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# China Report

RED FLAG

No 19, 1 October 1985

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12 December 1985

## CHINA REPORT

### RED FLAG

No 19, 1 OCTOBER 1985

Translation of the semimonthly theoretical journal of the Central Committee of the Communist Party of China published in Beijing.

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COMMUNIQUE OF THE 4TH PLENARY SESSION OF THE 12TH CPC CENTRAL COMMITTEE  
(16 SEPTEMBER 1985)

Beijing RED FLAG in Chinese No 19, 1 Oct 85 p 2

[Text] The 4th Plenary Session of the 12th Central Committee of the Communist Party of China was held in Beijing on 16 September 1985.

Present at this session were 188 members and 129 alternate members of the Central Committee of the party. Participating as observers were 130 members of the Central Advisory Commission, 121 members of the Central Discipline Inspection Commission, and 40 leading comrades of the party committees of the central party, government, and Army organs and of various provinces, autonomous regions, and municipalities directly under the central government who are not on the Central Committee or the commissions. The session was presided over by the following members of the Standing Committee of the Political Bureau of the Central Committee: Comrades Hu Yaobang, Deng Xiaoping, Zhao Ziyang, Li Xiannian, and Chen Yun. Comrade Ye Jianying was absent due to illness.

The session decided to convene the National Conference of the Communist Party of China on 18 September.

The session discussed and adopted in principle the "Proposal of the Central Committee of the Communist Party of China for the Seventh 5-Year Plan for National Economic and Social Development (Draft)" and decided to submit it to the national conference for deliberation.

The session discussed and decided on the principle of furthering the succession of new members to old in the central leading organs. It received letters from a number of veteran comrades who requested to resign from membership or alternate membership in the 12th Central Committee and from membership in the Central Advisory Commission and the Central Discipline Inspection Commission, respectively. It praised highly the exemplary deeds of these veteran comrades in positively promoting this succession in the interests of the party and the people, approved their requests for resignation from the Central Committee and the two central commissions, and will report this to the national conference.

The session addressed letters to Comrade Ye Jianying and Comrade Huang Kecheng, who requested to resign their central leading posts for reasons of health, extending to them in the name of the plenary session the great respect and cordial regards of all the comrades of the party.

The plenary session was preceded by 4 days of preliminary meetings, at which the above-mentioned subjects were fully deliberated and earnestly discussed.

The session was held in an open atmosphere and it was a meeting of unity and of success.

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CSO: 4004/12

LETTER FROM 64 VETERAN COMRADES REQUESTING TO RESIGN AS MEMBERS OR ALTERNATE MEMBERS OF THE CPC CENTRAL COMMITTEE

Beijing RED FLAG in Chinese No 19, 1 Oct 85 p 3

[Text] To the 4th Plenary Session of the 12th CPC Central Committee:

We, the undersigned comrades who have signed this letter, sincerely request the Central Committee to give its consent to our resignations as members and alternate members of the CPC Central Committee, so that younger comrades with the political integrity and talents may join the Central Committee and replace the older members of the central leading organs.

The arduous task of accomplishing socialist modernization urgently requires our cadres rank, leading bodies at all levels in particular, to become younger, more educated, and more professionally competent on the premise that revolutionization is achieved. The 12th National CPC Congress started the process of replacing the older with the younger members in the organs of the party Central Committee. The upcoming National Conference of Party Delegates will continue and accelerate this process. This is the central task of this meeting as well as a strategic policy decision vital to the overall interest. We express our most sincere support. We feel that it is our important and bounden duty to the party and the cause of communism to implement this strategic policy decision through our action, so that the current Central Committee will take a giant step toward rejuvenation, the new practice by which cadres are ready to work at both higher and lower levels will prevail, de facto lifelong tenure in the leading posts will be abolished, and a system of constant renewal of members of the leading organs will be established.

After resigning as members and alternate members of the Central Committee, we will continue to contribute our share to the party and the people and to the realization of the lofty ideal of communism.

Extending our communist respect!

Ye Jianying, Deng Yingchao, Xu Xiangqian, Nie Rongzhen, Ulanhu, Wang Zhen, Wei Guoqing, Li Desheng, Song Renqiong, Zhang Tingfa, Yu Sang, Ma Wenrui, Wang Qian, Wang Liusheng, Wang Jinshan, Wang Enmao, Wang Heshou, Bai Dongcai, Zhu Muzhi, Ren Zhongyi, Liu Zhen, Liu Huaqing, Liu Zhijian, Liu Minghui,

Liu Fuzhi, Xu Jiatun, Sun Daguang, Sun Guozhi, Li Rui, Li Huamin, Li Qiming, Yang Yichen, Xiao Quanfu, Wang Dongxing, Zhang Zhen, Zhang Aiping, Zhang Zhixiu, Chen Weida, Chen Guodong, Lin Hujia, Zhou Zijian, Zheng Sansheng, Zhao Shouyi, Zhao Cangbi, Hu Lijiao, Hong Xuezhi, Yuan Baohua, Qian Xuesen, Tie Ying, Gao Houliang, Huang Hua, Huang Xinting, Kang Keqing, Liang Biye, Liang Lingguang, Jiang Nanxiang, Han Xianchu, Qin Yingji, Lu Dadong, Xie Zhenhua, Liao Hansheng, Tan Youlin, Tan Qilong, and Tan Shanhe.

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CSO: 4004/12

LETTER FROM 37 VETERAN COMRADES REQUESTING TO RESIGN AS MEMBERS OF THE CPC  
CENTRAL ADVISORY COMMISSION

Beijing RED FLAG in Chinese No 19, 1 Oct 85 pp 3-4

[Text] To the 4th Plenary Session of the 12th CPC Central Committee:

As the National Conference of Party Delegates will open soon, we sincerely request that this meeting approve our resignations as members of the Central Advisory Commission, so that the veteran comrades who recently stepped down from the frontline leading posts and who are younger than we are can join the Central Advisory Commission and continue to play their role as veteran comrades.

Our party's ultimate goal of struggle is the realization of communism. Our party's ranks of cadres should always serve as a combat force full of vigor and vitality. Phasing out lifelong tenure for the leading posts and making the ranks of cadres younger is an important strategic policy decision of our party, as well as the most important reform currently under way. The advisory system is but a transitional measure that will lead to the gradual abolition of the lifelong tenure system and will ultimately be replaced by a retirement system. In the past 3 years, as members of the Central Advisory Commission, under the leadership of the party Central Committee, we have accomplished something and done our share. Today, despite our undiminished aspirations, we veteran party members are experiencing a decline in our energy. Retiring from the Central Advisory Commission at this appropriate moment has great advantages. It will facilitate the accomplishment of the Central Advisory Commission's historic mission within 10 years, the immediate formulation of the rules for abolishing the lifelong tenure system for leading posts, and the successful application of these rules beginning with our generation. It will also permit large numbers of outstanding young and middle-aged cadres with both ability and political integrity to assume leading posts, strengthen party leadership, and better shoulder the heavy historical task of building our great country.

Based on the above considerations, we completely support and firmly implement the Central Committee's important policy decision on reforming the cadre system. We are willing to take practical actions and do our share in our remaining years to accelerate the process of making our ranks of cadres more revolutionary, younger, more educated, and more professionally competent.

We understand that retiring from the Central Advisory Commission is another meaningful turning point in the course of our revolutionary careers and that by no means does it signify an end. In the future, while enjoying our remaining years under the care of the party Central Committee, we will, as always, devote our energy and efforts to the success of the great, ongoing reforms, the triumph of the socialist modernization drive, and the realization of the communist ideal.

A number of enterprising and promising young and middle-aged cadres will be elected to the central leading organs of the party during the upcoming National Conference of Party Delegates. This is undoubtedly of great significance to enhancing the party's combat effectiveness and guiding our great cause to constantly advance along the Marxist-Leninist path. We veteran comrades take boundless satisfaction in this!

Extending our communist respect!

Li Jingquan, Xiao Jingguang, He Changgong, Fu Zhong, Wan Yi, Wang Bicheng, Wang Shangrong, Ou Mengjue, Fang Zhichun, Shuai Menggi, Feng Xuan, Liu Xiao, Li Da, Li Zhen, Li Zhuoran, Li Chuli, Yang Shangkui, Yang Xianzhen, Zhang Su, Zhang Lingbin, Zhang Qilong, Zhang Weizhen, Fan Shiren, Li Tie, Zhou Yang, Zhou Li, Kui Bi, Zhong Hanhua, Zhong Qiguang, Yuan Renyuan, Xia Yan, Qian Zhiguang, Guo Huaruo, Huang Oudong, Zhan Caifang, Wei Wenbo, and Liu Junxiu (deceased).

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CSO: 4004/12

LETTER FROM 30 VETERAN COMRADES REQUESTING TO RESIGN AS MEMBERS OF THE CPC  
CENTRAL DISCIPLINE INSPECTION COMMISSION

Beijing RED FLAG in Chinese No 19, 1 Oct 85 pp 4-5

[Text] To the 4th Plenary Session of the 12th CPC Central Committee:

The upcoming National Conference of Party Delegates is prepared to elect additional members and alternate members of the Central Committee, members of the Central Advisory Commission, and members of the Central Discipline Inspection Commission based on the requirements for making the ranks of cadres more revolutionary, younger, more educated, and more professionally competent. This is a great event in the political life of the party and the state. We express our sincere support for this important policy decision of the Central Committee.

We comrades have worked for 3 years in the present Central Discipline Inspection Commission. Under the party Central Committee's leadership, we have accomplished something and done our share to safeguard party discipline and rectify party style. As we are advanced in age now some of us are feeble and prone to illness and can no longer undertake arduous tasks, we sincerely request to resign as members of the Central Discipline Inspection Commission so that younger and outstanding cadres may be elected to the Central Discipline Inspection Commission.

In the arduous task and the struggle to effect a fundamental improvement in party style and in standards for social conduct, the Central Committee and the whole party have entrusted the Central Discipline Inspection Commission with heavy responsibilities. We are convinced that, with partial changes in its membership, the Central Discipline Inspection Commission will be reinforced and its work strengthened, and it will better ensure the smooth progress of various reforms and the vigorous development of our country's socialist modernization.

After we retire from the posts in the Central Discipline Inspection Commission, we will continue to show concern for the party's discipline inspection work and contribute our share to the party, the people, and to the great cause of communism.

Extending our communist respect!

Huang Kecheng, Wang Congwu, Li Chang, Ma Guorui, Cai Shunli, Wang Ling,  
Wang Yaoshan, Wang Hefeng, Mao Duo, Zhu Shaoqing, Liu Ying, Liu Hansheng,  
Yan Kelun, Li Yao, Wu Xinquan, Zhang Haifeng, Chen Tan, Lin Yixin, Jin  
Zhaodian, Duan Yun, Rao Zhengxi, Xu Shenji, Guo Jian, Tang Yanjie, Huang  
Minwei, Cao Guanghua, Cao Youmin, Peng Ru, Tan Shenping, and Jian Xianren.

August 1985

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CSO: 4004/12

LETTER OF SALUTATION TO COMRADE YE JIANYING FROM THE 4TH PLENARY SESSION OF  
THE 12TH CPC CENTRAL COMMITTEE

Beijing RED FLAG in Chinese No 19, 1 Oct 85 pp 5-6

[Text] Esteemed and beloved Comrade Ye Jianying:

In the name of the 4th Plenary Session of the 12th CPC Central Committee, we comrades attending the plenary session extend great respect and cordial regards to you!

As a youth, you took part in the democratic revolution led by Dr Sun Yat-sen and in the Northern Expedition during the first round of cooperation between the Kuomintang and the CPC. In 1927, when Chiang Kai-shek and then Wang Jingwei betrayed the revolution, you determinedly joined the CPC at this critical juncture in the Chinese revolution, did much important work in bringing about the Nanchang uprising, and took part in and led the Guangzhou uprising. During the agrarian revolutionary war, you successively served as chief of the General Staff of the Central Military Commission and president of the Chinese Workers' and Peasants' Red Army School, and assisted Comrades Mao Zedong and Zhu De in directing the Red Army's victorious campaigns against enemy "encirclement and suppression."

On the Long March, you rendered outstanding meritorious service by waging a courageous and ingenious struggle against Zhang Guotao, who was plotting to endanger the Central Committee and the Central Red Army. On the eve of the war of resistance against Japanese aggression, you helped Comrade Zhou Enlai bring about the peaceful settlement of the Xian incident, which led to the second period of cooperation between the Kuomintang and the CPC. During the war of resistance against Japanese aggression, you successfully carried out the party's united front work in the Kuomintang areas.

After returning to Yanan, you served as chief of the General Staff of the Central Military Commission and joined in commanding the operations against Japan. After victory in the war of resistance, as a member of the CPC delegation, you waged a tit-for-tat struggle against the Kuomintang reactionaries who were plotting to launch a civil war. During the war of liberation, you presided over the work of the rear area commission of the party Central Committee, assisting the Central Committee in leading the nationwide people's war of liberation. After the peaceful liberation of Beijing, you

served as the first mayor of the city. In the Army's southward march, you directed the campaign to liberate Guangzhou and Hainan Island and presided over the military and government work of the south China area.

Beginning in 1954, as one of the leaders of the Central Military Commission, you worked assiduously for the Army's regularization and modernization. During the "Great Cultural Revolution," you waged a resolute struggle against the Lin Biao and Jiang Qing counterrevolutionary cliques under extremely difficult and complicated circumstances. In February 1967, you joined other revolutionaries of older generation in vehemently denouncing the criminal activities perpetrated by Lin Biao, Jiang Qing, and their ilk to create disorder in the party and the Army. After the downfall of the Lin Biao counterrevolutionary clique, you again presided over the day-to-day work of the Central Military Commission as its vice chairman.

In October 1976, at the crucial moment when the Jiang Qing counterrevolutionary clique conspired to usurp the party's supreme leadership, you bravely stepped forward. Together with other comrades, based on the opinions of most comrades in the Political Bureau, and representing the will of the party and the people, you smashed, in one blow, the Jiang Qing counterrevolutionary clique, thereby saving the party from a crisis.

Since then, being one of the major prestigious leaders of the party and the state, you have made outstanding contributions to the formulation of the correct line of the 3d Plenary Session of the 11th CPC Central Committee, to the progress of the socialist modernization drive in China, and to the promotion of peaceful reunification of the motherland. All these brilliant exploits show that you are a time-tested and loyal fighter of the communist movement in China, an outstanding proletarian revolutionary and military expert, as well as a prominent leader enjoying high prestige and commanding universal respect in our party, Army, and state.

At your request, in 1983, you resigned as chairman of the NPC Standing Committee. Now that you are seriously ill, you have again made your request to the party Central Committee to resign as member of the party's Central Committee and Military Commission, thereby resigning as member of the Central Committee's Political Bureau and its Standing Committee, and vice chairman of the Central Military Commission. The plenary session has approved your request. We are deeply convinced that your important historical contributions to the party and the state will be forever remembered by the whole party, the whole Army, and the people of the whole country.

Your devotion to the struggle for the cause of communism in China, the unusual revolutionary courage and resourcefulness that you displayed at the turning points in the complicated revolutionary struggle, and your noble qualities such as eagerness to learn and profoundly think, working hard, taking account of the overall interests, and uniting comrades, are forever the example for us to learn from. You can rest assured that the upcoming National Conference of Party Delegates will further realize the succession of new members to old in the central leading organs and will make the party Central Committee more vigorous so as to become a headquarters capable of

guiding the people throughout the country to constantly create a new situation in socialist modernization. The cause initiated with much difficulty by the proletarian revolutionaries of the party older generation will surely advance with more splendor.

Extending our communist respect!

The 4th Plenary Session of the 12th Central Committee of the Communist Party of China

16 September

/6091

CSO: 4004/12

LETTER OF SALUTATION TO COMRADE HUANG KECHENG FROM THE 4TH PLENARY SESSION  
OF THE 12TH CPC CENTRAL COMMITTEE

Beijing RED FLAG in Chinese No 19, 1 Oct 85 pp 6-8

[Text] Esteemed and beloved Comrade Huang Kecheng:

On behalf of the 4th Plenary Session of the 12th CPC Central Committee, we comrades attending this plenary session wish to extend cordial regards and lofty respect to you!

In your early years, you plunged into the Northern Expedition. After the failure of the first great revolution, you actively participated in the armed struggle led by the party. You were an outstanding commander of the Chinese Workers' and Peasants' Red Army and took part in the struggle to establish the Hunan-Hubei-Jiangxi revolutionary base area. You had many military exploits in all the wars against the "encirclement and suppression" campaigns and in the Long March. After the commencement of the war of resistance against Japan, you, as one of the important high-level officers of the 8th Route Army, fought in Shanxi, Hebei, and Henan. Then you led your troops to the south, joined forces with a northbound unit of the New 4th Army, and established the connection between the base areas in northern and central China. When you were the commander of the 3d Division of the New 4th Army, you waged arduous struggles and finally consolidated and developed the anti-Japanese base area in northern Jiangsu.

In the period of the liberation war, you performed outstanding exploits in the struggles to liberate northeastern and northern China. In the early period after the PRC's founding, you led the work in Hunan Province. After that, you were the secretary general of the Central Military Commission, the chief of General Staff of the Chinese PLA, and a member of the Secretariat of the CPC Central Committee, making significant contributions to consolidating our national defense and promoting our Army's regularization and modernization. At the Lushan meeting in 1959, you and Comrade Peng Dehuai were subjected to wrongful censure and disciplinary measures. During the 10 years of chaos, you were attacked and persecuted once again at the hands of Lin Biao and the "gang of four," resulting in serious injury to your physical and mental health. However, you always had firm faith in the party and the communist cause.

Following the 3d Plenary Session of the 11th CPC Central Committee, you, as one of the principal responsible persons of the Central Discipline Inspection Commission, did a great deal of very fruitful work in eliminating chaos and restoring order; in correcting unjust, false, and wrong cases; in reinstating and improving the party's discipline inspection work and rectifying party style; and in correctly appraising Comrade Mao Zedong's position and role in history. You are a tried loyal communist fighter and an outstanding leader of our party and Army. Your historical contributions will be remembered forever in the people's hearts.

You are characterized by a staunch proletarian party spirit, and neither follow anyone blindly nor agree to anything without giving it serious thought, but persist in the truth and are upright, just, and impartial. Whether in a high position or under adverse circumstances, you always devote yourself wholeheartedly to public interests and remain selfless and dauntless. Your lofty moral character will forever be an example for us to follow.

Because of health reasons, you have made the request that you no longer be a manager of the Central Discipline Inspection Commission and, therefore, leave the position of the second secretary of that commission. The plenary session has granted your request.

We deeply believe that your brilliant revolutionary achievements and lofty revolutionary virtues will continue to stimulate the comrades in the whole party to work hard with one mind and strive to win new victories in our country's socialist modernization drive.

We extend to you our communist respects!

The 4th Plenary Session of the 12th CPC Central Committee

16 September

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WORK TOGETHER FOR A SPLENDID FUTURE--OPENING SPEECH DELIVERED AT THE  
NATIONAL CONFERENCE OF PARTY DELEGATES (18 SEPTEMBER 1985)

Beijing RED FLAG in Chinese No 19, 1 Oct 85 pp 7-9

[Speech by Hu Yaobang]

[Text] Comrades:

The National Conference of the Communist Party of China is now declared open.

Attending this conference are 992 delegates, including 343 members or alternate members of the Central Committee, 161 members of the Central Advisory Commission, 127 members of the Central Discipline Inspection Commission, and 35 principal leaders of provinces, autonomous regions, municipalities directly under the central government, greater military areas, central departments of the party, government, and Army and mass organizations who are not members of those three bodies, as well as 326 representatives of party members in various fields of endeavor. Nine hundred and thirty-three delegates are present at today's meeting.

During the past few years since the 3d Plenary Session of the 11th CPC Central Committee, the political activities of the party Central Committee have been quite normal, being conducted in strict accordance with the principle of democratic centralism. All major policy decisions of the party Central Committee have been made collectively, with the revolutionaries of the old generation steering the course. They have been made after repeated discussions and extensive solicitation of opinions, the democratic parties and patriots without party affiliation being asked for their advice on a number of questions. And they have been made at meetings of the Central Committee, including plenary sessions and party congresses that were convened regularly in accordance with the provisions of the party Constitution. Thanks to these practices, we have been able to pool our collective wisdom and experience, to give all deliberate thought to principles and policies on major issues and to reach a common understanding of them and of the tempo of our work as a whole. Thus we have avoided major errors. This has been an important experience, and it has greatly contributed to the smooth progress of our work and the rapid advance of our socialist modernization over the past few years.

The current conference is convened following the decision made by the 3d Plenary Session of the 12th CPC Central Committee in accordance with relevant provisions of the party Constitution. The system of national conferences is not new in the history of our party. The Constitution as revised by the seventh national party congress stipulated that the Central Committee could convene a national conference to settle major questions and also to elect additional members to the Central Committee. The Constitution as revised by the eighth national party congress provided for a system of party delegates elected for a fixed term, so there was no need to convene such a conference. The Constitution as revised by the 12th national party congress has no such provision. Instead, it stipulates that a national congress is to be held every 5 years and that since a major issue may arise between congresses and has to be settled without delay, a national conference may be called for the purpose. The 3d Plenary Session of the 12th CPC Central Committee considered that the proposal concerning the Seventh 5-Year Plan had a vital bearing on the national economy and people's livelihood. It also considered that the organizational matter in particular--that is, the election of additional members to the central leading bodies, which involves wide-scale readjustment of the composition of the Central Committee, the Central Advisory Commission, and the Central Discipline Inspection Commission--must be taken very seriously and that it called for the widest application of inner-party democracy. For these reasons, the session decided that a national conference should be convened. The 4th Plenary Session of the 12th CPC Central Committee has examined all the preparatory work and decided to open the conference today.

Deliberations on the proposal for formulating the Seventh 5-Year Plan took a long time. The work of drafting the proposal was presided over by Comrade Zhao Ziyang. The draft went through repeated discussions by the Political Bureau and the Secretariat. In order to seek opinions on it, a meeting was held last July with some 200 participants, including leaders from various departments, localities, big factories and mines as well as some natural scientists and social scientists. The draft has been adopted in principle by the fourth plenary session and is now before the conference for deliberation.

The proposal, which Comrade Zhao Ziyang will explain, is intended primarily to settle the question of the orientation of economic work during the period of the Seventh 5-Year Plan and the principles that should guide that work. In line with the proposal to be adopted by the conference, the State Council will work out the Seventh 5-Year Plan and submit it to the Fourth Session of the Sixth National People's Congress, to be held next spring, for examination and approval. It is the belief of the plenary session that the guiding ideology and the whole range of principles and policies embodied in the draft proposal are correct and that the goal and tasks it sets forth are well thought out. I am confident that it will serve as an important guide in the formulation of a correct Seventh 5-Year Plan and in the straightening out of economic relations. Over the next 5 years or even longer, this proposal will ensure continuous, stable, and balanced growth of the national economy and the smooth progress of reform of the economic structure.

Regarding the organizational matter, in accordance with a decision by the Standing Committee of the Political Bureau, last May the Central Committee set up a working group composed of Comrades Xi Zhongxun, Bo Yibo, Song Renqiong, Yu Qiuli, Qiao Shi, Wang Heshou, and myself. The group directed relevant departments to conduct detailed consultations and thorough examinations and to ask many persons for their views. It drafted a resolution on ways of further effecting the succession of new members to old ones in the central leading organs. It also drew up a report approving the requests of some veteran comrades to resign from the Central Committee and the two commissions, wrote letters of commendation to Comrade Ye Jianying and Huang Kecheng, and prepared lists of candidates for election to those bodies. All these documents were discussed time and again by the Political Bureau and the Secretariat before they were submitted to the 4th Plenary Session of the 12th CPC Central Committee. After further discussion, the session adopted the working group's resolution, approved its report and the two letters of commendation and gave thorough consideration to the lists of candidates. Now we submit them to the conference for examination and action.

During the last 2 or 3 years, many veteran comrades have asked to resign from the Central Committee, the Central Advisory Commission, and the Central Discipline Inspection Commission. Those comrades who have retired have played an exemplary role in matters of historic significance, to wit, the abolition of life tenure of leading posts, the establishment of a retirement system for central leading cadres and the reduction of the average age of the central leadership. By so doing, they have made a fresh contribution to the party. It is in response to the needs of the party's cause that most veterans have retired; it is also in response to the needs of the party's cause that a few of them have remained. Ours is a big party leading a huge socialist country. Our long struggles have produced a number of very experienced veteran revolutionaries who enjoy high prestige both inside and outside the party and both at home and abroad. A few of them are still in fairly good health, and it is the common desire of the entire party membership and of the people of all our nationalities, and in their fundamental interest, to keep these veteran revolutionaries in the top leadership of the party so that they can continue to make decisions. It is also necessary for some comrades, though they too are advanced in years, to remain in the central leadership because the party still needs them for a period of time to stay on in charge of certain areas of national work.

On the basis of the lists of candidates discussed by the 4th Plenary Session of the 12th CPC Central Committee, 56 new members and 34 alternate members are to be elected to the Central Committee at the present conference. Among those to be elected as members, some have been alternate members, while others are fine comrades who have emerged and been tested in recent years. At the same time, 56 members are to be elected to the Central Advisory Commission and 33 to the Central Discipline Inspection Commission. Every delegate present is requested to discuss the lists thoroughly and express his views fully before casting his vote.

It was in 1979 that the Central Committee raised the question of promoting persons of ability and political integrity and making the leadership younger. Since then, leading bodies from the top down have undergone two major readjustments. The first took place from February 1982, when the Central Committee decided to establish a retirement system for old cadres, until the 12th party congress held the following September. The second was carried out from the beginning of this year until the present conference. Consequently, the readjustment of the leadership to bring in younger people with ability and political integrity is nearly complete in the central party departments and the ministries, commissions, and departments under the State Council, in the provinces, autonomous regions, and municipalities, and in the principal units of the People's Liberation Army at the divisional level and above. After the present conference, the average age of members of the Central Committee will again be significantly reduced. And at the 5th Plenary Session of the 12th CPC Central Committee, which will follow the conference, the average age of members of the Political Bureau and the Secretariat will also be lowered somewhat. In overall perspective, in the less than 4 years since 1982, significant results have already been achieved in reducing the average age of leadership at all levels. We must say that the process has been quite smooth. It has done much to make the leading bodies of party organizations and government departments better able to meet the requirements of socialist modernization, and it has done much to guarantee the continuation of the party's Marxist principles and policies.

Comrades, it has been almost 7 years now since the 3d Plenary Session of the 11th CPC Central Committee. These 7 years have been one of the best periods of economic and political development since the founding of the People's Republic. The present conference is held between the 12th and 13th party congresses. The 12th party congress set forth the strategic task of creating a new situation in all fields of socialist modernization. In the 3 years following the 12th party congress we have, in general, done successful work throughout the party and have achieved notable results. This is clear to all. The national economy has improved beyond our expectations, and the people's standard of living has improved accordingly. The restructuring of the national economy with emphasis on the cities has been proceeding steadily and satisfactorily. On the whole, the task of bringing about a fundamental change for the better in the country's financial and economic situation has been accomplished. Party relations and the standards of social conduct have also changed for the better, although many problems remain to be solved, especially new ones that have arisen in the new situation and under new conditions. However, they can surely be solved if we make serious efforts and do our work well. Before the end of the conference, Comrades Deng Xiaoping, Chen Yun, and Li Xiannian will speak on some major questions, so I will not say much at this time.

At this conference which the entire party membership and the people all over the country are following with great interest, I believe that the tasks before our party boil down to this: to work together for a splendid future. I am convinced that the present conference will play a historic role by helping to accomplish the tasks set forth by the 12th party congress and to push forward our socialist material civilization and cultural development.

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PROPOSAL OF THE CPC CENTRAL COMMITTEE FOR THE SEVENTH 5-YEAR PLAN FOR NATIONAL ECONOMIC AND SOCIAL DEVELOPMENT (ADOPTED AT THE NATIONAL CONFERENCE OF PARTY DELEGATES ON 23 SEPTEMBER 1985)

Beijing RED FLAG in Chinese No 19, 1 Oct 85 pp 10-27

[Capitalized passages published in boldface]

[Text] Basic Guiding Principles and Major Objectives

1. In its drive for socialist modernization, the People's Republic of China will enter the period of the Seventh 5-Year Plan (1986-90) having fulfilled or exceeded the Sixth 5-Year Plan (1981-85). If we have 5 more years of success, working in the light of the general requirement of building socialism with Chinese characteristics and the general principle of revitalizing China's domestic economy and opening to the outside world, that success will consolidate and advance the current favorable economic and political situation and ensure that the economy will continue to grow and flourish in the 1990's. We will then have taken a firm step forward on the road to national prosperity and a comfortable, happy life for the people. It is the hope of the Central Committee that all party members and the people of all nationalities in the country will enthusiastically embark on the great Seventh 5-Year Plan in the pioneering spirit of reform and innovation.

2. Conditions are favorable for China's economic and social development during the period of the Seventh 5-Year Plan. Under the guidance of the Marxist line pursued since the 3d Plenary Session of the party's 11th Central Committee and through the arduous efforts of the entire party and the people of all our nationalities, we have consolidated and developed a political situation characterized by stability, unity, and vitality and ushered in the most vigorous period of economic development since the founding of the People's Republic in 1949. Since 1980, the year before implementation of the Sixth 5-Year Plan, China's economy has undergone profound changes.

In 1980 China's agriculture was still in a fairly difficult situation. We had to import a large quantity of agricultural staples including grain and cotton. Since 1981, however, agriculture has been growing rapidly, at an average annual rate of 10 percent, with the output of farm and sideline

products increasing by a wide margin. China has become self-sufficient in grain and more than self-sufficient in cotton, as far as the people's present habits of food and dress are concerned. The all-round growth of agriculture has been an extremely important factor stimulating China's economic and social development.

Inspiring changes have taken place in energy production, which was at a standstill in 1980. In the past 2 or 3 years, the output of both crude oil and coal increased at an average annual rate of more than 8 percent, and that of electricity rose correspondingly. The constant growth in energy production has been another important factor stimulating China's economic and social development.

In 1980 our light industrial production fell far short of the people's daily needs, providing few commodities for the market. Over the past 5 years, however, it has registered an average annual growth rate of more than 10 percent, with an increasing number of varieties and designs. The domestic market is thriving, a situation seldom seen since the founding of new China. Heavy industry, with its new orientation, has been growing steadily, and light and heavy industries are developing in better proportion.

State revenue was declining in 1980 and there was a huge deficit. Beginning in 1982, the downward trend was reversed and a basic balance was struck between revenue and expenditure. The 1985 state revenue is expected to exceed 170 billion yuan, and if the extra-budgetary funds of local authorities, departments, and enterprises are included, it should total more than 300 billion yuan, nearly twice as much as the 1980 figure.

In 1980, there were large numbers of people in cities and towns waiting for employment, and a host of problems in the people's daily life were crying for immediate solution. Over the past 5 years more than 30 million people have been employed in cities and towns. Adjusted for price rises, the income of workers and other employees has increased by about 50 percent, which represents an average increase of 20 percent per capita. The average net income of the peasants has increased by 80 percent. Living standards of urban and rural residents have improved to an extent unprecedented since the founding of the People's Republic.

In short, we have basically accomplished the task of fundamentally improving China's financial and economic situation. The national economy is now developing steadily and proportionately and enjoys the prospect of self-sustained growth. Proceeding from this foundation, we are fully justified in expecting still greater successes in the reforms and in all fields of production and construction in the period of the Seventh 5-Year Plan. However, we must also recognize that we are relatively backward in terms of the material and technological conditions for economic and social development. Our agriculture, which is the foundation, is also weak, and the problem of food and clothing for peasants in some areas has yet to be solved. Energy, transport, telecommunications, and raw and semifinished materials are still in short supply. Intellectual development and personnel training are far

from meeting the needs of economic construction. Economic performance is not improving fast enough, production technology is slow to progress, and economic management and administration still remain at a low level. The industrial structure and product mix are irrational, and there are other problems in our economic work. Especially since the last quarter of 1984, industrial production has grown at an excessively high rate, investment in fixed assets as well as credit and consumption funds have soared, prices of some commodities have skyrocketed, the state foreign exchange reserve has declined and certain new unstable factors have appeared in the economy. Therefore, we should fully appreciate not only the current favorable economic situation, but also the difficulties and problems facing us, so that the Seventh 5-Year Plan will be formulated on a realistic and scientific basis.

3. A comprehensive analysis and scientific estimate of the country's present economic and social conditions indicates that our economic and social development during the period of the Seventh 5-Year Plan should be guided by the following four basic principles:

--Give priority to reform and make sure that reform and development are adapted to and promote each other. Basically, reform is in the service of development. At present, however, development should be planned in such a way as to facilitate reform. The period of the Seventh 5-Year Plan will be a crucial one for comprehensive reform of our management systems for the economy, science and technology, and education. Only by swiftly eliminating the defects in the management systems that hinder the development of the productive forces, and by gradually establishing systems that are vital and vigorous, can we ensure a steady growth of the economy in the next 5, 10, 20 years or beyond. To ensure smooth reform, we have to fix a rational rate of economic growth and guard against blind competition and pursuit of increased output and output value. This will prevent strains and dislocations in the economy and create a favorable environment for reform. The orientation of reform must be maintained and the steps taken must be steady. All measures for reform must be mutually reinforcing, benefiting both micro-flexibility and macro-control, so as to ensure the stabilization and development of the entire economy.

--Keep a basic balance between supply and demand in general, so as to maintain an appropriate ratio of accumulation to consumption. The heart of the matter is that while meeting people's daily needs according to the financial capacity of the state, we must also set aside a reasonable amount for investment in fixed assets and try to maintain a balance within state finance, credits, materials, and foreign exchange and a general balance among them. This is the fundamental condition for ensuring correct proportions among different branches of the economy, stable economic activities, and the smooth progress of structural reform. In view of the present overextended scale of construction, the amount of investment in fixed assets for 1986 and 1987 will remain roughly the same as for 1985. In the last 3 years of the plan it may be increased according to circumstances. Assuming that the overall scale of investment in fixed assets is under control, we must concentrate financial and material resources on the development of basic

industries such as energy, transport, telecommunications, and raw and semi-finished materials and of the infrastructure. We must avoid trying to do everything at once with no sense of priorities. This is the only way to provide the strength needed for long-term economic development and create favorable conditions for further opening China to the rest of the world.

--Give top priority to improving economic results and also and especially product quality, and correctly handle the relationship between quality and quantity and between economic results and growth rates. Inferior quality, high material consumption, and poor economic results have chronically plagued our production and construction and are far from being eradicated. Only when this situation is drastically changed will it be possible to make full and effective use of all resources, creating greater wealth with less input, so we can meet the varied needs of the people better and increase exports. It is essential to enhance quality control and technical control, enforce strict labor and financial discipline, perfect the systems of supervision, and greatly improve the skills of workers in all enterprises and, at the same time, to update technology by adopting advanced techniques and equipment. We must do all this to raise product quality and economic results to a new level. It is the fundamental way of accelerating China's progress toward modernization.

--Redouble our efforts to build a socialist civilization that is advanced culturally and ideologically as well as materially. Under no circumstances should we forget that the four modernizations we are striving for are of a socialist nature. All the policies we have adopted for reform, for opening to the outside world, and for revitalizing our economy are aimed at building socialism with Chinese characteristics. To build a civilization that is materially advanced and to ensure its proper orientation, we must at the same time promote cultural and ideological progress, step up ideological and political work and encourage the people throughout the country to become persons of lofty ideals and moral integrity, well educated and self-disciplined.

4. On the basis of China's present level of economic development and with the aim of attaining the magnificent goal set by the 12th party congress, the Central Committee proposes the following major objectives for economic and social development during the period of the Seventh 5-Year Plan: To make the total value of industrial and agricultural output and the gross national product of 1990 at least double those of 1980, to raise the average annual per capita consumption level of both urban and rural residents by 4 or 5 percent, and to further improve the quality of people's life and their environmental and housing conditions. To reach these objectives we must lay a foundation for a new type of socialist economic structure with Chinese characteristics, energetically promote scientific and technological progress and intellectual development, and constantly improve economic results. All spheres of endeavor and all reforms should be geared to these major objectives, which will in turn determine the specific objectives to be worked out for each of them.

Fulfillment of these objectives will substantially increase China's economic strength. By 1990 the total value of industrial and agricultural output will reach 1,600 billion yuan, and the gross national product will be 1,100 billion yuan. For the next 5 years, China's total revenue will amount to 900 billion yuan, an increase of more than 40 percent over the period of the Sixth 5-Year Plan. The fixed assets of state-owned enterprises will grow by 500 billion yuan, a 60 percent increase over the earlier period. In terms of consumption levels, with the growth of production, the Chinese people will move steadily from having adequate food and clothing to being fairly well-off.

5. The objectives proposed by the Central Committee are optimistic, but not overambitious. It is estimated that the average annual growth rate of China's total industrial and agricultural output value during the Sixth 5-Year Plan period will exceed 10 percent, which is higher than the 7.2 percent required for quadrupling output value by the end of the century. The economic growth rate projected for the Seventh 5-Year Plan period will average higher than 7 percent for GNP annually and nearly 7 percent for the total value of industrial and agricultural output, of which the total output value of agriculture will be 6 percent and that of industry 7 percent. It is correct and even essential to set these moderate growth rates to gradually reduce the current excessive growth rates. This will help eliminate certain instabilities in the present economic situation and promote smooth, comprehensive reform of the economic structure. It will also encourage the quarters concerned to focus more attention on improving product quality and economic results, thus laying a more solid foundation for the attainment of the grand goal set by the 12th party congress.

6. To achieve the objectives of the Seventh 5-Year Plan, we will have to make a realistic assessment of the needs and, in the light of the new situation and new tasks, make a series of correct policy decisions regarding the strategic pattern and major principles of economic development, science, education and culture, foreign trade, and technological exchange, the economic structure and means of regulation and the people's welfare and social security. In mapping out the Seventh 5-Year Plan, we must not only set correct targets for production and construction, but also give full attention to the study and formulation of policies, which will become an important, organic part of the plan.

#### Strategic Pattern and Major Principles of Economic Development

7. In light of the objective requirements of China's economic growth, we must accomplish the following three tasks in relation to the overall pattern of economic development during the period of the Seventh 5-Year Plan and perhaps beyond. First, we must further rationalize the set-up of production so as to modernize the economy and keep pace with the people's increasing demand for goods and their changing consumption patterns. Second, we must shift the emphasis of development to the technological transformation, renovation and expansion of existing enterprises, and have them expand reproduction chiefly by intensive means. Third, we must establish correct relationships among different regions in terms of economic development and

help to rationalize geographical distribution of the regional economies. Only by accomplishing these overall tasks, while constantly improving the economic performance of enterprises, can we truly raise the labor productivity and general economic efficiency of the entire community, thus providing a more reliable guarantee for the continued improvement of people's living standards. For this reason, we must faithfully adhere to the following six principles.

8. THE FIRST PRINCIPLE IS TO FURTHER IMPROVE WORKING CONDITIONS AND PROMOTE STEADY, ALL-ROUND DEVELOPMENT IN AGRICULTURE THROUGH POLICY AND SCIENCE. Agricultural growth remains the foundation for the development of China's economy as a whole. We must pay full attention to its strategic importance. In accordance with the principle of all-round development of farming, forestry, animal husbandry, sideline production, and fishery and combined operation of agriculture, industry, commerce, and transport, we should further readjust the set-up of rural production and gradually specialize, commercialize, and modernize agriculture, in order to better meet social needs. During the period of the Seventh 5-Year Plan we must not neglect grain production, but rather adopt effective policies and measures to steadily increase it. In areas that are suitable for growing grain we must try to raise per unit yield, increase variety and improve quality. On this basis, we should grow various cash crops in the light of market demand and natural conditions and, at the same time, speed up the development of forestry, animal husbandry, and cultivation of fresh-water and marine products, thus increasing their proportion in agriculture as a whole. In the suburban areas of large and medium-sized cities emphasis should be put on expanding the production of vegetables, poultry, eggs, milk, and other kinds of nonstaple food to supply the daily wants of urban residents. We should systematically transfer surplus labor in the rural areas from growing crop to other lines of work and, in accordance with local conditions, develop rural industry, transport and communications, building and mining industries, commerce and all kinds of service trades.

9. Developing town and township enterprises is the essential way to revitalize China's rural economy. This development requires enthusiastic support, rational planning, correct guidance, and improved management. Generally speaking, the development of town and township enterprises should be based on and serve agriculture, with emphasis on processing farm produce and on such related services as storage, packing, transport, supply and marketing. Where possible, small-scale mining, hydroelectric power, and building materials industries should be developed, as long as state regulations are observed and natural resources protected. In the light of actual needs and their own potential, economically developed rural areas may direct their processing industries toward large industry and export. In developing town and township enterprises, local authorities should rely mainly on their own funds, act within their capabilities, make steady progress, and avoid acting blindly. Town and township enterprises should do all they can to improve management and product quality, update production technology, increase economic efficiency and make sure that they do not pollute the environment.

10. To revitalize the rural economy, we must adopt the following policies and measures: 1) Continue to improve such modes of management as the contracted responsibility system that is based on the household and links remuneration to output and, encourage the peasants to engage in various forms of cooperation and joint operations on a household basis and on a voluntary and mutually beneficial basis. 2) Under the guidance of state planning, increase the role of market forces in regulating agricultural production and further relax controls on and readjust the prices of farm and sideline products in order to rationalize the set-up of production and the growth of the commodity economy in the rural areas. 3) Make it a principle that anyone who invests in or manages an enterprise will receive the benefit of it. This will encourage the peasants to run town and township enterprises, undertake agricultural infrastructural projects and provide commodity storage and transport facilities, thus promoting the development of commodity production and export centers for farm, sideline, local, and special products. 4) Speed up the technological transformation of agriculture, intensify intellectual development in the countryside, and vigorously spread the use of agricultural science and technology. This will help to raise the technological level of agricultural production and to improve product quality and economic results. 5) Increase state investment in agriculture, especially for water conservancy projects, farmland capital construction, cultivation and importation of fine strains, supplies of chemical fertilizers, farm chemicals, farm machinery and plastics used in agriculture, speeding up afforestation and soil conservation projects to improve the ecological environment. 6) End the irrational setting of quotas so as to lighten the burden on peasants.

11. THE SECOND PRINCIPLE IS TO EXPAND THE PRODUCTION OF CONSUMER GOODS AND RESIDENTIAL CONSTRUCTION. During the period of the Seventh 5-Year Plan, consumption patterns of both urban and rural residents will become diversified, with greater emphasis on better nutrition and improved clothing and housing. The demand for medium- and high-grade manufactured goods, including durable goods, will increase considerably. To keep pace with this development, we must greatly increase brand-name and high-quality products, turn out new products and open up new branches of production, while continuing to do a good job of producing daily necessities. We should give priority to the food, garment, and durable consumer goods industries so that they can promote the expanded manufacture of consumer goods as a whole.

12. To ensure rapid growth of the consumer goods industry, we must continue to give it priority in procurement of loans, access to foreign exchange, the use of energy, raw and semifinished materials, and transport services. Price differences must gradually widen between ordinary products and brand-name, high-quality and new products, in order to encourage greater variety, better quality and the manufacture of new products. The product mix of heavy industry should be further readjusted to provide more and better raw and semifinished materials for the manufacture of consumer goods. To ensure processing enterprises a stable source of raw and semifinished materials, they should establish direct links with the producers of these materials through coordinated or joint operation with them. This practice should be widely encouraged.

13. We should commercialize housing in the cities and towns and speed up the growth of residential construction industry, making it a pillar of the national economy. For a long time, China has pursued a policy of centralized construction and allocation of housing in cities and towns, collecting very low rents. This policy has not only hampered the solution of the housing problem but has also imposed an increasing financial burden on the state, thus weakening the construction industry and causing the purchasing power of urban residents to be lopsidedly concentrated on durable consumer goods. We should formulate a set of well-considered methods as soon as possible to gradually commercialize housing.

14. THE THIRD PRINCIPLE IS TO MUSTER THE NECESSARY FINANCIAL, MATERIAL, AND TECHNICAL RESOURCES TO CARRY OUT, WITH DUE ATTENTION TO QUALITY AND EFFICIENCY, A NUMBER OF KEY PROJECTS IN THE ENERGY, TRANSPORT, TELECOMMUNICATIONS AND RAW AND SEMIFINISHED MATERIALS INDUSTRIES. In China today there still exists a huge gap between supply and demand for energy and raw and semifinished materials. And transport and telecommunications are extremely backward. Only when this state of affairs is gradually changed will it be possible to ensure balanced and continuous economic growth.

15. The energy industry should focus on increasing electric power. We should actively develop thermal and hydropower resources and systematically build nuclear power stations in selected areas, so as to increase the country's total annual output of electricity to 550 billion kilowatt-hours by 1990. We should also boost the country's annual coal output to 1 billion tons by 1990. In addition, we should redouble our efforts to prospect for and develop oil and gas resources and to improve, renovate, and expand old oil fields so as to bring the country's annual output of crude oil to 150 million tons by the same year. To accelerate the development of the energy industry, we must increase state investment in that sector so it constitutes a larger proportion of the total. The barriers between different departments, trades, and regions must be broken down to encourage all quarters to expand the energy industry. Energy prices should be gradually raised so as to rationalize the pricing system. Conservation should be emphasized as well as exploitation, with a view to saving 100 million tons of standard coal in 5 years.

16. We must give priority to the development of transport and telecommunications. We should continue railway construction, step up the development of road, water, and air transport, improve networks and promote the modernization of transport and the rational coordination of its different forms, to increase efficiency and improve quality. We must try to increase the volume of freight handled annually so that by 1990 it is 30 percent greater than in 1985. We should also improve passenger transport. To accelerate the development of transport, we should make automobile manufacturing a key industry and strive for substantial growth in this sector, while also developing the locomotive, aircraft, and shipbuilding industries. In telecommunications, we should concentrate on increasing the capacity for local and long-distance calls in large and medium-sized cities, especially in the coastal cities opening to the outside world. At the same time, we must also develop modern means of telecommunications, including communications and

broadcasting satellites. To speed up the growth of transport and telecommunications, the state should increase investments in these industries, focusing on major projects and infrastructural projects. The construction of local roads, railways, inland waterways, and communications projects should be carried out mainly by local people and authorities with funds raised by themselves, the state providing whatever assistance is necessary. In accordance with actual needs and objective possibilities, we should allow local authorities and departments to undertake air transport.

17. With regard to the raw and semifinished materials industries, we should turn out more products that are now in short supply, raise technological levels and increase the variety and quality of products. In the iron and steel industry, we should lay stress on the renovation, expansion, and technological transformation of key enterprises. Our goal is to produce 44 million tons of rolled steel in 1990, with a larger proportion of such effective types as alloy and low-alloy steels. In the nonferrous metal industry we should adopt new technologies, continue to renovate and expand major production bases and build new ones. In the chemical industry, we should step up the construction of mines and the production of basic chemicals, open up new branches of production and increase the output of compound chemical fertilizers, other farm chemicals and refined chemical products. In the petrochemical and coal-chemical industries, we should adopt advanced techniques to achieve highly efficient production and intensive processing. To meet the needs of the booming construction we must greatly expand the production of cement, glass, and other materials, and of new and synthetic materials and lumber substitutes in particular. Attention should be paid to the development and utilization of silicate and other nonmetallic mineral resources. In every aspect of the raw and semifinished materials industries, we must stress multiple applications.

18. We should carry out more geological surveys to meet the needs of expanded production and development in the energy, transport, and raw and semifinished materials industries. We should continue to prospect for new mineral deposits and apply advanced science and technology to accelerate both prospecting and the appraisal of resources. We should also accelerate the comprehensive survey, appraisal, and exploitation of mineral resources and achieve greater social benefits and economic results in geological work. This will enable us to serve the key development projects better and to prepare the mineral resources and geological data required for the steady development of the economy in the 1990's and the early years of the next century.

19. THE FOURTH PRINCIPLE IS TO ACCELERATE THE DEVELOPMENT OF THE TERTIARY INDUSTRY THAT SERVES PRODUCTION AND MEETS PEOPLE'S EVERYDAY NEEDS AND TO GRADUALLY BRING TERTIARY INDUSTRY IN STEP WITH THE PRIMARY AND SECONDARY INDUSTRIES. The rise of tertiary industry is an inevitable trend resulting from the further division of labor and from the continual growth of labor productivity. It is one of the important marks of a modern economy. For a long time China has been very backward in its tertiary industry, with poor means of transport, inadequate information facilities, slow service before and after the production process and underdeveloped commercial and financial

services and technological consultancy services. As a result, funds have been used inefficiently, productivity has remained low, and life has been made difficult for the people. The development of tertiary industry must be accelerated and its proportion of the national economy expanded. This is both a strategic measure designed to create a new pattern of economic development and an essential reform in developing a commodity economy.

20. The key to launching tertiary industry, particularly that which directly serves the people, lies in further relaxing restrictions and vigorously developing the collective and individual sectors of the economy. With the exception of wholesale stores and large and medium-sized retail stores, existing state commercial enterprises can gradually be transformed into collective enterprises. Some small stores may contract with, or be leased to, individuals for management. The state should increase investment in tertiary industry, mainly for the construction of key projects and large facilities. Local authorities should also increase their investment in this industry, as appropriate. Service trades in rural areas and small towns should be run mainly with funds raised by the peasants. It is essential to accelerate the training of personnel for tertiary industry and to raise their level of competence.

21. THE FIFTH PRINCIPLE IS TO ACCELERATE THE EXPANSION, RENOVATION, AND TECHNOLOGICAL TRANSFORMATION OF EXISTING ENTERPRISES AND TO EQUIP ALL SECTORS OF THE ECONOMY WITH ADVANCED TECHNOLOGY. Renovation, expansion, and technological transformation of existing enterprises, carried out in accordance with available resources, are essential means of speeding up the modernization of the economy. Technological transformation should focus on the large and medium-sized enterprises that have a vital bearing on the overall economy, on those key enterprises that will serve as examples and leaders in technological progress in their fields and on those that produce commodities for export. Since the machine-building and electronics industries are responsible for equipping the other sectors of the economy, they should be the first to update their technology. In particular, we should make it possible for key enterprises to achieve faster technological progress. The national defense industry, with its vast material and technological resources, should do all it can to develop and manufacture technologically advanced products for civilian use, provided it fulfills its tasks in the manufacture of and research on weaponry and equipment. The old industrial cities and bases are expected to make greater advances in technological transformation and to take full advantage of their huge potential in terms of economic results. Enterprises should focus on improving the quality and properties of products, increasing variety and lowering the consumption of energy and raw materials, and they should not seek solely to expand capacity. By 1990, the quality and properties of a considerable proportion of the products of all trades should have reached the level of those of advanced countries in the late 1970's and early 1980's, and a number of important products should be up to international standards.

22. We should draw up a scientific, realistic plan for all trades, combining technological transformation with realignment of trades, reorganization of enterprises and formulation of technological policies. Barriers between

departments, between regions, and between the military and the civilian sectors must be removed. We should, where necessary, reorganize enterprises and urge them to combine in association according to the principle of coordination among specialized departments and on a rational and economical basis, so as to achieve an appropriate mix of large, medium, and small enterprises. All trades should formulate realistic policies for technological development and for the introduction of technical equipment in light of progress abroad and specific conditions at home. We should make it a policy to spread the standardization of technology.

23. The way to accelerate the technological transformation of existing enterprises is to tap their potential for technological renovation and the exploration of new technologies and to create favorable external conditions for progress. During the period of the Seventh 5-Year Plan, we should earmark a larger proportion of total investment for technological transformation and increase the rate of depreciation in selected trades. Funds used for depreciation should largely be put at the disposal of the enterprises. Preferential treatment should be given to enterprises in matters of taxation, pricing, and credit so as to encourage them to upgrade their products and trial-produce new ones. Trades that make only small profits should be given the financial assistance necessary for their technological transformation. Products that are of poor quality, production methods that are energy-inefficient or environmentally polluting, backward techniques and outdated equipment must be eliminated within a given time limit.

24. THE SIXTH PRINCIPLE IS TO HANDLE CORRECTLY THE RELATIONSHIP BETWEEN THE EASTERN, CENTRAL, AND WESTERN ECONOMIC REGIONS, FULLY EXPLOITING THEIR ADVANTAGES AND DEVELOPING THEIR LATERAL ECONOMIC TIES SO AS TO GRADUALLY ESTABLISH ECONOMIC NETWORKS AROUND LARGE CITIES, AT DIFFERENT LEVELS, OF VARYING DIMENSIONS, AND WITH DISTINCTIVE CHARACTERISTICS. China's economy can be divided into three major geographic regions: eastern, central, and western, and the objective tendency of development is to push from east to west. The guiding principle should be to integrate the growth of the eastern region with that of the central and western regions so that they all support each other and help to revitalize the economy as a whole, making the people prosper. Although there should be an order of priority in the economic development of various areas, that does not necessarily mean that development of one area must be postponed pending development of another. The eastern region should take the initiative and consider how to assist the central and western regions to develop. Absorbing money, technology, and management expertise from the eastern region, the central and western regions on their part should better exploit their own advantages and in turn assist the eastern region, thus bringing about a more rational balance in the national economy.

25. During the period of the Seventh 5-Year Plan and through the 1990's, we should speed up the development of the eastern region. At the same time, we should concentrate on building the energy industry and the raw and semi-finished materials industries in the central region and lay the groundwork for the development of the western region. In the eastern region, we should introduce new methods and technology into conventional industries and develop

new industries, such as knowledge- and technology-intensive industries and new industries manufacturing high-grade consumer goods. At the same time, we should make further efforts to introduce investment from abroad and establish lateral ties at home, taking active measures to enter the world market, so that the economy in the eastern region fans out in two directions. In the central region, we should emphasize the development of energy sources (electricity, coal, and petroleum), iron, nonferrous metals, phosphorus, and building materials. At the same time, where conditions permit, we should develop knowledge- and technology-intensive enterprises and new industries. In the western region, we should concentrate on developing farming, forestry, animal husbandry, and transport, exploring local resources, fostering processing industries and manufacturing products specially needed by the various minority nationalities. In both the central and western regions, we should take advantage of the production capacity of the national defense industrial bases already located there and give them a bigger role to play.

26. It is very important to promote economic and cultural development in the areas inhabited by minority nationalities. We must take vigorous measures to help the old revolutionary base areas, outlying districts and other impoverished areas to eliminate their backwardness. During the Seventh 5-Year Plan period, the state and developed areas should continue to provide those places with financial, material, and technological aid. We should adopt necessary policies and measures that will in every way encourage more specialists to work in the outlying and underdeveloped areas. But it is even more important to adopt more flexible policies and to train the local people and strengthen their capacities so that, with the help of the state, they will be able to develop their economy and culture largely through their own efforts.

27. As the productive forces grow, and particularly with the flourishing of the rural economy, increased urbanization and the emergence of new cities are inevitable. In the light of China's specific conditions we should draw up a rational plan for the structure and geographical distribution of urban development. We should take firm measures to prevent large cities from becoming overcrowded and focus on developing small and medium-sized cities and towns. However, with our vast territory, poor transport services, and inadequate information facilities, the small and medium-sized cities should not be scattered over too wide an area. They should be built in different sizes, with distinctive features, around large cities and along main communication lines so as to form a rationally distributed network.

28. We should analyze land use and work out plans for the preservation of soil fertility in keeping with natural and economic laws. During the period of the Seventh 5-Year Plan we should link economic development with the harnessing of selected major rivers and with the comprehensive exploitation of regions. In the course of production and development, we should observe the relevant laws and regulations concerning protection of the environment and the ecological balance and pay serious attention to the protection and conservation of water, land, mineral, and forest resources. We should exercise strict controls over the use of arable land for nonagricultural

purposes. In particular, we should try to solve the problem of water resources in the northern areas. We should devote major efforts to planting grass and trees, so as to prevent soil erosion, and the erosion of land by sand in certain regions. All these things should be embodied in plans for national economic and social development as elements of basic, long-term state policy.

#### Science, Education and Culture

29. During the period of the Seventh 5-Year Plan we shall face new situations and tasks in our scientific and technological work. Changes in the set-up of production and consumption patterns, progress in the technological transformation of existing enterprises, the launching of key construction projects and increases in both the quantity and variety of imported technology have given rise to a host of major problems in science and technology that demand urgent solution. The new technological revolution is bringing about profound changes in production, trade, consumption patterns, and people's lives the world over. Unless we adopt proper measures to meet this stern challenge, certain advantages which China enjoys in terms of geographical location, natural resources, manpower, and other things will diminish. Our weaknesses, such as poor information flow, backward technology, inadequate investment funds, and shortage of trained personnel, will become increasingly prominent, and it will be even harder for us to catch up with the developed nations economically and technologically. We must fully recognize the decisive role of the modernization of science and technology in the modernization program as a whole. We must continue to adhere to the principle that economic development depends on scientific and technological progress and that scientific and technological work must be geared to the needs of economic development. We must attach strategic importance to promoting scientific and technological progress, a task of overall and fundamental importance.

30. To meet the needs of the new situation and tasks, we must persist in the following endeavors in our strategy for scientific and technological development during the period of the Seventh 5-Year Plan, bearing in mind China's present technological capacity and economic conditions:

--Vigorously develop and put into wide use those scientific and technological inventions which can yield best and fastest returns, apply new technology to improving traditional industries, techniques, and products and step up the transfer and diffusion of new technology at home so as to raise the production and technological levels of the whole society.

--Concentrate on tackling key problems, especially vital technological problems arising from economic and social development and achieve results in major scientific and technological research projects.

--Work hard to open up areas of new technology, especially micro-electronics, information technology, and new materials. At the same time, accelerate research and development in such new fields as bioengineering, aerospace technology, nuclear energy, lasers, and oceanographic engineering, so as to gradually create a number of new industries.

--Combine more effectively scientific and technological research at home with advanced technology introduced from abroad, and accelerate the mastery, application, and further development of imported technology.

--Intensify research in applied and basic sciences, and prepare the necessary scientific and technological reserves for long-term development.

31. The key to success in these strategic endeavors is to do a good job in two aspects of our work. First, all departments in charge of the administration of scientific and technological undertakings, and all research institutes, institutions of higher education, and scientific and technological information centers should make full use of available knowledge and achievements, and of skilled personnel to help large numbers of enterprises, including rural ones, speed up their technological progress. Focusing on improving product quality and economic results, all enterprises should appreciate and encourage technical innovation by the masses of workers and other employees. During the Seventh 5-Year Plan period, we should undertake projects which require a shorter construction cycle and produce quicker returns with funds provided by the state, local governments or individual enterprises. Second, we should organize all sectors, concentrate financial and material resources, and undertake key scientific and technological projects, so as to solve pressing problems in production and construction. At the same time, in research and development in new technology, we should try to accomplish a great deal in a relatively short period. Integrated circuits have now become indispensable to modern industry and society. However, the development of the integrated circuit industry, which requires heavy investment, sophisticated technology, rapid retooling, and a large number of subsidiary industries, calls for concerted effort under unified planning by the state. In developing the computer industry, we must keep Chinese conditions in mind and give priority to the development of microcomputers and software, which have extensive applications.

32. We should continue deploying forces for research in both applied and basic sciences, try to organize them and properly arrange their research projects, emphasizing those with prospects for application or those we have been working on for years. We should further strengthen the research work of the Chinese Academy of Sciences and institutions of higher learning, increase their contacts and cooperation with each other and have them play a vital role in applied and basic research. Within the next 5 years, we should systematically modernize a number of key laboratories, improve their conditions for research work, and make them accessible to institutions of higher learning, research institutes, and key enterprises throughout the country.

33. With regard to social sciences, we should strengthen the study of the basic principles of Marxism-Leninism and promote research on major theoretical and practical questions which are related to China's socialist modernization and serve to develop the country materially and culturally. During the period of the Seventh 5-Year Plan we should carry out in-depth studies of strategies for economic, scientific and technological and social development and of major problems of economic reform with the focus on cities, striving for high-quality results in a number of research projects. We should

intensify studies in new branches of learning and frontier sciences and improve the system of research in the social sciences.

34. Economic construction, social development, and scientific and technological progress all depend on the intellectual development of the Chinese nation, an increased number of trained personnel, and further growth of education based on economic development. During the period of the plan we must attach as much importance to education as we do to economic development and, orienting our work to the needs of modernization, the world and the future, strive to bring about a new situation in education.

35. Universal elementary education is a major foundation for and a mark of modern civilization. During the period of the plan we should gradually introduce 9-year compulsory education, while redoubling our efforts to eliminate illiteracy. In cities, developed areas in the coastal provinces, and a few developed interior areas, we should make junior middle school education universal and ensure its quality. In less developed towns and rural areas, we should give priority to making primary school education universal and, at the same time, prepare to make junior middle school education universal during the Eighth 5-Year Plan period. In economically backward areas, we should, as the economy grows, popularize elementary education in different forms and to varying degrees. We should do a good job of elementary education in the autonomous regions of the minority nationalities and in areas inhabited solely by them. While promoting 9-year compulsory education, we should work hard to develop preschool education and special education for the physically and mentally handicapped.

36. Vocational and technical education has become a major component of a modern educational system. During the period of the Seventh 5-Year Plan we must reform the employment system in line with the principle of training people before they are given jobs and expand vocational and technical education. In this way we will make student enrollment in vocational and technical schools at the senior middle school level equal to that of regular senior middle schools in most areas. In the meantime, we must develop vocational and technical education and short-term training at the junior middle school level. A total of more than 8 million students are to be trained in polytechnic schools and vocational and technical schools within 5 years, an increase of 150 percent over the period of the Sixth 5-Year Plan. We should augment on-the-job training of cadres, workers, and peasants to update their knowledge and improve their skills.

37. So far as higher education is concerned, we must fully tap the potential of existing universities and colleges and reinforce their ties with production and scientific research and other sectors of society. We must also encourage them to meet the needs of economic, scientific, technological, and social development on their own initiative. We should continue to readjust the faculties and administrations of institutions of higher education, accelerate the growth of disciplines which we lack or are weak in, and support the expansion of new branches of learning and frontier disciplines. We should avoid overspecialization of disciplines and try to redefine them. During the period of the Seventh 5-Year Plan the institutions of higher

education will turn out 2.6 million graduates through regular or special college courses, 70 percent more than in the years covered by the previous plan, and 200,000 through postgraduate courses, an increase of more than 400 percent. While systematically sending more students to study abroad, we should make proper job arrangements for returned students, taking full advantage of their expertise. We should continue to expand adult higher education through varied forms as radio, TV and correspondence and evening courses and to improve its quality. Within the 5 years we need to train 2 million specialized personnel with cultural, scientific and technological qualifications at or above the level of graduates from technical colleges. This would be a growth of 150 percent over the previous plan period.

38. We should further expand such cultural undertakings as the press, publishing, broadcasting, television, literature, art, and physical culture. The press should faithfully publicize the line and the general and specific policies of the party and, at the same time, satisfy people's demands for information, knowledge, entertainment, and other things. In expanding all the cultural undertakings, we should be guided by the principle of serving socialism and the people, and we should correctly balance economic and social benefits, giving priority to the latter. All cultural undertakings, including those of literature and art, the cinema, TV, music, dance, drama, the fine arts and folk art, should produce more and better works, so as to enrich the cultural life of the people, increase their artistic appreciation, elevate them to a higher mental world and inspire them to dedicate themselves to the great cause of rejuvenating China. We should expand radio and TV coverage, improve printing techniques for newspapers and books, and shorten publication cycles. We must raise our levels in all sports events still higher through mass sports activities, improving people's physical fitness. All libraries, museums, science and technology halls, art galleries, cultural halls, stations and centers, gymnasiums and stadiums should adapt their work to the needs of the new situation and tasks so as to better serve the people. We must conscientiously protect historical relics and step up our work on historical archives and records.

39. Party committees and governments at all levels should strengthen their leadership over scientific, technological, educational, and cultural undertakings and find ways of overcoming the difficulties that arise as those undertakings expand. We should gradually increase outlays for education, scientific research, and cultural projects. The rate of increase of educational appropriations by central and local governments should exceed the rate of increase of their regular revenues. The most important things at present are, first, to implement the two decisions of the Central Committee on reforming the structure of scientific and technological management and educational management and, second, to explore reforms in cultural fields and further implement the policies regarding intellectuals. We must work harder to eliminate prejudice against knowledge and skilled people, to promote a social climate of respect for knowledge, teachers and other educated people and enable China's intellectuals to play an important role in the socialist modernization program. We should continue to take effective measures to gradually enhance the competence, raise the social status, and increase the material benefits of scientists, engineers, teachers and

other specialized personnel and to provide them with better working, studying, and living conditions.

#### Foreign Trade and Technological Exchange

40. It is China's basic national policy to open to the outside world. During the period of the Seventh 5-Year Plan we should further promote trade and technological exchange with all other countries, both developed and developing, in accordance with the principle of independence, self-reliance, equality, and mutual benefit. Between 1985 and 1990 we should increase total imports and exports by 40 to 50 percent and, at the same time, use more foreign investment and introduce more advanced technology, so as to accelerate China's socialist modernization.

41. The key to implementing the open policy with an increased use of foreign funds and imported technology is to increase foreign exchange earnings through exports. To accomplish this, which is of paramount importance in our modernization program, we must adopt correct strategies which meet the demands of the international market and correspond to China's domestic conditions. The strategies should cover the following three aspects: the mix of export commodities, the search for a bigger international market, and the arrangements for the production of export commodities. In the long run, we must gradually bring about two changes in the mix of export commodities: Our main exports must change from primary products such as raw materials to finished products, and they must change from roughly processed products to finely processed products. During the period of the Seventh 5-Year Plan we should continue to increase exports of petroleum, coal, nonferrous metals, and farm, sideline, native, and special products. In particular, we should export more products of the traditional textile and other light industries as well as of the new and expanding food processing industry, increasing China's exports in these areas. We should give an important place to the export of machine tools and electrical products so as to gradually make available a number of such products which are strongly competitive on the world market. We should enhance the trial-manufacture and development of export products and maintain a policy of quality first, working to improve quality, grading and packaging, and thus enhance our capacity to earn foreign exchange. Meanwhile, we should expand the export of technology. With respect to the search for a bigger international market, while continuing to consolidate and expand the existing market, we should also open up new markets, establish and expand trade ties with all other countries, and gradually build and improve a system of sales promotion and a service network abroad. Geographically, we should fully exploit the advantages of the coastal areas and certain others to establish centers for the production of various export commodities, thus steadily improving the production network. We should also step up technological cooperation, coordinated management, and joint ventures between the coastal and interior areas so as to make use of the latter's rich natural resources. China has great potential for increasing the export of labor services and undertaking contracted projects for foreign countries. We must strengthen leadership over and unified planning for this endeavor and enable it to grow considerably during the period of the Seventh 5-Year Plan. At the same time, we should do more to

expand tourism, international air and marine transport and similar undertakings to increase the amount of foreign exchange earned from sources other than trade.

42. To encourage exports and increase foreign exchange earnings we should adopt the following policies and measures: We should organize and expand the supply of export commodities. Except for a few major commodities vital to the national economy and the people's everyday life, whenever there are conflicts between export and domestic sales, priority should be given to the needs of exports. We should step up the construction of bases for the production of export commodities and, where conditions permit, set up export commodity processing zones with distinctive characteristics and ability to earn foreign exchange. We should improve the system whereby foreign exchange earnings are distributed. A fund should be established for an export development award. Economic awards should be given to regions, departments, and enterprises which have scored outstanding achievements in expanding exports and increasing foreign exchange earnings. It is particularly important for us to use such economic levers as pricing, exchange rates, and customs duties to encourage the production of export commodities.

43. Maintaining the balance in foreign exchange is a difficult, long-term task. We must emphasize economic efficiency in the use of foreign exchange, which should promote domestic technological progress and enhance our ability to earn more foreign exchange. We should readjust the mix of import commodities in accordance with this principle, giving priority to computer software, advanced technologies, and key equipment. It will be necessary for us to import certain means of production and consumer goods which are badly needed and in short supply on the domestic market. However, we should in no case support an excessive rate of production or overextended scale of construction by importing raw materials with large sums of foreign exchange over a long period of time. Nor should we stimulate domestic consumption by importing too many high-grade consumer goods. We should make every effort to produce at home those goods that China can produce and refrain from blindly importing them, so as to protect and stimulate the development of the domestic industries. In assembly-line industries that use imported spare parts and accessories, we should reduce the proportion of imported components and gradually substitute ones of our own manufacture. We must see to it that the technologies introduced are mastered, applied and developed and that they gradually become standardized. In order to centralize guidance and control in this area, the state should draw up national plans and policies for the import and integration of technologies and should initiate a license system to avoid the duplication of imports and the lack of coordination between imported technology and domestic research and development.

44. We must, as far as possible, use foreign funds in diversified ways to accelerate economic development. We should work harder to strike an overall balance in the use of such funds, guide that use correctly and improve its economic efficiency. In using foreign loans on preferential terms, we should give priority to the construction of such infrastructural facilities as energy, transport and telecommunications. More foreign commercial loans

should be used in the more highly developed areas and for those projects that bring high economic results, have strong potential for earning foreign exchange and produce goods that can be substituted for imports. In accordance with the principle of equality and mutual benefit, we should welcome foreign firms and traders that wish to engage in joint ventures or cooperative enterprises with us or to launch ventures exclusively with their own investment, especially those which require intensive technology and are mainly intended to earn foreign exchange through exports. We should further improve laws and regulations concerning foreign nationals and firms, strengthen infrastructure and increase efficiency, to make investment more attractive to foreigners.

45. The special economic zones, the coastal cities opening to the outside world, the Zhujiang River and Changjiang River Deltas, the triangular area in southern Fujian Province, and the Liaodong and Jiaodong Peninsulas have the exceptionally important tasks of expanding import and export trade, using foreign investment funds and importing technology. These areas should readjust their production set-up in accordance with export needs and make it possible for a greater number of competitive commodities to find a way into the international market. We should continue to apply special policies and flexible measures in Guangdong and Fujian Provinces. While constantly introducing advanced technologies from abroad, the special economic zones should gradually shift the emphasis of production to export goods so as to earn more foreign exchange for the state. In close coordination with local authorities and in accordance with the general requirements of national economic development and the principle of proceeding at all times from actual conditions, the relevant government departments should draw up development plans for the special economic zones, cities, and areas opening to the outside world. They should systematically carry out construction and development in these places with selected key projects, and make it possible for them to play a more effective role as China's vanguard in opening to the outside.

46. We should redouble our efforts to introduce intellectual resources from abroad in different ways and through different channels. One effective way of doing that is to cooperate with foreign engineers and technicians in product development, technological design and project construction, and we should work hard at this. We should further emancipate our minds, make policies more flexible and solve practical problems so as to enable the highly skilled people invited from abroad to play their role more fully.

47. We must analyze our experience and further reform the management systems of foreign trade and foreign exchange. We should gradually improve the system of customs duties, the system of import and export licensing and the system of exchange rates. Under unified planning and policy and taking coordinated action in respect of foreign countries, the authorities at lower levels should be given more power to manage foreign trade, as economic levers are used more effectively and management improves. We should continue to practice unified management of the staple export and import commodities. Where conditions permit, enterprises can be given the power to undertake foreign trade directly. Where they do not, we should institute a system

whereby foreign trade corporations act as agents or purchasers. We should exercise centralized control over the management of foreign exchange and foreign debts. Exchange rates should be readjusted rationally according to price fluctuations on both the domestic and world markets. In opening to the outside world, we must enforce discipline and oppose all acts that harm the interests of the state and the people. All illegal practices, including bribery, smuggling, and obtaining large sums of foreign exchange without state authorization must be severely punished according to law.

#### Economic Structure and Means of Regulation

48. To ensure the successful fulfillment of the Seventh 5-Year Plan and sustained and balanced economic growth beyond that period, the most important thing is for us to restructure the economy, prudently but steadfastly, in accordance with the decision of the 3d Plenary Session of the 12th CPC Central Committee and in the next 5 years or more to lay the foundation for a vigorous socialist economic structure with Chinese characteristics.

49. Building a new type of socialist economic structure depends primarily on successes in the following three related areas: First, further stimulating all enterprises, and especially the large and medium-sized ones owned by the whole people, so that they will work efficiently as socialist producers and distributors of commodities, each enjoying relative independence and full power of management and bearing complete responsibility for profits and losses. Second, further expanding the socialist planned commodity markets, and gradually improving the market network. And third, gradually reducing state management of enterprises from direct to indirect control, and supervising and regulating economic activity mainly by economic, statutory and, if necessary, administrative measures. Focusing on these three areas, we must introduce a series of mutually reinforcing reforms in the planning system, the pricing system, the fiscal system, the banking system, and the labor and wage system so that these mechanisms will function together, integrating planning with market regulation, and micro-flexibility with macro-control. Accomplishing this will lead to a satisfactory handling of various economic relations, making it possible to harmonize the interests of the state, the collectives, and individuals, to achieve greater uniformity in the speed, proportion, and efficiency of economic development and to bring about self-sustained growth in our national economy as a whole.

50. Invigorating enterprises is the key element in the economic restructuring with its focus on the cities. We must implement the decision and regulations issued by the Central Committee and the State Council for expanding the decisionmaking power of enterprises and continue to adopt measures, both inside and outside enterprises, to enhance their vitality, especially that of the large and medium-sized ones. These measures should include the following: 1) Further streamline administration and delegate more power to lower levels. With the exception of certain departments and trades where conditions are somewhat unusual, ministries of the central government, the provinces, and autonomous regions should no longer directly control enterprises. In the cities, we must also draw a clear distinction between the responsibilities and functions of government and those of

enterprises, reduce the intermediate levels, and grant enterprises the managerial power to which they are entitled. 2) Gradually reduce regulation taxes on large and medium-sized enterprises, lighten irrational burdens on them and gradually improve management policies and the taxation system for collective and individual businesses to allow all enterprises to compete with each other on an equal footing. 3) Systematically reduce mandatory planning to give enterprises greater decisionmaking power over production, supply and marketing and over the use of manpower and financial and material resources. At the same time, improve micro-economic mechanisms to enable enterprises to shoulder full responsibility for their own management. 4) Exercise control over total social demands, maintain a balance between demand and supply and bring the pressure of market competition to bear upon enterprises, so as to encourage them to improve their management and achieve better economic results. 5) See to it that all enterprises do their best to perfect various forms of the responsibility system and promote to leading posts persons of ability and political integrity. Depending on specific conditions in each enterprise, this may be done through appointment after observation, democratic election, self-recommendation and recommendation, recruitment by advertisement and examination or through invitation. The responsibilities and power as well as rewards and penalties for such administrators as managers and factory directors must be clearly defined to give full scope to their initiative and pioneering spirit. Efforts should be made to strengthen democratic management, to encourage the workers and administrative staff to play their part as masters of the enterprises and to make best use of their intelligence and talent. 6) Turn some of the small state-owned enterprises over to collective or individual management, by contract or lease.

51. In order to invigorate enterprises, barriers between different departments and between regions must be broken down, and provinces, autonomous regions, cities of all sizes, and all rural areas should open their doors to each other and expand their commodity markets, under the guidance of planning. We must not only continue to expand the consumer goods market, but also gradually reduce the varieties and quantities of means of production allocated by the state, so as to expand the market for them as well. To meet the needs of market expansion, we should gradually open up or expand the market of funds and of technology and encourage a rational flow of labor. Only by establishing an integrated network of socialist markets under the guidance of state policies and plans and by improving market management can we enable competitive forces to play their role in selecting the superior and eliminating the inferior and allow economic levers to perform their regulatory function to fundamentally improve economic efficiency in enterprises and society as a whole. As the market network steadily improves, we must gradually reduce the scope of mandatory planning in favor of guidance planning, strive for an overall balance and shift the emphasis of planning to exercising indirect but more comprehensive macro-control through various economic policies and measures.

52. The key to the gradual establishment and perfection of the market system is reform of the pricing and price control systems. Except for a few major commodities whose prices should continue to be determined by the

state, price controls on everyday consumer goods should be systematically relaxed and replaced by market regulation. As for major means of production, we should gradually reduce the proportion of goods whose prices are set by the state, increase the proportion of those whose prices are determined by the market, and steadily readjust planned prices so that the disparity between the planned and market prices will gradually diminish. The increase in production costs due to the rising prices of major means of production should be offset as much as possible by raising labor productivity, reducing consumption of energy and materials and making full use of enterprises' potential. We must strictly control the extent of price increases which are caused by a chain reaction. The fees charged by certain major public utilities and service trades should remain under state control and should be readjusted in a planned way. Price controls in tertiary industry should in general be gradually relaxed. Through these reforms, we will establish a pricing system that combines uniformity and flexibility by controlling prices on a few commodities and services and allowing prices for most of them to float. Thus we will expand the regulatory role of prices as the most important and efficient economic lever in production, distribution and consumption. In reforming the pricing and price control systems, we must consider the capabilities of the state, the enterprises, and the people and maintain the basic stability of overall price levels to avoid excessive social repercussions. This is a principle we must strictly observe. Industrial and commercial administration departments must enforce rigorous control over prices. All state-owned industrial and commercial enterprises, supply-and-marketing departments and cooperatives should accumulate enough materials and economic means to take an active part in regulating the market and in keeping prices stable through purchases and sales. This is indispensable to the smooth progress of price reform, and is an essential element in the planned commodity economy.

53. We must reform the fiscal and taxation systems so as to ensure reliable and adequate revenues for the state, while keeping taxation fair and reasonable and encouraging competition. This will promote efficiency and steady economic development. By readjusting the overall scale and structure of revenues and expenditures, we must regulate and control the volume and pattern of social demand and achieve a balance between revenues and expenditures. After the past few years of reform, our taxation system has taken a new direction. We must make further improvements, introduce reasonable tax categories, readjust tax rates and encourage industrial enterprises and institutions to make the best possible use of favorable conditions to meet the needs of society. We must distribute revenues rationally among the state, the collectives, and individuals. The after-tax profits available to state-owned enterprises must be gradually increased to expand their capacity for transformation and development. With regard to tax categories, a distinction must be drawn among taxes which go to the central government, those which belong to local governments, and those to be shared between the two. Likewise, expenditures which are to be made by the central government should be distinguished from those for which local governments are responsible, so that each will manage its own financial affairs. From now on, state budgetary funds will be invested primarily in the construction of infrastructure and nonprofit projects. Investment funds of profit-making enterprises

and institutions will mainly come from their own reserves or from joint investment, fund raising, and bank loans. The government will guide the direction of nonbudgetary investments by enterprises by subsidizing their interest payments, or by providing them with other financial assistance.

54. We must reform the monetary system to enable all banks to work as efficiently as possible in collecting and circulating necessary funds, guiding the flow of funds in desirable directions, promoting an increasingly efficient use of them and regulating overall social demand. The People's Bank of China, which serves as the country's central bank, is one of the most important macro-regulators of the national economy. Therefore, it is necessary to strengthen its position and independence. The bank must exercise control over the total currency supply and volume of credit through an overall plan for credit, by monetary policy and the control of foreign exchange, as well as by such regulatory means as credit interest rates, foreign exchange rates, and reserves. In this way it will be able not only to keep inflation under control, but also to promote well-coordinated economic growth and make the economic structure more rational. So far as business operations are concerned, all monetary institutions must come under the leadership and control of the People's Bank of China. The bank must also strengthen its supervision over and examination of the operations of institutions and exercise strict control over the specialized banks and other financial institutions in matters relating to credit and loans. In carrying out reform, these specialized banks should steadfastly but prudently develop into enterprises. There may be some overlap in their business operations. All banks must tighten their screening procedures for granting loans and strengthen accountability in such granting. So long as they abide by the plans and policies approved by the state, they have the right to issue credit and loans independently. In doing so, however, they must assume responsibility for any risks involved. Governments at all levels should supervise and support banks everywhere in observing state monetary policies and ensure that their lawful rights are not infringed. Under the guidance and control of the People's Bank of China, they should employ all kinds of monetary tools to promote lateral circulation of funds and to gradually establish a market of funds.

55. As the state's role and methods in managing the economy change, the organizational structure of government departments responsible for economic management at all levels will be correspondingly readjusted and reformed. Departments in charge of overall management should be consolidated and strengthened. We must try to make their decisionmaking more scientific and to increase their ability to provide macro-control and regulation. We should appropriately expand the power of local governments to apply economic levers. It is necessary to make supervisory departments in charge of auditing, industrial and commercial administration, statistics, standardization and measurement more effective. We must establish more organs of economic supervision to handle economic legislation and adjudication. Departments for specialized economic management should shift from managing production in specific enterprises directly under their jurisdiction to managing a trade as a whole. They should map out development plans for an entire trade, conduct research in major economic and technical policies concerning that trade

and organize information exchanges, technical research and the training of personnel. In accordance with this change in function, they must actively prepare for the gradual readjustment and streamlining of their organizations.

56. Comprehensive economic restructuring with focus on cities is a formidable and complicated problem of systems engineering. From now until the new economic structure takes shape, the entire process of reform should generally fall into the following three stages. First, after the expansion of the decisionmaking power of enterprises and some reduction of direct controls over the past few years, we must spend a year or two reinforcing indirect macro-economic controls, while continuing to revitalize enterprises, especially large and medium-sized ones. To accelerate sound development of the reform, we should follow this up with such measures as the use of economic levers, better economic legislation and supervision and the establishment of information networks. Second, in order to develop the socialist commodity market, we must gradually reduce the scope of mandatory planning, reform the price structure for means of production and the price control system, and further improve the taxation and financial systems. Third, we should gradually set up organizational structures that conform to the new systems, so as to resolve the question of the relationship between enterprises and government departments and of the barriers between different departments or regions, and with a view to the eventual separation of the functions of government from those of enterprises. Although each of these stages is distinct in emphasis, they are interrelated and overlap. By the time they are completed, our economic restructuring will have been basically completed.

57. Our experience in the reforms of the past few years shows that in the future we must consider carefully what to discard and what to introduce, bearing in mind the following points: 1) We should greatly strengthen the state's indirect control over various economic activities and take corresponding measures to reduce its direct control over the scope, extent, and steps of microeconomic activities. While continuing to invigorate enterprises, we should improve the systems and methods of indirect control. 2) In socialist economic management, a certain amount of administrative means will always be indispensable. But the essence of the reform should be to reduce the use of administrative means. It is for the sake of this future reduction and to ensure the orderly transition from the old structure to the new, that some administrative means must be reinforced for a certain period to ensure the orderly implementation of the reforms. 3) The deepening of the reforms and the growth of the economy demand that more guidelines for economic relations and activities be codified in the form of law, so that the law will become an important means of regulating them. Therefore, we must emphasize economic legislation and adjudication, make them conform to the requirement of the reform, and strive to establish a more comprehensive system of economic statutes. Then we will have laws addressing every aspect of economic activity and will be able to abide by them and enforce them strictly. 4) We must educate the cadres and the masses so that they fully recognize the difficulty and complexity of carrying out the reforms, are clearly aware of the problems and risks that may arise in the process,

enhance their understanding of policy, legality and the overall interest, and are mentally prepared to confront the difficulties. In the long run, reforms will promote a vigorous growth in productive forces and bring the people great material benefits. However, we cannot expect that every step in reform will bring immediate benefits to every person, because the beneficial results will only be obvious after the reform has been in effect for a certain period. It is important to the success of the reform that we explain this to the people.

#### People's Standard of Living and Social Security

58. To constantly raise the level of the people's material and cultural life as production grows and to achieve prosperity for all members of the society are the basic purposes of all the policies of our party and state in promoting the drive for socialist modernization. During the period of the Seventh 5-Year Plan, we must keep to the principle of distribution according to work, continue to encourage some areas, enterprises and individuals to become prosperous first, and overcome egalitarianism. At the same time, to ensure social stability and unity and to demonstrate the superiority of the socialist system, we should guard against wide discrepancies in income. We must make overall arrangements to employ the new labor force and create more job opportunities. By 1990 the average level of consumption for the country as a whole will increase by approximately 25 percent over 1985, and the discrepancy between the consumption levels of urban and rural residents will be further narrowed.

59. While continuing to increase the production of daily necessities, during the Seventh 5-Year Plan period we should also try to increase supplies of meat, poultry, eggs, milk, aquatic products, fruit, convenience foods, and soft drinks. In addition, we need to increase supplies of textile products, of medium- and high-grade clothing and accessories, and of TV sets, refrigerators, washing machines, brand-name bicycles, and furniture. Meanwhile, we should mobilize all sectors to speed up the construction of residential housing in cities and the countryside. While producing more consumer goods, we must also establish many more commercial and service networks. Efforts should be made to set up and expand all kinds of everyday services and to develop cultural and recreational establishments. As labor productivity increases, a vacation system should gradually be introduced for all personnel.

60. Improving the environment should be made an important aspect of improving the people's living standards and quality of life. In the period of the plan we must step up the construction of public utilities, such as water, sewage systems, electricity, gas, central heating, roads, public transport, and telephones to make life more comfortable for the people. We should do more to monitor and prevent or remedy such public hazards as air, water, soil, and noise pollution. We should improve the forecasting of natural disasters and take precautionary measures against them. Attention must be paid to environmental protection, and special efforts should be made to improve the environment in key cities and tourist areas. As part of sound city and town planning, we should develop landscaping projects and gradually create a clean, green, and comfortable environment for people to live and work in.

61. We must strictly control population growth, expand public health services and improve the people's health. During the period of the plan, the number of persons entering the marrying and child-bearing years will reach a peak. We must place greater importance on family planning, carry it on unswervingly and try to reduce the average annual population growth rate to around 12.5 per thousand within 5 years. We must improve health care for mothers and children and promote sound child rearing practices. We must expand the mass campaign to eradicate pests and communicable diseases, so as to improve public health in towns and villages. We must step up medical research. More health care facilities should be set up and the three-tiered health care organization in the urban and rural areas should be improved. We should train more health care personnel, strengthen our work in the prevention and treatment of disease and disseminate essential information on nutrition and health.

62. To meet the changing conditions that come with invigorating the domestic economy and opening up to the outside world, we must try to establish new social insurance systems of various types with different services and rates. Various insurance systems should be gradually established for workers and staff in government departments, in state or collectively owned enterprises, in Chinese-foreign joint ventures and in enterprises run solely with foreign investment, and in particular, for former workers waiting for new jobs. We should step up research into insurance systems for self-employed workers in urban and rural areas, introduce them on a trial basis and then popularize them gradually. This is an important condition for ensuring the smooth progress of the economic restructuring and its success, and it is also of vital importance for maintaining long-term social and political stability. The establishment or improvement of social security systems should be based on China's specific conditions, and the scope, services and rates of such systems must not exceed the financial capabilities of the state, enterprises or individuals. Social insurance funds should be provided by the state, enterprises or individuals, but mainly by enterprises and establishments with earnings. The old practice of having the state cover all expenses should cease. Different standards of retirement pensions for workers and staff of enterprises and establishments will be determined according to their respective economic forms. While gradually establishing new social insurance systems, we must carry on our fine traditions of mutual help among relatives, friends, and neighbors.

63. We must gradually perfect the social welfare system and do an even better job of giving preferential treatment to the families of martyrs and servicemen and of organizing social relief work. Governments at all levels should devise unified plans for all kinds of welfare projects and encourage enterprises and other establishments with earnings to undertake the collective welfare projects their employees need. We must increase the number of free or low-cost social welfare facilities such as children's centers, homes for the aged, health spas and sanatoriums. It is important to ensure the welfare of disabled veterans, provide pensions to families of martyrs and give preferential treatment to the families of military personnel. Arrangements should be made with the help of all social quarters for the employment, education, and welfare of the blind, deaf-mutes, and other handicapped

persons. Social relief funds must be set up to give financial aid to low-income families in urban and rural areas to meet their basic needs in food and clothing. Relief to the needy should consist not only of supplying their immediate wants but also of helping them to develop production and so better themselves through their own labor. All quarters should be mobilized to help the poor.

64. In social security work, socialized administration must be integrated with work unit administration, with emphasis on the former. Social security institutions should exercise unified control over social insurance, welfare and relief and coordinate them under an overall plan. Establishing a social security system is very complicated and must be coordinated with the restructuring of our economic system. Therefore, during the period of the Seventh 5-Year Plan, the social security system can only emerge in embryonic form. However, as the economy grows, it can be developed.

#### Unite and Work for the Advance of Socialist Modernization

65. The Central Committee of the Communist Party of China believes that the Seventh 5-Year Plan will be a plan for peaceful development that will mobilize the entire nation for the reform of the economic structure and the drive for socialist modernization. Peace and development are the common desires and fundamental objectives of the people of all countries. China has always pursued a foreign policy of independence, opposing hegemonism and promoting world peace. The growth of China's economic strength means the growth of the world's forces for peace. The successful fulfillment of our Seventh 5-Year Plan will enable China to move a step closer to becoming a strong and prosperous nation with a rich and happy people, and at the same time, to make new contributions to the maintenance of world peace and stability. We must rely on our people's wisdom, intelligence, and united effort to guarantee the fulfillment of the plan. At the same time, we welcome and earnestly hope for greater cooperation with all peace-loving countries and people of the world.

66. The smooth implementation of the Seventh 5-Year Plan and the further development of national economic construction will create more favorable conditions for the peaceful reunification of our motherland. The Central Committee hopes that the people of all our nationalities, including our compatriots in Hong Kong, Macao, and Taiwan and Chinese nationals overseas, and all descendants of Emperors Huang and Yan who love the motherland, will make unremitting efforts to achieve China's reunification and rejuvenation.

67. Our goal is to make China a modern socialist country which is highly cultured and highly democratic. To keep to the socialist road, to uphold the people's democratic dictatorship, to maintain the leadership of the Communist Party and to adhere to Marxism-Leninism and Mao Zedong Thought are the cardinal political principles from which there can be no deviation. In order to ensure the smooth progress and sound development of our socialist modernization drive, we must accomplish the following tasks, while always upholding the four cardinal principles: 1) Constantly invigorate the domestic economy, open further to the outside world, and bring every positive factor into play to develop the productive forces. 2) Resolutely crack down

on perpetrators of serious economic crimes and other criminals, ban all practices that corrupt social morals, oppose all actions that violate professional ethics and harm public interests and, by the coordinated efforts of all social quarters, ensure better public order and security and provide the proper social environment for the current reforms and construction. 3) Strengthen political and ideological work; educate the people thoroughly in patriotism, collectivism, socialism and communism; encourage them to cherish lofty ideals and moral integrity, to become better educated and to observe discipline; oppose bourgeois liberalism; resist the corruption by capitalist, feudal, and other decadent ideologies; and foster the spirit of dedication to the four modernizations to make the country prosperous and strong. This educational preparation of the masses is the most important ideological condition for the success of our cause. At the same time we should further develop socialist democracy, perfect the socialist legal system and educate the public regarding the law to ensure the building of a socialist society advanced culturally and ideologically as well as materially.

68. To ensure the fulfillment of the Seventh 5-Year Plan, it is important for us to better consolidate the party, strengthen party building, move faster to make the ranks of cadres more revolutionary, younger, better educated, and more competent professionally, and improve the cadres' style of thinking and of work. Through effective consolidation of the party's ideology, organization, and work style, we should strengthen the party spirit of all party members, particularly of leading cadres, enhance party discipline, strengthen party life, overcome bureaucratism, and firmly check unhealthy practices so as to bring about a basic improvement in party conduct and then in general standards of social conduct. We should further emancipate our minds and not hesitate to promote to leading posts at various levels those fine, talented people who are in the prime of life and have distinguished themselves by their performance. Cadres at all levels, leading cadres in particular, should become men and women of action who have the general interest at heart and are promising and diligent in their work. They should seek truth from facts, integrate theory with practice, and keep in close touch with the masses. They should renounce empty talk in favor of practical work, neither seeking undeserved reputation nor working for appearance's sake. They should immerse themselves in realities, identify themselves with the masses, make more investigations and studies, tackle practical problems, and promptly expose and overcome any shortcomings and mistakes in the work. In particular, they should devote themselves wholeheartedly to the public interest, serve as good examples to the masses, and lead them in carrying forward the drive for socialist modernization.

69. The Chinese People's Liberation Army, with its glorious traditions, should streamline and reorganize its structure and undertake other reforms in order to transform itself into a regular and modern revolutionary armed force. The Army should strengthen our national defense, participate actively in the building of socialist civilization materially as well as culturally and ethically, and make fresh contributions to the fulfillment of the Seventh 5-Year Plan. The party committees and governments at all levels must concern themselves about the building of the Army, make proper arrangements for demobilized and retired cadres, give preferential treatment to families of

servicemen and martyrs and further strengthen the ties between the Army and the government and between soldiers and civilians.

70. The Central Committee of the Communist Party of China calls on all members of the party and the Youth League, on people of all China's nationalities--workers, peasants, intellectuals, cadres, Army officers and men--on all democratic parties, mass organizations and people who love our socialist motherland to unite as one, carry forward the spirit of thrift and hard work, heighten the sense of organization and of discipline, work diligently, be modest and strive to make a success of this important Seventh 5-Year Plan and to build socialism with Chinese characteristics.

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CSO: 4004/15

EXPLANATION OF THE PROPOSAL FOR THE SEVENTH 5-YEAR PLAN--MADE AT THE NATIONAL CONFERENCE OF PARTY DELEGATES ON 18 SEPTEMBER 1985

Beijing RED FLAG in Chinese No 19, 1 Oct 85 pp 28-31

[Explanation by Zhao Ziyang; capitalized passages published in boldface]

[Text] Comrades:

I fully agree with the opening speech delivered by Comrade Yaobang. On behalf of the Central Committee of the party I will now explain a few points regarding the "Proposal of the Central Committee of the Communist Party of China for the Seventh 5-Year Plan for National Economic and Social Development (Draft)."

1. NATURE AND CHARACTERISTICS OF THE DOCUMENT. This document was drawn up after a year of deliberation under the direction of the Secretariat of the Central Committee and the State Council. It is not the Seventh 5-Year Plan itself but a set of proposals for the plan. The main contents of the document are as follows: First, the guiding ideology for our economic program during the period of the Seventh 5-Year Plan and its objectives. Second, the basic strategy and major policy measures for economic and social development. Third, suggestions for economic structural reform and steps for its implementation. The guiding ideology, the development strategy, the principles and policies and the suggestions for reform are based on conditions in China and an analysis of the international situation. They represent the culmination of our experience in socialist construction, especially since the 3d Plenary Session of the 11th CPC Central Committee, and embody the decision on reform of the economic structure made by the 3d Plenary Session of the 12th CPC Central Committee. The drafting was done by seeking truth from facts and taking into account the requirements for building socialism with Chinese characteristics. Instead of listing a whole series of quotas, the proposal deals with only a few major ones that have immediate bearing on the overall situation and the orientation of economic and social development. One of the document's distinct features is its emphasis on development strategy and on principles and policies, which represents an important new approach to planning. It allows us to concentrate our attention on essential contradictions in economic work and on key problems in economic development. We should take a similar approach to working out the Seventh 5-Year Plan and other medium- and long-term plans. Once the

proposal is adopted by the conference, the State Council will use it as the basis for drafting the Seventh 5-Year Plan, which will be submitted to the Fourth Session of the Sixth National People's Congress next spring for deliberation and approval. The plan will then go into effect.

2. CURRENT ECONOMIC SITUATION. A correct assessment of the current economic situation provides the basis for formulating plans for economic and social development. It is not good either to overestimate our achievements or to underestimate them. The general principle should be to seek truth from facts and make accurate assessments. While fully affirming the achievements, the proposal also points out the major economic problems.

The proposal states that the task of bringing about a fundamental improvement in the country's financial and economic situation has largely been accomplished. This conclusion is based on the fact that our national economy has begun to develop in a steady, stable and balanced way. The balance of agriculture, light industry and heavy industry and the ratio of accumulation to consumption have improved after several years' efforts. Agricultural production has picked up speed and is forging ahead; light industrial production, which used to be far from meeting the people's needs, is expanding day by day and the output of energy, formerly at a standstill, has entered a period of steady growth. Fresh progress has been made in all fields of endeavor and the living standards of both urban and rural residents have markedly improved. The principal basis for our favorable assessment of the economic situation is the steady, stable and balanced development of the major economic sectors and the appropriate rate of growth. In the past few years, the general situation has been steadily improving. We expect that the annual growth rate of the gross value of industrial and agricultural production will average 10 percent throughout the period of the Sixth 5-Year Plan.

In the process of preparing for the Seventh 5-Year Plan, we examined the economic growth rate from various aspects, and calculated it from different points of view, and we believe that this vigorous growth will continue. The gross value of industrial and agricultural production is expected to increase at an average annual rate of 7 percent and that of the gross national product at an even higher annual rate. A sustained 7 or 8 or even 10 percent growth rate over such a long time is rare in the economic development of any country. A similar situation has occurred only in a few countries and regions during the "economic take-off" stage. This demonstrates the increasing vitality of our economy. Things have changed dramatically since the end of 1980, when we set about further readjusting the economy and rectifying the serious disproportions in the development of the various economic sectors. Our economic work in the past was primarily geared to meeting the people's needs for food and clothing, whereas now the consumption pattern and the production set-up have changed markedly. This is an important stage in China's economic development. From here on, the economy will gradually shift from meeting people's basic needs to enhancing the quality of their lives, so that by the end of this century the Chinese people will achieve a relatively comfortable standard of living. Although this is a gradual process, it is increasingly apparent and we should be fully aware of it.

With the growth of the economy, the steady decrease in state revenues, which produced huge deficits in 1979 and 1980, has been reversed. Both state revenues and expenditures have increased by a wide margin in recent years while remaining basically in balance. Although there were deficits in the last 2 years, they were small and are likely to be eliminated this year. Ours is a developing country undergoing large-scale construction. A small deficit does not matter much and should not be taken as the primary indicator of how the country is faring financially and economically. State revenues this year are expected to reach 170 billion yuan, and if extra-budgetary funds collected by local authorities, departments and enterprises are included, they will total more than 300 billion yuan, or almost double the amount in 1980. This shows that China's economy is definitely stronger.

To say we have generally brought about a fundamental improvement in the country's financial and economic situation does not mean that there are no more problems. In the fourth quarter of last year, a number of problems arose, such as an excessive rate of growth of industrial production, excessive investment in fixed assets, overexpansion of credit and consumption funds, sharp increases in some commodity prices and a drop in state foreign currency reserves. Thanks to the measures that have been taken and are being taken by the Central Committee and the State Council, these problems are gradually being solved. We should be sober-minded and realistic in our work and conscientious about accomplishing new tasks and tackling new problems, and consolidate and develop both the current favorable economic situation and the political situation of stability and unity.

3. TASKS IN THE PERIOD OF THE SEVENTH 5-YEAR PLAN. There are three main tasks in the period of the Seventh 5-Year Plan. First, to create a sound economic and social environment for the smooth progress of the structural reform, thereby laying the groundwork for a new economic structure. Second, to speed up the construction of key projects, the technological transformation and intellectual development, in order to provide the material and technological conditions necessary for continued economic and social development in the 1990's. Third, to continue to improve the people's living standards. The first task is the most important. The significance of reform is not confined to immediate interests. What is more important is to lay a solid foundation for sustained and stable economic development in the next decade and the first half of the next century. Without reform no such development will be possible. In essence, reform serves economic construction. For now and for some time to come, construction should be designed to advance reform. The pursuit of excessively high growth rates will strain all economic sectors and impede the progress of reform. To create a favorable economic environment for reform, we must refrain from pursuing excessively high growth rates and from expanding the scale of construction in disregard of the country's strength. Nevertheless, we must maintain an appropriate rate of development by undertaking key projects and stepping up the construction of industrial and agricultural infrastructure, so as to provide the basis for further development and, as production increases, to keep raising people's real incomes.

The period of the Seventh 5-Year Plan can be divided into two stages. In the first 2 years, the emphasis will be on controlling social demand in general to solve the problems of overly rapid growth rates, excessive investment in fixed assets and sharp increases in consumption funds. We will make minor changes, while maintaining the same general scale of investment in fixed assets as in 1985, to improve investment patterns and step up the construction of key projects. A gradual solution of existing problems over 2 years or so will produce better results than concentrating our efforts in the second half of this year. This would help to avoid the dislocations that might result from slamming on the brakes too suddenly. However, the drawback is that people may not pay much attention to this effort and these problems may even run out of control. Leading comrades at various levels must pay special attention to this possibility. In the last 3 years of the Seventh 5-Year Plan period, investment in construction will be increased according to the circumstances prevailing then. But the general scale of construction still needs to be kept under control. This is an important lesson we have learned over the years. Reform will, by and large, be conducted in these two stages, which is a sounder and more positive approach.

4. GENERAL REFORM OF THE ECONOMIC STRUCTURE. The period of the Seventh 5-Year Plan is a crucial one for general reform of the country's economic structure. We must give the reform top priority if we want to lay the foundation, over the next 5 years and beyond, for a vigorous socialist economic structure with Chinese characteristics.

The restructuring of the national economy with focus on the cities is a tremendous, complicated task of social systems engineering. A new economic structure should serve to develop a planned commodity economy based on public ownership. To this end, we must do the following three things: First, further invigorate enterprises, especially state-owned large and medium-sized ones, and make them socialist commodity manufacturers and dealers that are relatively independent in management and responsible for their own profit and loss. Second, further expand the planned socialist commodity market and gradually improve the marketing system. Third, gradually relax the state's direct control over the economic operation of enterprises in favor of indirect controls, in the form of economic, legal and, if necessary, administrative means. All three things must be well coordinated.

The restructuring of the economy must be undertaken resolutely and systematically. In the past few years much has been done to relax controls. Hence, the task confronting us now is, while improving microeconomic operations and mechanisms, to exercise more effective indirect control over macroeconomic operations. Or, in other words, to give a greater regulating role to economic levers and to improve economic legislation and supervision. We should be aware that more effective indirect macroeconomic control constitutes an important aspect of reform. Compared with flexible microeconomic control, or with direct microeconomic control, it is much more complicated and difficult, and we are not very experienced at it. Only when we make a success of indirect macroeconomic control can we coordinate it with the reforms that are under way and only then can the conditions be created for greater flexibility with regard to enterprises, making them more responsive

to the market. In the first 2 years of the Seventh 5-Year Plan period, reform should focus on strengthening and improving indirect macroeconomic control, while stabilizing the economy. In addition to taking measures necessary for price reform, we should make greater use of interest rates, tax rates, exchange rates and other economic levers. We should lose no time in formulating economic laws and regulations, establishing and consolidating economic supervision and improving economic information. We must also strengthen banking, taxation, auditing, statistical work, quality testing, industrial and commercial administration, notarization and other functions.

At the same time, we should continue to implement and improve the regulations of the State Council on expanding the decisionmaking authority of enterprises, and we should do all we can to revitalize large and medium-sized enterprises that are important to the national economy. On the one hand, we should encourage enterprises to make the most of their existing potential, continue to implement the system of economic responsibility and stimulate the initiative of dealers and manufacturers. On the other hand, we should try to reduce regulating taxes on enterprises by varying degrees, cut back on intermediate management in companies at the bureau level and below, and forbid the indiscriminate imposition of quotas on them and collection of revenue from them. We must lighten the burden of large and medium-sized state-owned enterprises in order to increase their ability to develop on their own. We must prevent a situation from developing in which the more work these key enterprises do the more difficult things become for them. Instead, they should be increasingly invigorated. Herein lies our hope for future economic development. While expanding the socialist commodity market in the last 3 years of the Seventh 5-Year Plan period, we should continue exercising more effective indirect control, complete the reform of the pricing system and the system of price controls for means of production, improve the tax system and reform the system of banking, so as to create a favorable environment for enterprises. Our reforms will be constantly improved in the process. It is essential to encourage experimentation and innovation within the guidelines set for reform. Here it must be pointed out that the extent to which we relax direct microeconomic controls and the measures we take for that purpose must be suited to the state's ability to exercise more effective indirect control and coordinated with such control.

5. TWO KEYS TO THE PROBLEMS IN PRODUCTION AND CONSTRUCTION DURING THE PERIOD OF THE SEVENTH 5-YEAR PLAN. During this period, a host of problems will arise in the process of creating a favorable environment for reforms, preparing for sustained future development and raising people's living standards. There are two keys to solving these problems, namely, to enhance the economic efficiency of enterprises and to increase their ability to earn more foreign exchange through exports.

Poor product quality and high consumption of raw materials are the fatal weaknesses of our economy, but for that very reason we have enormous potential for future development. We must tap that potential to expand the country's financial resources, increase the ability of enterprises to

develop on their own, and improve the living standards of workers and other employees. We must spare no efforts to improve product quality and reduce the consumption of raw materials, so as to upgrade enterprises' operations. Our enterprises are backward in technology and even more so in management. Therefore, technological transformation should be conducted during the period of the Seventh 5-Year Plan. However, it is even more urgent and of more practical significance to raise operational and management skills. During this period, we must try, through reform, to tighten overall quality control and labor discipline, train workers and staff members so as to increase their professional competence and upgrade the operations of enterprises in every respect. All this must be done if we are to shift the focus of work of enterprises to the improvement of economic efficiency. We should impress on all workers and cadres that improving product quality and reducing the consumption of raw materials are the most practical ways to fulfill the Seventh 5-Year Plan.

We will further open to the outside world during the period of the plan. As a developing country, China will suffer shortages of foreign exchange for a long time. Our ties with the world market depend on our ability to earn foreign exchange. Opening to the outside world should not be confined to import, there must be export, too. The volume of imports is determined by that of exports. More exports make more imports possible. This is where the second key to the fulfillment of the Seventh 5-Year Plan comes in: To earn more foreign exchange in order to strike a balance of payments. We must work out a development strategy and systematic policies and measures for foreign trade and exports. We should establish a production network for exports, make full use of the special economic zones, open cities and regions along the coast so that they will lead the interior in turning out major export commodities, and we should increase our appeal to the world market by broadening the variety of export products. While increasing the volume of exports, we should also try to earn more foreign exchange by other means, through tourism and export of labor. As our ability to meet international payments grows, we should use more foreign investment, including loans on preferential terms and commercial loans, to make up for the shortage of domestic funds for investment. We should learn both how to earn foreign exchange and how to use it effectively, so that our limited amount of it will be put to best use and yield satisfactory economic returns. This is a new subject for us to study.

Raising economic efficiency and increasing foreign exchange earnings are related. Therefore, the enterprises should begin by improving their performance, so that they can keep upgrading and updating their products and speed up development through domestic and international competition, and so that their products will stand the test of the domestic and international marketplaces. This is the only way we can find a firm footing.

6. THE NEED TO BUILD THE "TWO CIVILIZATIONS" SIMULTANEOUSLY. The Seventh 5-Year Plan should be a program for building a socialist material and spiritual civilization simultaneously. To this end, we must do the following: First, steadfastly adhere to the four cardinal principles and oppose corruption by bourgeois liberalism and by capitalist, feudal and other

decadent ideologies. Second, continue to improve the socialist legal system, punish according to law offenders who have seriously damaged the socialist economy and public order and jeopardized the people's interests, and prohibit and curb all improper activities that undermine standards of social conduct. Third, step up and improve political and ideological work and unceasingly encourage the people throughout the country to cherish lofty ideals and moral integrity, to become better educated and to observe discipline. In addressing problems in the ideological sphere, we must always rely on persuasion and education and not repeat past "left" mistakes. In the economic sphere, we should promote good professional ethics and urge enterprises to earn people's trust by conducting themselves honorably in commercial transactions and factory management, by serving the people, by observing discipline and obeying the law, by achieving prosperity through industrious work, and by resisting unethical and unsound business practices. Leading party and government departments as well as leading cadres at all levels must firmly carry out the policy of building the "two civilizations" simultaneously and take care to make a success of socialist spiritual civilization in order to expedite material civilization.

Comrades, the period of the Seventh 5-Year Plan is one of paramount importance. Successfully accomplishing the tasks for these 5 years is vital to consolidating and developing the excellent situation that has evolved since the 3d Plenary Session of the 11th CPC Central Committee, to ensuring economic invigoration and prosperity in the 1990's and to achieving our magnificent goal by the end of the century. The Central Committee of the party hopes that all party members and the people of all our nationalities will unite more closely and work hard, with a pioneering spirit of reform and innovation and with full confidence in success, to accelerate China's program of socialist modernization.

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SPEECH AT THE NATIONAL CONFERENCE OF PARTY DELEGATES (23 SEPTEMBER 1985)

Beijing RED FLAG in Chinese No 19, 1 Oct 85 pp 32-34

[Speech by Deng Xiaoping; capitalized passages published in boldface]

[Text] Comrades:

This national conference is a very good one. It has successfully accomplished the scheduled tasks. Now I will speak on four points.

**FIRST, ABOUT THE SITUATION AND THE REFORM.** As is clear to everyone, the period of almost 7 years since the 3d Plenary Session of the 11th CPC Central Committee has been a crucial one and one of the best since the founding of the People's Republic. It has not been easy to make it so. We have done mainly two things: We have set wrong things right and we have launched the comprehensive reform.

For many years we suffered badly from one major error: We still took class struggle as the key link, and after the socialist transformation of the ownership of the means of production had been basically accomplished, we neglected to develop the productive forces. The "Cultural Revolution" carried this tendency to the extreme. Since the 3d Plenary Session of the 11th CPC Central Committee, the party has shifted the focus of all its work to the drive for socialist modernization and, while adhering to the four cardinal principles (adherence to the socialist road, to the people's democratic dictatorship, to the leadership of the Communist Party, and to Marxism-Leninism and Mao Zedong Thought), has concentrated on developing the productive forces. That was the most important thing we did to set things right. The good situation we have today would not have come about if we had not thoroughly corrected the "left" mistakes and shifted the focus of our work. At the same time, if we had not conscientiously adhered to the four principles, we would have not been able to maintain political stability and unity, and we would even have gone from correcting "left" mistakes to "correcting" socialism and Marxism-Leninism. And then the good situation we have today would not have come about either.

The issue of reform was already raised at the 3d Plenary Session of the 11th CPC Central Committee. When the reform first started in the countryside, people said all sorts of things about it. But after 3 years, when many

problems that had arisen in practice had been solved and good results had been achieved, there was more agreement about it. Of course new problems will crop up and have to be tackled. Since the 3d Plenary Session of the 12th CPC Central Committee, reform has focused on the cities. After years of preparation, and on the basis of the success of the reform in the rural areas, we have gradually undertaken a comprehensive reform of the economic structure. The reform has stimulated the development of the productive forces and has resulted in a series of profound changes in economic life, social life, people's work style and their mentality. The reform is part of the self-perfecting process of the socialist system, and to certain scope and extent, it is also a revolutionary change. It is a major undertaking that shows we have begun to find a way of building socialism with Chinese characteristics.

In the reform we have consistently followed two fundamental principles: One is the predominance of the socialist public sector of the economy; the other is common prosperity. The utilization of foreign investment funds in a planned way and the promotion of a degree of individual economy are both serving the development of the socialist economy. It is precisely for the purpose of spurring more and more people to become prosperous until all are prosperous that some areas and some people are encouraged to do so first. The standard of living of the people, with a few exceptions, has improved to varying degrees. Naturally, some negative phenomena inevitably appear in the process of reform. As long as we face them squarely and take firm steps to deal with them, it will not be difficult to solve these problems.

The all-round reform of our economic structure has just begun. The general orientation and principles are already established, but we still have to work out specific rules and regulations by trial and error. While identifying and tackling problems early, we must seize the opportunity of the moment to explore new possibilities boldly and unswervingly and strive to complete the reform in the not-too-distant future. It is my belief that no matter how many difficulties may arise, all things that are in the fundamental interests of the vast majority of the people and are supported by the masses will succeed.

SECOND, ABOUT THE SEVENTH 5-YEAR PLAN. The proposal for the Seventh 5-Year Plan, which has been adopted by this conference, is a good document setting forth correct principles and policies and realistic targets.

It is projected that during the period of the plan the annual growth rate of the total value of industrial and agricultural production will be 7 percent, a figure on which the Standing Committee of the Political Bureau has unanimously agreed, and which may be exceeded in practice. That growth rate cannot be considered low. If the growth rate were too high, that would create many problems that would have a negative effect on the reform and on social conduct. It is better to be prudent. We must control the scale of investment in fixed assets and see that capital construction is not over-extended. We must manage production well, ensure quality, and seek economic and social returns. Only based on this, can a growth rate withstand test.

The 5 years of the Seventh 5-Year Plan are very important ones. If at the end of these 5 years the reform has been basically completed and the economy is developing in a sound, steady, balanced way, then we are sure to meet the targets set by the 12th party congress at the end of the century.

People are saying that notable changes have taken place in China. I said to some foreign guests recently that they were only small changes. When we have quadrupled the value of our gross annual industrial and agricultural production and are reasonably prosperous, we can say there have been changes of medium importance. By the middle of the next century, when we approach the level of the advanced countries, then there will have been really great changes. At that time the strength of China and its world role will be quite different. We shall be able to make greater contributions to mankind.

THIRD, ABOUT SOCIALIST CIVILIZATION WITH ADVANCED CULTURE AND IDEOLOGY. The question of building a socialist society that is advanced culturally and ideologically was raised long ago. The central and regional authorities and the Army have done a lot of work. In particular, a large number of advanced persons have emerged from among the masses, and that has had a very good influence. However, considering the country as a whole, we must admit that so far the results of our work are not very satisfactory, mainly because it has not had the serious attention of the entire party membership. We exert ourselves for socialism not only because socialism provides conditions for faster development of the forces of production than capitalism, but also because only socialism can eliminate the greediness, corruption and injustice which are inherent in capitalism and other exploiting systems. In recent years production has gone up, but the pernicious influence of capitalism and feudalism has not been reduced to a minimum. Instead, some evil things that had long been extinct after liberation have come to life again. We must be determined to change this situation as soon as possible, or how can the superiority of socialism be brought into full play? How can we effectively educate our people, especially the younger generations? Material progress will suffer delays and setbacks unless we promote cultural and ideological progress as well. We can never succeed in revolution and construction if we rely on material conditions alone. In the past, however small or weak our party was, and whatever difficulties it faced, we always maintained great fighting capacity thanks to our faith in Marxism and communism. With common ideals we have strict discipline. Now, as in the past and in the future, that is our real strength. Today, some comrades no longer have a clear understanding of this truth. So it is hard for them to pay close attention to building a society that is advanced culturally and ideologically.

At present, in building such a society we must first concentrate on bringing about a fundamental improvement in party conduct and in general social conduct.

The improvement of party conduct is the key to improving general social conduct. In consolidating the party, we must carry out the decision of the 2d Plenary Session of the 12th CPC Central Committee and succeed in all four tasks: achieving unity in thinking, improving party conduct, strengthening discipline, and purifying the party organization. The party Constitution

contains clear provisions in this regard. Every party organization must ask its members to measure themselves against each of the articles in the Constitution and to conduct self-criticism and criticism among themselves, and every party organization must take disciplinary action when necessary. If all party members set good examples, things will become easier.

The improvement of social conduct must be accomplished through education, and education must be linked to realities. To overcome major ideological weaknesses found among some cadres and people which affect the social conduct, we must carry out in-depth investigations and assign proper people to conduct painstaking and convincing education. Oversimplified, one-sided or arbitrary arguments will not serve the purpose. Also, leading comrades at various levels must constantly explain the practical problems concerning people's life and issues of policy in which the masses show an interest, giving facts and telling them the objective situation and what efforts the party and government have made to solve those problems. In addition, they must act promptly to remedy situations about which the people justly complain. Only when the masses see concrete evidence that the party and socialism are good can we teach them to cherish ideals and observe discipline and imbue them with communist ideology and patriotism.

We should greatly strengthen and never weaken ideological and political work as well as the ranks of cadres in this field. At the same time, we should continue to crack down on serious criminal activities and prohibit all decadent practices that undermine standards of social conduct. Enterprises and institutions must seek people's trust above all else in their economic activities and administrative and judicial work. They absolutely must not harm or extort the people.

Ideological, cultural, educational and public health departments should take social benefit as the sole criterion for their activities and so must the enterprises affiliated with them. The ideological and cultural circles should produce more fine intellectual products and resolutely ban the production, importation and circulation of undesirable products. In our propaganda work, we must firmly oppose bourgeois liberalism, that is, publicity that favors taking the capitalist road. It goes without saying, however, that we should adhere to the policy of "letting a hundred flowers blossom and a hundred schools of thought contend" and uphold the freedoms guaranteed by the Constitution and laws of the state. With regard to erroneous ideological tendencies, we should adopt a policy of persuasion and education, and refrain from political movements and "mass criticism." Those party members who refuse to correct their errors must be disciplined. However, under no circumstances should we repeat the "left" errors of resorting to summary measures and overextending the scope of attack.

Fulfillment of the above-mentioned tasks will ensure a fundamental improvement in standards of social conduct.

FOURTH, ABOUT THE SUCCESSION OF NEW CADRES TO OLD AND THEORETICAL STUDY. The succession of new cadres to old and their cooperation have been going on fairly well over the past few years. A number of outstanding people in the

prime of life and of both ability and political integrity have been promoted to leading posts in the party, government and Army from the central to local departments. A satisfactory job has been done in replacing old members with new ones in the three central leading organs. As a result, the average age of Central Committee members, in particular, has been significantly reduced. A number of veteran cadres have taken the lead in abolishing the system of life tenure in leading posts, furthering the reform of the cadre system. This deserves mention in our party's annals.

The members newly elected to the Central Committee as well as ministers and provincial party committee secretaries who were recently appointed are comparatively young. They are generally in their fifties, with some just over 40. In the early days of the founding of the People's Republic, many of the ministers and provincial party committee secretaries were the same age. What is most important for the young and the middle-aged cadres in succeeding to the old is to emulate their heroic spirit of maintaining the revolutionary struggle. It is my hope that through your efforts, the party's fine traditions and work style will be carried forward. I once said that younger age and professional knowledge alone are not enough. To this must be added a fine work style. I hope you will serve the people wholeheartedly, go among the masses and listen to their opinions; dare to speak the truth and oppose falsehood, refrain from seeking undeserved fame and perform more actual deeds; make a clear distinction between public and private interests, refrain from seeking personal favor at the expense of principles; and appoint people on their merits, rather than by favoritism.

We often say that the succession of new cadres to old provides the organizational guarantee for the continuity of our party's policies. What does this continuity actually mean? It means, of course, the continuity of the domestic and foreign policies of independence, democracy, legality, opening to the outside world and invigorating the domestic economy, which we will by no means change. And all these policies are based on the four cardinal principles. There is even less possibility of our changing or deviating from these principles. If we did, our society would be plunged into chaos, stability and unity would be out of the question, and the construction, reform and rejuvenation of China would become no more than empty talk.

Now I would like to propose a new requirement--the study of Marxist theory, a requirement not only for new cadres but for old ones as well. Some comrades may say: We are now busy with construction and what we need most is professional knowledge and managerial skills. What immediate use is there to studying Marxist theory? Comrades, this is a misconception. Marxist theory is not a dogma, but a guide to action. It calls on people to proceed from its basic principles and methodology and apply them to changing conditions to devise solutions to new problems. By this process, Marxist theory itself will be further developed. Did not the Russian October Revolution and our Chinese revolution succeed because of this? The time and tasks have changed. We are now building socialism with Chinese characteristics. There is indeed much new knowledge we need to master, but this only increases the need for us to study basic Marxist theory in light of the new situation. Because only thus can we increase our ability to apply its basic principles.

and methods to come up with solutions to the fundamental questions arising in the political, economic, social and cultural fields. In this way we can both advance our cause and the theory of Marxism itself and prevent comrades, particularly those newly promoted young and middle-aged comrades, from losing their bearings in the complex struggle. Therefore, I hope that the Central Committee will formulate a workable decision so that party cadres at all levels, but above all leading cadres, will still find some time in their busy schedules to study so as to become well-versed in basic Marxist theory, acquire a stronger sense of adhering to principles in work, a systematic approach, foresight and creativity. Only thus can our party keep to the socialist road and build socialism with Chinese characteristics until the realization of our ultimate goal--communism.

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CSO: 4004/15

SPEECH AT THE NATIONAL CONFERENCE OF PARTY DELEGATES (23 SEPTEMBER 1985)

Beijing RED FLAG in Chinese No 19, 1 Oct 85 pp 35-37

[Speech by Chen Yun]

[Text] Comrades:

I support the proposal of the Central Committee for furthering the succession of new members to old in the central leading organs, its proposal for the formulation of the Seventh 5-Year Plan and the speeches delivered by members of the Standing Committee of the Political Bureau. Now let me discuss the following issues.

1. There must be an orderly system of succession for cadres.

Promoting young and middle-aged people to leading posts by the tens of thousands to reinforce the leading bodies at all levels is an important task that our party has stressed repeatedly over the past few years.

After repeated examination, a number of outstanding young and middle-aged cadres have been elected to the central and local leading organs.

This system will ensure that there will be an orderly succession of cadres in the Communist Party from generation to generation. We have already achieved successes in this respect and must continue to do a good job.

2. We must continue to pay attention to grain production.

Thanks to the contracted responsibility system with remuneration linked to output, agricultural production has increased, peasants' incomes have gone up, and living standards have improved.

There are rural households whose annual incomes have reached 10,000 yuan or more through agricultural and sideline occupations, but their number is extremely small. The media have for some time exaggerated the number of "10,000-yuan households." Actually there are not that many. Our media's reports are divorced from reality.

Some peasants are no longer interested in growing grain. We must address this problem.

Comrade Lu Dong recently said in his "Report on Some Problems in the Present Economic Work," which has been approved by the State Council, that peasants engaged in industry and business earn more than those who grow crops. They are not even interested in raising pigs and vegetables, because in their opinion there can be "no prosperity without engaging in industry."

Town and township enterprises should be developed. The thing is that the call of "no prosperity without engaging in industry" is heard much louder than that of "no economic stability without agricultural development."

Feeding and clothing a billion people constitutes one of China's major political as well as economic challenges, for "grain shortages will lead to social disorder." We cannot afford to underestimate this matter.

3. The socialist economy must be developed proportionately and in a planned way.

We are communists. Our goal is to build socialism.

The ongoing socialist economic restructuring represents the improvement and perfecting of the socialist system.

Our economic structural reform is aimed at developing the productive forces and gradually improving the people's standard of living. Marked results have been achieved in the rural economic reform. The general orientation for restructuring the urban economy is correct, but we are experimenting with concrete measures for its implementation. We must look carefully before taking each step, and constantly review our experience to make a success of the reform.

In terms of the country as a whole, the planned economy's primacy and the subordinate role of market regulation are still necessary.

Of course, planning consists of both mandatory planning and guidance planning. Although different in approach, both involve the planned use of economic regulators. And guidance planning is not the same as market regulation. Market regulation involves no planning, blindly allowing supply and demand to determine production.

Planning is the essence of macroeconomic control. Only by doing a good job of macroeconomic control can we stimulate the microeconomy and make it dynamic but not chaotic.

The proposal that has been adopted by this conference for the formulation of the Seventh 5-Year Plan sets annual industrial and agricultural growth rates at 7 and 6 percent respectively. These are respectable. And although they may be surpassed during this period, there is no reason to set them higher subjectively.

During a meeting with foreign guests on 2 August, Comrade Deng Xiaoping mentioned China's excessive industrial and agricultural growth rates, saying, "It sounds good, but contains disturbing elements." I agree with this.

Total industrial output value in 1984 registered a 14 percent increase over the previous year, while that in the first 7 months of this year was 22.8 percent higher than in the corresponding period in 1984. This high growth rate cannot be maintained because it is straining our current energy, transport, raw and semifinished materials and other resources.

In the final analysis, we should continue to make steady but balanced and systematic progress. This is the only way to achieve the highest growth rate. Otherwise, dislocations and strains will arise, inevitably leading to setbacks and slowing down the progress. As the saying puts it, "More haste, less speed."

4. Improving party conduct remains a major task of the entire party.

Over the past few years, the central leading organs have worked hard to improve party conduct. There remains, however, much to fundamentally improve it.

Today, there are a few party members and cadres--veteran members and cadres in particular--who have failed to adhere to the principles and spirit of the party and have yielded to unsound practices.

A number of serious violations of party discipline and laws of the state, such as producing fake medicines and liquors and wines, occurred during the party consolidation campaign.

The vast majority of cadres and people inside and outside the party have been offended by these cases, which deserve the serious attention of the whole party.

We must on no account dismiss the importance of improving party conduct.

First, party organizations at all levels should pay full attention to this. Second, leading cadres at all levels, particularly senior ones, should do so and set good examples. Third, veteran party members and cadres, including those who have resigned from leading posts or have retired altogether, should pay full attention to the task. There's no such thing as retirement when it comes to setting good examples, concerning oneself about party conduct and discipline and exercising supervision. Every party member should always stand at the front line so long as he or she is alive.

I hope that the party's senior leaders will set a good example in educating their children, who absolutely must not use their parents' positions in pursuing personal power and interests and becoming privileged.

5. We must intensify ideological and political work and preserve the prestige of the party's departments in charge of this work.

In my opinion, it was essential that intensifying ideological and political work was recently discussed by the Secretariat. At present, our party, which is in power, is facing a new period of national development. So how

to build up the party ideologically and organizationally is of paramount importance.

There are now some people, including some party members, who have forsaken the socialist and communist ideal and turned their backs on serving the people. In pursuit of their own selfish gain, they "put money above all else," regardless of the state's and people's interests, to the extent of violating the law and discipline. As the press has more than once published, some of them have become rich by unlawful means such as speculation and swindle, graft and acceptance of bribes. In their dealings with foreigners, they have no consideration of personal or national dignity.

These problems can be attributed to the relation of ideological and political work and the decline in the function and authority of departments in charge of ideological and political work. We should take this as a lesson.

Party organizations at all levels should conduct ideological and political work in earnest and safeguard the authority of those departments.

Education in communist ideals and publicizing the party's four cardinal principles should be regarded as the central tasks of our ideological and political work. We must absolutely not slacken our efforts in these respects. On the contrary, we must redouble our efforts.

During the democratic revolution, we educated party members and progressives among the masses in communist ideals, thus endowing the party with inexhaustible combat effectiveness and, thereby, the ability to win victory in the revolution.

Socialist economic development and reform of the economic structure require an even higher degree of dedication to the communist cause.

Intensive education in patriotism and revolutionary traditions should be conducted hand in hand with intensive education in communist ideology.

6. Adherence to democratic centralism is a principle prescribed by the party Constitution.

Experience teaches us that practicing democratic centralism is not easy.

It is my hope that the young and middle-aged cadres just elected to the leading bodies will learn how to perform their duties in accordance with democratic centralism.

Leading bodies at all levels must practice democracy fully, take heed of the full range of opinions, especially differing ones. They should discharge their duties according to the party Constitution. No individual should try to have the final say.

All decisions on important issues must be made by the collective after complete discussion to avoid mistakes and unnecessary detours and to achieve better results.

That's all I have to say today.

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CSO: 4004/15

CLOSING SPEECH AT THE NATIONAL CONFERENCE OF PARTY DELEGATES (23 SEPTEMBER 1985)

Beijing RED FLAG in Chinese No 19, 1 Oct 85 pp 37-38

[Speech by Li Xiannian]

[Text] Comrades:

Thanks to our delegates' efforts, the national party conference has fulfilled its scheduled tasks. The conference opened with a speech by Comrade Hu Yaobang, and Comrade Zhao Ziyang explained the proposal for formulating the Seventh 5-Year Plan. Both presentations were very good and I support them both. Just now Comrades Deng Xiaoping and Chen Yun delivered important speeches, and I agree completely with what they said.

After discussion by the delegates, the conference unanimously adopted the "Proposal of the Central Committee of the Communist Party of China for the Seventh 5-Year Plan for National Economic and Social Development." The conference believes that, in combining economic development with structural reform, the proposal is sound and feasible because its guiding principles, targets, projected growth rates and reforms conform to Chinese conditions. It analyzed the course of our socialist construction with special emphasis on construction and reform since the 3d Plenary Session of the 11th CPC Central Committee, and demonstrated the need to build socialism with Chinese characteristics. Next year's session of the National People's Congress will take on the draft of the Seventh 5-Year Plan formulated by the State Council on the basis of the proposal. The period covered by the Seventh 5-Year Plan will be crucial for our economic development. We are confident that, with the correct leadership of the Central Committee and the hard work of the entire party and the people of all our nationalities, the tasks set for the period of the Seventh 5-Year Plan will be accomplished, thus laying a solid foundation for the realization of the grand goal set forth for the end of this century at the 12th party congress.

Another major achievement of this conference was the further succession of new members to old in the central leading bodies, a process which began with the 12th party congress. The conference approved the requests of a number of veteran comrades to resign from the three central bodies and praised them for their exemplary deeds in leading the reform of the cadre system.

Through democratic discussions at the conference, a number of younger, energetic cadres of both ability and political integrity were elected to the Central Committee. Meanwhile, new members were also elected to the Central Advisory Commission and the Central Discipline Inspection Commission. At the upcoming 5th Plenary Session of the 12th CPC Central Committee, the memberships of the Political Bureau and the Secretariat of the Central Committee will also change somewhat with the election of some new members, reducing the average age of both bodies. We are convinced that the younger average age of the membership of the central leading organs will further guarantee the advancement of reform and construction in organizational terms.

Comrades, since the 12th party congress, we have done much to transform all fields of socialist modernization. Since last October alone, the Central Committee has made a series of decisions on the reform of the economic structure, the scientific and technological management structure and the educational structure, as well as a decision on the structural reform, simplification and reorganization of the People's Liberation Army. In addition, this conference has adopted the proposal for the Seventh 5-Year Plan and readjusted the composition of the three central bodies. All of this represents a milestone in the rapid progress of the party's work. The task for the immediate future is to organize the implementation of our construction and reform for the period of the Seventh 5-Year Plan and to transform the plan into reality. The essential task for the historical stage of socialism is to develop the productive forces and ensure the planned and balanced growth of the national economy. Only steady, stable and balanced growth can be considered genuine, effective and rapid growth in its full sense. Since this year's economic growth rate has been excessively high, it will not be easy to reduce it to normal next year. We hope that comrades from all localities and departments will unify their thought and action by adopting firm measures and making appropriate arrangements to address this problem. Our comrades must keep in mind our party's fine tradition of seeking truth from facts and maintaining close ties with the people and check the tendency found in some areas to make false reports which misleads the leaders and harms the rank and file. We must encourage truthfulness, practicality, industry and self-reliance. With this as the foundation, we should actively expand trade with foreign countries and use the foreign exchange thus earned to import necessary and useful advanced technology, equipment and materials to further socialist modernization in a realistic manner.

Ideological and political work must be intensified during economic construction and structural reform. This is very important. Socialist civilization, material and cultural, must be developed simultaneously with neither emphasized at the expense of the other. Regions and units that have overlooked ideological and political work in recent years should strengthen it immediately and seriously. Our ideological and political work must abide by the four cardinal principles, place the interests of the state and people above all else and serve the general tasks and objectives of the party and the ongoing construction and reforms. We must overcome the influence of "left" ideas, resistance to change and conventionalism that obstruct the progress of our cause. Meanwhile, we must step up education in ideals,

social conduct, discipline and law and combat the corruption of decadent capitalist and feudal ideologies, bourgeois liberalism, egotism and putting money above all else. All party members must always uphold and disseminate the lofty ideals of communism and love for the motherland together with all the people, and safeguard the honor and dignity of the Chinese nation. We hope that leading comrades of party organizations at all levels will combine the building of a cultural and ideological civilization characterized by lofty ideals, moral integrity, better education and a sense of discipline with the practical work of structural reform and the realization of the four modernizations, and creatively develop our party's political and ideological work. At the same time, we must do all in our power to unswervingly combat serious violations of law and discipline, and corruption and immorality within the party and in society, to guarantee the smooth building of a socialist civilization which is materially as well as culturally and ideologically advanced. Only if these two aspects of our work are carried out hand in hand will we achieve the major tasks set forth by this conference and achieve the great objective put forward by the 12th party congress of fundamentally improving party conduct and social conduct over 5 years.

Comrades, to facilitate the smooth progress of China's socialist modernization, we need a peaceful international environment and extensive exchanges with other countries. We cannot modernize behind a closed door. The basic tasks of construction and reforms at home determine that we will follow an independent, peaceful and open foreign policy, cooperate with all countries that pursue policies of equality and mutual benefit toward China and forge closer ties with all peace-loving peoples in the world. Peace and economic development are the two major issues in the world today. It is in the interests of the people of the whole world, including the Chinese, to oppose the arms race, preserve world peace and expand international exchanges in the economic, technological, scientific and cultural fields to promote the development of all countries, especially those of the Third World. We must make further efforts to unify the mainland and Taiwan by peaceful means. We must demonstrate the superiority of socialism and accelerate modernization through structural reforms. In this way, China will make its contribution to world peace and development.

Let there be closer unity among the Chinese Communist Party, the democratic parties and the people of all nationalities! Uphold reform and work hard to fulfill the Seventh 5-Year Plan and build a powerful, modern socialist country!

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CSO: 4004/12

COMMUNIQUE OF THE 5TH PLENARY SESSION OF THE 12TH CPC CENTRAL COMMITTEE  
(24 SEPTEMBER 1985)

Beijing RED FLAG in Chinese No 19, 1 Oct 85 p 39

[Text] The 12th Central Committee of the Communist Party of China met in Beijing on 24 September 1985 for its 5th Plenary Session.

The session was attended by 202 members and 128 alternate members of the Central Committee. Attending as observers were 172 members of the Central Advisory Commission and 127 members of the Central Discipline Inspection Commission. Older comrades whose resignation as members of the Central Committee and the two commissions was approved by the National Party Conference, were also present as observers. The session was presided over by Hu Yaobang, Deng Xiaoping, Zhao Ziyang, Li Xiannian, and Chen Yun, members of the Standing Committee of the Political Bureau.

To meet the needs of the new situation and tasks and in line with the principle of furthering the succession of new members to the old in the central leading bodies, the session thoroughly and earnestly discussed the list of candidates which was prepared by the Political Bureau Standing Committee and repeatedly deliberated by the Political Bureau, and made partial readjustments in the Political Bureau and the Secretariat.

The session elected Comrades Tian Jiyun, Qiao Shi, Li Peng, Wu Xueqian, Hu Qili, and Yao Yilin members of the Political Bureau. The readjusted Political Bureau consists of 22 comrades. They are Hu Yaobang, Deng Xiaoping, Zhao Ziyang, Li Xiannian, and Chen Yun, members of the Political Bureau and of its Standing Committee; and (listed in the order of the number of strokes in their surnames) Wan Li, Xi Zhongxun, Fang Yi, Tian Jiyun, Qiao Shi, Li Peng, Yang Shangkun, Yang Dezhi, Wu Xueqian, Yu Qiuli, Hu Qiaomu, Hu Qili, Yao Yilin, Ni Zhifu, and Peng Zhen, members of the Political Bureau; and Qin Jiwei and Chen Muhua, alternate members of the Political Bureau.

The session approved the requests by Comrades Xi Zhongxun, Gu Mu, and Yao Yilin that they no longer serve as members of the Secretariat of the Central Committee, and elected Comrades Qiao Shi, Tian Jiyun, Li Peng, Hao Jianxiu, and Wang Zhaoguo members of the Secretariat. The readjusted Secretariat consists of 11 comrades. They are General Secretary Hu Yaobang and members of the Secretariat Hu Qili, Wan Li, Yu Qiuli, Qiao Shi, Tian Jiyun, Li Peng, Chen Pixian, Deng Liqun, Hao Jianxiu, and Wang Zhaoguo.

The session maintains that the partially readjusted Political Bureau and Secretariat are of greater vigor and vitality. This is of vital importance to ensuring the continuity of the party's principles and policies and will certainly have a far-reaching influence on further consolidating and developing China's excellent political and economic situation and vigorously promoting China's comprehensive reform and socialist modernization.

The session also approved the new Standing Committee members and vice chairmen of the Central Advisory Commission elected at the commission's fifth plenary session, and the new Standing Committee members, second secretary, permanent secretary and secretaries of the Central Discipline Inspection Commission elected at the sixth plenary session of that commission.

The plenary session completed its tasks in an atmosphere of unity and democracy.

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CSO: 4004/15

SPEECH AT THE SIXTH PLENARY SESSION OF THE CPC CENTRAL DISCIPLINE INSPECTION COMMISSION (24 SEPTEMBER 1985)

Beijing RED FLAG in Chinese No 19, 1 Oct 85 pp 40, 44

[Speech by Chen Yun]

[Text] Since the 12th CPC National Congress, the central and local discipline inspection commissions have done voluminous work and played an active role in assisting party committees at various levels to strive for a fundamental turn for the better in party style and to raise party members' political qualities, to rectify unhealthy tendencies, to penalize violators of law and discipline, and to oppose erroneous ideological tendencies of party members.

However, there are still serious problems in party style and the social atmosphere, and heavy tasks lie ahead for realizing a fundamental turn for the better in party style and the social atmosphere.

I would now like to present the following opinions on striving for a fundamental turn for the better in party style:

1. Ideologically, we must rectify the phenomenon of neglect for the building of spiritual civilization.

Socialist construction embraces the building of both material civilization and socialist spiritual civilization, and the two are inseparable. The socialist cause cannot possibly be the building of material civilization alone, nor can it be solely the building of spiritual civilization. The building of material civilization cannot possibly go before the building of spiritual civilization in advancing the socialist cause. We must now work for the building of material civilization. However, we must also realize the current prevalent neglect for the building of spiritual civilization. The capitalist philosophy of "even heaven will curse one who does not seek personal gains" and the servile ideas that take no account of state and individual integrity are factors that will harm the socialist cause.

We cannot possibly have good party style if we neglect the building of spiritual civilization and if we neglect ideological and political work within the party. We cannot possibly have a good social atmosphere if we

neglect the building of spiritual civilization and neglect communist ideological education in society. In short, it is possible that our entire cause will deviate from Marxism and the socialist road if we neglect socialist spiritual civilization.

The current prevalence of neglect for the building of spiritual civilization is by no means a small problem, and comrades of the entire party must pay serious attention to it.

2. Seriously guard against the inroads of decadent capitalist ideology and conduct.

It is entirely correct to open China to the rest of the world and introduce advanced technology and management experience from abroad to benefit its socialist construction, and we must adhere to this orientation.

However, at the same time, attention must be paid to the fact that this opening will unavoidably bring corrosive decadent capitalist ideology and conduct. Such corrosion poses direct harm to our socialist cause.

If party committees at all levels and party members, especially veteran cadres, clearly understand this, maintain sharp vigilance, and conduct education with communist ideas as its core in the light of special characteristics, the corrosive influence of capitalist ideology need not be feared. We believe that the truth of Marxism and communism will surely prevail over corrosion by decadent capitalist ideology and conduct.

Of especially grave concern is that at present many party committees and many cadres lack vigilance. For instance, no sooner was the news of opening to the outside world and invigorating the domestic economy out than some party, government, and military departments, party government officials, and some cadres' children swarmed into business ventures and set up companies. Investigation in some 10 provinces and municipalities shows that some 20,000 companies of all sorts have suddenly sprung up since the fourth quarter of last year. Quite a number of these companies worked hand in glove with lawbreakers and lawless foreign businessmen. They took advantage of the reform and were involved in speculation, profiteering, bribery, smuggling, fraud, extortion, customs evasion, and manufacturing and selling of fake drugs and adulterated wine for profit, while disregarding other people's life. Even such ugly and evil acts as selling and showing pornographic videotapes and luring women into prostitution have appeared. The bourgeois decadent ideology of "putting money above all else" is seriously corrupting party style and social conduct.

In building socialism, we must resist and eliminate such evil thinking and behavior. We must mobilize and organize the forces of the whole party and society to resolutely fight these phenomena with the determination to thoroughly wipe out these evils. The duty of the central and local commissions for discipline inspection is: Whoever violates party discipline or state law shall be dealt with accordingly, and lawbreakers shall be dealt with in accordance with the law. The commissions for discipline inspection

at all levels must be faithful to this principle. If not, they will be neglecting their duty.

The fundamental change for the better in party style and social conduct will follow only with the strengthening of ideological and political work and the strict enforcement of party discipline and state law.

### 3. Responsibility of party committees and discipline commissions at all levels.

If a particular person's mistaken behavior results in violation of party principles and policies and the breaking of the law, then the particular person will be held responsible for his acts. However, if a large amount of evil wind and evil atmosphere dwell in a unit or an area and are not rectified in time, then it is obviously not a case of only a particular person being involved; it concerns the leadership of the party committee in that unit or in that area.

If one is blind and allows the evil wind and evil atmosphere to hurt socialist construction and corrupt party style and social conduct, the lawbreakers as well as the party committee of the unit or the area, including the local discipline commission, will be held responsible. For example, not only lawbreakers but also the party committee should be held responsible in the Hainan Island motor vehicle case, which was marked by illegal profiteering of foreign exchange, fraud, and bribery. The party committee of Jinjiang area not only turned a blind eye to but actually protected and shielded the manufacturing and selling of fake drugs in that area. Unless we hold the party committee of that area responsible, the party will lose its position.

Party style will achieve a fundamental change for the better only if we build material civilization along with spiritual civilization and if we do ideological and political work while enforcing party discipline and state law at the same time. The discipline inspection commissions at all levels should, under the unified leadership of the party committee, exert strenuous efforts to do a good job in the central task of improving party style.

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AN HISTORIC PIONEERING ACTION, A GRAND BLUEPRINT

Beijing RED FLAG in Chinese No 19, 1 Oct 85 pp 41-44

[RED FLAG editorial]

[Text] The National CPC Conference of Delegates triumphantly closed on the eve of the 36th anniversary of the founding of the nation. This conference has further realized the succession of new members from the old and the cooperation between the new and the old cadres in central leading organs; it unanimously adopted the "Proposal of the Central Committee of the Communist Party of China for the Seventh 5-Year Plan for National Economic and Social Development." Comrade Hu Yaobang's opening speech, Comrade Zhao Ziyang's explanation of the Seventh 5-Year Plan proposal, the important speeches delivered by Comrades Deng Xiaoping and Chen Yun, and the closing speech made by Comrade Li Xiannian epitomize the common aspirations and will of the whole party and all the people of the country. The conference was a complete success. It fulfilled the predetermined tasks. It was a grand conference for "working together toward a splendid future."

An important achievement of this party conference of delegates is the further succession of new members from the old in central leading organs, a major step forward and a process that began with the 12th CPC Congress. Through thorough democratic discussions, the conference elected additional members and alternate members of the CPC Central Committee as well as additional members of the Central Advisory Commission and the Central Discipline Inspection Commission. The 5th Plenary Session of the 12th CPC Central Committee once again elected additional members and reshuffled some members of the Political Bureau and the Secretariat of the CPC Central Committee. The new members of the CPC Central Committee and those of the Political Bureau and the Secretariat of the CPC Central Committee are in the prime of life. Most of them have received fairly high education. These comrades have been elected and promoted on the basis of the principle of appointing people on their merits and according to their political integrity and ability. The fact that the members of the central leading organs are younger will make our party Central Committee full of vigor and vitality. It will definitely provide even more effective organizational guarantees for the triumphant advance of reform and construction.

In order to further reduce the average age of members of central leading organs, many of our old comrades have taken the initiative to step down, being deeply aware of the importance of the cause and showing great foresight in the interests of the party, the state, and the nation. During the protracted period of China's democratic revolution and socialist revolution and construction and in the recent collective struggle to create a new situation for socialist modernization, all these old comrades have offered distinct contributions. Being loyal and devoted to the cause of the party and to the people, they have enjoyed the love and esteem of the whole party and all the people of the country. Today, they have made new contributions and shown their lofty moral character in further promoting the reform of the cadre system.

Our party is the ruling party leading the socialist modernization program in a large country with a population of 1 billion. The increasingly arduous tasks imposed on us by the socialist modernization program urgently demand that, on the premise of revolutionization, our cadres, particularly the members of leading bodies at all levels, be younger in average age, better educated, and more professionally competent. This in itself constitutes a major reform, a reform of crucial importance, and a strategic issue that is significant in carrying forward the cause of the party, forging ahead into the future, and enjoying a long period of stability and order in our country. Now, while revolutionaries of the older generation are still alive and in good health, we have seized the opportune time to further lower the average age of members of central leading organs and created in the party a new practice by which all cadres are ready to work at higher or lower posts. This conforms to the fundamental interests of the party and the country. It also serves as an important guarantee for maintaining the continuity of the party's Marxist-Leninist policies.

The party's long struggles have produced a number of very experienced veteran revolutionaries with high prestige both inside and outside the party and both at home and abroad. A few of them are still in fairly good health. This conference of party delegates has reflected the common desire of the entire party and the people of the whole country and decided to maintain Deng Xiaoping, Li Xiannian, Chen Yun, and other veteran revolutionaries in the top party leadership so that they can continue to make decisions. There are several other veteran revolutionaries. Although they are advanced in age, they have to be in charge of work at the national level over a certain period. The conference has also decided to keep them in central leading organs. All this conforms to the fundamental interests of the party and the people. It is in response to the needs of the party's cause that most of the old comrades should step down. It is also in response to the needs of the party's cause that some veteran comrades should remain in their posts.

We often say that we need generation after generation of young people to succeed to our party's communist cause. Speaking of succession, it is most important for them to succeed to the old comrades' heroic spirit of firmly keeping to the orientation of revolutionary struggle. The successors must do a very good job in inheriting and carrying forward our party's fine

traditions and good style of work. We also often say that the succession of new cadres from old cadres is designed to organizationally ensure a continuity of our party's policies. The policies to be continued, of course, include such policies as independence, democratic legal system, opening to the outside world, and invigorating domestic economy. It is even more important that we firmly uphold the four cardinal principles that are the foundation of these policies. We should in this way understand the profound significance and basic requirements of the party's principles in the succession of new cadres from old cadres and the cooperation between the new and the old.

Fundamentally, the ultimate objective of our party is to realize communism. The cadre ranks of our party should always be full of revolutionary spirit, youthful spirit, and the spirit of dedication. To constantly renew the cadre ranks and abolish the de facto life tenure system of leading cadres in accordance with the party Constitution and the principle of making the ranks of the cadres more revolutionary, younger in average age, better educated, and more professionally competent, is a strategic policy decision made by our party on the basis of China's historical experience and in consideration of the actual situation. Our party has millions of old comrades who apply in a concentrated way our party's rich experience and practice its fine work style. They have a high degree of consciousness of the need to realize this strategic policy decision. In the last several decades, tens of thousands of young, promising, and outstanding cadres have tempered themselves in the course of practice at their work posts and have continued to emerge on various fronts. They are a ready foundation for realizing this strategic policy decision. The cooperation between the two groups of cadres and the succession of the young from the old are the source of our party's strength to maintain forever thriving vitality and great fighting power. It is even more important that we have found a way to realize this strategic objective by combining the two forces; that is, to adopt an echelon structure in the succession of new cadres from the old and in the cooperation between the new and the old, and to maintain the echelon structure for the cadre ranks, particularly the leading bodies, and treat it as the structure for leading organs. Such a structure can guarantee that there will be no lack of successors to carry on our party's cause, and the cause can be handed down from generation to generation. We may say that the establishment of such a structure is the pioneering work of our party.

The proposal on formulation of the Seventh 5-Year Plan, examined and adopted by the conference, is a programmatic document. The document puts forward the basic guiding thought and working objective for the formulation of the Seventh 5-Year Plan, stipulates the strategic principles and major measures for national economic and social development, and lays down a tentative plan and steps for undertaking reform of the economic structure. Its basic features are that it has summed up the experience gained by our country over a long time in socialist construction, particularly the experience in construction and reform gained since the 3d Plenary Session of the 11th CPC Central Committee; it is a specific plan for the reform of the economic structure since the 3d Plenary Session of the 12th CPC Central Committee; it reflects the general demand for building socialism with Chinese characteristics; and it lays emphasis on concentrating on solving strategic and key

problems concerning China's economic construction and social development in order to fulfill the general demand.

The proposal places prime importance on reform. The current situation is very favorable to reform, as our national economy has begun to show a new situation of sustained, steady and coordinated development; the proportions among our agriculture, light industry, and heavy industry and the ratio between accumulation and consumption has become comparatively balanced; and the state has achieved a basic balance in revenue and expenditure for several consecutive years.

These facts show that our country has greatly strengthened its economic strength, accomplished in the main the task of bringing about a fundamental turn for the better in the financial and economic situation, and pushed its economy onto an important stage of transition from merely having enough to eat and wear to being well-to-do. In such an excellent situation, we must lose no time in promoting overall reform and striving to attain our objectives.

In order to fulfill the objectives and tasks of the Seventh 5-Year Plan, we must create a good economic and social environment for economic structural reform. Our objectives and tasks are, basically, to lay the foundation for a new socialist economic structure, full of vigor and vitality; to prepare the necessary material and technological capabilities to continue economic and social development in the 1990's, by stepping up the construction of key projects, technological transformation, and development of intellectual resources; and at the same time, continue to improve the people's living standards. The purpose of giving reform priority is to overcome various structural drawbacks and remove obstacles to the development of productive forces in order to lay a good foundation for the economic development in the next 10 years and the next century. In order to create a good economic environment for reform, we must maintain a proper, rather than unduly seek too fast, growth rate; we must concentrate on key construction projects in connection with basic facilities, rather than blindly increase investment in fixed assets beyond the reach of our country; and we should constantly increase the people's actual income on the basis of developing production, rather than make the increase of consumption funds exceed the increase in labor productivity. In short, only by making a planned, proportionate, and steady advance, and stressing economic efficiency and social effects can we achieve the fastest growth rate, capable of passing rigorous tests.

Reform is designed to serve construction, develop the productive forces, and satisfy the people's constantly increasing needs in their material and cultural life. Reform is, by nature, self-perfection and self-development of the socialist system. It will cause profound changes in economic and social life, style of work, and mental conditions. Within certain limits, it will also evoke, to a certain extent, revolutionary change. It is reform that has enabled us to begin to find a way to build socialism with Chinese characteristics. In order to do this, we must always adhere to two fundamental principles--one is that of the leading role of the socialist economy under the system of public ownership, and the other is the principle of common prosperity. The policy of letting foreign capital enter China, and

permitting the development of an individual economy, must be subordinated to the general demand for developing and strengthening the socialist economy under the system of public ownership, and maintaining its leading role and absolute superiority. To let localities and people become well-to-do first achieves the purpose of making more and more people well-to-do, and gradually achieving a common prosperity. To undertake reform, we must be firm and unshakable, boldly probe, pay attention to discovering problems in good time, and solve them. However, all reforms must conform to the above-mentioned two fundamental principles, in order to ensure a socialist orientation.

While building socialist material civilization, we must make efforts to step up the building of socialist spiritual civilization. This is a matter on which the recent National Conference of Party Delegates laid special emphasis, because it is a matter of great urgency and importance to ensuring a correct orientation and smooth progress of our reform and construction. In all our work, we must always firmly hold a clear-cut stand to uphold the four cardinal principles, resist and oppose corruption by capitalist, feudalist, and other decadent thinking, resist and oppose bourgeois liberalization, and the influence of the thinking of putting money above all else and putting oneself above everyone else.

At the same time, we should further improve the socialist legal system, deal blows at, and punish according to law, any criminals seriously sabotaging socialist economic order and public order, and hurting the people's interest, and we should effectively stop, and ban, all evil that seriously corrupts social values. Our ideological, cultural, educational, and public health departments should take social effects as the norm for their activities. The enterprises and institutions under these departments should also take the social effects as the highest standard for their operations.

All enterprises and institutions must follow the guiding principle of seeking people's trust above all else in their economic activities, administrative and judicial work. They must absolutely not entrap or extort the people. Even more important is the fact that it is essential to firmly improve and strengthen the party's ideological and political work, and maintain the role, authority and prestige of the departments carrying out such work. We must unremittingly and regularly carry out, among all the people, the young people in particular, education on promoting lofty ideals, moral integrity, better education and a sense of discipline, education on following the four cardinal principles and on patriotism and revolutionary traditions. In the ideological field, we must still adhere to the "double hundred" principle, maintain the freedoms guaranteed by the Constitution and the law, follow the principle of rectifying incorrect ideological trends mainly by means of guidance and education, refrain from carrying out any movement and "mass criticism," and avoid repeating any "leftist" error committed in the past. In the cultural field, it is necessary to advocate and encourage the production of more good intellectual works, firmly ban the production, introduction and circulation of bad ones, and resolutely oppose the propagation and spread of ideas about bourgeois liberalism. In the economic field, it is necessary to advocate observance of the law and

discipline, prosperity through hard work, and integration of the interests of the state, the collective, and the individual. It is essential to resist and oppose dishonest practices, corrupt styles of operation, the idea of "doing everything for money," and any action that only takes into consideration the interests of individuals or small groups, while ignoring or even harming those of the state.

Building socialist spiritual civilization depends, primarily, on a fundamental turn for the better in party style and social conduct. The improvement of party style is the key to improving social conduct. Party rectification must be carried out in strict accordance with the decision made by the 2d Plenary Session of the 12th CPC Central Committee. Party organizations at all levels must stress the question of party style, and leading cadres should set a good example. Veteran cadres should show concern for the maintenance of party discipline and style, and supervise their implementation. Senior cadres, in particular, should educate their children not to become privileged personnel; not to pursue power and personal interests by using their parents' influence. By means of extensive and meticulous ideological and political work, we must solve problems affecting social conduct--problems which prevail among some cadres and people, and reduce the pernicious influence of capitalism and feudalism to the minimum.

We should deeply understand the remarks by Comrade Deng Xiaoping: Since the 3d Plenary Session of the 11th CPC Central Committee, the party has shifted the focus of all its work to the drive for socialist modernization and, while adhering to the four cardinal principles, has concentrated on developing the productive forces. That was the most important thing we did to set things right. The good situation we have today would not have come about if we had not thoroughly corrected the "left" mistakes and shifted the focus on our work. At the same time, if we had not conscientiously adhered to the four principles, we would not have been able to maintain political stability and unity, and we would even have gone from correcting "left" mistakes to "correcting" socialism and Marxism-Leninism. Then the good situation we have today would not have come about either. We should also understand the reason our party has such strong fighting power is that we have confidence in Marxism and communism. With this common ideal, we would have iron-clad discipline. All this represents our genuine dominant position, either in the past, at present or in the future. Cadres at all levels in the whole party, first of all, leading cadres, must conscientiously study Marxist theories and master basic theories of Marxism as proposed by Comrade Deng Xiaoping, and increase our ability to apply its basic principles and methods to come up with solutions to the fundamental questions arising in the political, economic, social and cultural fields. It is necessary to acquire a stronger sense of adhering to principles in our work, a systematic approach, foresight, and creativity so that we do not lose our bearings in the increasingly complex struggle. Just like Comrade Deng Xiaoping said: "Only thus can our party keep to the socialist road and build socialism with Chinese characteristics until the realization of our ultimate goal--communism."

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## IMPORTANT CHANGES IN THE WORK OF PLANNING

Beijing RED FLAG in Chinese No 19, 1 Oct 85 pp 45-48

[Article by Song Ping [1345 1627]; capitalized passages published in boldface]

[Text] The recently held National Conference of Party Delegates examined and approved the "Proposal of the Central Committee of the Communist Party of China for the Seventh 5-Year Plan for National Economic and Social Development." This programmatic document has proposed the basic guiding ideology, the main tasks, the major development strategy, and the general and specific policies for our country's economic and social development during the period of the Seventh 5-Year Plan. As far as the work of planning is concerned, this document also conforms with the new situation of reform, opening up to the world, and invigorating the economy. It has made a breakthrough in the traditional ideology and method of planning and has pointed out the clear direction for the realization of new changes in our country's planning work.

THE FIRST IMPORTANT CHANGE POINTED OUT BY THE "PROPOSAL" FOR PLANNING WORK IS THAT WE MUST CHANGE THE PAST METHOD OF LAYING EMPHASIS ON SETTING QUOTAS, LISTING ITEMS, AND DISTRIBUTING INVESTMENT AND MATERIALS IN MAKING THE NATIONAL ECONOMIC AND SOCIAL DEVELOPMENT PLANS. WE MUST INSTEAD EMPHASIZE STUDYING AND DECIDING ON THE STRATEGY AND THE MAJOR GENERAL AND SPECIFIC POLICIES CONCERNING THE DEVELOPMENT OF THE NATIONAL ECONOMIC AND SOCIAL DEVELOPMENT SO AS TO ENABLE THE STRATEGY AND THE GENERAL AND SPECIFIC POLICIES TO FORM A COMPLETE SYSTEM WHICH WILL IN TURN BECOME AN IMPORTANT COMPONENT OF THE NATIONAL ECONOMIC AND SOCIAL DEVELOPMENT PLANS. The national economic plan of the socialist countries is the means of realizing the party program, so we should attach the utmost importance to the work of studying and making the general and specific policies concerning national economic and social development and organically combine the quotas and measures of the plan with the correct general and specific policies. For a long time we set the planned economy against the commodity economy, laid undue stress on mandatory quotas, ignored the law of value and the role of market coordination in the national economy, and tried to directly control the various economic activities with a large number of quotas. Thus, although we could construct some important projects and realize some economic and social goals by assembling the financial and material resources of our country, we still seriously restricted the initiative of the localities, departments, and enterprises and deprived the national economy of necessary flexibility and

vitality because we imposed excessively rigid controls on many specific economic activities. At the same time, the planning department was fully engaged in a large number of complicated calculations and a great deal of routine work, so it ignored study of the major strategy and policies concerning the overall situation and could not well master the objective laws of economic development. If such a situation is not changed, the superiority of the socialist planned economy will not be brought into full play.

Along with the gradual development of the reform of the economic structure and the fast development of various economic forms and diversified economic methods, the decisionmaking power of the enterprises will continue to expand and the horizontal economic contacts among different enterprises and areas will gradually increase so that the initiative of economic units and the flexibility of economic activities will be greatly strengthened. Owing to the sharp increase in our country's grain and cotton production in recent years, people's consumption has gradually become diversified and our economy has entered a period which will see major changes in our production technology and structure and demand new technology policies and production policies. Our enterprises and economic work need to have a stronger ability to cope with changes. Under such circumstances, the work of planning should focus on the development strategy and the general and specific policies, the present situation, an exploration of the objective laws of economic development, and the formulation of relevant policies, so as to put our plans on a scientific basis. The "Proposal" has set a good example in this respect. On the basis of correctly summing up historical experiences and conducting an overall analysis of the trend of economic development, the "Proposal" has put forward a series of new strategies and policies concerning the production structure, technological development, overall arrangements for various areas, intellectual development, external economic and technological intercourse, and more, thus greatly enlightening us. In making the Seventh 5-Year Plan, we must correctly set the necessary production and construction quotas. However, the focal point of work should be on the study of the general and specific policies and on obtaining the objectives of the various development strategies in the "Proposal," so as to enable the Seventh 5-Year Plan to truly become a practical plan embodying correct strategies and guiding policies.

THE SECOND IMPORTANT CHANGE POINTED OUT BY THE "PROPOSAL" FOR PLANNING WORK IS THAT WE MUST SHIFT OUR STRESS FROM AN INCREASE IN QUANTITY TO THE IMPROVEMENT OF QUALITY AND THE IMPROVEMENT OF ECONOMIC RESULTS. Poor product quality and economic results are long-standing problems in our country's production and construction, but our country has great potential for its economic development. The poor product quality and economic results reflect our country's backward production and technology and are closely connected with the ideology that has guided the work of planning, which has stressed quantity and speed but paid insufficient attention to quality and economic results. It is also connected with the defects in our administrative structure. For quite a long time in our plans we have mainly stressed the increase of production quantity and the development of production capability. We often set excessively high quotas for increases in production quantity, thus encouraging people to ignore quality and economic results and lay undue

stress on development speed. Since the 3d Plenary Session of the 11th CPC Central Committee, the CPC Central Committee and the State Council have been urging reforms in planning work. The situation has shown some improvement and we have carefully avoided setting an excessively high pace for the development of production. However, generally speaking, we have not paid enough attention to the improvement of product quality and the improvement of economic results. In many fields, we have only generally called on people to pay attention to this question, but have not set the necessary quotas. In particular, we have not made strong policies and effective measures to guarantee the improvement of product quality and the improvement of economic results. Over the past few years, our country's economy has been developing relatively fast, but the problem of poor quality, great consumption, and high costs in some fields such as production, construction, circulation, and so forth has not yet been completely solved. In some fields, this problem has become even more serious. For example, the stable improvement rate for the product quality of the key enterprises of the state industry dropped by 6.7 percent in 1984 as compared with that in 1983, and dropped by 11.6 percent in the first half of 1985 as compared with that in the corresponding period of 1984. The fixed product costs of the enterprises of the state industry in the budget increased by 1.9 percent in 1984 as compared with that in 1983, and increased by 3.9 percent in the first half of 1985 as compared with that in the corresponding period of 1984. The use rate of the investment in the fixed assets of capital construction dropped from 76.3 percent in 1983 to 71.8 percent in 1984, and dropped again in the first half of 1985 as compared with that in the corresponding period of 1984. This situation shows that if we really want to shift the stress of our economic work onto the improvement of product quality and the increase of economic results, we must be resolute and work hard.

It is particularly important to persist in attaching primary importance to the improvement of product quality and the increase of economic results during the period of the Seventh 5-Year Plan. In the coming 5 years, we must create a good environment for the development of the reform of the economic structure, prepare necessary reserve forces in material and technological conditions and construction personnel for future development, and continue to improve people's standard of living. In order to organize and make all-round arrangement for these three tasks, we need to solve a lot of problems. The key to solving these problems lies in increasing the economic results. Only by making full and effective use of various resources and creating more wealth with less investment can we open up more financial sources, further strengthen the developmental strength of the enterprises themselves, and continue to greatly improve people's standard of living so as to completely fulfill the various tasks in the period of the Seventh 5-Year Plan. In the Seventh 5-Year Plan, we must firmly grasp the link of improving product quality and increasing the economic results according to the requirements of the "Proposal." As far as this is concerned, we must pay particular attention to the following points during the Seventh 5-Year Plan period:

First, we must rationally arrange an increase in the pace of economic development and the construction scope and maintain a basic balance between

the total social demand and supply. This will be beneficial to stabilizing the economy, pushing forward with the overall reform of the economic structure, and shifting the attention of the various sides to the improvement of product quality and the improvement in economic results. We must have specific requirements and relevant policy measures concerning the improvement of product quality and the improvement in economic results in our plan.

Second, we must really shift the focal point of construction to technological transformation, reconstruction, and extension of our present enterprises. We should not carry out capital construction if problems can be solved through technological transformation. We should not carry out construction if problems can be solved through reconstruction and extension. As for those projects which must be constructed, we should try our best to achieve quick results with less investment. The technological transformation of enterprises should focus on the improvement of product quality and function, an increase of the variety of products, and the reduction of consumption. We should not unduly pursue the development of production capability. We must carefully design and construct all the capital construction projects and try our best to shorten the construction period, guarantee the quality of construction projects, and increase our investment results.

Third, we must greatly raise our administrative standards in fields like production, construction, and circulation. Our country's technology is backward, but our country's administration is even more backward, so it is more urgent and more realistic for us to improve our administration. To improve and strengthen our administrative work and raise our management and administrative standards will greatly improve product quality and increase economic results without greatly increasing financial resources and material resources. During the Seventh 5-Year Plan period, while raising our standard of macroscopic administration, we must comprehensively improve the management and administration of enterprises, strengthen labor discipline, train workers and staff, improve the quality of workers and staff and the quality of enterprises, and do our best to further improve product quality and increase economic results.

THE THIRD IMPORTANT CHANGE POINTED OUT BY THE "PROPOSAL" FOR PLANNING WORK IS THAT WE MUST FURTHER ORGANICALLY COMBINE ECONOMIC DEVELOPMENT, SCIENTIFIC AND TECHNOLOGICAL DEVELOPMENT, AND SOCIAL DEVELOPMENT. In the development of modern economics, the role of science and technology and the role of knowledge have become increasingly important. At present, international economic competition is actually technological competition and intellectual competition. If we do not greatly develop scientific and technological undertakings and cultural and educational undertakings, do not raise the scientific and cultural standards of the whole nation, do not train a large number of specialized personnel who have socialist consciousness, and do not develop various types of service undertakings, it will be difficult for us to fundamentally improve product function and quality, increase economic results, develop external economic and technological intercourse, and push forward with our country's modernization cause. At the same time, the development of the socialist planned commodity economy has become increasingly connected with people's ideology, morality, various social guarantees,

and other social factors, and it requires coordination and balance between economic growth and population, resources, and the environment. All these objectively demand the work of planning to take into account all the factors and closely combine economic development, scientific and technological development, and social development. For a long time we did not pay enough attention to this question. Since the 3d Plenary Session of the 11th CPC Central Committee, the situation has shown some improvement. The Sixth 5-Year Plan has been formally named as the national economic development and social development plan. In the process of making and implementing the plan, we have begun to pay attention to the development of science and technology and the development of education. In the 1985 state budget, the expenditure on science, technology, education, culture, health, and so forth has increased by 180 percent as compared with that in the 1984 state budget. The 1985 state budget has also begun to carefully arrange the various social undertakings and environmental administration. However, all these still do not completely conform to the development of the situation, so we should continue to explore and work hard so as to really enable the economic development plan, the scientific and technological development plan, and the social development plan to combine with one another and to push one another forward.

The "Proposal" has placed scientific and technological development and educational and cultural development in the highest position and has put forward a series of major general and specific policies. At the same time, the "Proposal" has attached great importance to the people's standard of living, the development of various service undertakings, and social guarantees. In the Seventh 5-Year Plan, we must carefully implement the requirements of the "Proposal" and try to combine economic development, scientific and technological development, and social development.

THE FOURTH IMPORTANT CHANGE POINTED OUT BY THE "PROPOSAL" FOR PLANNING WORK IS THAT WE MUST MAKE PLANNING WORK MORE COMFORMABLE TO THE NEEDS OF OPENING UP TO THE WORLD AND WE MUST CLOSELY COMBINE OUR DOMESTIC PRODUCTION AND CONSTRUCTION WITH OUR EXTERNAL ECONOMIC AND TECHNOLOGICAL INTERCOURSE, MAKE OVERALL ARRANGEMENTS, TAKE THE WHOLE SITUATION INTO ACCOUNT, AND PLAN ACCORDINGLY. For a long time, owing to the various reasons at home and abroad, our country's economy was closed or semiclosed to the outside world. Although there were points concerning foreign trade in our plans, we did not attach strategic importance to this and did not consider it an important component in the overall economy of our country. In recent years, along with the implementation of our party's policy of opening up to the world, the situation has shown great improvement. However, we still need to work harder and improve our work so as to enable it to better conform to the new situation.

It has become the trend of the times to accelerate a country's economic development through the expansion of the country's economic and technological intercourse and cooperation with other countries in the world. Along with the further implementation of our country's policy of opening up to the world, the relationship between our country's economy and the international market will become closer. Under such circumstances, we must consider our

domestic economic construction together with our country's external economic and technological intercourse, use both domestic and foreign funds and both domestic resources and foreign resources in a unified way, and actively open up both domestic and foreign markets. Only by doing things in this way can we overcome our shortcomings by learning from others' strong points so as to accelerate the construction of our country's modernization. During the period of the Seventh 5-Year Plan, we must further strengthen our economic and trade relations and our technological intercourse with all countries in the world, both advanced countries and developing countries, according to the principle of maintaining independence and keeping the initiative in our own hands and the principle of equality and mutual benefit. At the same time, we must actively use more foreign funds and import more advanced technology so as to advance the construction of our domestic production. The key here lies in the increase in our exportation and the creation of more foreign exchange. On this basis, we should import more suitable advanced technology and properly use more foreign funds according to our own absorption ability and payment ability so as to counteract our shortage of domestic construction funds.

THE FINAL IMPORTANT CHANGE POINTED OUT BY THE "PROPOSAL" FOR THE WORK OF PLANNING IS THAT OUR PLANNING STRUCTURE MUST CONFORM WITH THE NEEDS OF THE PLANNED COMMODITY ECONOMY BASED ON PUBLIC OWNERSHIP AND MUST BE CHANGED FROM THE PAST RIGID MODEL INTO A NEW, LIVELY AND VIGOROUS MODEL. THE STATE PLAN'S CONTROL OVER ENTERPRISES MUST BE GRADUALLY CHANGED FROM MAINLY DIRECT CONTROL INTO MAINLY INDIRECT CONTROL. Generally speaking, our reform aims at changing the past excessively rigid control in our planning structure and invigorating enterprises and the overall national economy. In order to meet this demand, we must gradually reduce the scope of mandatory planning in our planned control and expand the scope of guidance planning and market coordination so as to invigorate the national economy, enable the national economy to develop in a coordinated way in regard to proportion and in a planned way, and achieve better social and economic results.

Over the past few years, under the leadership of the party Central Committee and the State Council, we have spent some efforts to reduce the scope of mandatory planning and reduce direct control. What we have done has played a positive role in bringing into play the enthusiasm of the various localities, departments, and enterprises and in invigorating the economy. Now our task is to mainly strengthen our macroscopic administration, gradually opening up and invigorating the microeconomy; to do a good job in macroscopic control while continuing to invigorate the enterprises, especially the big and medium-sized enterprises, and to perfect the mechanism of microeconomic activities. Especially during the first 2 years of the Seventh 5-Year Plan, we must strengthen our macroscopic administration according to the requirements for stable economic development. The reduction of direct control is a kind of reform, and strengthening indirect control by using economic measures is also a kind of reform. They are the two aspects of the reform which can complement each other. The second aspect of the reform is more complicated and more difficult than that of invigorating microeconomy and relaxing direct control. We lack necessary experience in this regard. It can be said that whether the reform of our planning structure will be successful or not and

whether a new situation will appear in our work of planning wholly depends on whether we will be able to gradually establish a complete set of effective systems and measures which conform to the situation of our country in strengthening our macroscopic administration while invigorating the micro-economy. We must try our best to explore, open up new areas, and continue to make new breakthroughs in this respect.

Plans are the main basis of macroscopic control. In order to strengthen macroscopic control, we need to take measures in various fields, including: 1) Strengthening the comprehensive application of the economic levers such as price, credit, taxation, exchange rate, and so forth, and developing the coordinating role of these economic levers. The application of economic levers should become an important component of our plans and should be closely linked to planning targets and economic policies. 2) Strengthening the work of economic forecasting, doing a good job in collecting, arranging, analyzing and publishing economic information, and developing advisory planning services and correctly guiding the economic activities in all fields. 3) Perfecting economic legislation and judicature, strengthening economic supervision, and enabling various types of economic activities to be carried out on the right track. The process of establishing and perfecting the macroscopic administrative system is one of destroying the old and establishing the new, so we must resolutely carry out the reform of the economic structure and the reform of the planning structure, which means that we must resolutely destroy and reform all those things which hinder the development of the productive forces. At the same time, we must "establish" new things. We should carry out the reforms in a steady way. The scope, degree, and measures of the reduction of direct control must conform to the state capability of strengthening indirect control. Strengthening indirect control does not run contrary to adopting necessary administrative measures. Reform will gradually lead to the reduction of the application of administrative measures, but necessary administrative measures and direct control are needed at all times. Before the new economic administrative measures are formulated and perfected, the old administrative measures should continue to be carried out so as to ensure the smooth progress of the reform.

In order to cope with the changes in the work of planning, the State Planning Commission and the planning departments at various levels must gradually carry out a series of reforms and improvements in our method of work, work style, institutional plans, and cadres' training. Our planning institutions must have more various kinds of specialized personnel and increase contacts with the experts, scholars, and scientists in society, so as to really become the center of the economic staff which possesses the wisdom of various sides. Within the planning departments, we must reinforce the forces doing the work of overall balancing, theory and policy research, economic coordination, economic forecasting, economic information, and so forth; do a good job in cadres' training; and improve our ideological and professional quality. We must frequently go deep into the realities of life, study the new situation, sum up new experiences, and continue to raise the standards for our planning work, our policy standards, and our scientific standards. We must carefully study and resolutely implement the major strategic ideology and the general and specific policies put forth in the "Proposal" and develop and implement the Seventh 5-Year Plan in a pioneering spirit so as to push forward with the development of the construction of our country's socialist modernization.

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