cent over the previous year; in 1980 the total went up another 18.8 per cent to 78.21 million square meters. The 1980 figures represented the greatest investment in residential construction in both absolute and proportional terms and the largest amount of completed floor space since the founding of the People's Republic. Naturally, such a large increase in non-productive investments as this was to a certain degree necessary to make up for previous neglect.

China's manner of allocation of funds for heavy industrial, light industrial and agricultural construction is also changing significantly during the period of readjustment. The percentage of total investment in capital construction devoted to all industrial construction declined from 57 per cent in 1978 to 51.4 per cent in 1979 and 50.8 per cent in 1980. Light industry's share of the total investments in industrial capital construction, however, increased from 6.1 per cent in 1978 to 6.4 per cent in 1979, to 9.1 per cent in 1980 and to 10 per cent in 1981. Heavy industry's share thus declined from 50.9 per cent in 1978 to 45 per cent in 1979 and to 41.7 per cent in 1980. The proportion of investments for agricultural capital construction increased from 11.1 per cent in 1978 to 11.6 per cent in 1979.

In conclusion, we have seen that the readjustment during the past three years has resulted in the fairly rapid development of agriculture and light industry through the greatly increased supply of funds and materials. This in turn has led to a significant improvement in the people's standard of living, both in terms of income and availability of consumer goods.

4. The Reasons for Further Economic Readjustment

The current economic situation is excellent, but the underlying dangers have not been completely eliminated. There were two consecutive budget deficits in 1979 and 1980, resulting in the over-expansion of the money supply and the rise in the prices of many commodities. If strong measures had not been adopted, there would still have been a huge deficit in 1981,* necessitating the issuance of a large amount of banknotes. This would have resulted in even more price increases and adversely affected our present stable situation.

Fundamentally speaking, we are now faced with problems in three areas which have accumulated over the years: the serious imbalance in the proportions of the national economy, defects in the system of economic management and poor enterprise management. It is difficult to completely solve these problems within a short period of time. However, these problems are also directly related to ineffective implementation of the readjustment policy. When the Party Central Committee put forward the policy of readjusting, restructuring, consolidating and improving the national economy after the Third Plenum, it should have been a clear-cut turning-point in China's economic development. But since some officials at various levels did not sufficiently recognize the seriousness of the disproportions in the national economy and the necessity of readjustment, they did not exert great enough efforts towards implementing the policy.

A glaring manifestation of this was the failure to reduce the total investments for capital construction in 1979 and 1980. On the contrary, the total amount invested throughout the country by state-owned units continued to increase in these two years. Despite the decline in heavy

* In 1981 China succeeded in achieving a basic balance between revenues and expenditures.

industry's share of capital construction funds in relation to light industry and agriculture since 1979, the overall scale of capital construction remained far too high, greatly exceeding the actual capability of our economy. As a result, investment returns were low, and the economic results of production were adversely affected due to the excessive use of fuel and raw materials in capital construction. This situation began to improve only in 1981, when the number of construction projects was greatly reduced, and the total amount invested in capital construction by state-owned units decreased by 20.6 per cent as compared with 1980.

Serious duplication in construction projects is another problem in capital construction. Following the implementation of the financial responsibility system and the expansion in the power of enterprises, the funds under the control of localities and enterprises increased. Due to the failure of economic planning work to keep abreast of the situation, localities and enterprises carried out a considerable number of duplicative construction projects, for which neither raw materials nor markets could be ensured.

A good example of this type of problem can be seen in China's engineering industry which has long been characterized by a surplus of processing capacity. Many enterprises operate below capacity and a number have even had to stop operations due to the lack of materials. The utilization rate of machine tools in 1979 was only 52.1 per cent. Despite this situation, however, according to incomplete statistical data, another 2,018 industrial enterprises were newly built in the engineering industry during the first ten months of 1980.

The duplication in construction occurred not only in heavy industry but in light industry as well. For example, the productive capacity of cotton mills in China has exceeded for many years the domestic supply of raw materials, but the number of spindles was still increased

by 1.02 million in 1979, and by 800,000 in 1980, with another 2.46 million spindles currently under construction. When everything is completed, the total cotton spinning capacity will amount to 20 million spindles, and at that time the supply of domestic raw materials for cotton spinning (including chemical fibers) will fall short by 120,000 tons.

The building of unnecessary and uneconomical manufacturing units is a very serious problem in many areas. The total number of industrial enterprises increased by 6,566 in 1979, and by 7,331 more during the first ten months of 1980. Among the enterprises newly-built in 1980, 69 per cent belonged to textiles and light industries using agricultural raw materials. Most of these were small enterprises whose production duplicated that of existing enterprises. As a result of the shortage of agricultural and sideline products as raw materials, it was fairly common for these small enterprises with backward technology to deprive the big enterprises with advanced technology of raw materials and other supplies. The duplication in construction and production not only resulted in appalling waste, but also further aggravated shortages in the supply of fuel, power and raw materials. Thus the imbalance in the economic proportions has become worse in certain respects.

Another important problem in the readjustment of industrial production is the failure to reduce the production of items in excess supply, particularly those which require high energy consumption in their manufacture (including products made by small and medium-sized enterprises which generally consume more energy). For example, there is clearly an over-supply of steel products. Yet, in 1979 steel output still amounted to 34.48 million tons, an 8.5 per cent increase over 1978. It had originally been planned in 1980 to reduce steel output by 1.48 million tons in order to improve the quality of steel products, increase their variety, economize on energy, and bring down as

much as possible excess inventories. The result, however, was that steel production increased by an additional 7.7 per cent in 1980, reaching 37.12 million tons. More than one-fifth of the 4 million tons in excess of the 1980 plan's quota was produced by small and medium-sized enterprises, which as we have said are particularly wasteful of energy. Although gross output increased, there was very little increase in the amount of useful steel products turned out; there was neither a significant rise in the number of varieties nor a great improvement of quality standards. Consequently, total excess steel supplies were even greater than in the past. Thanks to firmer steps taken to readjust industrial production, steel output declined to 35.6 million tons in 1981, a decrease of 4.1 per cent. The continued growth in the output of products in excess supply resulted not only in serious overstocking, but also in the consumption of energy and raw materials badly needed for the production of many types of goods in short supply, further aggravating the contradictions in the national economy.

Thus, as a result of our failure to control the phenomena described above, we had enormous budget deficits for two consecutive years, an over-expansion in the money supply, and substantial price increases in many commodities. The deficit amounted to 17,060 million yuan in 1979 and 12,750 million yuan in 1980. There was an excess in the issuance of banknotes in both 1979 and 1980. The national retail price index for commodities in December 1979 was 5.8 per cent more than the corresponding period the year before. The average annual retail price index in 1980 increased by about 6 per cent as compared to the previous year, with non-staple food prices rising by 13.8 per cent. This situation was also due to excessive administrative expenditures and an over-expansion of the consumption fund. The social purchasing power increased annually by an average of 9,200 million yuan from 1970 to 1978, but in 1980 alone it grew by 20,000 million yuan. It was

entirely necessary to increase appropriately the size of the consumption fund by a relatively large amount in order to readjust the serious imbalance between the accumulation and consumption. However, an excessive increase is also beyond the country's capability. The major portion of the increase in the fund for individual consumption has been arranged by the state in a planned way (for example, through increases in the procurement prices of agricultural products and in the wages of workers and staff members), but a portion has also resulted from the reckless issuance of bonuses and subsidies. A lack of strict controls and imperfections in the system of management were responsible for allowing this to occur.

The continuing low level of economic results in certain categories points to the absolute necessity for further economic readjustment. Looking at the figures for profits realized per hundred yuan of output value by the state-run industrial enterprises, the average amount for 1980 was 16.70 yuan, up from the 1976 figure of 13.50, but a bare 0.10 yuan better than in 1979. In 1957, however, we achieved a profit rate of 24.70 yuan. There could have been additional revenues of 20,000 million yuan in 1980 if profit levels had reached relatively high historical levels.

The amount of circulating funds used per hundred yuan of output value was 31.20 yuan in 1980, 7.30 yuan better than in 1976, but only 0.80 yuan less than in 1979. We can see that the 1957 record of 27.40 yuan was substantially better. If the expenditure of circulating funds had been reduced to fairly low historical levels, then this again, in combination with the potentially increased profits and tax revenues mentioned above, could have not only eliminated the 1980 budget deficit of 12,750 million yuan, but even produced a sizable surplus.

Therefore, the current financial and economic difficulties can be seen as a manifestation of the irrational economic structure as well as the irrational system of economic management. We can also see that the policy put

forward by the Party Central Committee at the end of 1980 of further readjusting the economy conforms fully to the actual situation of China's economy.

5. Readjustment of the Economic Structure: Objectives and Necessary Measures

The question of the objectives of readjusting the economic structure and measures to be taken towards achieving it is an important theoretical and practical question which has arisen in the course of our economic readjustment and needs to be urgently solved. The Research Institute on Industrial Economics under the Chinese Academy of Social Sciences and the Sichuan Provincial Academy of Social Sciences jointly sponsored a "Symposium on Theoretical and Practical Problems in Reforming the System of Economic Management" in April of 1981, which concentrated on this question. A number of ideas put forward by participants in the symposium are summarized below.

In general terms, the objective of economic readjustment is to establish an economic structure which aims to increase the production of final consumer goods needed by the people and which has a sound cycle with coordinated proportions and fairly good economic results. Its principal characteristics are as follows. First, the relations between the different branches of the national economy, within each branch and between the various links in the process of social reproduction are by and large coordinated. Second, the manpower, material and financial resources of society are rationally utilized. Third, the development of production and construction and the improvement of the people's livelihood are closely connected and promote each other. By setting up such an economic structure, we can achieve better economic results and, on the basis of the continuous growth of the national income,

ensure as much and as stable as possible an improvement in the people's material and cultural life, within the limits of our country's capability.

In order to achieve this overall objective, economic readjustment can be considered in terms of three stages. The first is the stage of stabilizing the economy. Its main tasks are to achieve a basic balance between revenues and expenditures and between credit receipts and payments, maintain the basic stability of commodity prices, readjust the economic structure, promote the production of consumer goods, expand commerce and service trades, develop the collective and individual economy, and arrange jobs for people awaiting employment. In this way, the people's livelihood can continue to improve somewhat even while current income levels are maintained. About two years more or less are needed for this stage.

The second stage is that of the initial rationalization of the economic structure. Its main task is to further readjust the economic structure and gradually rationalize the production structure, the product mix, and the organizational structure of enterprises, and to basically coordinate the relationship between the two major departments of social production,* thus ensuring the continuous improvement in the livelihood of both urban and rural people. This stage will take about three years.

As economic readjustment enters its third stage, the problem of backward infrastructure in the areas of energy, transportation, post and telecommunications and public utilities must be tackled. There should be greater coordination among the different branches of the national economy so that economic results will increase greatly, national income will grow rapidly and the people's livelihood will improve considerably. Naturally, it will re-

* The two major departments of social production refer to the production of the means of production and the production of the means of consumption.

quire a longer period of time to accomplish the tasks of this stage.

Obviously, these are only some general ideas; further research has to be carried out to substantiate, revise and perfect them.

The first two of these three stages could be considered the readjustment period. When the goals of the second stage have been attained, the most basic proportion in the national economy—that between agriculture, light industry and heavy industry—will be essentially harmonious, and thus the period in which readjustment is the central task will come to an end. The tasks of the third stage can be accomplished in the process of normal economic development in the future.

6. Some Theoretical Questions Concerning the Economic Readjustment

To achieve the readjustment of the national economy in accordance with the requirements mentioned above, there are several theoretical questions which must be explored. Aside from the necessity of correctly understanding the aim of socialist production and criticizing the erroneous tendency of "production for the sake of production," there are a number of theoretical questions which deserve more discussion.

For a long period of time, we considered the prior development of heavy industry to be the general law of socialist construction and the road to socialist industrialization. The prolonged overemphasis on developing heavy industry which we have experienced is closely related to such an ideological guideline. We must reevaluate this kind of thinking if we want to readjust the national economy and set up a rational economic structure whose goal will change from building heavy industry to increasing

the production of final consumer goods badly needed by the people.

The experience of many economically-developed countries in the world has shown that heavy industry develops on a foundation of prior agricultural and light industrial development. Its development must correspond to the needs of agriculture, light industry and other spheres of production.

Some people say that this is the road of capitalist industrialization. Viewing the question in this way does not necessarily conform to reality. The crux of the problem lies in the fact that the objective course of such economic development is not connected with the particular relations of production under capitalism, but rather is a requirement of the general law of development of modern industrial production. As Marx said, "Without consumption there is no production, since production would then be purposeless."* The ultimate purpose of production in any society is for the sake of consumption. This is the general connection between production and consumption and is also the general law of social production. Furthermore, this signifies that the production of the means of production ultimately serves the production of the means of consumption. As applied to modern industrial production, this general law would mean that heavy industry, which mainly produces the means of production, ultimately serves agriculture and light industry, which mainly produce the means of consumption, as well as communications, transportation, commerce and service trades. Of course, in order to perform such a function, heavy industry itself requires a corresponding degree of development.

It should be pointed out here that in Book I of *Capital*, Marx made a detailed analysis of the expression of this

* Karl Marx, Preface to "A Critique of Political Economy", *Selected Works of Marx and Engels*, Chinese ed., Vol. II, p. 94.

general law in terms of the development of the machine-building industry. In the past, however, people only regarded the development from light to heavy industry during the industrial revolution under capitalism — as analyzed by Marx — to have been the result of the functioning of the law of surplus-value, but they neglected his analysis of the general law of modern industrial production. When Marx was explaining the development of the machine-building industry in his era, he indeed said: "It (machinery) is a means for producing surplus-value."* He also spoke of the "dearness"*** of machines produced by handicraft when he was discussing how the development of modern industry (including light industry) required the manufacture of modern machinery. But here Marx primarily expounded the following idea: "At a certain stage of its development, modern industry became technologically incompatible with the basis furnished for it by handicraft and manufacture."**** "Modern industry had therefore itself to take in hand the machine, its characteristic instrument of production, and to construct machines by machines. It was not till it did this, that it built up for itself a fitting technical foundation, and stood on its own feet."*****

This tells us that when modern light industry has developed to a certain stage, it requires the development of the modern machine-building industry, which is the most important branch of heavy industry. In other words, the development of the machine-building industry takes light industry as its basis and further develops in line with light industry's needs.

* Karl Marx, *Capital*, Foreign Languages Publishing House, Moscow, 1957, Vol. I, p. 371.

** *Ibid.*, p. 382.

*** *Ibid.*, p. 383.

**** *Ibid.*, p. 384.

Marx's theoretical analysis completely tallied with the historical course of development of modern industry in Britain. If the discovery and application of the steam engine is taken as the beginning of Britain's industrial revolution, then the development of modern light industry in Britain started in the 1760s. But according to Marx's interpretation, it was only when the production of machinery developed in the first decades of the 19th century that machinery actually mastered the manufacture of tool-making machines. And it was only in the following decades that the huge machines to be employed in the building of prime movers were produced as a result of the construction of railways and ocean steamers on a stupendous scale.*

In Book II, Part III of *Capital*, Marx again made a comprehensive analysis of the expression of the general law of modern industrial production from the viewpoint of the reproduction and circulation of social capital as a whole. Marx made the following generalization of his analysis in Book III of *Capital*: "As we have seen (Book II, Part III), continuous circulation takes place between constant capital and constant capital (even regardless of accelerated accumulation). It is at first independent of individual consumption because it never enters the latter. But this consumption definitely limits it nevertheless, since constant capital is never produced for its own sake but solely because more of it is needed in spheres of production whose products go into individual consumption."**

If "the production of the means of production" is used in place of "the production of constant capital" as referred to by Marx, then this principle is not only applicable to but particularly valid for socialism, because the direct aim of socialist production is to meet the needs of the people's livelihood.

* *Ibid.*, pp. 384-385.

** *Ibid.*, Vol. III, pp. 299-300.

It is thus clear from the history of the development of modern industry, as well as from the general process of social reproduction, that the production of the means of production ultimately serves the production of consumer goods; therefore, heavy industry develops on the basis of the development of agriculture, light industry, communications and transportation, and in line with their demands for the means of production. This is a requirement of the general law of development of modern industrial production that does not differ according to whether the social system is capitalist or socialist.

It is thus evident that readjusting the economy and establishing a rational economic structure, which aims to increase the production of final consumer goods to satisfy the people's needs, rather than to build heavy industry, conform not only to the requirements of the basic economic law of socialism but also to the requirements of the general law of development of modern industrial production.

Some people have also said that the Soviet Union adhered to the principle of giving priority to the development of heavy industry for a certain period of time and that the Soviet Union's experience shows that giving priority to heavy industry is the road to socialist industrialization. The Soviet Union did indeed act in such a way, but it should be remembered that the Soviet Union was once the only socialist country in the world and was at that time encircled and threatened by imperialism. In fact, the Soviet Union adopted such a course under the pressure of specific historical conditions; this was not a reflection of the general law of socialist industrialization. Moreover, since the Soviet Union one-sidedly stressed the development of heavy industry over a long period of time in violation of the requirements of the general law of development of modern industrial production, it inevitably got bogged down in an extremely irrational economic structure, although the emphasis on heavy industry did

play an important role in the Soviet Union's industrial development, particularly in strengthening its military strength for the purpose of resisting Hitler's fascist aggression. Here it should be emphatically pointed out that the policy of giving priority to the development of heavy industry, which during the time of Stalin served the purpose of strengthening the Soviet Union's economic independence and defense capability, has become a major pillar in the Soviet Union's present hegemonist policy of military expansionism. These two entirely different social contexts should be clearly distinguished. By insisting on this kind of policy, the Soviet Union has met with serious economic imbalances, as they themselves admit.

Isn't the law of the prior growth of the means of production being negated in this way? Isn't taking the increase in the production of final consumer goods to meet the people's needs as the objective of economic development contradictory to the law of the prior growth of the means of production? It should not be understood in such a way for the following reasons: First, what is the prior growth of the means of production? According to Lenin's interpretation, "the production of the means of production grows faster than the production of the means of consumption."^{*} "The production of the means of production which manufacture the means of production has the fastest growth, followed by the production of the means of production which manufacture the means of consumption, while the production of the means of consumption is the slowest."^{**} In taking the increase of final consumer goods to meet the people's needs as the objective of economic development, it is one thing to require the production of primary and intermediate products to serve the

^{*} Lenin, "On the So-Called Market Problem", *Collected Works*, Chinese ed., Vol. I, p. 72.

^{**} *Ibid.*, Vol. I, p. 71.

production of final consumer goods and another thing to require the production of heavy industry, which mainly supplies the means of production, to serve agriculture, light industry, communications and transportation, which mainly supply consumer goods. Even with the prerequisite that the increase in the production of consumer goods should be considered the objective of economic development, the prior growth of the means of production can still be achieved. The problem lies in whether heavy industrial development should only be self-serving in orientation or should mainly serve agriculture and light industry, as well as the production of consumer goods.

Second, why should the means of production be given priority in development? Under given conditions of technological progress, the demand for more means of production grows faster than the demand for more labor power (and thus for more means of consumption) when a society is engaged in expanded reproduction. As Lenin very clearly explained, "The so-called fastest growth of the production of the means of production is simply another interpretation of the law of the faster increase in constant capital compared to variable capital, as applied to social production as a whole."^{*} However, it was precisely under given conditions of technological progress that the fairly rapid growth in the production of the means of production which manufacture the means of consumption was brought about by the expanded reproduction of those departments engaged in the production of the means of consumption. Lenin put it well when he said: "It is self-evident that, in the final analysis, production and consumption are related to individual consumption."^{**} We can see then that the prior growth of the means of production is not incompatible with taking the

^{*} *Ibid.*, p. 71.

^{**} Lenin, "The Development of Capitalism in Russia", *Collected Works*, Chinese ed., Vol. III, p. 34.

increase of production of final consumer goods to meet the people's needs as the objective of economic development.

It should be further pointed out that for a long time some people understood the law of the prior growth of the means of production in an absolute sense, as if the development of modern social production requires the prior growth of the means of production under any conditions. The prolonged overemphasis on heavy industrial development in China was not unrelated to this kind of thinking. Such thinking does not view the question in a comprehensive way and fails to take into consideration a number of factors.

First, according to Marxist-Leninist theory, the prior growth of the means of production is called for only when expanded reproduction is carried out under given conditions of technological progress. Without these conditions, the prior growth of the means of production is not called for when expanded reproduction is carried out. In Book I of *Capital*, Marx analyzed the process of capital accumulation, first when the organic composition of capital is constant, and then when the organic composition of capital is increased. This theoretical analysis made by Marx reflected the historical development of capitalism.

Second, the history of technological progress in modern social production has shown that there is a kind of technological progress, such as the one in agriculture related to biological measures, which does not involve the prior growth of the means of production. There is another kind of technological progress, such as the replacement of handicrafts by large machinery, which does require the prior growth of the means of production. Thus we should not consider that expanded reproduction under conditions of technological progress necessarily requires the prior growth of the means of production.

Third, even if the progress in production technology requires the prior growth of the means of production,

whether or not there is such prior growth depends on other conditions. Technological progress in light industry during the early stage of capitalist industrialization was very fast, and production also rapidly developed. However, the machinery used in light industry at that time were supplied by handicraft workshops, and the growth of the production of the means of production was not very fast. Apart from other reasons, an important factor was the lack of funds needed to develop heavy industry.

Insofar as China's industrial development is concerned, it was necessary to give priority to the development of heavy industry for a certain period of time after the founding of the People's Republic in 1949. Furthermore, conditions also existed for such a course of action. There was a certain level of development in light industry in old semi-colonial and semi-feudal China, but heavy industry was very weak. Following the nationwide socialist transformation of the private ownership of the means of production in the 1950s, the potential for increasing agricultural and light industrial production was very great. Under these circumstances, it was appropriate to develop heavy industry at a fairly rapid rate, and good economic results were attained in doing so. But after heavy industry had already been developed to a considerable degree, there would surely occur a serious imbalance in the economic structure if we still continued to one-sidedly emphasize heavy industrial development and neglect agricultural and light industrial development over a long period of time. It is thus evident that taking the increase of production of final consumer goods to meet the people's needs as the objective of economic development is not in contradiction to the principle of giving priority to the development of the means of production. The important policy in economic development of giving priority to the development of light industry for a certain period of time is also not incompatible with the principle of giving priority to the

development of the production of the means of production.

There is also another viewpoint which considers the work of economic readjustment to be directed at gradually readjusting the current irrational "heavy structure" of the economy, in which the proportion of heavy industry is too big, to a so-called "light structure". People who hold this view conceive of the "light structure" as one in which agriculture and light industry make up over 60 per cent of the total value of the gross output of industry and agriculture, while heavy industry's share is less than 40 per cent. In the case of the "heavy structure", heavy industry contributes over 40 per cent of the total gross output value of industry and agriculture, while the share of agriculture and light industry is less than 60 per cent. The point of departure for such a differentiation is the need to change the serious imbalance between agriculture, light industry and heavy industry. This view has a certain degree of value as a reference point for transforming the existing structure in which the share of heavy industry is too large while that of light industry is too small and agriculture is lagging behind. However, according to this view, the conclusion one reaches can only be a denial of the necessity for continuing to give priority to the development of light industry, because agriculture and light industry's share of the total value of industrial and agricultural gross output was already nearly 60 per cent in 1980 and exceeded 60 per cent in 1981. An inappropriate aspect of this method of differentiation is in the omission of branches which occupy an important position in modern production, such as communications and transportation, post and telecommunications, commerce, service trades, science and education. This method has two main weaknesses. First, there can be no fixed ratio for the relative proportions of agriculture, light industry and heavy industry which would show that their relations are harmonious. This depends on the development of the social

productive forces, changes in the structure of the economy, population growth and other complicated factors. Even in terms of the specific situation in China at present, the designation "light structure" cannot be considered to fully conform to the actual situation. The current share of agriculture and light industry in the total value of China's gross industrial and agricultural output is already close to this standard, but the serious imbalance in the proportions between agriculture, light industry and heavy industry has not yet been completely overcome.

Second, this method of differentiating the production structure purely on the basis of quantitative proportions cannot show the qualitative aspect of the structure and therefore cannot demonstrate whether or not the structure is harmonious. Theoretically speaking, we can conceive of two possibilities: under a given level of development of the social productive forces, even if the share of heavy industry in the total value of gross agricultural and industrial output is over 40 per cent, the relations between agriculture, light industry and heavy industry can still be harmonious if heavy industrial development is based on and serves agricultural and light industrial development. Given similar conditions of the productive forces, there would be an imbalance in the relations between agriculture, light industry and heavy industry if the share of heavy industry were over 40 per cent but its orientation self-serving. The proportion of heavy industry in China at present is 40 per cent, but its self-serving orientation has not yet been significantly changed. Thus the proportions between agriculture, light industry and heavy industry are still out of balance.

In saying this, of course, the achievements of the past three years in readjusting the national economy are not to be denied. During the past three years, the growth rate of light industry has exceeded that of heavy industry. There has been a remarkable change in the previous slow rate of agricultural development. Progress has also been

made in the service orientation of heavy industrial production. However, it is difficult within two or three years to fundamentally put an end to the serious imbalance in proportions formed over a long period of time. In addition, certain departments did not effectively implement the readjustment policy for a period of time, and this has slowed down our progress somewhat.

To sum up, in readjusting the present production structure, agriculture must be strengthened and the priority must still be given to the development of light industry. Furthermore, the service orientation and product mix of heavy industry must be readjusted to change the one-sided and irrational self-serving orientation of heavy industry and gradually bring about a rational structure of production.

Chapter III

TOWARDS A RATIONAL SYSTEM OF ECONOMIC MANAGEMENT

China's current economic reform is aimed at changing step by step the irrational system of economic management and setting up a rational one which can promote the development of the productive forces and suit the needs of socialist modernization. Such a system of economic management must be able to mobilize the enthusiasm of the various economic units and facilitate the effective leadership of the central and local authorities in economic affairs. What follows is a discussion of the necessity for rationalizing the system of economic management and the proper orientation in implementing the reform.

1. Reasons for Reforming the Economic Management System

The present system of economic management in China is a highly-centralized one which relies primarily on administrative methods of management. It was basically copied from the Soviet Union during the latter period of Stalin's leadership. China's experience over the past 32 years has revealed many defects in this model. These can be summed up in four separate aspects: First, enterprises have become mere appendages of administra-

tive organs at different levels, and their relative independence has been negated. These enterprises lack initiative and are treated almost as beads on an abacus which can be moved to and fro by the central ministries and by the administrative organs of the localities. It is not that the enterprises do not wish to have initiative, but rather that the system restricts their initiative. Second, by managing the economy through administrative systems and divisions, the intrinsic relations within the economy have been cut off. For example, our enterprises are administered by the responsible government organs at the central or local levels, resulting mainly in vertical relationships and lacking in horizontal relationships. This has been the cause of many irrational phenomena. Third, there are too many targets in the economic plan which are rigidly set by the higher authorities and handed down in the form of directives; producers and consumers cannot contact each other directly. Production is not coordinated with marketing and is divorced from the consumers' needs. As a result, there is overstocking of many products which cannot be sold, while many other products which are in great demand are always in short supply. Fourth, enterprises have to turn over all revenues to the state, and losses are subsidized by the state. Thus they do not feel any economic responsibility and do not pay attention to economic results. As a result, egalitarianism is prevalent within enterprises and among their workers and staff members since they are assured of their "iron rice bowls" and can "eat from the same pot". Due to these defects, this type of economic structure is certainly disadvantageous for mobilizing the enthusiasm and creativity of enterprises' workers and staff members, for the exercise of effective management of economic affairs by the state, and for achieving modernization.

This kind of economic structure does not accord with the objective law of socialist economic development. It does not suit the requirements of vigorously developing

commodity production and commodity exchange, nor does it meet the constantly growing and constantly changing needs of the people. Under such a system, practically everything is included in the economic plan, with the state having a monopoly on the purchase and marketing of commodities. The state is also responsible for arranging jobs for the labor force. In addition, the state is in charge of all revenues and expenditures. All these inevitably require a highly centralized method of management which relies principally on administrative means, instead of economic ones. With such an economic structure and managerial methods, socialist commodity production cannot develop rapidly. The sluggishness of the economy and the poor economic results are very much related to the defects in the present economic structure.

The reason we have practised this kind of management for such a long period of time has been due to our incorrect understanding of the nature of the socialist economy. In particular, we failed to consider the socialist economy as a planned economy in which there exist commodity production and circulation; we viewed it instead as a semi-natural economy.* In our current efforts to reform the economic management system, we should have a correct understanding of the nature of our socialist economy. This is the prerequisite for correctly choosing the orientation, policies and methods to be used in this reform.

As to how to view our socialist economy, I personally hold that it is a planned economy in which socialist commodity production and exchange should be actively developed. A planned economy on the basis of public ownership of the means of production is an essential characteristic of the socialist economy, but the supplementary regulatory role of the market must be brought into play in order to actively develop commodity production and

* See the footnote on p. 33.

exchange. In working out state plans, the law of value must be utilized. While strengthening unified leadership over economic activities of overall importance to the national economy and the people's livelihood, the state must give different enterprises different degrees of decision-making power in their economic activities. The sole reliance on administrative measures in running the economy must be replaced by a combination of both economic and administrative measures.

The nature of our socialist commodity production and exchange is certainly different from that of the commodity economy under capitalism. Established on the basis of private ownership, capitalist commodity economy is unplanned; moreover, labor power is also considered to be a commodity, which leads to the existence of exploitative relations of production. A socialist economy, on the other hand, is established on the basis of public ownership of the means of production; commodity production and exchange are planned. Labor power is no longer a commodity, and exploitation has been abolished.

To view the socialist economy in such a manner is a great leap in theory. As we know, the question of commodity production under socialism has been a major subject of discussion for over a century and also a topic of debate among Marxists. In *The Critique of the Gotha Programme*, written in 1875, Marx referred to socialism as the initial stage of communism with vestiges of the old society still remaining. By the phrase "vestiges of the old society", he was mainly referring to the system of distribution of income according to work done. Marx at that time conceived of socialism as having no commodity or monetary relations because it would be established on the basis of a highly-developed capitalist economy. Marx did not then foresee that countries with a moderate degree of capitalist development, or even a country such as ours in which capitalism was only in its initial phase of development and the natural economy was still pre-

dominant, could also successfully carry out socialist revolution and build socialism. Socialist construction in an economically underdeveloped country such as ours requires that commodities and money be fully utilized. In other words, our socialist economy is a planned one which should actively develop commodity production and exchange.

In his book *The State and Revolution*, written before the 1917 October Revolution, Lenin quoted Marx's words and elaborated on his viewpoint expressed in *The Critique of the Gotha Programme*. Lenin also advocated the abolition of commodities and money in a socialist society. After the victory of the October Revolution, the economic system known as war communism was adopted in the Soviet Union principally due to the intervention of the imperialist powers and the civil war then in progress. However, it was also related to the guiding theory of abolishing commodities and money. The attempt to abolish commodities and money during the period of war communism failed, and Lenin summed up the lessons of this experience. He put forward the New Economic Policy based on the fact that the Soviet Union's economy at that time was made up of five economic components, predominant among which was the small commodity economy and small-scale production. The New Economic Policy was aimed at utilizing commodity and monetary relations to develop commerce and promote the rehabilitation and development of the socialist economy. Unfortunately, Lenin passed away soon after without witnessing the completion of the socialist transformation. After the socialist transformation was completed under the leadership of Stalin, only the socialist economic component remained. Under such a situation, should there still be commodity production and exchange? After the completion of the agricultural collectivization, Stalin pointed out that two kinds of public ownership existed side by side, that is, ownership by the whole people and

collective ownership, and there existed two classes — the workers and peasants, hence the need for exchange. But for a very long time after the completion of agricultural collectivization, Stalin did not clearly explain or prove whether the exchange between these two kinds of public ownership was commodity exchange or not, or whether or not the law of value played any role. As a result, these questions were debated throughout this period in the Soviet Union. It was not until his later years that Stalin recognized in his book *The Economic Problems of Socialism in the Soviet Union*, written in 1952, that relations of commodity production and exchange existed between these two kinds of public ownership; he also held that the law of value should be utilized. The Soviet Union reached this conclusion only after more than two decades of debate. During the period of debate, commodity and monetary relations and the law of value were not utilized very well in handling the relations between these two kinds of public ownership.

Although Stalin recognized that commodity and monetary relations existed between the two kinds of public ownership, he maintained in his book, however, that the means of production are not commodities under the socialist system. He also emphasized time and again that commodity production and the role of the law of value should be restricted. We can say, therefore, that Stalin never considered the socialist economy to be a planned economy in which socialist commodity production and exchange should be actively developed, but viewed it rather as a semi-natural economy. In view of such a theory and understanding, the system of economic management put into practice during his time was not designed to meet the requirements of the planned development of commodity production and exchange, but rather the requirements of a semi-natural economy. The economic management system of the Soviet Union at that time did not treat products as commodities, nor was the

principle of exchange at equal value implemented. What was implemented instead was solely a system of mandatory planning which completely excluded the regulatory role of the market, and a highly-centralized system of management which principally relied on administrative methods. This system of planning by decree treated the whole national economy as if it were one big factory. Lenin advocated a similar approach. But as things stand now, this is a very complicated matter. We have found that viewing the whole national economy as one big factory gives rise to a multitude of problems. Our highly-centralized system of economic management has negated the relative independence of enterprises.

The theory and practice of Stalin had a tremendous impact on China's socialist construction. The system of economic management that has been implemented in China up to the present time has basically been patterned after Stalin's model, though there have, of course, been some changes. A number of aspects we have previously mentioned, such as a virtually all-inclusive state economic plan, the state monopoly in the purchase and marketing of commodities, state responsibility for assigning jobs, the state's responsibility over all revenues and expenditures, and the practice of "eating from the same pot" — all these are basically a part of Stalin's model. If we are to change this model, we must first of all break with its theoretical base; that is to say, we should break through the trammels of erroneous or outmoded ideas. Otherwise, we will not be able to create a new model which will promote economic development. We have already achieved a theoretical breakthrough, and this should be considered a very significant achievement in emancipating our minds. Without it, we would not have our current ideas as to how to go about reforming the system. We have already recognized that not only are the means of livelihood commodities under socialism, but also a large portion of the means of production. And we know that not only is ex-

change between state-owned enterprises and collectively-owned ones a type of commodity exchange, but also commodity exchange within the state-owned sector as well.

2. The Orientation in Reforming the Economic Management System

Based on the theory that our economy is a planned one in which commodity production and exchange should be actively developed, the orientation of reform can be envisaged as follows: The unitary system of planning and control should be changed, and the principle of the leading role of the planned economy and the supplementary role of market regulation should be implemented. Planning should take different forms in different circumstances. Mandatory planning must still be enforced in the production and distribution of the means of production and livelihood in the state-owned sector which are vital to the national economy and the people's livelihood, and especially in key enterprises vital to the whole economy. In the collectively-owned sector, mandatory targets should also be assigned where necessary, as in state purchases of grain and other major agricultural and sideline products based on fixed quotas. In addition, however, guidance plans, whose implementation is ensured mainly by means of economic levers, should be used in regard to many products and enterprises. In both forms of planning, it is necessary to constantly study changes in market supply and demand, make conscious use of the law of value and such economic levers as pricing, taxation and credits to guide enterprises in fulfilling state plans, and give enterprises varying degrees of power to make decisions as they see fit. As for a number of small commodities which are low in output value, great in variety and often produced and supplied seasonally and locally, enterprises should be allowed to arrange production in accordance

with changes in market supply and demand. The state should then exercise control through policies, decrees and administration by industrial and commercial departments. The egalitarian practices of "eating from the same pot" and the "holding the iron rice bowl" should be changed and a strict system of economic responsibility set up with enterprises held responsible for fulfilling state targets. The principle of "from each according to his ability, to each according to his work" should be implemented among workers and staff members.

Deriving from the general orientation of reform, a number of steps can be taken. The functions of the Party, government and enterprises should gradually become separate from each other, with more powers delegated to the lower levels, and the decision-making powers of enterprises as well as the workers' and staff members' powers of democratic management should be expanded. Different forms of economic integration should be developed, and organizations should be established along industrial lines in order to organize enterprises in a rational way. We must change the present closed system of commodity circulation with few channels but too many levels of management. Instead, we should set up an open market for commodity circulation with many channels but with as few levels as possible. Different kinds of economic centers based on large and medium-sized cities ought to be formed, and rational economic networks should be organized. In coordination with these steps, a further series of reforms should also be carried out in planning, finance, taxation, pricing, banking, commerce, distribution of materials and supplies, foreign trade, labor and wages. It seems clear that these reforms suit the requirements for the planned development of socialist commodity production and exchange and socialized mass production.

During the past three years, gratifying achievements have been made in the work of reforming China's system of economic management. We have expanded the deci-

sion-making powers of enterprises and brought into play the supplementary role of regulation through the market under the guidance of the state plan. With the implementation of the policy of giving full play to superior conditions, protecting competition and promoting integration, various forms of economic integration and cooperation between the urban and rural areas and among different regions, industries and enterprises have been developed. The use of bank loans instead of state allocations has been adopted on an experimental basis in investments for capital construction, as well as for tapping the potentials of enterprises and carrying out technical innovations and transformation. We have introduced integration between industry and trade to promote foreign trade exports. With the socialist sector based on the public ownership of the means of production occupying the dominant position, other sectors of the economy and various forms of management have been allowed to operate. Reforms in the system of industrial management at the county level have also been experimented with at selected points. A small number of enterprises are now experimenting with a system in which they are responsible for their profits or losses; they pay taxes instead of handing all their profits over to the state. At the same time, reforms have been carried out in the leadership structure within these enterprises. Practice has proven that the past three years of reform has played a positive role in reinvigorating the economy and improving economic results.

Further explanation is given in the following paragraphs on five aspects of the economic management reform: the expansion of the enterprises' decision-making powers, the establishment of the economic responsibility system, the implementation of regulation through the market under the guidance of the state plan, the experimental management reforms carried out in selected units

at the county level, and the development of the collectively-owned economy.

First, the work of expanding the decision-making powers of enterprises has already developed to a considerable degree. More than 6,000 state-owned industrial enterprises had already been covered by the experiment in 1980. These enterprises, which were located in all the provinces, municipalities and autonomous regions with the exception of Tibet, comprised 15 per cent of the total 42,000 industrial enterprises which were included in the state budget, and accounted for 60 per cent of the total output value of these 42,000 enterprises and 70 per cent of their profits. These enterprises experimented with varying degrees of decision-making powers in retaining part of their profits, planning their production, marketing their products, manufacturing new products on a trial basis, utilizing funds, instituting a system of incentives, restructuring their organizational setups and assigning personnel. In addition, a small number of enterprises have been selected in some areas to carry out experimental reforms involving the practice of independent business accounting and the assumption of full responsibility for their profits or losses under the guidance of the state plan. Instead of turning over all their profits to the state, they simply pay taxes. Based on incomplete statistics as of the end of 1980, this kind of experiment was being conducted in one city (Liuzhou, Guangxi Zhuang Autonomous Region), one corporation (Shanghai Light Machinery Corporation) and more than 80 enterprises.

Enterprises with expanded powers have made remarkable achievements. The economic powers of these enterprises have been integrated to a certain extent with their economic responsibilities and interests so that their own interests are more closely linked to the results of their efforts. In this way the interests of the state and enterprises are better linked. These enterprises now have an

internal motive force which complements external pressure in the form of increasing competition from other units. This has given them a certain vitality that was previously lacking. These expanded powers have enabled enterprises to have funds for their own use, thus providing financial and material conditions for their technical transformation. Another advantage is that enterprises now have the material basis for doing a good job in democratic management; workers and staff members have been spurred on to better exercise their right to run their own affairs. Thus, the initiative of enterprises and their workers and staff members has been mobilized, and most of these enterprises with expanded powers have increased their production and income.

According to preliminary statistics covering 5,777 industrial enterprises experimenting with the system of expanded powers (not including those few enterprises experimenting with assuming full responsibility for their own profits or losses), the value of their industrial output amounted to 165,350 million yuan in 1980, an increase of 6.8 per cent compared to the previous year and 0.6 per cent higher than the 6.2 per cent growth rate in the value of industrial output of state-owned enterprises as a whole. They realized profits worth 33,360 million yuan, an increase of 11.8 per cent, while profits turned over to the state amounted to 29,000 million yuan, an increase of 7.4 per cent. These growth rates exceeded those of enterprises not covered by the experimental reforms. The integration of the state's and enterprises' interests can be seen very clearly in the increase in production and profits. Out of the 33,360 million yuan in profits realized, 87 per cent was handed over to the state while 10 per cent was retained by the enterprises; the remaining 3 per cent was used to repay loans and finance subsidies in line with state policies. Compared to the enterprises not covered by the experiment which use the usual method of drawing fixed amounts from the enterprise

funds, the enterprises with expanded powers actually gained an additional 1,240 million yuan, equivalent to 35.2 per cent of the 3,520 million yuan increase in profits realized. It is thus clear that, whether in terms of the realized profits or the increase in profits, the greater portion went to the state, but the enterprises benefited as well.

The expansion of the enterprises' decision-making powers has not only given an impetus to increasing production and income, but has also accelerated the readjustment of the national economy. With certain newly acquired powers in operations, enterprises can to some extent produce according to market demand, increasing the output of products in short supply. Enterprises now have funds of their own for carrying out technical transformation and building dormitories for workers and staff members, thus strengthening the weak links in production and meeting the pressing needs of the workers and staff members. The expansion of enterprise powers can promote integration and reorganization, expediting the closure, suspension, amalgamation or shifting into other production of some redundant enterprises.

The second of the five aspects of the economic management reform to be discussed here is the introduction of the system of economic responsibility. Although the expansion of the enterprises' decision-making powers has attained distinct economic results, there are still three problems which have not been solved well in the method of profit retention practised by those enterprises enjoying expanded powers. First, under the current method, which takes the profits of the previous year as the base, the base may increase year by year, and it becomes more difficult to maintain or increase the proportion of profits retained by the enterprises. Second, the method of profit retention is only applicable to very profitable enterprises and not to those which have only small or no profits at all. Thus, it still cannot solve the problem of "eating

from the same pot" in the industry as a whole. Third, the distribution of bonuses has failed to link the incomes of workers and staff members to the results of their work. The "iron rice bowl" has not yet been broken. Practice has shown that the effective way to solve these problems is the establishment of the economic responsibility system.

To set up a system of economic responsibility, two links should be grasped.

One link is to handle well the economic relationship between the state and the enterprises, to make the enterprises responsible for definite quotas of profits or losses, and to tie the distribution of the enterprises' profits to the results of their management, thus mobilizing the initiative of the enterprises. Shandong Province has taken the lead in this respect. A system of assigning responsibility for definite quotas of profits or losses has developed across the province from individual enterprises to entire industries. It has also spread from top to bottom, from the provincial level down to the prefectures, counties and enterprises, with each level assigned responsibility for definite quotas by the next higher level. Based on statistics from 13 prefectures and municipalities, 73.1 per cent, or 1,352 out of 1,850 state-owned enterprises at the county level and above have already been assigned responsibility for definite quotas of profits or losses. All of the 364 enterprises with small profits have been given fixed quotas, while 93.2 per cent, or 410 out of 440 enterprises operating at a loss have been assigned responsibility for definite quotas.

The city of Jinan, the provincial capital, instituted as a measure to implement its 1981 production plan a five-level, top-to-bottom system of assigning responsibility for fixed quotas, that is, from city to bureau, bureau to factory, factory to workshop, workshop to group, and group to individual. A system for ensuring the fulfillment of these quotas was practised in turn at the same five levels but from bottom to top. These two systems

were made binding in the form of contracts. Results were encouraging. Profits turned over to the state increased by 10 per cent during the first half of 1981 compared to the same period the year before. The results were also very good by category of industry. For example, the coal industry in Shandong Province anticipated a total deficit of 13.57 million yuan in its 1981 economic plan. The whole industry carried out the fixed-quota responsibility system in late March, and by April the situation changed from incurring deficits to making profits; profits amounted to 570,000 yuan. Another 9.02 million yuan in profits were made in May and June.

In implementing the system of assigning responsibility for fixed quotas of profits or losses, we must pay attention to a number of points. First, the base figure has to be rationally fixed and should not be changed for several years. Second, the ratio to be used in apportioning the profits which exceed the assigned quotas are to be fixed on the basis of the degree of difficulty in realizing the profits. Third, there should be reasonable stipulations for allocating the retained profits of enterprises into funds for developing production, for collective welfare and for bonuses.

The other link which must be well handled in establishing the responsibility system involves tying the distribution of wages and bonuses within enterprises to output. Enterprises may implement a piece-rate wage system if possible; if not, then they may adopt a system of recording points for awarding bonuses. When the system of time wages plus bonuses was carried out in the past, bonuses were often divided equally among workers and staff members. The principle of distribution according to work was not followed. Only by implementing the general piece-rate wage system, or alternatively, piece-rate wages for output which exceeds the quota can we really adhere to the principle of more income for more

work, less income for less work and no income for no work.

For example, each worker in the Yantai (Shandong) Shoe Factory earned an average of 14.74 yuan per month during the period from January to May 1981 in piece-rate wages, in addition to their basic pay, for output exceeding the quota. Among these workers, the highest total of such piece-rate wages amounted to 60 yuan per month, while the smallest was only 0.03 yuan. In a few cases in which workers failed to fulfill their quotas, a part was deducted from their basic wages.

Carrying out a piece-rate wage system requires the fulfillment of certain necessary conditions. The enterprise needs a strong leading group. The management system should be sound, and in particular there should be relatively accurate production targets for working hours and quotas for raw material consumption. A strict system of quality control must be implemented, and the supply of both raw materials and electricity should be guaranteed. There has to be a market for the products. It should be possible to make an accounting of output on a per capita, per machine or per group basis. A further consideration is that the quota stipulated must be attainable by a majority of the workers if they work hard. Output, quality, consumption of raw materials and electricity as well as safety in production should be constantly monitored in order to prevent the lopsided pursuit of quantity at the expense of quality and other phenomena such as overworking the workers and the equipment or wasting raw materials and electricity. The relationships between young and old workers, between front-line workers and supporting personnel and between administrative personnel and workers must be handled well. The fact that all have their income determined by quantity and quality of work enables them to coordinate more closely among themselves. Piece-rate wages are not bonuses and should therefore be included in the costs of production. A fund

for bonuses should no longer be set aside if the system of piece-rate wages is implemented.

Ideological work must be strengthened when the responsibility system is carried out. Only by means of vigorous ideological work which is related to the actual thinking of the workers and staff members can their socialist consciousness be continuously raised. Thus, they can struggle against such unhealthy trends as seizing every chance to seek private gain at the expense of the collective.

The third aspect of the economic management reform that has been carried out in the past three years involves the utilization of market forces while remaining under the guidance of the state plan. Reforms have been carried out in the system of planning, distribution of materials and supplies, and commerce. Enterprises are now permitted, after fulfilling their quotas under the state plan, to work out plans for increasing production based on market demand and their own capacity. They can also buy and sell independently that portion of the means of production and consumption which exceeds their quotas, as the monopoly of certain government organs over commerce and distribution of materials and supplies and the systems of state unified allocation of the means of production and of state unified purchase and marketing of the means of consumption have been revised to some extent. Products which are currently manufactured according to market demand constitute about 15 per cent of the gross value of industrial output. In the case of enterprises under the former First Ministry of Machine-Building, almost one-half of its production is regulated by the market. Regulation through the market has played a positive role in spurring enterprises to develop production, draw on each other's strength to offset weaknesses, readjust the product mix, change the production structure, readjust the relationship between supply and demand, and stimulate the economy. It has also actively helped enter-

prises improve operations and management, raise the quality of their products, promote new generations of products, increase the variety of designs, reduce the costs of production and increase the productivity of labor.

Furthermore, regulation through the market has also contributed to closer links between purchases and sales and helped bring about a flourishing market. The total volume of retail sales of commodities in 1980 was 214,000 million yuan, an increase of 18.9 per cent over the previous year; if the factor of price increases is deducted, the increase was 12.2 per cent. This is our highest rate of increase ever. In 1981, the volume of retail sales reached 235,000 million yuan, which represents a further increase of 9.8 per cent, or 7.2 per cent, if the factor of price increases is deducted. In addition, business is relatively brisk in rural and urban trade fairs which supply many kinds of agricultural and local products; there the volume of transactions has increased by a large margin. All these are inseparable from the regulatory role of the market. But if the guidance provided by state planning cannot keep pace, expanding the regulatory role of the market will certainly result in losing control of certain developments. In fact, some things have already gotten out of control, and these problems should be studied and solved.

The fourth aspect of the current reform is the experimental reform of county-level industrial management. According to incomplete statistics, 125 counties and cities in 25 provinces and municipalities are engaged in such experimental reform. Qingyuan County in Guangdong Province was one of the first counties to join the experiment, and it has become relatively experienced. In the past, there were 17 state-owned enterprises in this county with 6,000 workers and staff members, and besides the county economic commission, there were eight bureaus set up to divide the responsibility of managing these 17 enterprises. This management seriously hampered the

initiative of the enterprises in question. In 1979, Qingyuan County adopted a number of measures for reform. The eight bureaus were simply abolished, with the county economic commission directly managing the enterprises' manpower, financial and material resources, as well as production, supply and marketing. When departments at higher levels assigned tasks to the enterprises, these were transmitted through the county economic commission. The commission in turn delegated certain powers to the enterprises themselves. Enterprises now have the power to retain some profits, manage their fixed assets, engage in production outside the state plan, sell surplus products, set up their own system of bonuses and rewards, recruit workers and mete out penalties to those who have violated rules and regulations. They can also alter their internal organization and assign personnel in accordance with their needs. Although these reforms are still tentative, they have so far yielded good results. Profits realized by these enterprises amounted to 5.424 million yuan in 1980, an increase of 26.7 per cent over the previous year. For every one hundred yuan of industrial output throughout the county in 1979, the amount of profits was 9.3 yuan, 170 per cent more than in 1978. It further increased by 19.7 per cent in 1980, reaching 11.14 yuan. In this respect, the city of Tongliao in Liaoning Province has also gained some positive experiences and achieved good economic results.

The fifth aspect of the economic management reform involves the need to further the development of collectively-owned industry. The collective economy is not only the principal economic form in the countryside, but also has broad prospects for development in the cities. After the Third Plenum of the Eleventh Party Central Committee, earlier tendencies towards prematurely transforming collectively-owned industries into ownership by the whole people were rectified, and major achievements were scored in restoring and developing collectively-

owned industry. The number of workers and staff members employed by collectively-owned enterprises reached 24,250,000 in 1980, an increase of 6.7 per cent or 1,515,000 compared to 1979. In 1981, the total rose again to 25,680,000, a further increase of 1,430,000 people.

The development of the collective economy played an important role in accelerating China's industrial development. The value of China's gross industrial output in 1980 was 49,920 million yuan, 40,100 million yuan more than the year before. State-owned industry accounted for 60 per cent of the increase, while 40 per cent came from collectively-owned industry. It should also be pointed out that collectively-owned industry at present constitutes over 90 per cent of the output value of China's handicraft industry, which in turn made up more than 50 per cent of China's light industrial output value. The development of collectively-owned industry has particularly important significance in the growth of China's light industrial production.

3. Two Views to Be Considered in Regard to the Proper Orientation for Reforming the Economic Management System

Different viewpoints exist on the question of expanding the decision-making powers of enterprises. One point of view holds that it is suitable to carry out the system of full responsibility for one's own profits or losses in the case of state-owned enterprises which mainly rely on manual labor and have a low organic composition. According to this view, however, it is not suitable to do the same in the case of state-owned enterprises which have a fairly high level of productive forces and a relatively high organic composition; instead, the state should be responsible for their profits or losses. This opinion merits further discussion.

Small state-owned enterprises which mainly rely on manual labor and have a low organic composition should, of course, be responsible for their own profits or losses. In such cases, the responsibility of running such enterprises can be turned over to the workers and staff members so that they can assume complete responsibility for their own profits or losses. However, the view that other state-owned enterprises should not adopt the system of responsibility for their own profits or losses is not tenable. The essence of the problem lies in whether state-owned enterprises are actually relatively independent socialist economic units or not. If this point is affirmed, then this is an admission in principle that all state-owned enterprises must assume sole responsibility for their profits or losses, because this is a comparatively good system of economic management which allows enterprises to become relatively independent economic units. On the other hand, if this point is negated, then it actually amounts to denying the relatively independent economic status of enterprises and makes it impossible to effectively carry out a system of economic accounting. This is because the economic status of enterprises is manifested in real economic life by their sole responsibility for their profits or losses. This point is already quite clear after our explanation that the socialist economy is a planned economy in which commodity production and exchange should be greatly developed, and there is no need here to further elaborate on this.

This does not of course mean that all enterprises owned by the whole people can immediately assume sole responsibility for their profits or losses. Economic work at present is centered on readjustment, and reforms should be subordinate to readjustment. Reforms to be carried out should promote and be beneficial to readjustment. In implementing the system of sole responsibility for profits or losses, certain conditions in the enterprises themselves, as well as in the national economy as a whole, should first

be fulfilled, and a certain amount of experience should be accumulated. Thus, aside from small enterprises which can assume sole responsibility for profits or losses ahead of the others, a similar system can only be carried out on an experimental basis at selected enterprises.

There is another viewpoint which also deserves detailed discussion.

As described above, there are very many defects in the present system of economic management that call for immediate reform. This refers to the reform of the state-owned sector's practical form of management, or, in other words, the reform of the existing economic management system. But it does not in the least mean the negation of the system of socialist state ownership itself. There is nevertheless a viewpoint tending to attribute all defects in economic life to an alleged failure of the productive forces in the country to reach the level required for the implementation of the system of state ownership. It claims that the way out is to be found in a retrogression to the system of collective ownership.

Obviously, this point of view neither conforms to the Marxist thesis of socialist nationalization nor to the existing situation in the country.

What then is the theoretical basis for the Marxist thesis of socialist nationalization? It was originally put forward in order to solve the basic contradiction of capitalism — the contradiction between the socialization of capitalist production and the private ownership of the means of production. This thesis was originally expounded in the *Communist Manifesto*, which signified the birth of scientific socialism. Later, it was further elaborated upon by Engels in his work *Anti-Duhring*.

The question now is whether or not this principle of Marxism is applicable to China. The extent of capitalist development in semi-colonial and semi-feudal old China was far below that of Western capitalist countries. Yet as Mao Zedong said about that period, "China's modern

industry, though the value of its output amounts to only about 10 per cent of the total value of output of the national economy, is extremely concentrated; the largest and most important part of the capital is concentrated in the hands of the imperialists and their lackeys, the Chinese bureaucrat-capitalists."* Here, the basic contradiction of capitalism also existed most conspicuously. Undoubtedly, after the founding of the state of the proletarian dictatorship, such capitalist enterprises should be nationalized along socialist line by means of confiscation. Although the socialization of production in that sector of the capitalist economy controlled by the national bourgeoisie was on a somewhat lower level, the basic contradiction of capitalism existed there as well. The state of the proletarian dictatorship also had to transform this sector, step by step, to create a socialist state ownership system by means of peaceful transformation. In a word, we can say that the Marxist thesis of socialist nationalization is applicable to China in principle. Of course, as capitalism in old China was very much under-developed, the scope of socialist nationalization was smaller than it would have been in the developed capitalist countries if the proletariat there had acquired political power. This, however, is only a question of the scope of nationalization but is not a question of the feasibility of implementing the socialist nationalization in China.

It must also be pointed out that China's economic development since the founding of the People's Republic has suffered serious setbacks due to the influence of "Left" errors and the disruptive activities of Lin Biao, Jiang Qing and their followers. Nevertheless, socialist industry in China has registered great progress, while the degree of socialization of production as a whole has been

* Mao Zedong, "Report to the Second Plenary Session of the Seventh Central Committee of the Communist Party of China", *Selected Works*, Foreign Languages Press, 1975, Vol. IV, p. 367.

greatly enhanced. Under these circumstances, why should the system of state ownership be brought back to the level of the collective ownership system, in contravention of the requirements for the socialization of production? Due to the influence of "Left" errors, there did occur the phenomenon of the so-called "transition despite poverty" involving the hasty transfer of the collective ownership system to the socialist state ownership system. As a result, a large number of collectively-owned industrial enterprises in cities and towns were transformed into quasi-state-owned enterprises. These enterprises even included those small enterprises which operated essentially with manual labour and were only appropriate for the collective system. Now those enterprises which should come under the system of collective ownership have been returned to collective ownership. Ostensibly this might seem to be a "retrogression", but in fact it is merely the correction of an error. In other words, it does not imply that socialist nationalization should not have been introduced at all, nor does it represent a step backward to be applied to all state-owned enterprises. It only affects those enterprises which should not have been transformed into state-owned ones.

The question to be considered, then, is how can we ensure the planned development of the whole national economy, and how can we avoid a state of anarchy if, as suggested by some people, the system of socialist state ownership were to be changed into the system of collective ownership? In the absence of the system of socialist state ownership, can the collective system be consolidated and developed, and can the state of proletarian dictatorship exist for a long period on the economic base of a system of collective ownership? These are questions that should be treated with all seriousness.

Chapter IV

TOWARDS A RATIONAL ORGANIZATIONAL SETUP OF THE ECONOMY

An important task of the current economic readjustment and reform is the consolidation of enterprises and their reorganization and integration according to the principles of specialization and cooperation, thus aiming to bring about a rational organizational setup of enterprises. At the same time, associations should be established along industrial lines to strengthen the economic links within the various industries. Economic centers should be set up to promote the economic links within regions, as well as among different regions, thereby bringing about a rational organizational setup of the economy as a whole.

1. Consolidation of Enterprises and Improvement of Enterprise Management

Improving the management of enterprises is a necessary precondition for smoothly carrying out modern, large-scale socialist production and an extremely important factor in the effort to bring about greater economic results.

We should recognize that the original level of enterprise management in China was not high, and it was further impaired during the "Cultural Revolution", resulting in a chaotic state of management in many enter-

prises. Under these circumstances, devoting major efforts to the consolidation of enterprises and the improvement of management has become an extremely important factor in developing the national economy. We should also realize that it is difficult to run enterprises effectively under a highly-centralized system of economic management which relies mainly on administrative methods. With the expansion of the enterprises' decision-making powers and the unfolding of the market's regulatory role under the guidance of the state plan, however, favorable conditions have been created for the enterprises' operations.

We have achieved definite results in this respect during the past few years, as described below.

First, the leading groups in enterprises have been reconstituted and strengthened, cadres who are ideologically qualified, professionally and technically competent, experienced in managerial work and are in the prime of their life have been selected to take leading posts in enterprises, and the overall composition of cadres has initially improved. According to incomplete statistics from Beijing, Tianjin, Shanghai, Liaoning, Sichuan and Hubei, technically-competent experts who are familiar with management comprise about one-half of the membership in leading groups in key enterprises, while the average age has declined somewhat to about 53 years. Furthermore, cadres who have received university or technical school education now make up around one-third of the members in leading groups.

Second, a strict system of responsibility is being introduced. The factory director is fully responsible for directing production, as well as for managing the enterprise. The chief engineer is responsible for the technical aspects of production, while the chief accountant is in charge of all financial work. There are clearcut responsibilities for different levels, jobs and work processes. In the past we overemphasized collective leadership and

slighted individual responsibility; the result was that everyone was nominally responsible but no one actually assumed responsibility. This has now begun to change.

Third, 4,000 enterprises are now carrying out complete quality control work, that is, from design to trial production, to actual production and to servicing the products after they have been sold. Enterprises have also strengthened their accounting methods, with some employing a system of comprehensive accounting covering the whole factory (all the departments involved in management), the entire process of production and all personnel. Economic results have greatly improved, particularly in the case of enterprises carrying out the system of responsibility for fixed quotas of profits or losses.

Fourth, personnel training in enterprises has been stepped up. Altogether 328,000 leading cadres in enterprises at the county level and above have already undergone training in rotation; 50 per cent of large and medium-sized enterprises run their own schools, and about 20 per cent of the workers and staff members in these enterprises have already undergone different types of specialized training.

Fifth, many enterprises, particularly those with expanded decision-making powers, have made greater efforts to improve operations and management. According to their experience, the following points will require continued attention: (1) Strengthen the marketing setup and approach marketing as an important link in running the enterprise. The production plan should be integrated with the marketing plan so that production will be based on sales, while sales in turn will promote production. (2) Conduct market research and market forecasts so that new changes and trends in the domestic and international markets can be known in time. Output of commodities which are saleable and meet the consumers' needs should be increased so that both production and sales will grow. (3) Strengthen the capability for conducting

scientific research, design and the trial-production of products. Fully utilize market information to improve product design and quality and develop new products. Adopt new technology to reduce production costs and raise quality and increase variety. (4) Do a good job in publicizing products and actively initiate new lines of services for customers, particularly technical services. (5) Fulfill contracts on time and in accordance with the stipulated quality and quantity in order to safeguard the enterprise's reputation. (6) Most important is the role of the factory director. He must personally attend to running the enterprise, which includes formulating a business policy in accordance with the state plan and the needs of the market, as well as gradually setting up a suitable system of operations and management. He should promote the integration of production and marketing and also keep abreast of new information. He must be decisive in making business decisions.

Sixth, the democratic management of enterprises has been strengthened somewhat. Based on incomplete statistics, 36,200 enterprises throughout the country at present have already set up workers' congresses. Workers and staff members have begun to exercise their democratic rights as masters of their own affairs.

The seventh and final area of progress in the last few years, which is also the most important, is that ideological work in enterprises has been strengthened. In the course of consolidation, many enterprises have paid close attention to the ideological education of their workers and staff members, and have integrated this type of work with concern for the living conditions and concrete problems of workers and staff members.

In the process of all-round consolidation, enterprises should gradually set up a democratic and centralized system of management. This involves the strengthening of the system under which the factory director assumes full responsibility but still remains under both the leadership

of the Party committee and the supervision and control of the workers' congress. Enterprises should also gradually cultivate workers and staff members who are both socialist-minded and professionally competent. In combination with the above points, the establishment of a scientific system of management will enable our enterprises to achieve good economic results.

When enterprises have been consolidated, there will be more favorable conditions for their reorganization and integration based on the principle of combining specialization and cooperation and for the further rationalization of their organizational setup.

2. The Establishment of Different Forms of Combined Economic Organizations and the Integration of Enterprises

Industrial enterprises in China are managed by their respective departments or regions; this has created an irrational situation in which departments proliferate, regions are cut apart from each other, and there is multiple leadership and a dispersal of management responsibility. Moreover, the enterprises themselves, whether big or small, tend to be all-inclusive and self-sufficient in almost everything. Thus, enterprises are unable to cooperate with each other to form a greater productive capacity; instead, they operate in isolation from each other, resulting in a tremendous waste of manpower, material and financial resources. This also has seriously hindered technological progress and increases in labor productivity and greatly reduced economic results. Therefore, an urgent task in our current economic work is to transform the organizational setup of production into one not limited by department, region or type of ownership, but one combining the principles of specialization and cooperation.

The fundamental link in rationalizing the organizational setup of the economy is the integration of enterprises. This involves the reorganization of industry according to the principles of specialization, cooperation and economic rationality and the establishment of different forms of combined economic organizations.

The integration of enterprises is first of all an objective requirement of the development of modern social productive forces. Basing his analysis on the experience of the development of capitalist production, Lenin pointed out at the end of the 19th century: "Technical progress has led to the specialization and socialization of production in different spheres."* With the progress in contemporary production technology, major advances have been made in the specialization of products, spare parts and components, technological processes, as well as the production of raw materials and auxiliary production.

This is one aspect of the situation. The other is that, because social production is an organic whole, interdependence among departments and enterprises has grown with the development of specialization in production. This requires the development of integration on an extensive scale to meet the needs of specialization and cooperation. As Lenin said, "A very important feature of capitalism in its highest stage of development is so-called *combination* of production, that is to say, the grouping in a single enterprise of different branches of industry."** This development is, on the one hand, the product of the development of modern capitalist relations of production and, on the other hand, the product of the development of modern social productive forces. The latter has a

* Lenin, "On the So-Called Market Problem", *Collected Works*, Chinese ed., Vol. I, p. 85.

** Lenin, "Imperialism, the Highest Stage of Capitalism", *Selected Works*, FLPH, Moscow, 1952, Vol. I, part 2, p. 445.

general significance which is also applicable to socialist society.

After more than three decades of socialist construction in China, the technology of industrial production has developed greatly compared to that of semi-colonial and semi-feudal China, and this requires the development of specialization and cooperation on an extensive scale. However, the level of specialization and cooperation is still very low in China's current setup of industrial production, and it is fairly common for enterprises, whether big or small, to try to be complete in almost everything. According to a survey carried out by the former First Ministry of Machine-Building in 1978, out of 6,057 engineering factories, there were only 162 specializing in iron casting, and their output made up only 18 per cent of total cast iron production. Only 52 factories specialized in forging, with their output comprising a mere 9 per cent of the total. In present-day Japan, factories specializing in iron casting produce over 60 per cent of the total cast iron output, while the output of factories specializing in forging make up 84 per cent of total production in this category. In the United States' engineering industry, more than 70 per cent of output calculated according to the sales volume come from specialized factories, while only 1.2 per cent of the factories produce their own casting and forging, and only 4.46 per cent of the factories carry out heat treatment on their own. Many large engineering factories produce only critical components. The production of other items — from raw materials and semi-finished products to spare parts — is done through economic "combination" by establishing an extensive network of cooperation. The level of China's productive forces is still fairly low at present, and it is impossible for us to attain right away the same degree of specialization in production as that of the United States and Japan. Nevertheless this problem must be addressed. In order to accelerate the modernization of China's in-

dustry, we clearly need an industrial reorganization based on the principles of specialization and cooperation, as well as integration of enterprises.

The realization of industrial reorganization and enterprise integration is also called for by the readjustment of the national economy. Our national economy at present is still not totally free from imbalances. Some branches and enterprises have a surplus of productive capacity while others have a shortfall. Experience has shown that the integration of enterprises is of tremendous benefit in reducing the production of goods in excess supply and expanding the output of goods which are in big demand. In this sense, integration means readjustment. Readjustment not only calls for bringing about the integration of enterprises but also for their consolidation. Closing some factories and shifting the production of others will provide favorable conditions for realizing the integration of enterprises, raising their level of management and improving economic results.

Industrial reorganization and the integration of enterprises is also needed for reforming the current system of economic management, which is characterized by a highly-centralized leadership and an over-reliance on administrative methods. The highly-centralized leadership is actually the leadership by central, provincial and municipal economic departments. This kind of management system cuts off economic links between different enterprises and regions and fails to conform to the requirements of the development of commodity production and exchange, whereas the integration of enterprises, particularly across departments and regions, will contribute to a change for the better in these areas. Integration has been promoted by enterprises' expanded powers of operations, the growing regulatory role of the market and the increasing competition among enterprises.

In short, it is necessary to bring about industrial reorganization and the integration of enterprises in or-

der to carry out the policy of "readjusting, restructuring, consolidating and improving the economy" and to develop China's socialist economy.

Whether in a capitalist or a socialist society, the development of modern productive forces will result in a tendency for enterprises to combine. However, the resulting integration will be fundamentally different socially and economically. First, the integration of capitalist enterprises and the formation of monopolies transpire on the basis of the capitalist ownership of the means of production. Thus free competition will be restricted but not eliminated. In fact, the competition among monopolistic enterprises, and particularly between monopolistic enterprises on the one hand and ordinary enterprises on the other, will become more acute. Lenin expressed it in the following way: "Here we no longer have competition between small and large, technically developed and backward enterprises. We see here the monopolists throttling those which do not submit to them, to their yoke, to their dictation."*

The integration of socialist enterprises is carried out on the basis of the public ownership of the means of production. The relations between different integrated enterprises, as well as between integrated enterprises on the one hand and ordinary enterprises on the other, are relations between socialist enterprises. There is competition between them, but it is based on a fundamental identity of interests. The situation in the capitalist world in which monopolistic enterprises oppress ordinary ones does not exist under socialism.

Second, the integration of capitalist enterprises and the formation of monopolies are the result of the spontaneous role of capitalist economic laws and cannot eliminate the anarchic nature of social production. After

* Lenin, "Imperialism, the Highest Stage of Capitalism", *Selected Works*, FLPH, Moscow, 1952, Vol. I, Part 2, p. 455.

the Second World War, the capitalist countries stepped up the integration of enterprises and strengthened production planning. However, this cannot fundamentally alter capitalist spontaneity, and as a result economic crises have continuously arisen. The integration of socialist enterprises is the result of the role of socialist economic laws and is carried out under the guidance of the state plan to meet the requirements of developing the national economy in a planned and proportionate way.

Third, the integration of capitalist enterprises only discards capitalist ownership in form and conforms to a certain degree to the requirements of the socialization of production; in essence, however, it causes an enormous amount of capital to be more and more concentrated in the hands of a few capitalists, and increasingly sharpens the basic contradictions of capitalism. In a socialist system, the development of integration among enterprises is both a requirement of and a means for promoting the socialization of production, which is consistent with the nature of socialist public ownership and lays the material basis for consolidating and strengthening the socialist system.

Remarkable progress has been achieved over the past three years in industrial reorganization and the integration of enterprises. According to recent nationwide statistics, 1,973 specialized corporations and general factories of different kinds (including 216 experimental business corporations) have already been set up according to the principles of specialization and cooperation, and they comprise 19,173 enterprises, accounting for 5.38 per cent of the total number of enterprises. In the case of the three municipalities of Beijing, Tianjin and Shanghai, 278 corporations and plants were established with 4,548 participating enterprises, or 31 per cent of the total number of enterprises in these three cities. Centers for technological cooperation have also been set up in various places. Re-

gional and departmental divisions, as well as restrictions stemming from different types of industries and ownership systems, have been broken down in a number of localities. Many enterprises have cooperated to establish combined economic organizations in the form of joint production undertakings, joint ventures or the domestic variety of "compensatory trade."

The reorganization and integration of industrial enterprises have begun to attain excellent economic results. The all-inclusive setup of industrial production has started to change, and there has been a breakthrough in solving the problem of multiple leadership and dispersed management, thus promoting the development of specialization and cooperation and strengthening the economic links between different departments and regions. This has played a beneficial role in utilizing to full effect the superior conditions of various regions, departments and enterprises, developing the strong points and overcoming disadvantages and tapping the potentialities of economic units. Reorganization and integration have also helped to promote the use of new technology and highly-efficient special purpose equipment, improve the quality of products, facilitate the replacement of new products for old, raise labor productivity and reduce production costs. Additional results of the reorganization and integration process still in progress have been a cut-back in the production of items in excess supply with a corresponding increase in the production of items which are in demand, and a readjustment of the product mix and industrial setup.

In 1952 Shanghai had a total of 25,878 factories with an average annual labor productivity of 6,288 yuan per worker and an average annual contribution to the state of 1,200 yuan in profits and taxes per worker. Since then, Shanghai has built a number of new backbone industrial enterprises and carried out the reorganization of enterprises four times. At the end of 1980, factories in Shang-

hai were merged and reorganized into a total of 6,770, 75 per cent less than in 1952; labor productivity grew by 370 per cent and the average contribution to the state in profits and taxes per worker increased by 650 per cent. The economic results of the combined economic organizations established in Shashi, Hubei Province, were also quite good.

The problem at present is how to promote the reorganization and integration of enterprises.

Historical experience demonstrates that it is difficult to achieve success in integrating enterprises if only administrative methods are used; even if some enterprises are integrated for a certain period of time, it is hard to consolidate and develop them. We already had such a lesson when we experimented with running "trusts" on a national scope during the early 1960s. By issuing administrative decrees from the higher levels, 12 national industrial corporations were set up in 1964. Although distinct economic results were attained when production was reorganized according to the principles of specialization and cooperation, there were, however, quite a number of shortcomings in that some practices went beyond the degree permitted by objective economic conditions. For example, the corporations exercised a high degree of monopoly and wanted to absorb all enterprises in their particular line of industry, but they did not sufficiently consider the interests of the localities. All powers were concentrated in the corporations, while factories under the corporations did not have necessary decision-making powers, thus dampening the enthusiasm of the localities and enterprises.

In the process of industrial reorganization and integration over the past three years, similar problems have occurred again since we did not sum up past experience very well. During the initial period of the current industrial reorganization, most regions and departments utilized administrative methods to accelerate the process

of industrial reorganization, and enterprises were reorganized from top to bottom. Management was carried out along industrial lines and specialized corporations or integrated corporations were organized. Some gains were made with this method, but there were also a number of problems. For example, without considering the objective economic conditions and the level of management, some regions and departments rashly set up corporations with a high degree of control over manpower, financial and material resources, as well as production, supply and marketing. As a matter of fact, due to the lack of managerial experience and the necessary material conditions, many corporations practically monopolized all power and even deprived the enterprises under them of some of their newly-acquired decision-making powers, thus giving rise to many contradictions and dampening the initiative of these enterprises. Practice shows that although the subjective desire for integration may be good, integration will eventually fail if it does not accord with objective economic laws. A further problem was that some regions and departments only considered their own interests, and in order to protect the enterprises under them from being integrated with those of other departments, they organized corporations by combining totally unrelated enterprises. These enterprises gain no advantage other than having an additional "mother-in-law looking over their shoulders"; as a result, they are seemingly in harmony but actually at variance with each other. There are many similar examples because, in carrying out integration by administrative methods, it is often very easy to treat enterprises as mere appendages of the administrative organs, resulting in all kinds of arbitrary and impracticable directives. Out of habit many cadres feel that using the old ways to manage the economy is more convenient, while using economic methods involves a great amount of effort because one has to study anew and feel one's way. Industrial reorganization

and economic integration represent for us a completely new task, and if we continue to utilize the old methods, we will find that our efforts are running counter to objective economic laws.

It is not true, however, that integration can be easily realized by simply allowing enterprises to combine freely. Without necessary administrative intervention, initiative can become nothing more than blindness in action.

During the first half of 1980, the Party Central Committee put forward the policy of "developing the superior aspects, protecting competition and promoting integration"; it also emphasized that different forms of integration based on voluntary participation, mutual benefit and the needs of production should be developed, which would help break down regional and departmental barriers, as well as ownership limitations. For a period of time afterwards, the different regions and departments slackened administrative intervention and left it to the enterprises to freely combine among themselves. At the beginning, this helped break the old habit of imposing overly-severe limitations on enterprises' activities, and it promoted the vigorous growth of different forms of economic integration. It also resulted, however, in certain uncontrolled side effects such as serious duplication in construction. Many small enterprises were built which competed with larger, established factories for raw materials, thereby adding new difficulties to the readjustment of the national economy. The State Council promptly issued the "Provisional Regulations on Promoting Economic Integration" in July, 1980, which stressed the use of necessary administrative intervention. Based on these regulations, administrative intervention in the process of enterprise integration was strengthened in many regions and departments. For example, government organs in charge of planning have paid attention to the overall planning and balancing of economic integration, while those organs in charge of industrial and commercial administration have

strengthened the management of enterprises. Practice has shown that the one-sided emphasis on letting enterprises freely combine among themselves easily gives rise to such phenomena as uncontrolled growth and duplication in construction with the interests of small enterprises conflicting with those of the large ones. It is, therefore, necessary to closely combine economic methods with necessary administrative intervention in carrying out industrial reorganization and economic integration.

The key to coordinating the use of economic and administrative methods lies in abiding by objective economic laws. Administrative powers should be utilized to overcome obstacles and promote integration while economic methods should be utilized to set up corporations or general factories and to organize enterprises. Administrative intervention should suit the requirements of the economic laws. The internal economic motive force for carrying out integration lies in the urgent need to promote production in various regions, departments and enterprises. Using economic methods to carry out integration involves taking as a starting point the need to develop production in accordance with the inherent links among existing enterprises. Given the limitations of objective conditions, production will then be organized according to the principles of economic rationality, specialization and cooperation in order to achieve the goals of reducing production costs, lowering consumption of raw materials, improving efficiency and attaining optimal economic results. Integration is not carried out according to administrative needs. For example, the degree of convenience in administrative work should not be the sole criterion for choosing the form of integration; rather, the starting point should be the needs of production in combination with the enterprises' objective conditions.

How should administrative means be utilized so as to promote industrial reorganization and integration in a way that conforms to objective economic laws? Based on

past experience, attention should primarily be concentrated on five areas of work as described below:

First, "departmental ownership" and "regional ownership" should be broken down in order to pave the way for the development of economic integration. The problem of the readjustment, reorganization and integration of those enterprises which have been closed down, suspended, merged or shifted to other lines of production should be solved first of all. Any idle production factors must be fully utilized to develop the production of items which are highly competitive and in big demand in order to meet the needs of the people's consumption, economic construction and foreign trade. Party organizations and administrative departments at various levels should actively conduct thorough ideological work directed against the different kinds of erroneous thinking which can affect economic integration. Some cadres, for example, are afraid that they might lose their positions, and some enterprises are apprehensive that they may be placed in a financially disadvantageous position; large factories are fearful that they may bear a heavier burden, while small factories worry about being totally absorbed. The result is endless squabbles over conflicting interests, which makes integration impossible to realize. The leadership at various levels should first of all conduct ideological work among the members of the leading bodies and then extend their work to cadres and the masses at the grassroots level. The objectives should specifically be to overcome the characteristic narrow outlook of small producers, to cultivate the sense of taking into account the interests of the whole and the outlook of large-scale socialized production so that reorganization and integration can be carried out smoothly. The responsible government organs at different levels, proceeding from the principles of overall planning, overall balance and economic rationality, can play the role of "match-maker" to facilitate the integration of suitable enterprises. The proper

combination of economic methods, ideological work, and necessary administrative measures can bring about the successful fruition of the task of integration.

Second, integration should proceed from the actual situation, not from anyone's subjective wishes, and it should develop gradually. Generally speaking, integration should initially be carried out on a small scale, progressing to a bigger scale later on. The contents of integration should be fairly simple at first, becoming more complex with time. The setup of integration should be loose at the outset and more close-knit later on. Nearby areas should be covered before distant ones. There are of course exceptions. For example, it is both necessary and possible for some enterprises with a fairly high level of socialized production and with comparatively rich experience in management and operations to set up relatively large, closely-linked combined economic organizations on a national or regional basis which run production and marketing on a unified basis. This approach ought to be actively encouraged rather than restricted.

Third, serious investigation is required in order to calculate economic results and to do a good job in overall planning, taking all the necessary factors into consideration. The quality of economic results is the most important indicator of the success of the industrial reorganization and integration. Judging from past experience, enterprises often tended to give too much consideration to the development of their own production and their own economic interests; it was difficult for them to give sufficient weight to the big picture. For example, some products are in short supply within a given locality but are in excess supply in terms of the whole country. Some units actively engaged in the production of such products in pursuit of their own economic interests, thus adversely affecting optimum utilization of the productive forces on the national level. Therefore, the guidance of the state plan ought to be strengthened so that enterprises in dif-

ferent departments and regions can develop harmoniously. In the meantime, administrative methods can be subsumed in more economic legislation, such as the enactment of corporation, factory, contract, labor and price law. In this way the business activities of enterprises can be coordinated, and the implementation of different kinds of economic measures can be ensured, thus integrating partial interests with overall interests.

Fourth, the principle of mutual benefit should be adhered to, and at the very least there should not be any infringement on the economic interests of any party. If readjustment and reorganization cause temporary losses to one party, then the other party should set aside a portion of its gains derived therefrom to appropriately compensate the affected party. Only on the basis of equality and mutual benefit can both parties integrate voluntarily and their initiative be effectively brought into play.

There are three types of funds which should each be handled differently according to the principle of mutual benefit. Bonus funds should mostly be turned over to the control of the production enterprises. A corporation may reserve a small portion of the welfare fund and distribute it within the corporation. The production fund should be reserved primarily for use by corporations, general factories or other combined economic organizations, but a portion should be handed over to the enterprises for their own use. An appropriate concentration of the production fund in the corporations or general factories is beneficial to the maintenance of the enterprises' harmonious development. It can be used mainly to overcome weak links in the production process and to promote the technical transformation of backward factories or workshops within the integrated enterprises in order to raise overall production capability.

Fifth, the distribution and concentration of powers should be appropriately carried out. The key to organizing, consolidating and developing integration lies in the

proper handling of economic rights and interests of the parties concerned. Doing a good job in reorganization and integration requires not only that the division of powers between the corporations and factories be handled correctly, but also that the division of powers between the responsible government organs on the one hand, and the corporations and factories on the other, be taken care of just as satisfactorily. The responsible government organs will be gradually streamlined and merged as much as possible to become comprehensive organs for industrial administration. They will have the responsibility for unified planning, paying particular attention to maintaining overall balance, and examining and improving the formation of new combined economic organizations. They will formulate policy, promptly solve any new problems that emerge, and coordinate with banking, finance, tax collection and judicial departments in the course of supervisory work. Responsible government organs can gradually delegate the powers of operation and management to the corporations, depending on the situation of course, with the corporations directly performing many functions previously handled at the higher levels. The corporations' role is to solve those problems which cannot be solved in the factories, such as questions relating to the reorganization of enterprises, large-scale technical transformation within enterprises, scientific research and sales promotion. The corporations are then to draw up the overall plans for the enterprises under them and to coordinate, supervise and serve these enterprises. Grassroots production enterprises should certainly have their own decision-making powers. Both loosely and closely-linked combined economic organizations must conscientiously assign appropriate managerial powers to the lower level. This is an important prerequisite to giving full play to the enthusiasm, initiative and creativity of enterprises. Though in the past we were accustomed to the use of purely administrative methods in

management, we must now rely on consultation as much as possible in handling major problems relating to production, management and economic interests. Corporations cannot simply resort to administrative decrees even in the case of certain rights and funds which should be concentrated in corporations. Factories must be fully consulted in order to avoid dampening their initiative.

To sum up, the correct method for effecting industrial reorganization and integration is to act according to objective economic laws, and also to combine top-to-bottom consultations with the necessary degree of administrative intervention, all the while adhering to the principles of voluntary participation and mutual benefit. When inappropriate regional and departmental divisions seriously impede industrial reorganization and integration, it becomes necessary for the state to use its administrative powers to eliminate these barriers. This does not mean that the administrative powers of departments and regions are to be negated. Actually, since the current system of economic management has not yet been fundamentally reformed, we must still depend on the departments and localities to conduct the reorganization and integration of industry. It is only when inter-departmental and inter-regional integration encounters resistance from departments and regions that it becomes necessary for the state to utilize its administrative powers to eliminate such resistance.

With regard to industrial reorganization and integration, a problem worth noting is that the majority of corporations in China at present have an administrative, instead of a business, character. Shanghai was the first city in China to organize corporations, and good results were achieved in the process. According to data from the city, following several reorganizations and mergers since the basic completion of socialist transformation in 1956, there are altogether 72 industrial corporations. Apart from 29 of these which have expanded powers and bear

a definite business character, the majority of the others have an administrative character. Administrative corporations are different from business corporations in that the former exercise leadership by means of administrative methods, neither engaging in economic accounting nor bearing any financial responsibility, while the latter are actual economic entities with independent accounting responsibilities. Generally speaking, a business corporation has four characteristics. First, it carries out independent economic accounting, possesses independent managerial powers, bears economic responsibility and obtains economic benefit according to its economic results. Second, it formulates and executes plans. Third, it carries out unified management of manpower and financial and material resources. Production and marketing activities of its subsidiary factories will also come under its control. This, of course, does not mean that everything is concentrated in the corporation. A system combining the leadership of the corporation with two-level accounting can be put into practice. Fourth, it has legal existence.

Among these four characteristics, the most basic is the independent economic accounting. To implement a system of independent accounting or responsibility for one's own profits or losses, four aspects — economic powers, responsibility, interests and results — should be closely linked. First of all, a corporation should have decision-making powers in operations and management so as to enable it to organize its economic activities effectively according to the needs of society, the conditions of production and its own interests. Second, a corporation should bear a corresponding economic responsibility, since it cannot assume power without bearing the corresponding responsibility. Third, there must be a direct link between the results of a corporation's operations and the immediate interests of the enterprises and their workers and staff members, for only in this way can their

initiative and enthusiasm become the internal motive force for promoting the development of the whole corporation. Furthermore, a corporation should have the capability to develop on its own as an economic entity. It should be capable of organizing its production and operations independently and on its own initiative. It must be able to realize both simple and expanded reproduction under the guidance of the state plan.

The organization of corporations should be based on the differing conditions obtaining in various regions and industries; different forms will be adopted, with some loosely and others tightly linked. Business corporations can be organized according to regions or according to industrial lines which may cut across administrative divisions. Big industrial cities such as Shanghai, Tianjin, Shenyang and Chongqing have already set up specialized industrial corporations along industrial lines on an experimental basis. The level of specialization and cooperation among corporations should be further raised, their organizational structure become more rational and their economic results further improved. Corporations with an administrative character must be gradually transformed into corporations with a business character. In a number of regions where there were no industrial corporations in the past, business corporations and general factories with quite good economic results have been established in recent years. These should be further consolidated and improved in the course of readjustment. Corporations with an administrative character must be subjected to concrete analysis. Those which can still promote the growth of production but lack the conditions for being immediately transformed into business corporations may temporarily retain their form, but active efforts should be exerted to create the conditions for transforming them.

Neither will the accounting system of all business corporations be uniform. Some corporations may put into

practice accounting at only one level — at the corporate level — while others may carry out accounting at two levels — at the corporate and factory levels. Factories have been the independent accounting units for a long time. If the system were immediately changed into corporate-level accounting, economic accounting in factories would probably not only be weakened, but it would also encourage the tendency to “eat from the same pot”. Based on the experience of Shanghai and Tianjin, the implementation of a two-level system of accounting is advisable.

3. The Significance of Establishing Associations Along Industrial Lines and Developing the Economic Links Within Various Industries

Establishing associations along industrial lines and developing the economic links within various industries are important components of our efforts towards rationalizing the organizational setup of the economy.

The present system of enterprise management in China is carried out principally by the industrial administrative organs under the State Council and the local government at different levels, which divide their responsibilities according to major industries. As the social division of labor has become more and more developed, this system of managing according to major industrial lines is becoming less and less suitable to the requirements of developing modern industry. Another problem is that the industrial administrative organs at the central government level are concerned only with enterprises directly under them; they have nothing to do with enterprises belonging to other departments and regions. Furthermore, they are responsible only for the production of particular products but not for the comprehensive utilization of resources. In actual economic life, however, all industries and products are inter-

related. Thus, the defect of the current management system could be described in the following way: that which need not be managed is being managed, while that which ought to be managed is not well managed.

Besides delegating certain policy-making powers to enterprises under the guidance of the state and carrying out the integration of enterprises, it is also necessary to establish associations along industrial lines and to develop the economic links within various industries.

An industrial association can be conceived as an organ of democratic management voluntarily formed by enterprises in a particular line of industry to coordinate the development of the industry concerned. It could be considered a kind of integration along industrial lines, with management carried out by the board of directors democratically elected by the enterprises participating in the association. An industrial association can make regulations on the rights and duties of participating enterprises. One of its characteristics is that it is not a state administrative organ, but is rather an organization under state guidance which is part-official and part-civilian, as well as part-administrative and part-economic. It is not an administrative organ of the government, but it has certain administrative powers; it is not a combined economic organization, but it has certain economic functions. It plays the role of a bridge not only between the state and enterprises but also between different enterprises. It speaks on behalf of an industry before the government; it represents the government in conducting democratic consultations with enterprises.

The functions of an industrial association are not the same as those of a government organ responsible for administrative work or of a corporation with either administrative or business character. Its main task is to undertake activities which an enterprise or a corporation would be unable to accomplish on its own, including liaison and consulting services for enterprises within the in-

dustry. It will have the following principal functions: First, it will draw up long and medium-term development plans, as well as annual plans, for the industry in accordance with the government's policies and economic plan, and on the basis of market forecasts and production research. Second, it will draw up plans for the technical transformation and development of the industry, and formulate policy on technical equipment. Third, it will lay down industrial standards, both for enterprises and their products. Fourth, it will organize and coordinate cooperation within the industry. Fifth, it will organize the export of the industry's products and help to develop international markets for them in a unified way. Sixth, it will cooperate with the trade union in organizing inter-factory emulation drives and conducting self-appraisals within the industry. Seventh, it will handle liaison work among enterprises within the industry. Eighth, it will organize national and international exchange of technical and economic information. Ninth, it will assist enterprises in training professional personnel. Tenth, it will report to the government on the industry's production and management activities and put forward related demands and suggestions.

Establishing industrial associations and developing the economic links within various industries are advantageous for the implementation of state policies and plans, the realization of the requirements for readjusting the national economy, and other goals which have already been discussed at length. These include the readjustment of the production of goods in excess supply and goods in short supply, the rational organization of production, and the avoidance of duplication in construction and production. Industrial associations also aid in the reorganization of industry according to the principles of specialization and cooperation, the promotion of enterprise integration, the raising of the technical and managerial level, and the improvement of economic results. In addition, they

help provide greater access to foreign markets, thus facilitating the expansion of exports. The establishment of associations is conducive to the elimination of barriers between different departments and regions. In certain respects they can function on behalf of the state in managing the economy. Thus, we can see that the setting up of industrial associations and the development of economic links within various industries are an important way of realizing the readjustment and reform of the national economy, and a significant measure in rationalizing the organizational setup of the economy and accelerating socialist modernization.

There can be both national and regional industrial associations. The former would logically be established in China's major industrial centers: for example, the national sewing machine manufacturers' association could be established in Shanghai, and the national machine-building association could be set up in Shenyang, Liaoning Province. Furthermore, the national industrial associations could rely on the facilities of large enterprises in major industrial cities and the industry's scientific research center.

In feudal society, industrial associations in the form of guilds emerged when the commodity economy attained a certain stage of development. In the contemporary era industrial associations have developed more extensively among the developed capitalist countries. The industrial associations which will be developed in China, however, are fundamentally different in nature from these two types of associations. Guilds in feudal society were based on simple commodity production and were economic organizations with a feudal character whose activities were mainly aimed at serving the interests of the guildsmasters. Industrial associations in capitalist society are based on capitalist commodity production and are aimed at harmonizing the contradictions among capitalists in order to increase their exploitation of the proletariat and gain more

profits. Industrial associations in socialist society are socialist organizations which are based on socialist commodity production and are aimed at developing socialist production and improving the material and cultural life of the people.

4. The Establishment of Economic Centers and the Development of Economic Links Within and Among Regions

The establishment of economic centers and the development of economic links within regions as well as among regions have an important role to play in bringing about the rationalization of the organizational setup of the economy.

An economic center is a place in which social and economic activities, such as industry, commerce, transport, post and telecommunications, credit and finance, education and science, are concentrated. It is a manifestation of a certain stage in the development of commodity economy and is based on a city of a given size. With the development of commodity economy in slave and feudal societies and the emergence and growth of cities, economic centers also appeared. But the formation of large-scale and in particular nationwide economic centers followed the development of capitalist commodity production. It is very evident that the formation of nationwide economic centers and that of unified national markets are interrelated, and the latter was the result of the development of capitalist commodity production. It can be said that the development of economic centers in the modern sense is the result of the development of modern capitalist commodity production, an outcome of the development of modern large-scale industry and modern science and technology.

A socialist economic center is also based on a city of a given size and is likewise an outcome of the development of commodity production and exchange. However, its social and economic nature is fundamentally different from that of past economic centers. That is to say, it is not based on a commodity economy characterized by private ownership of the means of production, but rather on a publicly-owned, planned economy which actively develops socialist commodity production and exchange. Thus, its formation and process of development is different from those earlier economic centers since it is realized under the leadership of the state plan and not as an outcome of the spontaneous development of commodity economy. In contrast to conditions under the private ownership of the means of production, there is no conflict of interests between an economic center and the regions having links with it; there is identity of fundamental interests, with only a disparity in partial or local interests.

An economic center in China may be envisaged as the integration of economic regions based on a city of a given size.

It is not a combined economic organization nor is it completely similar to the so-called "coordinated regions" formed in the past according to administrative divisions. It is instead a grouping in which different kinds of organizations participating in the activities of the economic center (such as enterprises, various forms of combined economic organizations and industrial associations) voluntarily come together to coordinate certain kinds of economic activities, all under the guidance of state policies and plans. It is not at all an administrative organ of the state, but it can act on behalf of the state in performing some of the functions involved in managing the economy.

An economic center under socialist conditions is therefore an important link in the structure of the socialist

economic system as a whole and an important factor in promoting the planned development of different types of economic activities. The establishment of economic centers at present will provide added impetus to the readjustment of the national economy and will contribute to the elimination of departmental and regional barriers. Thus, it is also an important ingredient in the readjustment and restructuring of the economy.

At present China has both nationwide and local economic centers. A county would have as its economic center the county seat, for example. Generally speaking, a city is an economic center. When we speak of key cities, we are referring to the relatively big economic centers in certain parts of the country. Economic centers which are based on key cities will be interrelated with other key cities and economic regions nearby, thus forming an organic whole, a network for nationwide economic activities. In this way they play a decisive role in the development of the national economy.

In the past, we often equated the concept of economic regions with that of administrative divisions. Actually they are very different. The economic center of Hebei Province, for example, is not the provincial capital, Shijiazhuang, but Tianjin (Tientsin). Similarly, Chengdu is the provincial capital of Sichuan, but the economic center is Chongqing (Chungking); Chongqing in fact is not only the economic center of Sichuan Province, but also the center of China's southwestern region. We had six so-called economically coordinated regions in the past. They were actually administrative regions, rather than economically coordinated regions. The former economically coordinated region of central-south China, for example, extended in the north from Xinxiang and Anyang, Henan Province, to Guangzhou in the south, so how could such a huge, diverse area possibly become a close-knit economically coordinated region? Setting up economic centers is therefore not a simple matter of dividing

the country into administrative areas. The scope influenced by each economic center varies, and it is not possible to draw clear-cut boundaries since one usually overlaps with another. The economic activities of these centers depend not on the strength of administrative decrees, but rather on actual economic links which can extend far beyond the scope of administrative management. The economic activities of Dalian in Liaoning Province, for example, can extend to Inner Mongolia, Jilin, Heilongjiang and other areas within the country; they can even extend abroad to Japan and other countries, places which are far beyond the scope of administrative management.

We have not done well in giving full play to the role of economic centers over the years, often relying on administrative areas instead of economic regions based on key cities. Administrative areas and economic regions are identical in some aspects and contradictory in others. When economic activities conflicted with the administrative divisions, we often subordinated the former to the latter instead of allowing the latter to serve the purposes of economic development. This violated the law of economic activities. In the final analysis, this is a question of whether or not the superstructure should serve the economic base. Socialist commodity production and exchange in China are not yet very developed, and there are still remnants of feudalism in the economic sphere. The capitalist countries shattered the fetters of feudalism during the period of the bourgeois revolution, enabling capitalism to develop rapidly. Since we have a socialist planned economy based on public ownership, we cannot of course imitate capitalism. However, in order to develop the socialist economy, it is necessary to emancipate it from all fetters hindering economic development and to act in accordance with objective economic laws. Otherwise, we cannot stimulate the economy and achieve good economic results.

The crux of the problem therefore lies in breaking down all kinds of departmental and regional barriers so that key cities can fulfill their function as economic centers. Key cities must first of all expand the production of consumer goods, particularly the production of important goods with famous brands. They can also help to consolidate enterprises and organize them rationally, expedite reorganization and integration along industrial lines, and restore or start different kinds of rational commodity production and circulation. Finally, they must give full play to the role of finance and credit, economic forecasting, scientific research and the popularization of new technology.

Stressing the role of economic centers does not mean that administrative management and guidance are no longer needed; the question lies rather in what kind of management and guidance are called for. Administrative management should be combined with economic management, and economic levers such as pricing, taxation and credit should be utilized in accordance with state guidelines in order to promote economic development. The task of an economic center is not so much to manage as to serve. It must serve production, circulation, distribution and consumption. It must improve facilities for transport, post and telecommunications, and provide better hotel services and commercial consulting services. When somebody goes to a particular city for business purposes, he should be able to get the information he needs about the local situation; if he has any problems, he should be able to get a satisfactory solution as soon as possible. The better such services are handled, the greater the role a key city can play as an economic center which continuously attracts the economic activities of the surrounding regions. Dalian in Liaoning Province, for example, is a port city and an important center for import and export trade. Generally speaking, the commodity exports and imports of the three provinces in northeast China and the eastern

part of Inner Mongolia pass through Dalian. Can Dalian improve its services and attract the export products of the whole of Inner Mongolia and other regions as well? This depends entirely on the quality of services offered. If services are not efficient, then people will probably go not to Dalian but to Tianjin. In this sense, striving to provide better services is also a form of competition. If all key cities pay special attention to this question, then economic activities in China will certainly develop in such a way as to better promote the prosperity of the whole economy. All key cities have their own special characteristics. Every key city must determine its development plan in the light of its own geography, history, natural resources and actual economic conditions. There cannot be only one stereotyped pattern for all key cities.

In order to give full play to the role of economic centers, several large cities with a relatively developed industry and commerce should be constituted as economic centers. Around each of these large economic centers there can be several medium and small-sized economic centers which are connected in turn to the small towns and surrounding rural areas. An economic center should not be restricted by administrative divisions and should undertake economic activities based on objective economic links to attain the best results. The activities of economic centers throughout the country can be interconnected to form a flexible and organic network.

The key cities' power to organize and coordinate different kinds of economic activities should also be appropriately expanded. At the same time, medium and small-sized cities and towns ought to be developed in a planned way to form medium and small-sized economic centers. If this is not done the large economic centers will exist in isolation and be unable to play their proper role. It is also difficult for the commodity economy in the countryside to develop rapidly without the small cities and towns; in fact, the economic development of small cities

and towns will promote the vigorous development of a diversified economy in the countryside. This is of major importance in our efforts to build a prosperous economy.

There is yet another significance in developing the economies of small cities and towns. In present-day China, 20 per cent of the population live in the cities while 80 per cent are in the countryside. With the further development of the national economy by the end of this century, the proportion of urban to rural population in China will probably change to either a ratio of 30 to 70 per cent or 40 to 60 per cent. If the former turns out to be so, then over 100 million people will leave the countryside during the next two decades. Where will they go? Most of them will no doubt settle in the small cities and towns and there help to promote economic prosperity. We should have the foresight to be prepared for this.

Aside from the experience we already have in establishing different forms of combined economic organizations and in accomplishing the integration of enterprises, we have just started to set up associations along industrial lines and economic centers, and thus our practical experience is still very limited.

5. The Signs of a Rational Organizational Setup of the Economy

Based on the above analysis, the signs pointing to a rational organizational setup of the economy may be described in the following way.

First, certain policy-making powers are gradually delegated to the enterprises, enabling them to become relatively independent socialist economic units.

Second, different forms of combined economic organizations are established according to the principles of specialization, cooperation and economic rationality.

Third, industrial associations are established as an important link between the state and enterprises.

Fourth, several economic centers based on large cities with relatively developed industry and commerce are established to develop national and regional economic links and perform certain management functions.

Fifth, the leadership and control of the state over the national economy as a whole is strengthened in the course of reforming the present system of administrative management characterized by too many departments and layers of leadership and by a lack of coordination between different departments and regions.

With the accomplishment of all this, commodity production and exchange in China's socialist planned economy will be better organized. Meanwhile, under the guidance of the state plan the various functions of management currently being performed by administrative organs of the state will be transferred to economic organizations.

Chapter V

CONCLUDING REMARKS

To sum up, China will gradually realize the rationalization of the economic structure, the economic management system and the organizational setup of the economy through the current economic readjustment and reform. With corresponding advances in culture, education and science, we will continue to make new progress in developing production, improving technology, raising management levels, increasing economic results and bringing about a higher standard of living for the whole people.

China's new strategy for economic development, as embodied in the policy of readjustment and reform, is full of promise. Three years of practice have already given us an excellent beginning. From 1979 to 1981, total industrial and agricultural output value (calculated at constant prices of 1970) grew at an average annual rate of 6.7 per cent; the total value of agricultural output rose by an average of 5.6 per cent; the total value of industrial output rose by an average of 7.1 per cent, which broke down to a 14 per cent increase for light industry and 1.3 per cent for heavy industry. The growth rates of agriculture and light industry were clearly much faster than in the past, and the rate of heavy industrial growth was intentionally slowed down. Progress has been made in readjusting the internal structure of industry. The proportion of light industry in the gross industrial output value increased from 42.7 per cent in 1978 to 51.5 per cent in 1981. The scale of capital construction has been reduc-

ed and the investment structure improved. There has also been a change for the better in the prolonged imbalance between the rates of accumulation and consumption. The accumulation rate was lowered from 36.5 per cent to 28.3 per cent in 1981. A basic balance between state revenues and expenditures has been achieved. As a result of these changes, there has been a marked improvement in the living standard of the people. In 1981, the average annual per-capita income of peasants increased by 66.4 per cent compared to 1978, while the average wages of workers and staff members in state-owned units rose by 25.7 per cent, or 11.9 per cent if the factor of price increases is deducted. A total of 26,230,000 people were given jobs during the three-year period, 1979-81. The total volume of retail sales grew by 27 per cent from 1978 to 1980 (with the price increase factor already deducted), and 1981 registered another 7.2 per cent increase over the previous year.

From the above we can see that with the implementation of the new economic development strategy, socialist construction in China has embarked on a path of sound development. This will ensure a fairly steady tempo of advance, attain better economic results and bring more substantial benefits to the people. We believe that by making a sustained effort for several decades we can build our country into a powerful, highly democratic and culturally advanced socialist country with modern agriculture, industry, national defense and science and technology.

Appendix

Table 1.

MAJOR FIGURES OF CHINA'S NATIONAL ECONOMY, 1949-81
(Selected Years)

Item	Unit	1949	1952	1957	1965	1975	1978	1979	1980	1981
Population	thousand	541,670	574,820	646,530	725,380	919,700	958,090	970,920	982,550	996,220
Social laborers	"		207,290	237,710	286,700	381,680	398,560	450,900		432,800
Total industrial and agricultural output value	million yuan	46,600	82,700	124,100	198,400	450,400	569,000	617,500	661,900	691,900
Of which:										
Total agricultural output value	"	32,600	48,400	53,700	59,000	128,500	145,900	158,400	162,700	172,000
Total industrial output value	"	14,000	34,300	70,400	139,400	321,900	423,100	459,100	499,200	519,900
Of which:										
Light industry	"	10,300	22,100	37,400	70,300	139,300	180,600	198,000	234,400	267,500
Heavy industry	"	3,700	12,200	33,000	69,100	182,600	242,500	261,100	264,800	252,400
National income	"	35,800	58,900	90,800	138,700	250,500	301,000	335,000	366,700	388,000
Revenue	"	6,520*	18,370	31,020	47,330	81,560	112,100	110,330	108,520	106,430
Expenditure	"	6,810*	17,600	30,420	46,630	82,090	111,100	127,390	121,270	108,970
Total investment in capital construction	"	1,130*	4,356	13,829	17,089	39,190	47,955	49,990	53,900	42,789
Volume of freight transport	million ton/kilometers	25,540	76,200	181,000	346,300	728,590	980,600	1,089,770	1,202,600	1,214,300
Total volume of retail sales	million yuan	14,050	27,680	47,420	67,030	127,110	155,860	180,000	214,000	235,000
Total volume of import and export	"	4,150*	6,460	10,450	11,840	29,040	35,510	45,560	56,300	73,530
Of which:										
Total volume of import	"	2,130*	3,750	5,000	5,530	14,740	18,740	24,390	29,100	36,770
Total volume of export	"	2,020*	2,710	5,450	6,310	14,300	16,770	21,170	27,200	36,760

NOTES (1) Total industrial and agricultural output value of 1949 and 1952 are calculated at constant prices of 1952; that of 1957 and 1965, at constant prices of 1957; and that of 1975 and 1978-81, at constant prices of 1970. Figures of the other years are calculated at the prices of the respective years.

(2) National income refers to net output value of the five material production departments — agriculture, industry, building industry, transport and communications, and commerce.

(3) "*" indicates 1950 figures.

Table 2.

OUTPUT OF MAJOR INDUSTRIAL AND AGRICULTURAL PRODUCTS, 1949-81
(Selected Years)

Product	Unit	1949	1952	1957	1965	1975	1978	1979	1980	1981
Output of major industrial products										
cotton yarn	million tons	0.327	0.656	0.844	1.30	2.108	2.382	2.635	2.926	3.17
cotton cloth	million meters	1,890	3,830	5,050	6,280	9,400	11,030	12,150	13,470	14,270
machine-made paper and cardboard	million tons	0.11	0.37	0.91	1.73	3.41	4.39	4.93	5.35	5.40
sugar	"	0.20	0.45	0.86	1.46	1.74	2.27	2.50	2.57	3.17
bicycles	million	0.014	0.08	0.806	1.838	6.232	8.540	10.095	13.024	17.543
sewing machines	"		0.066	0.278	1.238	3.567	4.865	5.868	7.678	10.391
wristwatches	"			0.0004	1.008	7.822	13.511	17.070	22.155	28.724
TV sets	"				0.0043	0.1778	0.517	1.329	2.492	5.394
coal	million tons	32	66	131	232	482	618	635	620	622
crude oil	"	0.12	0.44	1.46	11.31	77.06	104.05	106.15	105.95	101.22
electricity	million kwh	4,300	7,300	19,300	67,600	195,800	256,600	282,000	300,600	309,300
steel	million tons	0.158	1.35	5.35	12.23	23.90	31.78	34.48	37.12	35.60
timber	million cubic meters	5.67	12.33	27.87	39.78	47.03	51.62	54.39	53.59	49.42
cement	million tons	0.66	2.86	6.86	16.34	46.26	65.24	73.90	79.86	82.90
chemical fertilizers	"	0.006	0.039	0.151	1.726	5.247	8.693	10.654	12.321	12.390
Output of major agricultural products										
grain	"	113.18	163.92	195.05	194.53	284.50	304.77	332.12	320.56	325.02
cotton	"	0.444	1.304	1.640	2.098	2.381	2.167	2.207	2.707	2.968
oil-bearing crops	"	2.564	4.193	4.196	3.625	4.521	5.218	6.435	7.691	10.205
sugar cane	"	2.642	7.116	10.392	13.391	16.667	21.116	21.508	22.807	29.668
beet roots	"	0.191	0.479	1.501	1.984	2.477	2.702	3.106	6.305	6.36
jute and bluish dogbane	"	0.037	0.306	0.301	0.279	0.70	1.088	1.089	1.098	1.26
tea	"	0.041	0.082	0.112	0.101	0.211	0.268	0.277	0.304	0.343
pork, beef and mutton	"		3.385	3.985	5.510	7.970	8.563	10.624	12.054	12.609
pigs sold to the market	million head		65.45	71.31	121.67	162.30	161.10	187.68	198.61	194.95
large livestock	"	60.02	76.46	83.82	84.21	96.86	93.89	94.59	95.25	97.64
aquatic products	million tons	0.45	1.67	3.12	2.98	4.41	4.66	4.31	4.50	4.61

Table 3.

NATIONAL INCOME, CONSUMPTION AND ACCUMULATION, 1952-81
(Selected Years)

	1952	1957	1965	1975	1979	1980	1981
National income (100 million yuan)	589	908	1,387	2,503	3,350	3,667	3,887
Index (with 1952 as 100)	100	153.0	197.5	384.7	484.9	510.1	525.4
Per-capita national income	104	142	194	274	347	375	393
National income spent (100 million yuan)	607	935	1,347	2,451	3,356	3,684	3,849
Consumption (100 million yuan)	477	702	982	1,621	2,195	2,519	2,759
Accumulation (100 million yuan)	130	233	365	830	1,161	1,165	1,090
Rate of accumulation (%)	21.4	24.9	27.1	33.9	34.6	31.6	28.3

Table 4. ECONOMIC DEVELOPMENT SINCE 1978 SHOWING RESULTS OF READJUSTMENT BEGUN IN 1979

Items	1978	1979	1980	1981
Increase in total industrial and agricultural output value (compared with previous year)	12.3%	8.5%	7.2%	4.5%
Growth in national income	12.3%	7%	5.2%	3%
Distribution of national income:				
Increase in peasant income (from raised purchasing prices of farm produce and reduced taxes)	0	10,300 million yuan	19,300 million yuan	22,400 million yuan
Increase in worker and staff income (from more jobs, wage increases and bonuses)	5,400 million yuan	7,500 million yuan	14,000 million yuan	19,000 million yuan
Proportion between accumulation and consumption (in per cent):				
Consumption	63.5%	65.4%	68.4%	71.7%
Accumulation	36.5%	34.6%	31.6%	28.3%
Proportion between heavy and light industrial output value (in per cent):				
Light industry	42.7%	43.1%	47%	51.5%
Heavy industry	57.3%	56.9%	53%	48.5%
Deficit	0	17,060 million yuan	12,750 million yuan	2,720 million yuan

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