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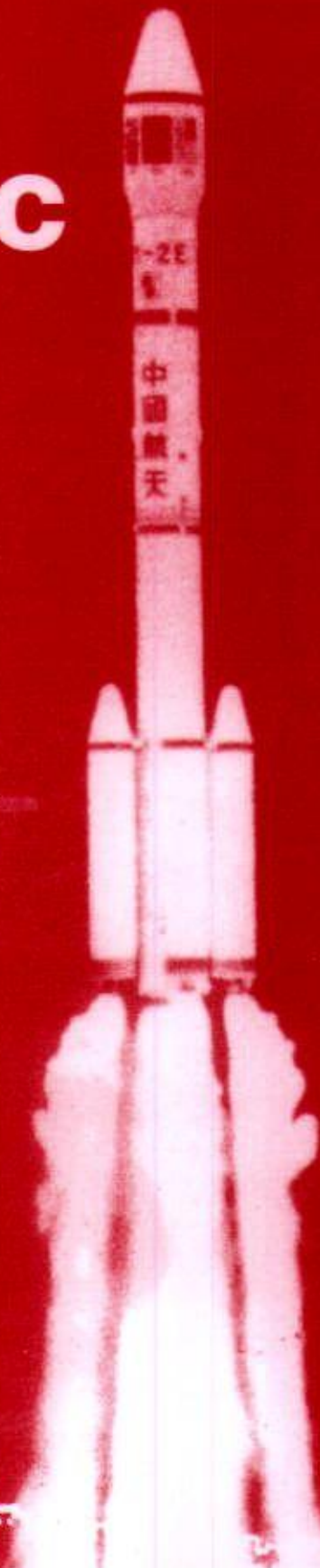
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# ECONOMIC REFORM

FROM RURAL FOCUS  
TO INTERNATIONAL MARKET

T.M. Siregar

08201.2805



## PROPOSITIONS

1. China's "new democratic" system aims to prevent anarchy or political crisis, combining a certain degree of democracy with a certain degree of discipline, but there is neither an absolute democracy nor absolute discipline.
2. China's working methodology entails a long-term planning combined with a short-term purpose, which can be adjusted along the way.
3. The creation of Village Township Enterprises (non-agricultural sectors in rural areas) has been a crucial step towards the economic use of natural resources in rural areas.
4. The expansion of foreign trade including an increased import of advanced technology has contributed to a more even distribution of prosperity in China.
5. The Dutch expression "Chinees rekenen" for taking a nap suggests a tremendous underestimation by the Dutch of the Chinese contribution to the development of science.
6. The Chinese political slogan "Without agriculture no stability and without industry no prosperity" has proven to be true in the current Chinese economic development.
7. China should be admitted to the World Trade Organisation as soon as possible.

8. The Amsterdam City Council's courageous decision to change the social environment in a part of the city (where a large number of high-rise flats is being pulled down and replaced by lower apartment buildings and terraced houses) costs society a lot while mainly construction enterprises profit from pulling down or constructing these buildings.

9. The current economic growth should be used to make up for the inadequate investment in education and science in the Netherlands during the last two decades.

Propositions belonging to the thesis of T.M. Siregar:

China's economic reform: from rural focus to international market.

Wageningen, 9 June 2000.

# **China's Economic Reform**

## **FROM RURAL FOCUS TO INTERNATIONAL MARKET**

Transformation, from the old system to the new democratic system

Reform and opening up in:

Agriculture, Village Township Enterprises and Foreign Trade



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## ABSTRACT

China is a large country, and in fact one of the oldest civilisations in the world. Its population is almost 25 percent of the world population, but it has only 7 percent of the world's arable land. China's 5000 years of history show a country moving from slavery to feudalism, with a strongly oppressive authority. An old saying found in western literature 'to go to China to seek science' reflects the strength of this country, science still bloomed while there were wars raging, as the peasantry rebelled against the feudal system almost continuously. Yet, these political changes did not change anything fundamentally because the peasants were of the same class as the authorities. Only since the "democratic" revolution under the Mao-led Communist Party, was a ruling working class established. How this has worked out has been demonstrated in China during the past fifty years.

There have been many difficult conditions in China to be overcome. For instance, large areas are still without appropriate transportation facilities or infrastructure while the uneven distribution of the population makes it difficult for the people to organise themselves. China has an area of 9.6 million square kilometres. But what makes the situation complex is that 90 percent of the population, the Han Nationals, live in the east, whereas the other 10 percent consisting of 55 minority groups occupy an area in the west of roughly the same size. Geographical conditions and the different climate zones have made economic development not easy. The "new democratic system" has taken all these difficulties into account in its attempts to build a socialist system in a country with such specific characteristics. The combination of centralism with some level of democracy has not only yielded a growing economy, but moreover a stable economic development. Political stability has guaranteed economic development, and vice versa. This way of working and thinking has made the complex situation relatively simple to deal with. The 'Reform and opening-up' and the modernisation of all social branches has guided the people's thinking in reaching the strategic goals. Criticism and self-criticism have corrected mistakes. The people have developed their own social system, with the slogan 'let a hundred flowers blossom together and let a hundred ideas contend together'.

Within fifty years many difficulties have been solved. Shortages of food and clothing have been resolved and the housing shortage too will soon be a thing of the past. The people need industrial production to modernise their household equipment. Isolated areas have been opened up. The education of the people has greatly improved; science has flourished, and the improved technology has speeded up the process of modernisation. Foreign trade has such quantity and quality now that China is capable of competition on the international market. Advanced technology is imported and foreign capital is used to increase national economic growth. Trade with foreign countries has increased the foreign exchange reserve and there are no problems in paying back the debts. Village Township Enterprises are an important pillar to rural economic development, and the Gross Domestic Product is increasing steadily. The success of the reform and opening-up since 1978 has encouraged the authorities so that the ninth Five-Year Plan can now be carried out with better prospects. China has entered the 21st century with bilateral and multilateral co-operation and competition. Opportunity and challenge have come together. Together, these factors help to make China more fervent to achieve successful economic development with her population of 25 percent of the world's population.



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In the early 1960s, when I was still living in Indonesia, making preparations for a study abroad, it was beyond my imagination that I would ever write this dissertation. It was thanks to the Indonesian government, and in particular to Vice Premier Dr J. Leimena and the Minister of Transmigration, Mr Achmadi that I was allowed to go abroad for my studies in 1964.

Following my study of economics in Karlshorst, Berlin in 1967, the Foreign Office of the People's Republic of China graciously admitted me to the country the following year, where I spent the next thirteen years (1968-1981). I made use of this opportunity to study China's historic and recent developments in the Chinese economy. My main focus was on rural construction, as this was the top priority of the Indonesian government when I left that country in 1964. In 1981, the Minister of Education and Science of the Netherlands gave me the opportunity to complete my post-graduate study of economics as a theoretical background to my study of Chinese economics. I would like to extend my heartfelt thanks to the University of Amsterdam and the Department of Economics and Science for providing me with this opportunity to study the Chinese economic reform and open door policy.

In 1993, the Chinese Academy of Social Science (CASS) arranged for me to visit the People's Republic of China again in order to consult with Chinese scholars on my research. The Provincial Academy of Social Science extended the invitation to visit some grassroots projects in the Fujian, Jiangxi, and Guangdong provinces, and in the municipality of Beijing. On these occasions, I was given the opportunity to participate in discussions with local economic institutes. I would like to express my special thanks to Professor Ru Xin, vice president of CASS; Professor Zhang Han Zhang, secretary general of the committee for Academic Exchanges, Mrs Wu Liang Mei of the China-European division of the Foreign Affairs Bureau of CASS; Mr Chen and Mrs Niu Caixia, the programme officers, who acted as my guides in Beijing and in the provinces.

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The willingness of Professor Dr Ir Paul Struik of the Wageningen University to give me support and act as my supervisor and promotor, guiding my research from start to finish, has been the decisive factor in writing this thesis. He introduced me to CERES (Centre of Resources) where I have had the opportunity to present my research project for the first time in the summer of 1995. The subsequent opportunity granted to me by CERES, ASSR and CNWS Summer School at the University of Utrecht, to present a paper of my preliminary results in 1997, has given me more confidence in the social function of my study.

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Last but not least, my heartfelt gratitude to my wife Demianna Samosir, who has given me stable and continuous support ever since my studies in Berlin and Amsterdam, and without whom this work would never have been finished.





## PREFACE

My reasons for choosing the Chinese Economic Reform as the object of my study are two-fold. The first is subjective: it has long been my ambition to do so; the second reason is more accidental<sup>1</sup>. The two reasons are dominated by my pride and respect towards a country whose actual practice serves as an excellent example because of its perhaps universal truths. What China has achieved is important for other developing countries but also for the developed world. I chose China because it is a large country with great responsibilities for its people and humanity. Its history is dominated by a continuous struggle for life and its plans for the future are of major importance to the entire world.

**CHINA** is the largest country in the world. It has a long and rich history, of **slavery** and **feudalism**. The country also experienced a short period of **bourgeoisie** (1911-1925). The past 50 years spanning the "**Liberation**" (1949) until today have seen a "New Democratic System" in the form of the People's Republic of China. This system has grown from China's historical experience. Now China faces the emerging globalisation and multi-polarisation, which is the result of dividing the world into the so-called 'three worlds'.<sup>2</sup>

Paul Samuelson, an American economist, writing about China and Mao Zedong, claimed that Mao had 'replaced' Stalin<sup>3</sup>. The leaders of the developing countries, Nkrumah in Ghana, Sukarno in Indonesia and Peron in Argentina 'give one new respect for Mao and for Adam Smith too'<sup>4</sup>. President Nixon's visit to Beijing (1971) signalled a new 'epoch', whereas the admittance of China to the United Nations provided an 'opening symbol'. All of this indicates the important role of the P.R. China's future in the world and in the development of the world social system.

On economic issues, Samuelson wrote that any fair-minded observer of mainland China would have seen by far the greatest rate of real growth in the following 12 years under Chairman Mao. The people were mobilised for collective efforts and sacrifices. They even expected to produce steel in thousands of backward furnaces. As to technology, Samuelson

wrote that China was notably successful in producing a uranium bomb and later a hydrogen bomb.<sup>5</sup> All this was written in 1973<sup>6</sup>, indicating the Chinese historical, political, economic and scientific precondition before the 1979 normalisation of diplomatic relations between China and the USA and the Chinese Reform and Opening Up.

Physically, China has an extraordinarily complex situation. The country has mountains and deserts, and environmental / physical conditions vary enormously, from tropical to arctic; this makes living conditions difficult and challenging. Moreover, the lack of a good infrastructure is the reason for an uneven development between the relatively backward areas and the more advanced ones. The Chinese territory covers 9.6 million km<sup>2</sup> and shares a border with 16 countries along of some 22,000 mainland kilometres and 18,000 kilometres of coastland. This lays great responsibility on the country for both security and political stability.

The Chinese population consists of 55 ethnic minorities and the Han nationality. The large majority, 94 percent of the Chinese, are Han nationals. Since the "Liberation", all the ethnic groups have lived in relative harmony. There has never been a serious conflict, except with the Dalai Lama and his followers in Tibet. The Han people are democratic in character. They never deny the minority groups their rights.

In the past, landlords and foreign intervention extensively exploited the country. The difficult natural conditions have long kept the people very poor and backward. Only after the "Liberation" could the people be freed from such poverty. China is shouldering the enormous task of changing the situation for the Chinese people from consumers to producers.

This may be achieved because China has a relatively democratic way of thinking and a great sense of discipline, which stems from the fact that Confucianism, Communism, Buddhism, Islam and Christianity have existed side by side.

Historically China is as a country with much intellectualism, but this was interrupted by the industrial revolution and western intervention. Chinese inventions include fireworks missiles, compasses, paper, printing, and calculus. Shortly after the "Liberation" the satellite Dong

Fanghong was launched and its mission precisely conducted. Nuclear bombs can be made from uranium and hydrogen. Now nuclear plants are in operation for economic purposes.

Having built up China since the "Liberation", its governments have put great effort into creating a democratic people's republic. The Chinese recognised the inevitability of economic globalisation but have always propagated a multi-polar system based on national interest and sovereignty. The theory of a socialist market economy has been synthesised with the current world situation. Since the return of Hongkong to China in July 1997, the 'one country two systems' theory has been practised successfully.<sup>7</sup>

The approach to solve the many problems facing China has always been combinative, flexible and consistent, using dialogue instead of confrontation. Foreign problems have never been solved by interference in foreign internal affairs. China will never attack if it is not attacked. The country has access to nuclear arms but has committed itself to not using them first.

Within 50 years of "Liberation" (1949-1999), the PRC has greatly increased its economic growth. Politicians, scientists, and economists from all over the world acknowledged that it is the fastest economic development they have ever seen. The World Bank has predicted that the Chinese economy will have surpassed the US in economic strength by the year 2020. This may be so, after the most important prerequisite has been fulfilled: when China's 1.3 billion people have their essential daily needs fulfilled, they can change from consumers into producers. This will strengthen the national condition and is a strong motivation for the Chinese people to work harder at achieving this goal.

What has led me to this study is a number of circumstances. I happened to live in China from 1968 to 1981, in a difficult period in China's history, I revisited the country in 1993, and I studied aspects of the Chinese economy at the University of Amsterdam.

This study is no more than a general introduction to several issues in China, in different dimensions. It is a small grain of sand in the vast desert of China, which I hope is useful to people around the world, both in- and outside of China.

First and foremost I have aimed to 'seek truth from facts'. I have used Chinese evidence, experiments, and literature as my primary sources. Thereafter I turned to research, criticism, comments, and other literature from outside China, in order to try and get at the truth.

I introduce the subject with the intention of finding out to what extent China may serve as a 'model' to the rest of the world in solving the global socio-economic and political problems.

---

<sup>1</sup>) Because of drastic political changes in Indonesia since 1965-1966 I had more time abroad before the political situation changed for the better

<sup>2</sup>) The emergence of regional power since the end of the cold war such as Russia, Asian, China and North America.

<sup>3</sup>) Paul Samuelson, Economics, Ninth Edition, 1973, p. 851

<sup>4</sup>) Paul Samuelson, Economics, Ninth Edition, 1973, p. 873

<sup>5</sup>) Paul Samuelson, Economics, Ninth Edition, 1973, p. 877

<sup>6</sup>) It means, that China's experiences from the "isolated" situation to become open to the outside world. It increased my interest to see and try to understand what has happened in China, what is the Chinese influence to the outside world. Due to its long history, we know of the revolution of the people, the so-called "encircling the cities by the villages", and other events which attracted the people, especially from the developing countries.

<sup>7</sup>) Whether the theory is successful within 50 years, as said, is still to be proven. My opinion is, depending on the success of social economic development in the mainland of China. If the living standard of the mainland becomes equal to that of Hong Kong, the differences between the two areas could be dissolved.

## LIST OF ABBREVIATIONS

APL	Anti Personal Landmine
ASEAN	Asia Southeast Association, consists of 10 member states
CC CCP	Central Committee Chinese Communist Party
CCP	Chinese Communist Party, ruling party in China
CITC	China's International Trust and Investment Corporation
CR	Cultural Revolution
CASS	China's Academy of Social Science
CAS	China's Academy of Science
CBE	Commune Brigade Enterprise
FEC	Foreign Exchange Certificate
FYP	Five-Year Plan
GATT	General Agreement on Trade and Tariffs
GDP	Gross Domestic Product
GLF	Great Leap Forward
GNP	Gross National Product
HPRS	Household Production Responsibility System
IPR	International Property Right
MOU	Memorandum of Understanding
MOFTEC	Ministry of Foreign Trade and Economic Co-operation
MTOP	Million Theoretical Operations per second
MFN	Most Favoured Nation
NPC	National People's Congress
PRC	People's Republic of China
PC	People's Commune
RMB	Ren Min Bi
RDI	Rural Development Institute
SAEC	State Administration Exchange Control
SEZ	Special Economic Zone
VTEs	Village Township Enterprises
WIPO	World Intellectual Property Organisation
WTO	World Trade Organisation

## TABLE OF CONTENTS

ABSTRACT	
ACKNOWLEDGEMENTS	
PREFACE	
LIST OF ABBREVIATIONS	
TABLE OF CONTENTS	
LIST OF FIGURES	
LIST OF TABLES	
A SHORT INTRODUCTION	

### Part I Pre-Reform and Opening Up

<i>Chapter 1</i> .....	<i>1</i>
<b>A BRIEF HISTORICAL BACKGROUND ON THE PERIOD BEFORE THE LIBERATION</b> .....	<b>1</b>
1.1. A Brief Historical Background .....	2
1.2. Peasants' Revolution .....	3
1.3. The New Democratic Revolution .....	3
1.4. The Political Line .....	5
1.5. Seizing Political Power .....	6
1.6. Political Power and Its Perspective .....	7
1.7. The Socio-Economic Condition on the Eve of Liberation Day 1949 .....	8
1.8. Agricultural Situation .....	10
1.9. Summary .....	10
 <i>Chapter 2</i> .....	 <i>13</i>
<b>NATURAL AND SOCIAL ECONOMIC CONDITIONS</b> .....	<b>13</b>
2.1. Natural and Human Resources .....	13
2.1.1. Physical Features .....	13
2.1.2. Topography .....	14
2.1.3. Mountains .....	14
2.1.4. Flora and Fauna .....	16
2.1.5. Climate and Temperature .....	16
2.1.6. Rivers and lakes .....	19
2.1.7. Types of Soil .....	21
2.1.8. Mineral Resources .....	22
2.1.9. Non-Ferrous and Precious Metals .....	22

2.1.10.	Grassland .....	23
2.1.11.	Biological Resources .....	23
2.2.	China's Rural Characteristics .....	23
2.2.1.	Specific Characteristics of Rural China .....	24
2.2.2.	Economic Legacy of Rural China .....	27
2.3.	People, Land and Prosperity .....	29
2.3.1.	Distribution of the Population .....	29
2.3.2.	Land and Food Problems .....	33
2.3.3.	Rural Population Needs .....	33

### *Chapter 3.* ..... 35

## **TRANSFORMATION AND READJUSTMENT IN THE AGRICULTURAL SECTOR** ..... 35

3.1.	Laying Down the Socialist Economic System in China .....	35
3.1.1.	Transformation .....	35
3.1.2.	Laying the Foundation for the Economy .....	39
3.1.3.	The First Five-Year-Plan (1953-57) .....	40
3.1.4.	From Land Reform to Agricultural Collectivisation .....	41
3.2.	The Major Economic Problems during the Transition .....	45
3.2.1.	The Major Economic Problems .....	45
3.2.2.	The Economic Losses .....	47
3.2.3.	Economic Mistakes .....	48
3.2.4.	Non-Economic Factors .....	50
3.2.5.	New Data Call for a New Conclusion .....	51
3.2.6.	The Relation between the Cultural Revolution and The New Economic Reform .....	52

### Part II

## China's Rural Economic Development

### *Chapter 4.* ..... 59

## **CHINA'S RURAL ECONOMIC DEVELOPMENT** ..... 59

4.1.	China's Characteristics .....	60
4.1.1.	The Working Method and Political Line .....	61
4.1.2.	The Method of Solving Difficulties .....	63
4.1.3.	The Mao Zedong Thought .....	63
4.1.4.	The Implementation of Economic Development Policy .....	66
4.1.5.	Rural Policy .....	68
4.2.	Achievements, Comments and Challenges .....	70
4.2.1.	Achievements .....	70
4.2.1.1.	A Sleeping Giant has Awakened in Asia .....	70
4.2.1.2.	Industry and Agriculture .....	72
4.2.1.3.	Development Projects .....	72
4.2.1.4.	Capital Investment .....	73
4.2.1.5.	Foreign Economic Relations and Trade .....	73



	4.2.2. Foreign Comments .....	76
	4.2.3. Challenges.....	79
4.3.	Rural Policy and Its Problems.....	80
	4.3.1. The Aims of Rural Policy.....	80
	4.3.2. Rural Economic Situation .....	83
	4.3.2.1.Problems in the Rural Non-Agricultural Sector In 1994 .....	83
	4.3.2.2.Income .....	85
	4.3.2.3.Capital Investment.....	85
	4.3.3. Domestic Analyses .....	87
	4.3.4. The Main Policy Measures.....	90
	4.3.4.1.Agricultural Development.....	90
	4.3.4.2.Village and Township Enterprises (VTEs).....	91
	4.3.4.3.Deepening Rural Reform .....	92
4.4.	Agricultural Development.....	92
	4.4.1. General Agricultural Problems in China .....	92
	4.4.2. Population Growth and its Consequences .....	95
	4.4.3. Limited Land for Cultivation.....	97
	4.4.4. Agricultural Production .....	98
	4.4.4.1.Cereals .....	98
	4.4.4.2.Cotton .....	100
	4.4.4.3.The Oil Crops.....	100
	4.4.4.4.Meat, Eggs and Milk .....	101
	4.4.4.5.Aquatic Production .....	102
	4.4.4.6.Tropical and Subtropical Areas .....	103
	4.4.4.7.Non-Cereal Agricultural Production.....	103
	4.4.5. Conclusion .....	106
4.5.	Land Management, Reclamation and Protection .....	106
	4.5.1. Management.....	106
	4.5.2. The 'Three Norths' Shelterbelt Afforestation.....	108
	4.5.3. Fighting Desertification for Land Reclamation .....	110
	4.5.4. Technical Experiences .....	111
	4.5.4.1.The Deng Kou Centres .....	111
	4.5.4.2.Yulin City in Northwest China's Shaanxi Province.....	112
	4.5.4.3.Gansu Province .....	113
	4.5.4.4.Xinjiang Province.....	114
	4.5.4.5.Land Reclamation and State Farms .....	115
	4.5.4.6.Fighting Floods and Protecting Farmland .....	115
	4.5.5. Ecological Environment.....	117
	4.5.6. Strengthening Flood Control .....	117
	4.5.7. Conclusion .....	119
4.6.	Agricultural Development and Farmers' Income .....	120
	4.6.1. Agricultural Development and Science.....	120
	4.6.2. The Chinese Capacity to Feed its Population .....	121
	4.6.3. The Measures to Guarantee Food Security.....	123
	4.6.4. Using Science and Technology .....	123
	4.6.5. Promoting Research.....	124

4.6.6. Production in the Main Agricultural Fields .....	126
4.6.6.1. Cereals .....	126
4.6.6.2. Animal Husbandry .....	127
4.6.6.3. Fishery .....	129
4.6.6.4. Vegetables .....	129
4.6.7. The Chinese Consumption Pattern .....	130
4.6.8. The Farmers' Income .....	131
Conclusion .....	132

### Part III

### Rural Development and Modernisation

<i>Chapter 5</i> .....	139
------------------------	-----

### **RURAL DEVELOPMENT AND MODERNISATION..... 139**

5.1. Rural Industry .....	141
5.1.1. Rural Scientific Research .....	143
5.1.2. Township Enterprises .....	145
5.1.3. Improvement of Township Enterprises .....	146
5.1.3.1. Widening the Base of Rural Employment .....	147
5.1.3.2. Providing Funds for Agriculture .....	147
5.1.4. Achievements and Problems .....	147
5.1.5. The Development of the Rural Non-Agricultural Sector .....	148
5.1.6. Problems .....	149
5.1.7. Measures .....	150
5.2. Regional Development .....	151
5.2.1. Regional Development Policy .....	151
5.2.1.1. Narrowing the Gap between the East and the West .....	153
5.2.1.2. General Measures .....	155
5.2.2. Northwest China .....	156
5.2.3. Tibet .....	157
5.2.4. Southwest China .....	160
5.2.4.1. Investments .....	162
5.2.5. Southeast China .....	163
5.2.6. East China .....	164
5.2.6.1. The Prosperity of the People .....	167
5.2.7. Central China .....	168
5.2.8. Uneven Development .....	169
5.2.9. The Prospect of the Gap between East and West .....	169
5.3. Rural Economics And Development .....	171
5.3.1. Rural Industry .....	174
5.3.1.1. Energy and Water Conservation .....	177
5.3.1.2. Energy Demands .....	178
5.3.1.3. Water Conservation .....	179
5.3.2. Transportation and Communication .....	180
5.3.2.1. Train Transportation .....	181

5.3.2.2. Highway Transportation .....	182
5.3.2.3. Development of Communication .....	184
5.3.3. Science and Technology .....	185
5.3.3.1. Education .....	185
5.3.3.2. Science and Technology in Rural Areas .....	186
5.3.4. Capital Investment .....	188
5.3.4.1. State Expenditure .....	188
5.3.4.2. Sources of State Revenue .....	188
5.3.4.3. Budget policy .....	189
5.3.4.4. Foreign investment .....	190
5.3.4.5. Budget Policy towards Rural Economy .....	190
5.3.5. Structural Reform in Rural Economics .....	191
5.3.5.1. Why Restructure? .....	192
5.3.5.2. The Rural Economic System .....	193
5.3.5.3. Creating New Structural Forms .....	193
5.3.6. Rural Economy and Foreign Trade .....	201
5.3.6.1. General .....	201
5.3.6.2. Foreign Trade and Modernisation .....	203
5.3.6.3. Utilisation of Foreign Funds .....	204
5.3.6.4. Foreign Debts .....	205
5.3.6.5. Rural Economics and Foreign Trade .....	205
5.3.6.6. VTEs (Village Township Enterprises) and Foreign Trade .....	205
5.3.6.7. VTE's Strong Points .....	206
5.3.6.8. Diversified Foreign Economic Resources .....	207
5.3.6.9. Border Trade .....	207
5.4. Overview .....	209

## Part IV

### Rural Development and Foreign Relations

<i>Chapter 6</i> .....	215
<b>CHINA'S BILATERAL RELATIONS</b> .....	<b>215</b>
6.1. China-Indonesian/Asean Relations .....	215
6.1.1. China-Asean relations .....	219
6.1.2. Trade Relations .....	219
6.2. China-Netherlands-Relations .....	220
6.2.1. Netherlands-China Relations .....	221
6.2.2. Far Reaching Policy .....	222
6.3. Sino-Russian Relations .....	227
6.3.1. Conclusion .....	228
6.4. China-Japan Relations .....	229
6.5. China-United States Relations .....	232
6.5.1. China-US Economic and Business Relations .....	233
6.5.2. Trade of High Technology .....	235
6.5.3. China-US Economic Prospects .....	236

6.5.4. Peace and Security .....	239
6.5.5. The Latest Developments in Sino-US Relations .....	240
6.5.6. The Summit .....	241
6.5.7. Joint Statement .....	242
6.5.8. China and Global Economy .....	242
6.5.9. GATT/WTO .....	243
CONCLUSION.....	245

## *Chapter 7* ..... 249

### **PEOPLE'S LIVING STANDARD, SOCIAL SECURITY AND CULTURE IN RURAL AREAS..... 249**

7.1. Introduction .....	249
7.1.1. Domestic Consumption .....	249
7.1.2. Ensuring the Living Standard for the Elderly .....	250
7.1.3. Reform and the Social Security System .....	251
7.2. Housing .....	252
7.3. Cultural Life .....	256
7.4. Social and Cultural problems .....	259
7.4.1. Rural Labour Force Surplus .....	260
7.4.2. The proportion of Rural and Urban Population .....	260
7.5. Way Out .....	261
7.5.1. Social, Ethical and Cultural Problems .....	261
7.6. Conclusion .....	263

## *Chapter 8* ..... 265

### **GENERAL DISCUSSION:**

### **THE ROLE OF VILLAGE TOWNSHIP ENTERPRISES..... 265**

8.1. A Brief Historical Background to Modernisation (Prologue to the Reform and Opening up).....	266
8.1.1. Foreign Relations .....	268
8.1.2. Production .....	269
8.1.3. Conclusion .....	269
8.2. China's Economic Development and Modernisation 1978-1995	
Reform and Opening Up .....	270
8.2.1. Agriculture: Tasks, Problems, and Results .....	270
8.2.2. Results .....	271
8.2.3. VTEs and Their Historical Task and Role .....	272
8.2.4. Results and Problems .....	273
8.2.5. Exploration and Exploitation of Local Resources .....	273
8.2.6. Rural Economic Improvement .....	274
8.2.7. Structural Reform .....	275
8.2.7.1. Rural Economic Structural Reform .....	275
8.2.7.2. The Torch Programme .....	276
8.2.8. Foreign Trade .....	276

8.2.9. Infrastructure.....	277
8.2.10. Water Conservation.....	278
8.2.11. Transportation and Communication.....	279
8.2.12. Education, Science, and Technology.....	280
8.2.13. Environmental Protection.....	281
8.2.14. Solutions.....	282
8.2.15. Strengthening the Economic Foundation and Modern Management.....	283
8.2.16. Strategic Economic Purpose.....	285
8.3. Future Prospects.....	286
8.3.1. Remaining Problems upon Entering the 9th Five Year Plan.....	286
8.3.2. The Results of the Ninth Five Year Plan.....	287
8.3.3. Economic Target for 2000.....	288
8.3.4. Entering the 21st Century with New Guidelines.....	289
8.3.5. China and Foreign Economic Relations.....	291
8.3.6. Deepening Bilateral Relations with Other Countries.....	292
8.3.7. Expecting Economic Results in the Near Future.....	293
8.3.8. Challenges and Opportunities.....	293
8.4 Conclusion.....	294
SUMMARY.....	299
SAMENVATTING.....	301
BIBLIOGRAPHY.....	303
Appendix 1.....	319
Appendix 2.....	320
Appendix 3.....	321
Appendix 4.....	322
Appendix 5.....	323
Curriculum Vitae.....	324

## LIST OF FIGURES

<i>Number</i>	<i>Page</i>
Fig. 1. Geographical map of China with Provincial and National Borders .....	15
Fig. 2. Average Temperature Range in China's Major Cities .....	17
Fig. 3. China's Precipitation .....	18
Fig. 4. China's Rivers.....	19
Fig. 5. China's Major Crops .....	28
Fig. 6. The West Part of China's Minorities Nationalities Density per km <sup>2</sup> .....	30
Fig. 7. The Ten Provinces of East China's Population and Density .....	31
Fig. 8. Total Population in East China except Shanghai .....	31
Fig. 9. China's Expected Cereals in Production 1978 - 2000 .....	128
Fig. 10. Cereal Production Targets 1990-2000 .....	128
Fig. 11. Income Groups in Beijing .....	168
Fig. 12. Map of China's National Highways.....	183
Fig. 14. Position of Major Countries in World Trade.....	244
Fig. 15. World Economic Growth in 1995.....	245
Fig. 16. China's Relative Position in World Economy .....	296

## LIST OF TABLES

*Number*

*Page*

Table 1	Annual Temperature Range in China's Major Cities.....	17
Table 2	Statistics Of Total Population 1990-1992.....	32
Table 3	The Proportional Share of the Various Forms of Co-operation.....	44
Table 4	The Economic Result 1966-1976.....	51
Table 5	Statistical Bureau Compiled Statistics 1949 & 1980.....	54
Table 6	Relationship Urban-Rural GDP.....	86
Table 7	Cereal Growing Area and Output.....	99
Table 8	Cotton Growing Area and Output.....	100
Table 9	Oil Crop Growing Areas and Output.....	101
Table 10	Meat, Eggs and Milk Production (1978-1994).....	102
Table 11	Aquatic production (1978-1994).....	102
Table 12	Tea Planting Area and Output per Ha.....	105
Table 13	Increase of Major Farm Produce in China (1949-1994) in 1000 tonnes.....	127
Table 14	Current and Expected Food Consumption (in kg per capita per year).....	131
Table 15	The Total Output of the Rural Non-Agricultural Sector in 1994.....	149
Table 16	The Contribution to the Economy of Agriculture, Light, and Heavy Industry.....	175
Table 17	The Percentage of Urban and Rural Areas in 1978-1994.....	176
Table 18	The Geographical Distribution of China's Foreign Trade Value.....	203
Table 19	China-US Bilateral Trade Statistics (Unit. US \$ Billion).....	234
Table 20	Share of total Trade and Economic Growth.....	294

## A SHORT INTRODUCTION

This book has eight chapters and is divided into four parts.

- Part 1 explains the historical background of the period before the Reform and Opening-up.
- Parts 2 and 3 are the main focus of this research project, dealing with the Reform and Opening-up, with the emphasis on agricultural development and the development of the non-agricultural sectors, the Village Township Enterprises (VTE's).
- Part 4 is a prediction of China's economic prospects in the future.

The rural focus is introduced as the current Chinese economic development is based on the potential in rural areas with huge natural and human resources. Indeed, China has the largest population of any country in the world and occupies the largest area in the continent of Asia. The country has long been extremely limited in materials, skills, science, technology and capital, yet at the same time it has been trying to provide the unlimited needs of the 1.25 billion people for food, clothing and housing: China is a developing country. The power is in the hands of the ruling party, the Chinese Communist Party.

The central planning system is combined with the market mechanisms, both in the long and the short term. Projects are specified according to the condition of the local sectional and economic branches. These cover provinces, municipalities and ethnic autonomous regions, including 50,000 townships and small cities as the basic areas for economic development. From these administrations no fewer than 5 autonomous regions on provincial level are under direct control of the central government, covering an area of 9.6 million km<sup>2</sup>. China shares a border with 16 countries along 22,000 km, and has 18,000 km of sea coast line.

This complex working method has succeeded with the leadership's method of a "centralist democracy", the "Mao-Zedong Thought", with Marxism as a leading philosophy for the Chinese strategic purpose. But it has its roots in the Chinese historical experience and the concrete national and international situation.

During the period of economic reform and opening-up, Deng Xiaoping played an important role in stipulating the political and economic development based on the "Mao Zedong Thought" in the form



of Reform and Opening Up. Today the Chinese leadership is in the hands of Jiang Zemin, the third generation to guide China into being a modern society among the world's nations. Priorities are consolidating domestic economic development and launching a foreign policy of competition and development.

There have been great social and economic achievements in the 9th Five Year Plan (1996-2000) so far, and the Chinese are pursuing this economic strategy up to the mid 21st century, when the Chinese socialist development will be 100 years old, since the "Liberation" in 1949. Important is the struggle to narrow the gap between China and other developed countries in various social and economic fields. Science and technology are to be further developed, as is the Chinese cultural life, and the protection of peace and political stability. The prediction of this target by the Chinese leaders has been the motivating force for the Chinese people to work hard.

When I regard the Chinese experience over the past fifty years, and especially the past twenty years, I am confident that these targets can be reached, with the prerequisite of peace and development. Just as I am finishing this book, China is again facing challenges. These political and security problems have emerged both from inside and outside China and they might well disturb the economic development and the political stability. The Chinese leadership is working hard in diplomacy to protect the peace and the construction, while struggling against destruction. The outcome of this process remains to be seen.

**Note:**

Statistical information from Chinese sources may be biased or may be adjusted for political reasons. One obvious example is that often the "province of Taiwan" is included in the data. All data in the form of statistics presented in this thesis have been checked for their origin. It was tried to rely on official Chinese sources only, but also these may be biased as may be the case for Western data on China. Statistical information from official Chinese sources was therefore tested (when possible) against information from Western sources to obtain a more balanced view. If significant discrepancies occurred the author used his personal expertise to select the best source or to reconcile the data in the best possible way. The author takes full responsibility of the quantitative information in this thesis.

**PART I**

**PRE-REFORM AND OPENING UP**



## *Chapter 1*

### **A BRIEF HISTORICAL BACKGROUND ON THE PERIOD BEFORE THE LIBERATION**

#### *Introduction*

This chapter functions as prologue to the following chapters. With a brief description, I will try to clarify the Chinese historical background before the proclamation of China's "Liberation", the transition of the Chinese people's uprising from failure to success, focused in rural areas. The correct handling of various contradictions among the people in Chinese society and the correct methods of the solutions, i.e. the man behind the gun, were prerequisites of success.

The "Liberation" of China in 1949 marked the crucial moment that China's people's war was ended. The proclamation of the People's Republic of China at 10 October 1949 by the first President, Mao Zedong, marked the establishment of the first socialist country in Asia. China is the first country with a social system, where the people under leadership of the working class have taken the sovereignty in their own hand. With varied difficulties, the new Republic has existed a full fifty years (1949-1999). Now, the government and the people are trying hard to achieve progress towards better conditions and a better position among the world countries in political, economic, social and cultural development and modernisation. The Republic sees the year 2000 as a 'jumping year', to enter the 21st century vigorously and fully aware, in the confidence of taking part in a new form of co-operation and competition of economic and social development.

A long period of peasants' struggle preceded the "Liberation" in 1949. Although this book does not aim to be a history of peasantry in China, the reader needs to be well aware of the extreme difficulties encountered by Chinese peasants in their struggle for "Liberation". Only their liberation after thousands of years of exploitation made it possible to build up the China we know today. The long history of peasants' uprisings shows that there has always been attempts to seize the power from the central autocrats in China since the first dynasty (221 BC) up to the last dynasty in 1911. Thus, China's feudal society lasted for more than 2000 years. Although the European feudal society also

lasted relatively long, it was much shorter. Yet, the bourgeois revolution that brought an end to the feudal society first happened in Europe.

It is interesting to historians to study the reasons why the feudal system lasted so much longer in China. From an economic standpoint, it had a lot to do with landownership. When the European feudal system reached maturity, the dominant form of landownership was the hereditary estate or fief<sup>1</sup>, which could not be sold but was to be passed on whole and undivided to the eldest son. In China, on the other hand, the landed state was distributed between all the sons. Besides, land could be bought and sold. As the ownership of land changed hand constantly, the class position of the peasants vis à vis a landlord was not fixed. Some peasants, as they came to own more land, became landlords; whereas landlords, after their land had been lost, could sink into the rank of peasants (Beijing Review 1981). Seizing land and thus seizing power constituted the core of the struggle of the Chinese peasants over the ages. Whoever possessed land, possessed power. This is fundamentally what the struggle in China was about, from the 'Warring States' up to the land reform in the 1950s.

### **1.1. A Brief Historical Background**

China, with its long-protected feudal system, was a nation with traditional feudal oppression and exploitation. The transition period from slavery to the feudal system in China has become known as the 'Warring States period'. These Warring States were: the South, the North, the Northeast, the West and the Centre, also called 'the Five Powers' (Bai Shouyi, 1982). In 230 BC Qin conquered Han, and in a period of nine years also Zhao, Wei, Chu, Yan and Chi. The new ruler, Qin Qi Huang became the first emperor of the Qin dynasty. Qi surrendered to Qin without a fight in 221 BC, which is now seen as the first year of the feudal system in China.

Hence, China was ruled by one dynasty after another until the last dynasty of Qing, which was replaced by the Republic of China, headed by Dr Sun Yat Sen in 1911<sup>2</sup>. In the feudal period, China was ruled by autocratic power that oppressed the peasants and exploited them barbarously.

## **1.2. Peasants' Revolution**

In reaction to the barbaric autocratic feudal system, there have been no fewer than 8 large-scale peasants' uprisings. The Chinese historian Bai Shouyi mentioned the following:

peasants' uprisings in the late Qing Dynasty, 221-202 BC;

the peasants' uprising in the end years, 613-617 AD;

the late Tang peasants' uprisings, 879-884;

the uprising by Wang Xiaobo and Fang La, 960-997;

the uprisings by Zhong Xiang, Yang and the Red Jackets, 1127;

peasants' uprisings during the Late Yuan Dynasty, 1276;

peasants' uprising continued, 1509;

peasants' uprising continued during the reign of Wu Zong after the killing of the former rebel Liu Jin, 1517.<sup>3</sup>

*Note:* From 1517 until 1844, the conditions were not favourable for further uprisings by peasants. The Ming dynasty declined, there was perhaps more freedom in thinking and in preaching Taoism, and there were significant threats by Japanese invaders. But especially the creation of the boo-jia system may have contributed to the lack of uprisings. In this system farmers were controlled by a household system, with 10 households being organised into a jia and 10 jias into a boo, and with the jia and boo chiefs administering and controlling the farmers.

A 9th uprising, the Taiping Revolution (1844-1876) was the largest revolt. It was also a peasants' uprising but it was different in character from the earlier ones. The earlier ones aimed to liquidate landlords, and replace them by people from the same class. The Taiping Revolution, however, was directed against the landlords and the feudal system, but also against the colonialism which had intervened in China's social systems since the Opium War of 1840. It changed China from a feudal system to a semi feudal system and semi colonial society.

## **1.3. The New Democratic Revolution**

Throughout the period of the Opium War, a period of foreign economic expansion and official westernisation existed (Bai Shouyi p.457), as well as the emergence of a united front of the proletariat

and national bourgeoisie in the early days. The Sino-Japanese War took place. There was the movement of the Yi He Tuan based on anti-imperialist patriotic sentiments, the rise of the bourgeois revolutionary movement and the founding of Tong Menghui, and finally the dawn of the Chinese "New Democratic Revolution".

With the new element of colonialism embedded in the uprising, the situation changed, and the Chinese peasants combined forces with the workers. This resulted in the victory of the Chinese revolution. Since the Opium War of 1840, western powers controlled China's maritime customs, foreign trade and transport services. The coastal areas of China were dominated by foreign powers. China was bound to the system of *extra-territoriality*<sup>4</sup>, and forced to consider the economic desires of foreign powers when establishing tariff schedules, and when collecting or dispensing its maritime customs or internal revenues. It was obliged without compensation and against its will to surrender privileges that other nations jealously guarded as economic monopolies or rights of sovereignty. Buss (1955), reviewing the results of more than a century of contact with the western system said that it minimised the positive contributions of China and emphasised its indignities.

On the other hand, the landlords and rich peasants who made up less than 10 per cent of the rural population owned more than 70 per cent of the total farmland. They rented out scattered pieces of land to peasants, whom they dominated under a system of feudal exploitation. In terms of land rent alone, the amount that had to be paid to landlords took over 35 million tons of grain from the hands of the peasants<sup>5</sup>. This made the peasants poorer and the landlords richer.

Before the Agrarian Revolution, that is the change of the landownership system, in 1927, Mao Zedong was the first to see that the class composition of the rural population needed to be made clear. He analysed the situation in South Hunan, which may serve as a model to understand the class composition of the Chinese society, and to establish the theory on who was the enemy and who were the allies in the Chinese Liberation War. The Hunan research led to the conclusion that there were five classes in the Chinese society:

The first class was the class of the landlords and comparadores (people co-operating with foreign powers against the interest of China). In a country with a backward economy, they were the only

appendices to the international bourgeoisie whose living and development depended on imperialism. According to the analysis, this class could not stand independently.

The second class was the class of the middle bourgeoisie, which represented the system of capitalist production in the towns and cities of China. This class could not accept the concept of the Communist Revolution because it contradicted their will.

The third class was the class of the small bourgeoisie, consisting of peasants, manual workers, the lowest ranks of intellectuals, students, the lowest ranks of government officials, lawyers, and small businessmen.

The fourth class was the semi-proletariat, consisting of five groups: a) most of the peasants; b) the landless peasants; c) small manual workers; d) shopworkers and e) small merchants.

The fifth class then, was the Proletariat, consisting of two million workers in modern industries in China in 1926. This group was not very large because of the backwardness of the Chinese industries<sup>6</sup>. The Chinese Communist Party accepted this class as the most progressive and advanced class that was best suited to liberate the Chinese people. This analysis indicates that the first and second categories could not be included in the revolutionary forces, while the third, the fourth, and the fifth were the available revolutionary forces. Based on his class analysis, Mao Zedong laid down the political lines of the Chinese agrarian revolution.

#### **1.4. The Political Line**

With the help of the class analysis described before, the Communist Party decided on a political line aimed at having the rural people, in particular the peasants, support the revolution against landownership. On the other hand, the landlords and comparadores would have to be isolated from the others, including the middle classes. Mao's report on the Hunan situation emphasised that the middle classes should be treated seriously so that they would not support the landlords and comparadores, but the majority of the poor and other lower classes, the ones most suppressed and exploited.



Implementation of this political line was not easy. It needed patience and discipline. It also required flexibility. Of course mistakes were made. In retrospect, these mistakes have become obvious.

One important political issue during this period was economic management. Studying the management of the economy was an important task with far-reaching consequences. It was propagated not only in the liberated areas, but also in 'enemy areas'. To make the people economically self-supporting would prevent them from being dependent on the enemy. The aims were first; teaching the peasants to organise themselves to propel production, and to fill the deficit of the State budget; and second, organising the peasants to establish co-operative forms of economy. Another lesson to be learned was that the individual household system, which had been in existence for thousands of years, was the cause of much of the poverty.

This period of the Agrarian Revolution (the change of the landowner system) did not only expose the exploitation and suppression by landlords and comparadores, but it was also a training period in which political power, economics and other social, cultural and political skills needed in the long-term could be mastered. In areas where there was no real power of the armed people, the people launched action to decrease the land lease. This campaign aimed to mature the political situation and to mobilise the people's consciousness that they were still facing the class enemy. Enlarging the freedom of the people by such campaigns was an urgent task outside the areas where the enemy was still in power.

In the period of the war against Japanese militarism, launching Dr. Sun Yat Sen's motto 'land to the tillers' was of crucial importance. This slogan isolated the landlords. The national bourgeoisie supported the slogan, because it was also in their interest to unite the masses to create a wide front against the Japanese occupation. The political programme was differentiated in three different zones: areas occupied by the Japanese, Kuo Min Tang areas, and the liberated areas controlled by the People's Power. Different political action was taken in different zones, thus handling the uneven development correctly.

## **1.5. Seizing Political Power**

The last part of the "Liberation War" was the preparation for seizing the power after the surrender of the Japanese. The Communist Party had given special attention to the peasants' task at the decisive moment of the revolution, i.e. the correct handling of agrarian policy. Consequently in different areas different policies would be pursued, according to whether they were already liberated before the surrender of the Japanese, or just after, or if they were the newly-liberated zones where the masses had not been aroused and the influence of landlords and comparadores was still strong. This policy prevented a 'generalised' action, and it also prevented a halt in the revolution. In short, the policy consisted of consolidating and enlarging the potential of the revolution.

It would have been imperative to correct the mistakes in the political practice in order to prevent failure. On the eve of the decisive victory, there were signals that some newspapers and some conferences did not formulate the political line correctly. They tended to "simplify", e.g. they did not propagate that "the proletariat should unite with other workers and people who were suppressed and exploited". It was a mistake to monopolise the power in the hands of the proletariat only. Essential points in the process of land reform which had to be given full attention were: the speed of land reform; actions against landlords; prohibiting landlords and rich peasants from sneaking into the peasants' association. The work could not start in all places at the same time. The consolidated liberated zones had to be distinguished from the guerrilla zones. "The reactionary bands of landlords and reactionary secret police" had to be destroyed without discrimination, yet "the fewer killings the better". Local revolutionary intellectuals coming from families of landlords or rich peasants had to be welcomed and utilised in the ranks working at building up the basic areas. Industry and commerce had to be protected. Implementation of this policy was one precondition for "the victory of the revolution" in the social and political, non-military field, aiming to shift the power to the hands of the working classes.

## **1.6. Political Power and Its Perspective**

Securing the alliance of the peasants and the workers in seizing the power was absolutely necessary as they formed 90 per cent of the population. Only ten per cent of the population worked in modern industries. The leadership of the alliance was formed by the working class. The workers looked at the

modern bourgeoisie in western countries wishing "to learn from them how to build a modern country". Nevertheless, in reality this intention fell flat because the bourgeoisie 'wouldn't help the people to stand on their own and to take the initiative' (Mao, 1949).

The most serious problems facing the Communist Party concerned educating the peasantry. The peasants were scattered. The socialisation of agriculture, judging by the experiences in the Soviet Union, required 'a long time' and painstaking work. Therefore, China developed its own way of building up the agricultural sector after the revolution. The Chinese revolution was accomplished in a relatively short time, only 18 years (1927-1945), which was only possible with a well-disciplined Communist Party. This Communist Party, armed with a 'revolutionary theory' and using the method of 'self-criticism', linked to the masses of the people. Thus, the masses of the people formed an army, under the leadership of the party, and a united front of all revolutionary classes. Such a policy had to be studied extensively as a political and theoretical preparation to seize the power and to enter the cities. Mao's ultimate goal was "to establish the People's Democratic Government, to unite the people throughout the country and advance steadily to reach that goal"<sup>7</sup>.

### **1.7. The Socio-Economic Condition on the Eve of Liberation Day 1949**

In 1936, the year before the War of Resistance against Japan broke out, the total assets of foreign enterprises in China amounted to about US\$ 4.3 billion; and their industrial capital accounted for 41 per cent of China's total industrial capital at that time. They monopolised 80 per cent of pig iron<sup>8</sup>; 50 per cent of coal; 76 per cent of electricity; 64 per cent of cotton piece goods; and 57 per cent of cigarettes. In transportation and communication, foreign countries controlled 69.5 per cent of the shipping tonnage and 90 per cent of the railway mileage. There were 32 foreign banks in China, with 141 branches and total assets of US\$ 1.9 billion, thereby occupying a monopoly position in the Chinese financial affairs. (Liu Suinian, 1986, p.6)

After the victory over Japan in 1945, the United States replaced the Japanese in Kuo Min Tang controlled areas, and started to plunder. Moreover, in the name of aid, the US dumped large amounts of surplus goods in China. Commodities imported from the United States in 1942 amounted to 50 per cent of China's total import.

The class of landlords, which owned the greater part of the land in rural areas, ruthlessly exploited and oppressed the peasants. On the other hand, the big bureaucrats, represented by the four families of Chiang Kai Chek, T.V. Soong, H.H. Kung and the Chen brothers (Guo Fu and Li Fu), at the strength of State power with the armed forces under their control levied exorbitant taxes and fleeced the people, thereby gradually amassing a colossal amount of capital.

On the eve of the "liberation" year 1949, the capital of these four families controlled 2,448 banks, accounting for over two-thirds of the nation's total of 3,489 banks. Moreover, their capital made up two-thirds of the nation's total industrial capital and 80 per cent of the fixed assets of industry and communications. It also controlled 90 per cent of the country's iron and steel output, 33 per cent of coal, 67 per cent of electricity, 45 per cent of cement, all the petroleum and non-ferrous metal industries, 40 per cent of the nation's spindles and 60 per cent of the looms. This group of four families monopolised the railways, highways and air transportation, and controlled 4 per cent of the total tonnage of ships in the country. "They oppressed the workers as well as the peasants and the urban petty bourgeoisie and encroached on the interests of the national bourgeoisie" (Liu Suinian)<sup>9</sup>.

Statistics show that between 1926 and 1946 the balance of trade was three times as unfavourable as before the 1927 war. In the twelve years from July 1937 to May 1949, inflation in areas under Kuo Min Tang government reached appalling heights and prices skyrocketed to astronomical figures. In those chaotic days when China's backward economy was poignant, the people led extremely difficult lives. As an example, in 1935 the monthly cost of living for a Shanghai working family of 4 to 5 people was 38.85 yuan, whereas the male workers in the shipbuilding industry were paid even less. Moreover, they were constantly threatened by unemployment. Moreover, the peasants who were exploited by the feudal landlords lived on the brink of starvation, having nothing to eat but chaff and wild herbs for half the year. Medical and health-care, culture and education for the people were all out of the question. The mortality rate was high. The number of medical and public health institutions was low, with only 0.14 bed per one thousand people. Medical expenses were so high, that the ordinary people could ill afford to go to the doctor. There were only 2.2 university students and 23.8 secondary school students for every 10,000 people, and more than 90 per cent of the Chinese people were illiterate (Liu Suinian and Wu Qungan, 1986)<sup>10</sup>.

## **1.8. Agricultural Situation**

Since ancient times China has been a country founded on agriculture. Historically all feudal dynasties adopted the policy of 'stressing agriculture while setting limitations on commercial development'. Consequently throughout the ages the small peasant natural economy had been predominant. Yet, the Revolution had also an adverse effect on this. The output of cereals, e.g., in the peak year before the liberation was only 138.7 million tons, cotton was less than 830,000 tons. Carl Riskin, in his book on China's political economy (1988) writes 'Production relations in the countryside were extremely complex... Some scholars have argued that the amount of land held by landowners who did not themselves farm, was clearly too small to serve in and of itself as adequate basis for a distinct and socially dominant class'.

In the same vein, rural society has been described as highly competitive (Elvin 1973:259; Meyers 1980:173; Rasski 1979:67-71), even egalitarian, with the fortunes of individual families continually rising and falling (Elvin 1973:259) This shows the complex situation in China's agriculture situation on the eve of liberation.

## **1.9. Summary**

In brief, this is the historical background of the current socialist development policy. It is meant to make clear why, compared with other revolutions, the Chinese peasants played such an important role after the "Liberation". Through the transformation and readjustment periods (1949-1976), China entered the period of the Four Modernisation's launched with the political slogans of REFORM and OPENING-UP, in which tactics obeyed strategy, and planning combined with the market mechanisms.

Today there are still many countries that cannot provide its population with sufficient food, clothing, housing, and other daily needs. Taking this reality as a starting point, this study aims to give special

attention to some aspects of the Chinese Revolution, development and modernisation, which might be used as a model for other countries with a large population living in rural areas.

The initial success in China may serve as a unique example of economic development. Every country and critic may decide which parts of it may or may not be useful and relevant, to that country's own economic development according to its condition.

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<sup>1</sup> A piece of land held under feudal ownership

<sup>2</sup> Xu Dixin and others. China Search for Economic Growth 1949

<sup>3</sup> see Bai Shou, 1982 p. 344

<sup>4</sup> The extra-territorial system: a system forced upon China by foreign powers giving paramount importance to their economic wishes when fixing the tariff schedule. It was imposed on China without compensation and against its will. China had to surrender privileges which other nations jealously guarded as economic monopolies or rights of sovereignty

<sup>5</sup> Xi Dixin and others. China Search for economic Growth 1949

<sup>6</sup> Mao Zedong in his article on Class Society. March 1926, Collected Work I.

<sup>7</sup> Mao Zedong: On the People's Democratic Dictatorship, in commemoration of the 28th Anniversary of the Communist Party of China, June 30, 1949 (Collected Works IV).

<sup>8</sup> An impure form of iron obtained directly from a blast furnace

<sup>9</sup> Liu Suinian and other on Socialist Economy. An Outline History (1949-1985) 1986.

<sup>10</sup> Liu Suinian and other on Socialist Economy. An Outline History (1949-1985) 1986, page 8.

The first part of the document discusses the importance of maintaining accurate records of all transactions and activities. It emphasizes the need for transparency and accountability in financial reporting. The second part outlines the specific procedures for recording and reconciling accounts, ensuring that all entries are properly documented and verified. The third part addresses the role of internal controls in preventing fraud and errors, highlighting the importance of segregation of duties and regular audits. The final part provides a summary of the key findings and recommendations, stressing the need for ongoing monitoring and improvement of the financial management system.

### **NATURAL AND SOCIAL ECONOMIC CONDITION**

Chapter 2 introduces the natural and social condition of China's rural area and the social economic development according to new policy based upon it.

#### **2.1. Natural and Human Resources**

##### *Introduction*

After the "Liberation" (1949) the Chinese had to proceed from war and revolution to economic development, to develop the country and to improve the conditions for the people. All this, however, had to be done with China's natural and human resources. In 1949, there were about 500 million Chinese people, occupying a large territory with great potential, but as yet unexploited. The 22 years of the Revolution and the war against Japan had had a large negative effect on the socio-economic situation in China. An extra drawback was that many important spare parts had disappeared since the Kuo Min Tang escaped to Taiwan, so that manufacturers were hampered in the production process, and development was delayed.

The task of developing China, based on its own actual material conditions was difficult in a country where most of the population lived under extra difficult conditions. To review the preconditions of economic development, firstly this chapter will describe the physical features of China's geography, its agro-ecology, and its climate situation; secondly, the distribution of the population; and thirdly, China's rural characteristics are described, giving a survey of China's natural and human resources with which the country had to be built up, partly self-reliant, partly supplemented with international aid.

##### **2.1.1. Physical Features**

China is situated between the eastern part of Asia on the west coast of the Pacific and the eastern part of Central Asia in the west. It covers approximately 9.6 million km<sup>2</sup>, nearly one-fifteenth of the world's land, and one quarter of Asia, making China the third largest country in the world after Russia and Canada. From north to south China extends over 5,500



kilometres, reaching from the centre of the Heilung Jiang province to the Zengmu Reef of the Nasha Islands in the South China Sea (from near latitude 53° 30' N to 4° N). From west to east it measures 5,200 kilometres, reaching from longitude 135° 05' to 73° 40' E.

The land borders of China exceed 22,800 kilometres. China shares borders with 16 countries or politically important regions: Korea, Russia, Mongolia, Kazakhstan, Kirgistan, Tadzikistan, Kashmir, Afghanistan, Pakistan, India, Sikkim, Nepal, Buthan, Myanmar, Laos, and Vietnam. China's mainland coast extends to 18,000 kilometres. China faces Japan to the east, and the Philippines, Malaysia, Brunei and Indonesia to the south-east, and south across the South China Sea.

### **2.1.2. Topography**

China is a country with a complicated topography, but full of promising prospects. Thirty-three percent of the land consists of mountains, 26% of table-lands, 19% of basins, and 10% of hills. The total highland, consisting of mountains, table-lands and hills, takes up 69% of the whole territory, plains and basins 31%. Travelling in China has therefore always been difficult, making the people active in defending themselves from natural dangers, seeking living resources from the land, and conquering natural disasters.

### **2.1.3. Mountains**

China is a mountainous country (see Fig. 1). The 69 percent of mountainous area dominate the Chinese ecological situation. Moreover, grassland and desert cover a large part of the rural areas that are situated in the eastern part of China. These topographical conditions have caused an uneven development of the transportation system.

Fig.1 Geographical map of China with national and provincial borders.



#### **2.1.4. Flora and Fauna**

China possesses abundant natural resources. According to 1976 statistics, China has 1,166 species of birds, comprising 13.5% of the world total; 421 species of mammals, amounting to 11.3% of the known species of the world; and 299 species of reptiles and 184 of amphibians. Wildlife particular to China includes such well-known animals as the giant panda, snub-nosed monkey, takin, white-lipped deer, eared pheasant, Chinese river dolphin, Chinese alligator, and the Chinese crocodile.

As to **flora**, China has more than 32,000 species of higher plants, among which over 2,000 species of food plants, and more than 2,800 species of trees, in addition to numerous species of herbal plants used in preparing Chinese medicines. Apart from such traditional crops as cotton, soybean, rapeseed, sugar beet, sugar cane, and tea, tropical crops such as rubber, coffee, lil palm, sisal, hemp, cocoa, and pepper are also grown.

#### **2.1.5. Climate and Temperature**

As China's climate ranges from extreme continental to mild and tropical, it will be discussed hereunder. Specific figures on important issues will be provided (Table 1, Fig. 2).

China's area can be divided from south to north into six zones. These are the equator, tropical, subtropical, intermediate, warm temperate, and cold temperate zones. The equator zone in the south (up to latitude 15 °N) receives solar heat all year round. The temperature of the tropical zones (latitude 15-23 °N) averages more than 16° C in the coldest season. The temperature in the subtropical zones (latitude 22-34 °N) ranges between 0° and 16° in the coldest season. In the intermediate zone (latitude 36-52 °N) it will be about minus 24°; and in the cold-temperate zone in the north, below minus 24° during the coldest season.

Table 1

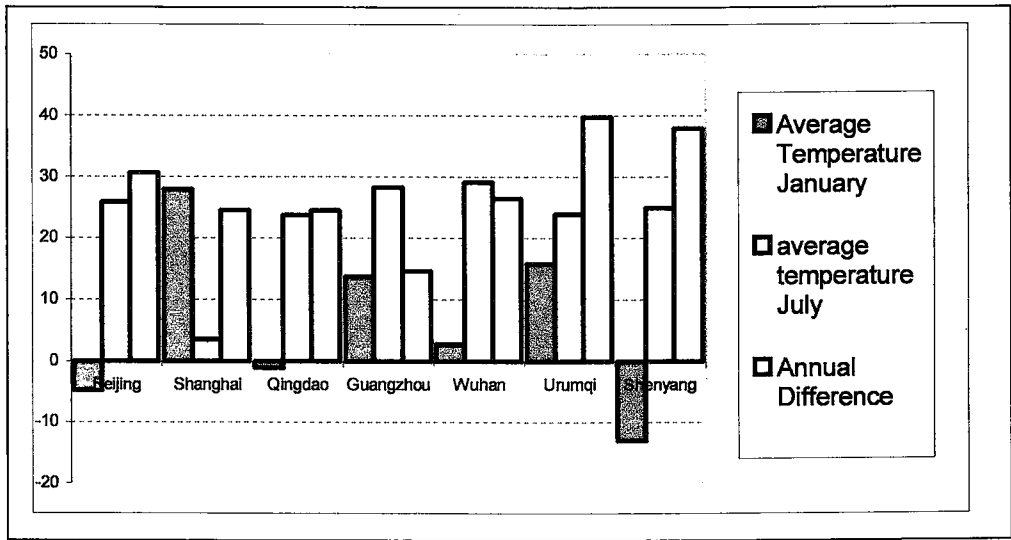
Average Temperature of China's Major Cities

City	January Average Temperature	July Average Temperature	Annual Difference
Beijing	-4.8 °C	25.8°C	30.6°C
Shanghai	3.5°C	28.0°C	24.5°C
Qingdao	-1.1°C	23.7°C	24.5°C
Guangzhou	13.7°C	28.3°C	14.6°C
Wuhan	2.7°C	29.1°C	26.4°C
Urumqi	-15.8°C	23.9°C	39.7°C
Shenyang	-13°C	24.9°C	37.9°C

Source: China a general survey. Qi Wen 1984

Fig. 2

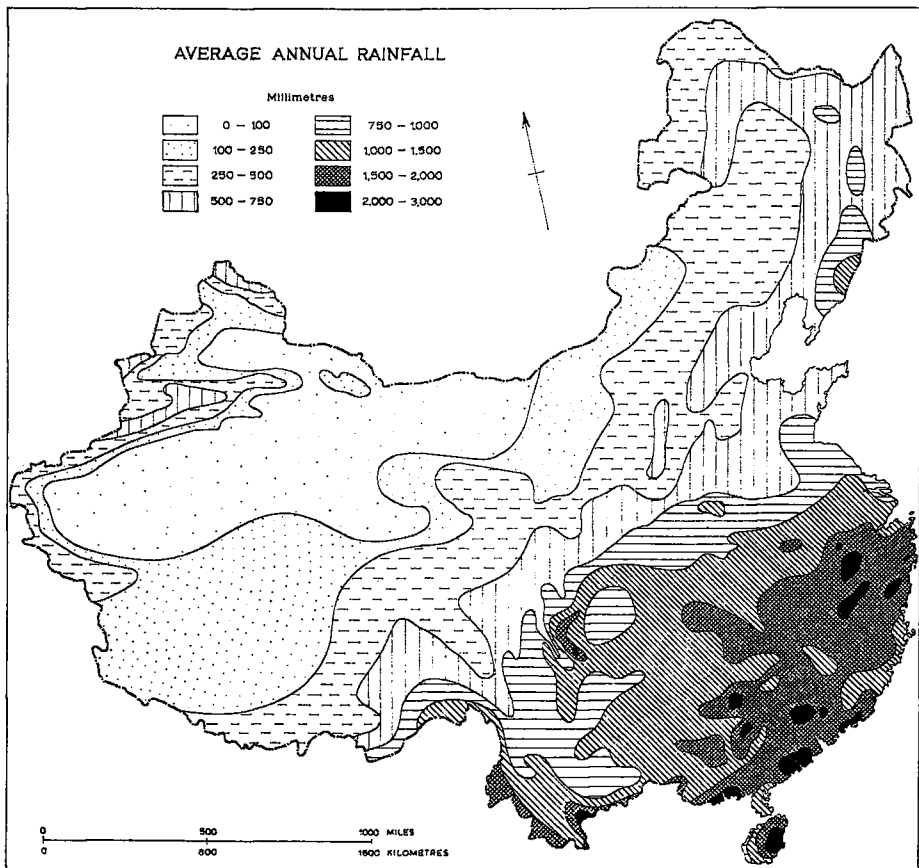
Average Temperature of China's Major Cities



### Seasons

Rainfall varies in China, it rains more in the south than in the north, more along the coast than inland and more in mountainous areas than on the plains (Fig. 3). The annual rainfall is 1,000 mm to 2,000 mm in the middle and lower reaches of the Changjiang River and in most of the southern areas. It is more than 2,000 mm in most of Taiwan and eastern Hainan Island; and 500 mm to 1,000 mm on the Huanghe, Huaihe, and Haihe plains. The annual rainfall is 200 to 500 mm on the west of the north-east and on the Loess Plateau. It is less than 200 mm in western Inner Mongolia, on the northern Qinghai Tibet Plateau and most of the Xinji and Uyigur Autonomous Region. Moreover, less than 20 mm of precipitation falls in the Nanjiang basin (south of Xinjiang), that has the lowest precipitation in China.

Fig. 3 China's Precipitation



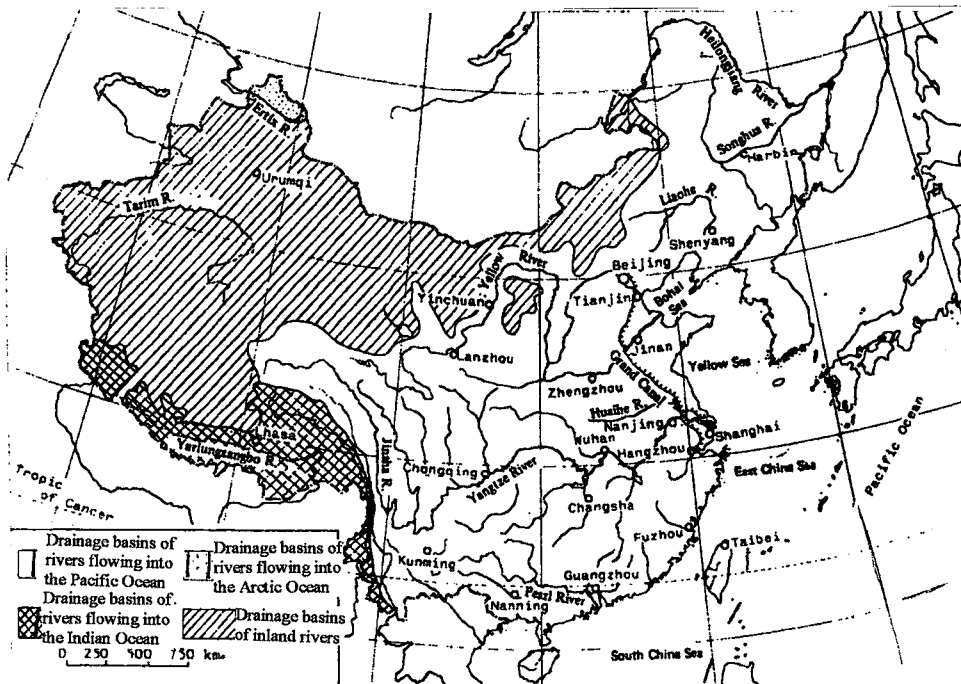
The climate in China is characterised by monsoon winds. Northerly winds blow in winter and southerly winds in summer. In general, the South China Sea Islands have summer all the year round, as do Guangdong, Guangxi, Fujian, Taiwan, and the southern part of Junnan Province. Heilongjiang, Inner Mongolia, the Changbai Mountains, the Tianshan Mountains, the Altay Mountains, and the periphery of the Qianghai-Tibet Plateau are cold year round, with brief springs and autumns. The Qiangthan Plateau in Tibet has winter all year round. The rest of China has four seasons with cold winters and warm summers.

#### 2.1.6. Rivers and lakes

There are hundreds of rivers in China. Most rivers have their sources in the west part of China. Most of these rivers run to the east, but some run to the south and west (Fig. 4). The largest run to the east, i.e. Changjiang (Yangtze River), Huanghe (Yellow River), and the Pearl River. The first is in mid-China, the second is in the north, and the third is in the south. The other ones are inland rivers. All these rivers play an important role in water transportation. According to Chinese information, more than 1,500 of the rivers have a catchment area exceeding 1,000 square kilometres.

Fig. 4

China's Rivers



The Yangtze River, the longest river in China and the third longest in the world flows from Qinghai province, through Tibet, Sichuan, Yunnan, Hubei, Hunan, Jiangxi, Anhui and Jiangsu and empties into the East China Sea at Shanghai. It has a total length of 6,300 kilometres and a catchment area of 1,807,199 square kilometres. The Yangtze river is an arterial waterway connecting such important cities as Shanghai, Nanjing, Wuhan, and Chongqing. It frequently floods its borders, imposing great damage and economic loss on the people living along its borders.

The Yellow River is the second longest river in China. Originating from the north face of the Bayan Har Mountains of Qinghai, it flows through Qinghai, Sichuan, Gansu, Ningxia, Inner Mongolia, Shaanxi, Shanxi, Henan, and Shandong. The Yellow River has a total length of 5,464 kilometres and a catchment area of more than 752,443 square kilometres. On its banks lie Lanzhou, Baodou, Zhengzhou, Jinan, and other important cities. The Yellow River valley is considered the cradle of Chinese civilisation.

The Pearl River is the largest river in southern China. Of its three main tributaries - the Xijiang, Beijiang, and Dongjiang - the Xijiang is the longest, rising in the Wumeng mountain area of Yunnan to flow through Guizhou and Guangxi and empties into the South China Sea in the Guangdong province. It is 2,197 kilometres long and its large flow makes it into a well-navigable river.

There are 370 sizeable lakes, 130 of which exceed 100 square kilometres, in addition to many man-made lakes and reservoirs. Most of the lakes are found in the Middle Lower Yangtze River Plain and the Yunnan Guizhou Plateau. There are also a large number of lakes in the Qinghai-Tibet Plateau, in the Inner Mongolia-Xinjiang region and in Northeast China.

If one draws a diagonal line across China from the southern section of the Greater Hinggan Range through the Yinshan and the eastern section of the Qilian mountain chain to the Gangdise massif, most of the salt lakes would fall north-west of this line. These lakes in the interior drainage basins have little water and no outlets, but they are rich in raw chemical materials such as salts and alkali. Best known among them are the Qinghai Lake, the Namco, and the Siling Co on the Qinghai-Tibet Plateau and the Lop Nur of Xinjiang.

The lakes southeast of the diagonal line would be mostly fresh water ones. As they are situated in the exterior drainage basins, they have outlets through rivers. These lakes, that provide inland water transport and irrigation waters, are a source of fertiliser, and support fresh water fish farming. Best known among the fresh water lakes are the Dongting, Honghu, Poyang, Chaohu, Taihu and Yangcheng on the middle lower Yangtze River plain; and the Dianzhi and Erhai on the Junnan Guizhou plateau. The better known lakes in Northeast China are the Jingbo, Hulun, and Lake Xingkai, which straddles the Sino-Russian border.

#### **2.1.7. Types of Soil**

China's variable climate, rock formation, topography and vegetation, as well as its vast territory and long history of agricultural development have given it many kinds of soil. On the Qinghai Tibet Plateau and in the north-west alpine area, the process of weathering and arable farming is still in the initial stages. The soil has developed into a calcic crust of weathered alpine soil, similar to the meadows and grasslands of the arctic zone. The interior arid areas of the Northwest are short of moisture. The soil and the weathered crust, that contains large quantities of lime, gypsum, and other soluble salts, have formed a salt-bearing crust and salt-bearing desert soil, including podzolic brown desert soil. A large area of saline alkaline soil blankets the Northwest of China.

Most of the soluble salts in the soil and crust are flushed away by drains in the semi-arid regions, but the less easily dissolved lime is still in the soil. It has formed a carbonate crust from weathering and other grassland soils in the process of calcification. The wetter regions in the eastern part of China mainly have acid forest soil. The terrain here is rather flat and the nature of the regions at different latitudes is fairly visible. The viscosity of the soil strengthens gradually along with the increase of solar heat. From north to south, the soil shifts from brown coniferous forest soil to yellow-brown, yellow, reddish, laterite and lateritic soil (Zhou Shunwu, China's provincial geography, p.8).



### **2.1.8. Mineral Resources**

Below the surface of China's 9.6 million sq. kilometres of land and 4.7 million km<sup>2</sup> of coastal water is a wide range of favourable geological conditions for mineralisation, that has created rich and extensive mineral depots. Nearly all 150 known kinds of minerals in the world have been found in China, including 134 with proven large reserves, over twenty among the richest in the world.

The mineral energy resources discovered to date include coal, petroleum, natural gas, oil, and radioactive minerals such as uranium and thorium. Hot ground water can also serve in part as energy source. Coal and petroleum have the highest value. China also discovered reserves of five ferrous metals, iron, manganese, chromium, vanadium, and titanium.

Deposits of iron and manganese are in substantial reserve; while deposits of high-grade iron and manganese ores are insufficient. Manganese deposits are mainly of the sedimentary and accumulative types, dating from anywhere from the early Sinian period to the Devonian and Permian periods. Manganese deposits are found in many places, with greater reserves in the south than in the north, predominantly in Guangxi, Hunan, Guizhou, Hubei, and Sichuan. In North China Liaoning is the only province with fairly large manganese deposits.

### **2.1.9. Non-Ferrous and Precious Metals**

These metals include copper, aluminium, lead, zinc, nickel, cobalt, tungsten, tin, molybdenum, mercury, antimony, bismuth, gold, silver and platinum. Of these, the proven reserves of tungsten, antimony, zinc, tin, molybdenum, lead and mercury are among the richest in the world. China's copper deposits of almost all types known to man are widely distributed. Lead, zinc, aluminium, nickel, tungsten, tin, antimony, molybdenum, mercury and gold are also widely distributed in China.

The proven reserves of rare earth metals surpass the total known number outside China: niobium, tantalum, and dispersed mineral elements are found mainly in iron and other metals and non-metallic minerals. China has proven reserves of 73 non-metallic minerals, including nine kinds of ancillary materials for metallurgical uses. Non-metallic ores for chemical

industries and 41 other non-metallic minerals are also found, e.g. phosphor, sulphur, magnetite, asbestos, graphite, mica, gypsum, kaolin, precious stones and coloured stones<sup>1</sup>.

#### **2.1.10. Grassland**

The total grassland area in China is 319.08 million ha., the useable area is 224.34 million ha. Grassland is good for animal husbandry, soil protection, rotation and crop diversification.

#### **2.1.11. Biological Resources**

China has 24,500 varieties of seed-bearing plants, which have been classified into 2,980 species and 301 families. Some of these plants are extremely rare, and have existed for so long in China that they are regarded as 'living fossils', such as the Metasequoia, the Ginkgo, and the Chinese tulip tree. China has 115 million hectares (1.73 billion mu) of forest, only 12 per cent of China's land surface area. Before the reforestation program, timber capacity was 10.26 billion cubic meters. The grassland area is 319.08 million hectares (about 4.79 billion mu), among which 22.434 million hectares (about 326.510 million mu) are in China's fresh water area, and 5.03 million hectares (about 75 million mu) are cultivable (3.05 million hectares under cultivation). Ocean fishing ground covers 818,000 square sea miles (4.2 billion mu) and 429,000 hectares are exploitable (163,000 hectares are being fished).

China has 420 species of wild animals, 1,166 species of birds and 510 kinds of reptiles and amphibians. Wildlife unique to China includes such well-known animals as the giant panda, golden-haired monkey, Chinese river dolphin, white lipped deer, eared pheasant and Chinese alligator. In order to protect the ecosystem, rare animals and plants, scenic spots and natural seashore, China had established 333 nature reserves by the end of 1986, covering 19 million hectares, 2 per cent of the Chinese surface area<sup>2</sup>. All of this is of the utmost importance to the tourist industry, as well as to the development of environmental protection policies.

### **2.2. China's Rural Characteristics**

Rural economic development in China happened along lines different from western countries, a difference caused by the specific conditions in China. It is a socialist, Third

World country. It is still relatively underdeveloped, owing to the old social system of before the "Liberation". Since 1949, the situation has changed dramatically, in particular in rural areas.

China's current economic situation is centred on the major lines of agricultural production such as agriculture, forestry, animal husbandry, and fishery. Their regional distribution and internal relations will be researched in an endeavour to formulate a theory, method, and a system that scientifically explains and predicts the trend of China's rural economic development. The conclusions may offer suggestions to relevant government bodies on the state policy of China's rural development as described by the Rural Development Institute<sup>3</sup>. Therefore, the role of the Rural Development Institute in changing rural areas from backward to modern societies is of crucial importance.

### **2.2.1. Specific Characteristics of Rural China**

In general terms, China can be characterised as a large country with a huge population, with much poverty and an uneven development, in some cases underdeveloped. In 1949, the Chinese rural population constituted 80% of the whole population. Since then, the proportion of the rural population has decreased to 72%. Before describing the transformation and readjustment in the agricultural sector it is necessary to describe the situation after the Liberation, but also to characterise the current situation. The analysis of the transformation and readjustment processes will take place in Chapter 3.

Rural China is characterised by subsistence crop farming and poverty. There have been numerous instances of peasants' uprisings in the Chinese history, as have been outlined in Chapter 1. For a long time, the rural population was utterly destitute. Seeking a way to solve these problems, Mao Zedong wrote some articles about the importance of the countryside and the role of the peasants in changing the backwardness of the countryside in relation to the future of China. The economic situation of rural areas has always been the centre of attention for Chinese policy makers. Many of the characteristics of the Chinese rural areas still persist. Chinese analysts have summarised China's rural characteristics as follows:

**Small Farms.** Chinese peasants have always lived with a prominent drawback: because there was not enough land, they were deprived of proper living conditions. Before the "liberation" they had had to sell their small pieces of land to landlords in order to settle their debts, thus becoming tenants. In China, agriculture has traditionally been prevalent as a result of poverty and illiteracy. Family labour has been the dominant management form of production. Although working exceptionally hard, farmers earned relatively much less than urban workers. In addition, the ethnic minorities, living in the remoter areas, were also typically subsistence farmers, due to their closed and isolated environment. Small farms are the result of the huge population and the relative scarcity of arable land.

**Scarcity of land and a huge population.** To serve so many people, China only had 127 million ha of cultivated land, about 0.10 ha per capita. The distribution of the cultivated land was (and still is) very uneven. Per capita land availability in the eastern coastal provinces is particularly small, as can be observed in the Beijing suburbs, in the southern Jiangsu province or around Shanghai, where the land to people ratio will be reduced to 0.07 ha per person, owing to the population growth and an increasing demand for non-agricultural uses by the government.

**Collective landownership.** Land in China was nationalised in the early days of the Republic, except for agricultural land in rural areas, which belonged to farmers' collectives. Farmers know their own plot very well, although boundaries between nationalised land and collectively-owned land are not always clear-cut. Farmers have their land on a contract, and the user-right is protected for generations without anybody's encroachment. Land would be compensated if it were to be taken over by the government for public needs, e.g. roads or reservoirs. Farmers have a limited piece of land for private use (as a garden) and of course, a homestead. It is prohibited to sell land or to transfer land to others without permission. The form of management is the collective system.

**Dual economy.** The dual economy in China has restricted migration. Since 1950, China has had a system controlling migration from rural to urban areas, to secure the distribution of food. Although now the Chinese government sees it as a sort of discrimination against farmers, at the time the system was necessary. It was necessary in order to guarantee the urban population their daily supplies of rice, white flour, cotton, etc, which was still produced in limited quantities because of the industrialisation. Under the registration system, all Chinese citizens were registered by their residence. The rural population remained out of

the scope of this, as the peasants were supposed to be absolutely self-sufficient. The household-registration system was introduced, as well as other restrictions, so that the rural population had no right to enjoy many of the state-subsidised welfare privileges that the urban population did have. The gap between town and countryside was thus enlarged. There is a lot of discussion about how to overcome the dual characteristics of Chinese society.

**Household Production Responsibility System (HPRS).** HPRS is the current policy to mobilise individual enthusiasm in the production process and to end the negative effects of the concentration of power in the hands of the People's Communes. According to the 'new look' in China, the period of the People's Communes (PC) 1958-1978 had been the result of a 'hasty decision' of policy makers, following the 'mass enthusiasm'. The emergence of HPRS and today's economic reform in rural areas was the outcome of the lesson learned during the 'Great Leap Forward' and the establishing of People's Communes. It was a reaction to 'leftist' policy which manifested itself in the form of egalitarianism, 'eating from the big pot', which caused laziness among the members of the PCs. The creation of HPRS was an important step in stimulating the enthusiasm of individuals for reform and the open door policy.

The open door policy changed the spirit from the collective to the individual. The collective works formally, and the individual works enthusiastically - the better the result, the larger the people's shares. This policy is closely linked to the political situation. If the state is in danger, the former form is preferred to the latter. In a situation of peace, rules are relaxed in favour of the individual.

In the 30 years since the founding of the People's Republic of China, to 1978, Mahong (1990) concluded. 'The rural economy developed rapidly, with the institution of the job responsibility system linking output with remuneration and the expansion of diversified undertakings. In addition, the people are encouraged to build houses and improve the quality of peasants' housing. An average of 10 million square meter of housing is rebuilt per year (1979). The peasants have higher demands for the construction of cultural and educational facilities, public health, commercial, transport and service facilities.

Since the class relations have changed in rural areas, the peasants are playing a far more important role in the countryside. They now take part in changing the production methods, and in the combination of the principles of collective ownership and individual cultivation

with the lease of land to the household. In this way, the 'socialist superiority' is combined with the dynamics of a market economy.

*The relationship between production and distribution, however, plays an important role in maintaining the balance between input and output. In a society, there are expenditure duties for the social sector, without income. Therefore, the combination of motivating forces of production and the social task to serve both the productive and the unproductive forces (children, students, and the ageing) was the gap and the link between the two production methods (collective and individual).*

### **2.2.2. Economic Legacy of Rural China**

The economy of the old China was overwhelmingly rural. In old China, about 85% of the people lived in the countryside. The great majority of them were farmers. John Lasing Buck (1956:165) estimated that in the early 1930s about 362,000 square miles were under cultivation in the eight agricultural areas of China. That would make the cultivated area only about 10 % of a gross land area of 3.7 million square miles, which are dominated by arid grasslands in the north-west, uneven hills in the south and south-west, and high table-lands and massive mountain ranges in the west.

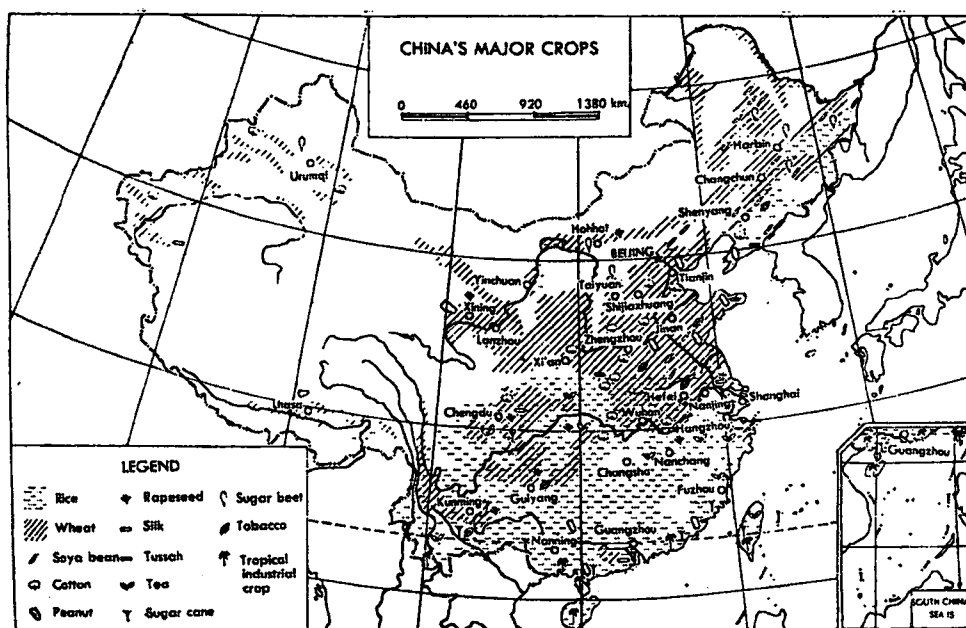
Carl Riskin (1988) notes that of the eight agricultural zones, only five are specific farmland areas (Fig. 5):

**The Northeast of Heilungkian Plain**, including parts of the three northwestern provinces (formerly Manchuria) of Liaoning, Jilin and Heilungjiang, is China's principal producer of gaoliang (sorghum) and soy beans and is a spring wheat area.

**The North China Plain**, beginning near Beijing in the north and stretching downward through Hebei and eastern Henan, Shandong and Northern Anhui, and Jiangsu. The cradle of China's civilisation and the earliest as well as the largest of the cultivated areas of the country, this region is dominated by the Yellow River which deposits the alluvial soil originating in the löss region upstream. Winter wheat, gaoliang, maize, and cotton are the principal crops.

Fig. 5

China's Major Crops



**The Middle and Lower Chiangjiang Plain**, on the banks of the Yangtze River, from Yichang stretching eastwards toward Shanghai. The climate is warm and humid, with fertile easily irrigated soil; it is a major rice area, but also produces wheat, silk and cotton.

**The Chengdu Plain**, in western Sichuan; a basin lying 500 metres above sea level amid the higher mountains, formed by the gradual descent from the Qinghai-Tibet Plateau towards the plains of the east. It is an extremely fertile rice-growing area and very heavily populated. Sichuan is the most densely populated province in China.

**The South China valleys**, especially the Pearl River Delta of Southern Guangdong. They are ribbons of lush rice and subtropical cultivation amidst the hills of the region<sup>4</sup>.

## **2.3. People, Land and Prosperity**

### **2.3.1. Distribution of the Population**

The population in China is unevenly distributed (Figs 6-8). The inland areas, borders with other countries, are scarcely populated. Coastal provinces are densely populated. The census of 1982 indicated that in the period up to 1992 the population of the mainland would increase with 12.45 percent to 1,113,682,501. Although the national average density was 118 persons per km<sup>2</sup>, the most populous region was Shanghai, with 2118 per km<sup>2</sup> while the least populated area was Tibet with 1.8 person per km<sup>2</sup>. These figures show the extremely differentiated distribution of the population.

The statistics of the census of 1990 (see statistics elsewhere) show that of the autonomous regions of minorities in western China, situated along the border with foreign countries, four are below national average. The table below shows the situation as follows (Table 2).

Apart from the Minorities Autonomous Region of Guangxi, these are the least densely populated regions. To achieve an increase in the population of these regions, the government decided that the strict birth control rules would not apply to these regions. In contrast, the Han nationalities were subjected to strict birth control.

The east of China, with the Han nationalities, consists of 10 provinces and 3 municipalities under the central government. This is the most densely populated area.



Fig. 6

The West part of China: Minority Nationalities Density per km<sup>2</sup>

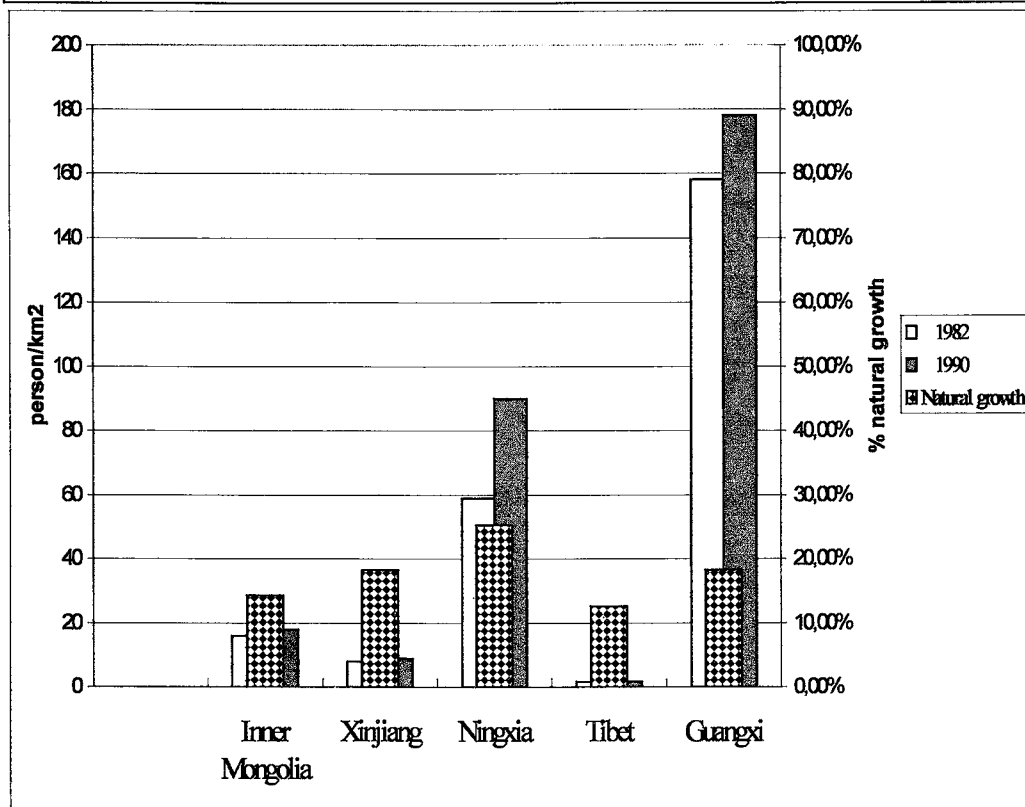


Fig. 7 The Ten Provinces and Municipalities of East China's Population and Density per km<sup>2</sup>

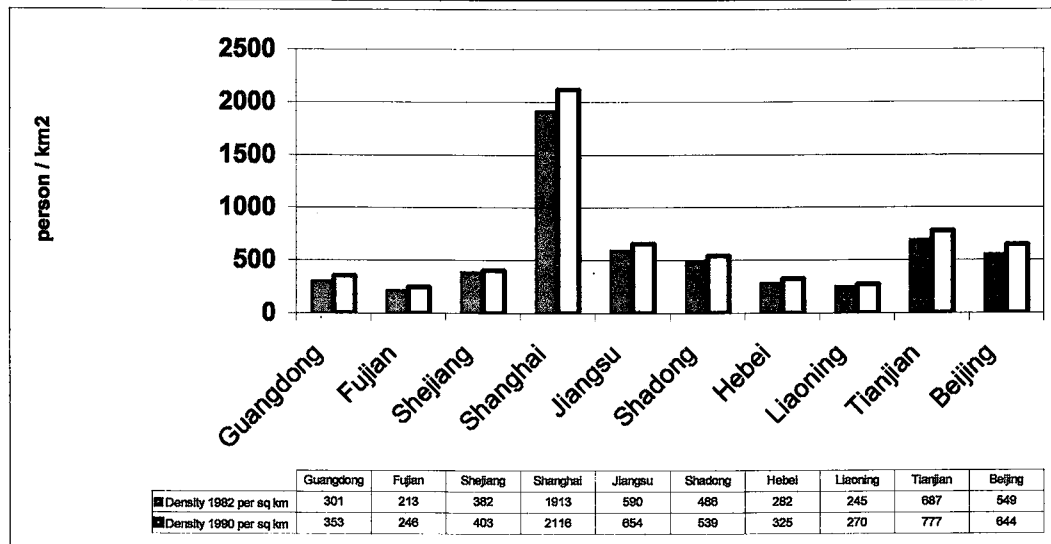
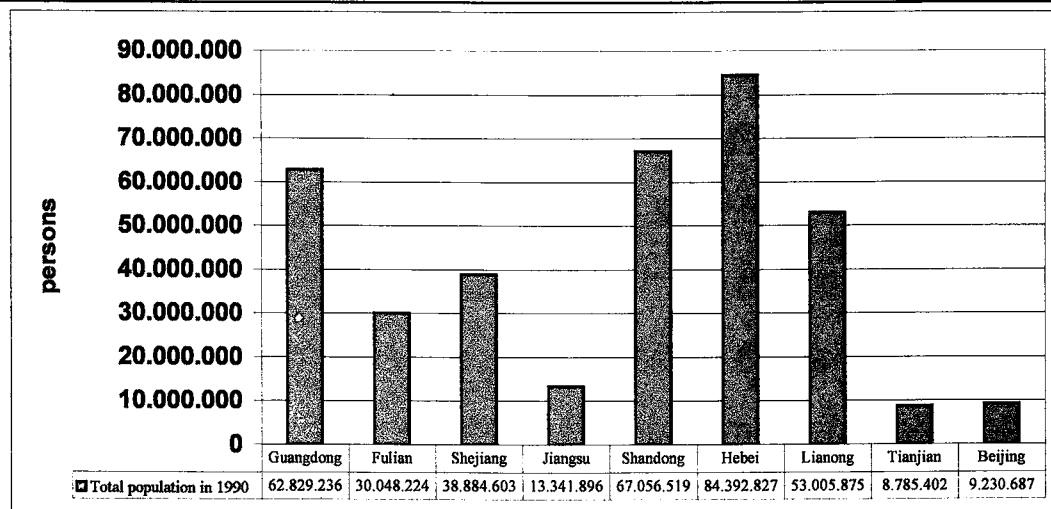


Fig. 8 Total Population in 1990



Note: along the coastline 5 Special Economic Zones are situated and 14 coastal port cities have the status of an open market. Other provinces are situated in central China.

Table 2 Statistics of Total Population 1990-1992

Place	Total population 1992	Total population 1990	Increase (%)	Density 1992 (pers./km <sup>2</sup> )	Density 1990 (pers./km <sup>2</sup> )	Birth rate	Death Rate	Natural growth rate	Proportion of urban natural change of total population
Beijing	10,819,407	9,230,687	17.21	644	549	13.35	5.43	7.92	73.08
Tianjin	8,785,402	7,764,141	13.15	777	687	15.50	5.98	9.52	68.65
Hebei	61,082,439	53,005,875	15.24	325	282	19.66	5.76	13.9	19.08
Shanxi	28,759,014	25,291,389	13.71	184	162	22.31	6.25	16.06	28.72
Inner Mongolia	21,456,798	19,274,279	11.32	18	16	20.12	5.79	14.33	36.12
Liaoning	39,459,697	35,721,693	10.46	270	245	15.60	6.01	9.59	50.86
Jilin	24,658,721	22,650,033	9.30	132	120	18.40	6.12	12.28	42.65
Heilongjiang	35,214,873	32,665,546	7.80	78	69	17.51	5.33	12.18	47.17
Shanghai	13,341,896	11,859,748	12.50	2118	1913	11.32	6.36	4.96	66.23
Jiangsu	67,056,519	60,521,114	10.80	654	590	20.54	6.07	14.47	21.24
Zhejiang	41,445,930	38,884,603	6.59	407	382	14.84	6.10	8.74	32.81
Anhui	56,180,813	49,665,724	13.12	404	356	25.04	5.79	19.25	17.9
Fujian	30,048,224	25,873,259	16.14	248	213	23.45	5.70	17.75	21.36
Jiangxi	37,710,281	33,184,827	13.64	226	199	24.47	6.59	17.88	20.4
Shandong	84,392,827	74,419,054	13.40	539	486	18.86	6.25	12.61	27.34
Henan	85,509,535	74,422,739	14.90	512	446	24.03	6.18	17.85	15.52
Hubei	53,969,210	47,804,150	12.90	290	255	24.32	6.84	17.48	28.91
Hunan	60,659,754	54,008,851	12.31	286	257	24.03	7.07	16.96	18.23
Guangdong	62,829,236	53,631,551	17.15	353	301	21.96	5.34	16.62	36.77
Guangxi	42,245,765	36,420,960	15.99	178	158	20.71	5.96	14.75	15.10
Hainan	6,557,482	5,667,669	15.70	193	167	22.95	5.22	17.73	24.05
Sichuan	107,218,173	99,713,310	7.53	188	176	17.78	7.06	10.72	20.25
Guizhou	32,391,066	28,552,997	13.44	184	162	23.77	7.13	16.64	18.93
Yunnan	36,972,610	32,553,817	13.57	94	83	23.59	7.71	15.88	14.72
Tibet	2,196,010	1,892,393	16.04	1.8	1.6	27.60	9.20	18.4	12.59
Shaanxi	32,882,403	28,904,423	13.76	160	141	23.49	6.49	17	21.49
Gansu	22,371,141	19,569,261	14.32	49	43	22.85	5.92	16.93	22.04
Qinghai	4,456,946	3,895,706	14.41	6	5	22.65	6.84	15.81	27.35
Ningxia	4,655,451	3,895,578	19.51	90	59	24.56	5.07	19.49	25.72
Xinjiang	15,155,778	13,081,681	15.85	9	8	24.67	6.39	18.28	31.91
Total	1003937058	877,340,595	12.61	105	118	20.98	6.28	14.7	26.23

Note:

1. Total population includes the number of servicemen of the Chinese People's Liberation Army
2. The period of the natural population growth refers to the data 12 months before 1990 census
3. The proportion of the total population of cities and towns is counted according to the following approaches:  
Total population of the cities refers to the combined total of the population of the administrative district and the population of the neighbourhoods of those cities without administrative districts.  
The population of towns refers to the combined total of the neighbourhood under the jurisdiction of those cities without administrative districts, and the population of the neighbourhood committees of those towns under the jurisdiction of counties

### **2.3.2. Land and Food Problems**

China has a vast territory, with an economy not only backward but also uneven in development. Moreover, the distribution of arable land is uneven. Ten percent of the territory of China consists of arable land. This is concentrated in the east and northeast of China, where also the population is concentrated. On the other hand, the western part of China is a vast territory but scarcely populated. In this area are the three largest autonomous regions of minority nationalities: Inner Mongolia, Xinjiang, and Tibet, with a respective density of only 18, 9 and 1.8 person per km<sup>2</sup> in 1990. Therefore, the largest area turns out to be the least-densely populated.

Because of the topographical condition (mountains, deserts, pastureland, and hills) and the poor transportation system, the people living in these areas are isolated and remain backward. How the Chinese plan to solve this problem will be discussed in Chapter 4.

The limited arable land and the huge population result in an unstable food situation in China. In the remote areas, the people still live primitively. The existing farmland has been overexploited, sometimes by planting twice to three times a year. While the table-lands, arid land and hills remain unexploited.

Without a thorough investigation of these problems, and without much understanding of Chinese government policy, Lester Brown of the American World Watch Institute formulated the following worrying conclusion of foreign China-watchers. China in the year 2030 will import between 216 and 378 million tons of grain<sup>4</sup>. The reaction of China and Chinese policy towards these problems will be discussed later.

### **2.3.3. Rural Population Needs**

This thesis will pay attention to the following three subjects: people; land and food; prosperity and security.

The rural population of China is 800 million people, larger than the combined populations of the European Community, North America, and Japan. They were all sufficiently fed and clothed in 1990. The 80 million people living in the remote areas are still under the average living

standard of China. The Chinese government plans to provide these people with sufficient food and clothing by the year 2000, which is one of the top priorities of the 9th Five-Year-Plan (FYP): 1996-2000.

How the prosperity of the Chinese population has changed and modernised, in particular as a result of the 8th Five Year Plan (1991-1995), will be discussed further. The problems of education, social insurance, housing, health etc, and political consciousness as required by the Chinese, will be dealt with in the next chapters.

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<sup>1</sup> Fact an Figures, China 1985, pp 48-50

<sup>2</sup> Zhou Shunwu: China's Provincial Geography, 1992

<sup>3</sup> Annual Report on Economic development of Rural China and development trends in 1994

<sup>4</sup> Volkskrant, 25 August 1994

## *Chapter 3*

### **TRANSFORMATION AND READJUSTMENT IN THE AGRICULTURAL SECTOR**

This chapter describes the transition period from the “Liberation” up to the new situation, the Four Modernisations. Laying an economic foundation was a task of crucial importance. The old system of ownership where the means of production were in the hands of foreign powers, capitalist bureaucrats, landlords and rich farmers had to be transformed. State enterprises were created, distributing the land among the tillers, which became the basis for the current economic development, especially for the rural economics. A collective system was created in the agricultural sector (1953-1957) and the People's Communes (PCs) were set up (1957-1976). The concentration of power was in the hands of the PCs, with both positive and negative effects. In short, this chapter will deal with the relationship between the economic development from the 1960s up to the past 15 years since the Modernisation (1980-1995).

#### **3.1. Laying Down the Socialist Economic System in China**

##### **3.1.1. Transformation**

After the “Liberation” was accomplished the political reasoning of the Communist leaders was as follows:

“The Revolution was over. The People's Republic of China was proclaimed to the whole world. A first socialist country had emerged in the east. The semi-feudal and semi-colonial system had been ended. The “new-born Republic” faced new tasks and challenges. No longer

did it need "to destroy the old system", it could now concentrate on building a new one. Only some remnants of the old system needed to be put out of the way before the new one could be smoothed in. The second task was finding a method to build a socialist system in a country with a predominantly peasant population."

The landlords and rich peasants made up less than 10 % of the rural population, but they owned at least of 70 % of the cultivated land, by means of which they ruthlessly exploited the peasants. The farmhands, the poor peasants, and the middle peasants accounted for 90% of the rural population, but they only owned less than 30% of the cultivated land. The land rent ranged anywhere from 50-80% of the crops. The reform of the system of landownership would destroy the roots of feudalism in rural China, and ultimately 'return the land to the tiller'.

While the 'People's Liberation War' was still raging, land reform was already being carried out in various "liberated areas". It had been completed for 140 million people on the eve of the founding of the People's Republic. The reform was launched nation-wide after the birth of the 'New China' and was basically accomplished by the end of 1952.

Through this land reform, the 300 million peasants in China who owned little or no land, now received more than 500,000 hectares of cultivated land, plus draught animals, farm implements, houses and other types of property. They were freed from an exorbitant rent amounting to 35 million tons of grain. After the land reform, the poor and middle peasants owned over 90% of the farmland, while the former landlords and rich peasants owned about 8%<sup>1</sup>. The era of feudalism or warlords ownership in China that had been the basis of feudal exploitation for 2000 years and the root cause of the country's poverty and backwardness had ended. This revolution freed Chinese peasants from the feudal yoke and created an essential condition for prosperity in the new system.

In 1949, the gross value of the output of modern industry was only 17 % of the gross value of the industrial-agricultural output. Most of the pitifully small modern industries were concentrated in the coastal cities and dominated by foreign capital. The highest annual output of steel was only 900,000 tons. Electric power output was less than 6,000 million kilowatts.

In 1949, the rate of inflation was very high. During the eight years of resistance against Japan (1937-1945), the Kuo-Min Tang government issued banknotes totalling 556,900 million yuan. The total amount of currency that circulated in August 1945 was 663,694,400 million yuan. In the twelve years from 1937 to August 1949 the Kuo-Min Tang government increased the banknotes issued to over 140,000 million<sup>2</sup>.

As a result of the above-mentioned situation, the population of China (when there were 450 million) lived in extreme poverty and suffered from political oppression.

The Chinese Communists, who had captured the power from the ruling class, the Kuo-Min Tang, and who had destroyed the semi-colonial and semi-feudal roots of the country, considered changing this situation their main objective. Hence, they wanted to build a socialist society with a better life for the workers and the peasants. John Gurley, professor at Stanford University, California, USA, wrote:

*'Until 1927, this attempt was primarily by urban workers around their immediate demands and by shaping these groups into a revolutionary force. The repeated failure of this policy shifted the focus of the movement to the countryside, where they established rural base areas. These bases were protected militarily and developed socially, politically, and economically. From these revolutionary bases the revolution was expected to spread across the land, and back to the cities and urban workers<sup>3</sup>.*

To connect the international situation with the background of the Chinese Revolution, the Chinese historian Bai Shuoyi wrote in the typical propagandistic style:

*'The success of the 1917 October Revolution was welcomed enthusiastically by progressive people in China, who took up the study of Marxism-Leninism and re-evaluated China's problems in its light. The process of the propagation of Marxism-Leninism produced the first group of Chinese intellectuals with an elementary knowledge of communist ideology (...) From the beginning of the spread of Marxism-Leninism in China, comrade Mao Zedong represented the correct direction in the combination of the universal truth of Marxism-Leninism and the concrete practice of the Chinese Revolution<sup>4</sup>.*

Under these conditions, the PRC achieved a preliminary result in the economic field in the rehabilitation period (1950-1952):



- ◆ The unification of the nation to integrate the economy and a single national market, to handle the contradiction between the capitalist and the socialist sectors of the economy. In 1950, the government assumed unified leadership over the country's finances.
- ◆ Unified control of government revenue and expenditure throughout China.
- ◆ State allocation of supplies, restriction of cash payment to end the inflation that had plagued the Chinese people for years.

By the end of 1952, China had achieved a basic turn for the better in its economy and finances:

- ◆ Gross agricultural output value grew by 48.5 % over 1949 (14.1 % per year). It was 18.5 % above the figure for 1936.
- ◆ Grain output reached 163.9 million tons, 44.8 % increase over 1949 and 9.3 % over the pre-liberation peak;
- ◆ Water conservancy projects damaged in wartime were repaired and a number of new ones constructed.
- ◆ 1952 major industrial products: pig iron 1,939,000 tons, steel 1,350,000 tons, coal 66,000,000 tons, electricity 7,300,000,000 kilowatts and cigarettes 2,650,000 boxes.
- ◆ Transport and communications: a total 24,000 km of railways were open to traffic in 1952; motor roads in service during the year reached 127,000 km; inland navigation was conducted on 95,025 km.

Employment:

- ◆ More than two million unemployed got jobs between 1949 and 1952, ending the unemployment that was left over from the old society; these jobs were mainly created by the government, partly to build up the infrastructure but also partly by increasing the number of civil servants;
- ◆ The number of industrial and office workers doubled from 8 million in 1949 to 16.03 million in 1952;
- ◆ Average wages rose by 70 % and the peasant income by more than 30 % during the three-year period;

- ◆ Total retail turnover rose from 17.06 billion yuan in 1949 to 27.68 billion in 1952, a 62 % increase.<sup>5</sup>

The result of this transition period was a precondition for the first stage of socialist construction.

### **3.1.2. Laying the Foundation for the Economy**

Before the Liberation, Mao Zedong had paid much attention to the question of how to develop China after the "Liberation". He researched and interpreted the historical revolutionary scene in Western Europe where the "capitalist classes had risen against the old feudal classes, before the Bolshevik revolution". The revolutionary movements in the underdeveloped countries, including China, consisted of national capitalists rising against the old order to establish a bourgeois society in each country. The political situation in underdeveloped countries after the Bolshevik revolution changed dramatically, particularly in Asia.

The economic structure of China, historically a semi-feudal and semi-colonial country after the Opium War (1840), should be changed into three sectors or in five economic forms:

1. State Economy: The socialist sector of the economy under ownership by the whole people. It was the leading force in the national economy and the material foundation for socialist transformation. The state economy accounted for 19.1 % of the national income in 1952.
2. Co-operative Economy: This form belonged to the socialist sector of the economy under collective ownership by the working people. It was a transitional form of organisation for peasants, artisans, and other individual workers shifting over to collective ownership. Co-operative economy accounted for a mere 1.5 % of national income in 1952.
3. Individual Economy: The economy of individual peasants, artisans, and other independent workers. It accounted for as much as 71.8 % of the 1952 national income. This form had the largest share of the economy in 1952.

4. Private Capitalist Economy: The economy of the national bourgeoisie that was preserved when enterprises owned by the "bureaucrat capitalists" were confiscated. It accounted for 6.9 % of 1952 national income.
5. State Capitalist Economy: The capitalist enterprises managed by the people's government. This accounted for only 0.7% of the national income in 1952.

While the first and second economic forms grew in importance, the individual economy decreased. This policy was inherent to the socialist system of ownership where the state sector must lead the national economy, supported by the co-operative economy, while the third was complementary to the socialist economic system.

### **3.1.3. The First Five-Year-Plan (1953-1957)**

One of the specific characters of the socialist system is the central economic planning. Having completed the rehabilitation of the country's war-torn economy in the three years since the Liberation, the People's Government launched the first Five-Year Plan for Development of the National Economy in 1953. The general task of the Plan was 'to lay the groundwork for socialist industrialisation and for the transformation of agriculture and handicrafts, and to lay the foundation for the socialist transformation of private industry and commerce'.<sup>6</sup>

The total outlay for the country's economic construction and cultural and educational development during the period 1953-1957 was set at 76,640 million yuan, or the equivalent in value of more than 700 million shih liang of gold (one shi liang = 1,1023 ounces).<sup>7</sup> This capital was allocated for capital construction, industrial production, agriculture, and other economic branches. Education and scientific research was given special attention. Last but not least, the aim was to increase the living standard of the peasants, who constituted the bulk of the Chinese population.

#### 3.1.4. From Land Reform to Agricultural Collectivisation

A huge area of 46 million ha of land held by the landlords and rich peasants was confiscated. It was distributed among some 300 million landless or land-poor peasants. Thus, they felt the concrete benefits of the revolution. After the completion of the reform, the government made an effort to protect and encourage the enthusiasm of individual households to take the road of socialist collectivisation. That this initial enthusiasm had been present was still apparent from the discussions of the author with local farmers.

The co-operative movement, or collectivisation, progressed in three phases:

- ◆ First - the mutual aid teams, the elementary agricultural producers' co-operative.  
From 1951 to early 1953, the government organised the peasants into mutual aid teams, each consisting of up to a dozen peasant households. In 1953, the mutual aid teams were turned into elementary agricultural producers' co-operatives of a semi-socialist nature, characterised by the pooling of land-shares under unified management.
- ◆ Second - By the end of 1956 over 96 % of all peasant households had joined agricultural producers' co-operatives, 87.8 % of which were advanced co-operatives of a socialist nature. In these co-ops, no remuneration was given for land pooled. The co-op-members' draught animals and farm implements were owned collectively after the original owners were paid in cash, and the principle of 'distribution according to work' was applied.
- ◆ Third - By the end of 1958 all the agricultural producers' co-ops throughout the country had changed over into Communes. In 1959, there were more than 54,000 People's Communes and 2,000-odd state farms in China. The People's Commune (PC) was a state organisation of collective economy. In 1982, the state decided to install township governments, with PC's still existing as organisations of collective economy with a 'production contract system'.

Of course the collectivisation was not without problems. The former land owners did not accept it voluntarily and their resistance was strong. Yet, compared to other countries the agricultural collectivisation in China went relatively smoothly. What is the 'secret' of that?

One of the reasons lies in the Chinese policy to take it slowly and guide the peasants step by step until the goal was reached. The peasants were educated about the role of the co-operatives in the socialist development. Perhaps lessons were also drawn from mistakes made during the civil wars (1927-37 and 1947-49), before the "Liberation", when the Communist Party launched its land reform projects in the "liberated areas". This is the main difference with the agricultural collectivisation under Stalin in the Soviet Union at the end of the 1920s. Stalin and his friends ordered local officials in a few selected areas to try out mass collectivisation by whatever means were handy. When the result showed that victory was possible, Stalin with Molotov and Kaganovich as his closest associates in that matter, decided to launch the collectivisation campaign, using for the purpose the activists already mobilised to enforced Ural-Siberian method in his article of 7 November 1929.<sup>8</sup> Actually, the people were not prepared.

The number of PC's in China had risen so drastically in 1959, that mistakes were unavoidable. One of the most important mistakes was the rapid development of 'advanced co-ops'. Some criticised this as 'taillism' because mass enthusiasm was followed blindly by the leaders. In the period of the Great Leap Forward, this was considered 'a mistake' and it was a source of internal dispute within the Party before the Revolution. Other major mistakes were made by lack of experience, enhanced by the self-reliance model chosen by Mao c.s.

#### *The Development of Agriculture*

Agricultural co-operation developed very fast in China. Table 3 shows the growth of the various forms of co-operation.

The Chinese leaders decided that the national economic development had to be based on two sectors: agriculture as the basic sector, and industry as the driving force. The government gave priority to agriculture in various activities.

The credit funds allocated to the rural areas amounted to 224.1 billion yuan from 1952-1981. The development of hydroelectric power stations, water conservation, and irrigation was directed to improve the agricultural development under leadership of the People's Commune. The state made great efforts to tame the Yellow River, the Huihe River, the Hihe River, and

other unruly rivers. Dykes were constructed or reinforced along the major rivers, and more than 100 man-made waterways for draining flood water and excessive rainfall grew rapidly. In the old China, flooding was a major cause of losses in agriculture and the resulting famines affected thousands to millions of people.

The technology supporting agriculture was of great importance to the government. In 1983, China had 840,000 large and medium-sized tractors that ploughed 40% of the country's arable land. The irrigation and drainage machines amounted to 78,48 billion hp. Mechanisation in sowing, hoeing, harvesting and transport also developed rapidly, and the power of agricultural machinery totalled 245 million hp, 145 times that of 1957.

The agro-scientific research institutes, set up by the central and local authorities helped to spread science-based farming practices. These were specialised institutes for research projects on grain, cotton, tea, fruit trees, vegetables, tobacco, bee keeping, tussah silkworm raising, best fibre plants, forestry, aquatic products and meteorology.

In 1978, the government adopted a series of significant policies and measures to develop agriculture. These included: raising the purchasing price of farm produce, respecting the decision-making power of production teams and commune members, and restoring private plots and rural fair trade. Abolishing unnecessary restrictions on household sidelines and establishing all forms of the production responsibility system were also included.

All these measures, especially the 'production responsibility system', have enabled a better implementation of the socialist principle of 'each according to his work' and stimulated the peasants' enthusiasm for production according to a fixed price. The total output value of agriculture in 1982 reached 262.9 billion yuan, 4.55 times more than in 1952.

But in the period 1952-1982 there also had been a lot of suffering and hardship, especially during the Cultural Revolution. The majority of the people still lived in rural areas and conditions were often very difficult. Urban people were moved to rural areas as a strategic measure to enhance interaction and mutual understanding between urban and rural people. The urban people needed to be educated to understand the poor conditions and backwardness

under which peasants had to live. Settling urban students and intellectuals in villages helped peasants to learn and embrace modern ideas.

The development of agriculture in 1982 since the Four Modernisations in 1979 will be explained in the next chapters.

**Table 3      The proportional share of the various forms of co-operation in %**

	1950	1951	1952	1953	1954	1955	1956
<b>Peasants households in mutual aid teams or co-operatives</b>	10.7	19.2	40.0	39.5	60.3	64.9	97.2
<b>In mutual aid teams</b>	10.7	19.2	39.9	39.3	58.3	50.7	0.9
<b>In co-operatives</b>			0.1	0.2	2.0	14.2	96.3
<b>In elementary co-ops</b>			0.1	0.2	2.0	14.2	8.5
<b>In advanced co-ops</b>							87.8

Source: China Handbook Series, Economy, p.19 (1984)

## **3.2. The Major Economic Problems during the Transition**

### **3.2.1. The Major Economic Problems**

The period of the Cultural Revolution was a very difficult phase in China's history. Problems accumulated and finally disasters struck the country in a rapid sequence. The tenth year since the beginning of the Cultural Revolution in 1966, i.e. 1976, was the most difficult year so far. It started with the death of Prime Minister Zhou En Lai in January 1976, followed by the Tien An Men political action showing sympathy to Zhou En Lai, in a day of mourning. The natural disaster of the Tangshan earthquake in July affected both human and economic life. The death of Mao Zedong in September had a great impact on all Chinese people. All this happened in the year that ended a ten-year period of turbulence and marked the beginning of a new period. The time had come to realise the idea of the Modernisation.

After the collapse of the 'Gang of Four' (1976), a great part of public opinion was dominated by the negative effects of the Cultural Revolution. It was considered defective to show the positive sides of the Cultural Revolution. Those sacrificed by the Cultural Revolution demanded rehabilitation. In 1977, the Party Congress resumed the new situation.

The General Scientific Conference of 1978 was held in a new situation. The relations with foreign countries, in particular with Western Europe, expanded. The old cadre was rehabilitated to new positions.

Things developed rapidly. The campaign of 'de-Maofication' spread fast, especially in the foreign press. Efforts were made to negate the role of Mao Zedong and his ideas. All this was to be replaced by Deng Xiaoping with his creed 'either the black cat or the white cat, as long as the mouse is caught'. This was interpreted by the press as a new course of the revolution in China. They predicted a time of 'destalinisation' in China. The situation gradually developed into a greater sobriety. Three issues emerged in this process. The first was the Chinese policy of economic development. The second was the political development, both nationally and



internationally. The third issue was the position of the Chinese intellectuals. The first issue will be reviewed in this section.

Obviously the economic development had slowed down by the Cultural Revolution. The extent to which this might have been the case was part of the discussion in Section 3.2.2. The economic situation before the Cultural Revolution was assessed as positive, especially during the first Five-Year Plan (1953-57), while the following period was described as 'an uncertain situation' affected by some problems and mistakes. These problems and mistakes deserve further attention.

The error of the Great Leap Forward (1958-1960) was considered the root of all evil. It was a period with a complete lack of experience and an inadequate understanding of both the 'general laws' of economic development and the basic economic conditions in China.

The 'left' error manifested itself in impatience for 'quick results' during the movement for the establishment of rural People's Communes initiated in 1958. The tendency towards an extreme egalitarianism (the so-called Communist wind) spread unchecked through the country. The natural calamities in 1959-61 affected 320 million people causing food problems for many years. The Soviet government cancelled contracts and withdrew her experts in 1960, so that the economic projects in co-operation with the Soviet Union could not continue. A total of 1390 Soviet specialist contracts, and a supplement of 257 scientific and technical co-operative projects were cancelled. The trade relations with the Soviet Union were seriously affected.

In such a situation the blockade by the United States was more strongly felt. The question arose what China had to do now that the western countries joined the United States in their blockade of China. Should the country yield to the United States so that the blockade would be lifted? Or should China try to solve the economic problems on its own strength? Some politicians thought that China could draw a lesson from its Democratic Revolution with the slogan 'self-reliance'. Mao, chairman of the Communist Party, and responsible for party strategies, opted for the latter way.

### 3.2.2. The Economic Losses

Chinese scholars, politicians, and economists generally agree that the economic losses during the Cultural Revolution were extensive, but they differ in their assessment of the scale. The Chinese economists evaluated that since the second Five-Year Plan (1958-1962) there had been a marked decline in economic results. In industrial production, the amounts of profits realised per hundred yuan of fixed assets in industrial (State) enterprises declined by 48.8 %, from 23.6 yuan in 1957 to 12.1 yuan in 1976.

The cost of construction projects had increased several times since the first Five-Year Plan-period. The time span for completing construction projects also became much longer. The rate of investment turned into fixed assets was 83.7 % during the first Five Year Plan and 71.4 % during the second Five Year Plan. Mahong calculated, "if the rate during the first Five Year Plan had been maintained, an additional 100,000 million yuan of fixed assets could have been created from 1958-1978".

The investment plan was meant to increase the national income<sup>9</sup> by 1.68 million yuan during the first Five Year Plan, in reality it was 3.76 million yuan, an increase of more than 100 %. According to Mahong, " if the investment coefficient during the fourth Five Year Plan had been maintained, the national income should have increased by more than 300,000 million yuan". Thus, the result of the economy during the fourth Five Year Plan was far behind the target of the first Five Year Plan. Due to the variations in industrial and agricultural production and the decline in income results, it was inevitable that the growth rate of the national income would tend to decline. For a period of thirty years (1951-1981) the average annual growth rate of the gross output value of agriculture and industry was 9.2 %, while the average annual growth rate of national income was only 7.1 %.

For most of the time, people's livelihood in China did not improve at the same rate as the growth in production, and sometimes it even declined. The average wage of workers and staff members increased quite rapidly from 446 yuan in 1952 to 637 yuan in 1957. After the second Five Year Plan the average wage only increased to 644 yuan in 1978. This is only a

1.1 % increase over a period of 21 years. Also the cost of living index dropped from 581 yuan in 1957 to 514 yuan in 1978, a decline of 11.5 %.<sup>10</sup>

The livelihood of the peasant was even more under stress. There were 770,200 basic accounting units (team production) making up 16.5 % of the total. The yearly sum per capita derived by commune members from the collective was 40 yuan in 1978. In 463,000 other accounting units, 10.6 % of the total number of the average amount of grain distributed from the collective was less than 300 jin (one jin = 1/2 kg) per capita. There were 32.94 million agricultural households whose expenditure exceeded their income, making up 19.5 % of the total number of households participating in the commune's income and grain distribution.<sup>11</sup>

### **3.2.3. Economic Mistakes**

The problems in economic development were caused by both economic mistakes and non-economic reasons. The economic mistakes included selecting wrong strategies and wrong goals. They included also inadequate methods to achieve the goals because of an incomplete understanding of the basic economic laws and of socialism, and a lack of experience so that work was done without sufficient, rational direction.

The only suitable 'model' was the experience of the Soviet economic development, although its domestic background and situation were incomparable. Yet, the Chinese felt that copying the Soviet model was the only way. Mao did not remain passive on this issue.

Already in 1956, Mao wrote an article, the 'Ten Major Relationships', in which he described the characteristic Chinese historical background and the concrete conditions which needed to be stipulated. However, the stipulation of this basic view and strategic task never appeared, although it was actually a task for the government. Implementation of the Major Relationships thus never occurred and neglecting this view of Mao contributed to the problems that arose later. Consequently, mistakes have been made, and differences of concepts have existed, concerning how to achieve the economic results and by what strategic

goals. Politicians one-sidedly sought to achieve a 'high target' in production and construction, neglecting the basic economic laws.

The Ten Major Relationships were:

1. The relationship between heavy industry on the one hand and light industry and agriculture on the other;
2. The relationship between industry in the coastal regions and industry in the interior;
3. The relationship between economic construction and defence construction;
4. The relationship between the State, the unit of production and the producers;
5. The relationship between the central and the local authorities;
6. The relationship between the Han nationality and the minority nationalities;
7. The relationship between Party and non-Party;
8. The relationship between Revolution and Counter-Revolution;
9. The relationship between Right and Wrong;
10. The relationship between China and other countries.<sup>12</sup>

Furthermore, the development of heavy industry at the expense of agriculture and light industry was emphasised. China depended on new capital construction projects only for expanded reproduction and neglected to give full play to the role of already existing enterprises. The executive power, the government under Liu Shao Chi, failed to emphasise the importance of technological transformation of these enterprises from the countries that did not participate in the blockade of China. It overemphasised the output of primary and intermediate produce in such industries as iron and steel and neglected the production of final consumer goods. Moreover, government failed to control the population growth. Central politicians were impatient in carrying out the transformation of the relations of production and they unrealistically stepped up the pace of transferring public ownership.

As a result of these mistakes and the unsound economic cycle of 'high speed and high accumulation', to some extent they ended up with 'low efficiency and low consumption'.

### 3.2.4. Non-Economic Factors

Besides the economic mistakes, there were also non-economic factors that seriously contributed to the economic failure. The relationship between politics and economics was a close one during the Chinese economic development, in particular the period of the Cultural Revolution. To name but a few factors:

1. The prolonged blockade of the United States with reference to the Taiwan problems, and the challenge by Chiang Kai-Chek on the east coast of China (Taiwan Street);
2. The unfriendly politics of the Japanese Government towards China before the 1970s;
3. The Chinese aid to North Korea during the Korean War at the expense of human and material suffering;
4. The aid to Vietnam in the war against the French and later the United States until the victory of Vietnam in 1975, placed a large burden on China, both economically and in terms of human resources;
5. The “liberation” of Tibet in 1959 following the opposition of the Dalai Lama against the “peaceful solution” of 1951;
6. The border war between India and China in 1962, the result of a border dispute on colonial heritage.

All this affected the economic development of China in the period prior to and during the Cultural Revolution. It was never really taken into account by Chinese economists, because of their purely economy-based analyses.

Until 1982, the Chinese economic analysis was still incomplete, or even one-sided. Such incomplete analyses inevitably did not create an objective impression, and neglected the fact

that the bad results of the economy during the Cultural Revolution were partly caused by underestimating non-economic factors.

### 3.2.5. New Data Call for a New Conclusion

Yu Guangyuan 1987 gives new information on the Chinese economic returns in the period 1966-1976 (Ten years of Cultural Revolution): Taxes and profits dropped 44.1 %. Taxes and profits of net fixed assets decreased 37.8 %; profits from total industrial output value fell 42.5 %; the circulating funds of total output value rose by 57 %.

He pointed out that the sharp decline of the economic returns was the outcome of the irrational economic structure and of the serious imbalance in the national economy as well as the result of the confusion following the damage to the enterprise management system.

The composition of the national economy 1966-1976 in percentages can be found in the table below.

Table 4 The Economic Result 1966-1976		
	1966	1976
Total national income	100	100
Industry	38.2	43.3
Agriculture	43.6	41.0
Building	3.7	4.9
Transport	4.2	3.8
Commerce	10.3	7.0
Proportion in net industrial		
Output value	100	100
Light Industry	47.2	40.4
Heavy Industry	52.8	59.6

Source: Yu Guangyuan. China Socialist Modernization FLP Beijing 1984

This was the basic reason for the new economic reform after 1978, a readjustment and restructuring of the irrationalities of the unbalanced economy. It entailed a decrease in all sectors except heavy industry.

### **3.2.6. The Relation between the Cultural Revolution and The New Economic Reform**

Some opinions seem to indicate that the economic growth during the Cultural Revolution was a period of 'negative growth' or of 'no growth at all'. We will investigate to what extent this may or may not be so.

In August 1971, the State Planning Commission in a national conference on work statistics decided to restore the report system of basic statistics of the national economy. After the third plenary session of the 11th Party Central Committee in 1978, the Statistical Bureau was separated under the State Council. In 1980 the Statistical Bureau was separated from the State Planning Commission and was put directly under the State Council. In 1980, the Statistical Bureau compiled statistics of the national economy during the last thirty years. The statistics for the years 1949 and 1980 are printed in Table 5.

Evaluating the economic development in the period of the Cultural Revolution, a Western Sinologist said: '*The output value of agriculture and industry grew at an actual average rate of 8.7%*'. According to this information during the first Five-Year Plan (1953-1957) it increased at an annual rate of 1.8 %, while during the sixth Five Year Plan (1981-1985) the gross agricultural and industrial output value rose at an average rate of 11 % annually. A western Sinologist evaluated that the Chinese economy had 'taken off'. The industrial growth increased 10 % annually, and the industrial work force doubled. Agriculture began to use chemical fertilisers and mechanised irrigation, which led to a high structural output.<sup>13</sup>

Generally speaking, the economic results during the Cultural Revolution (CR) were lower than in the periods just before and after the CR. Nevertheless, the question remains to what extent the failure was caused by the Cultural Revolution per se and to what extent natural disasters and foreign pressure contributed. Unfortunately, exact figures on this are not available.

The Chinese Communist Party summed up: *Because the socialist movement is still young and inexperienced, some losses governing the development of society are relatively clear, while others can only be determined through further practice. The Chinese Communist Party was not fully prepared, either ideologically or in terms of scientific study, for the swift advent of the new-born socialist society and for socialist construction on a national scale.'* On the role of Mao Zedong: *'Mao Zedong was a great Marxist and a great proletarian revolutionary, strategist and theorist who made various mistakes, some of them 'quite serious', especially in his later years. Judging his life as a whole, his contributions to the Chinese Revolution far outweigh his errors. From an early age he dedicated himself to the Chinese Revolution, and fought for it all his life. Like many other great figures, Chairman Mao had his shortcomings.'*

On economic development the resolution said, *'In assessing the Cultural Revolution it should be pointed out that despite the tremendous economic losses, progress did not come to a complete halt. Grain output increased relatively steadily. A number of large industrial enterprises using advanced technology went into operation. Roads, railways, and bridges were built. Scientific accomplishments ranged from satellites to new hybrid cultivars of rice. Despite domestic turmoil, the People's Liberation Army continued to defend the motherland as its first duty. Moreover, a number of advances were made in foreign affairs. One might even say that these successes took place in spite of the Cultural Revolution.'*

The establishment of the socialist system, which represented the most profound social change in China's long history, lay the foundation for the country's future development. The resolution also assessed the developments in the political sector and in international relations, which are the starting point of the new phase in China's economic and social development since the beginning of the Modernisation.

The resolution published the figures of the economic development from 1949 to 1980, showing clearly what had happened in those years, and what is to be done in the future. <sup>14</sup> This was the starting point from where China entered the new stage of socialist economic development.



Table 5 Statistical Bureau compiled statistic 1949 & 1980		
Economic Figures on selected sectors		
	1949	1980
Steel (mill. tons)	0.158	37.12
Crude oil (mill. tons)	0.12	105.95
Crude coal (mill. tons)	32.00	620.00
Chemical fertiliser (mill. tons)	0.006	12.32
Trucks (mill.)	-	0.222
Tractors (mill.)	-	0.098
Chemical fibres (mill. tons)	-	0.45
Television (sets)	-	2.492
Watches (mill.)	-	22.16
Grain (mill. tons)	113.20	318.22
Cotton (mill. tons)	0.445	2.707
Oil seeds (mill. tons)	2.564	7.691
Students in Universities (000)	0.117	1.144
Rail lines open to traffic (km)	22.000	51.900
Hospital beds nation-wide (mill)	0.08	1.982

<sup>1</sup> John Gurley (Prof. Stanford University), *China's Economy and Maoist Strategy*, 1976

<sup>2</sup> Bay Shuuyi, *Outline History of China*, Published by Foreign Language Press, Beijing

<sup>3</sup> John Gurley (Prof. Stanford University), *China's Economy and Maoist Strategy*, 1976

<sup>4</sup> Bay Shuuyi, *Outline History of China*, Published by Foreign Language Press, Beijing

<sup>5</sup> *China Handbook Series Economy* 1981

<sup>6</sup> *Handbook on People's China*, 1957. Published by Foreign Language Press, Beijing

<sup>7</sup> Ibid.

<sup>8</sup> Alec Nove, *An Economic History of the USSR*, 1969. Published by Allen Lane, The Penguin Press, 1969.

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<sup>9</sup> National income (guomin shuoru) is the total produced by workers in a country over a period of time, usually a year. In a material sense it means the total output including means of production and means of subsistence produce minus the means of expanded. Mahong, new Strategy for China's Economy, New World Press, 1983

<sup>10</sup> Mahong, new Strategy for China's Economy, New World Press, 1983

<sup>11</sup> Mahong, new Strategy for China's Economy, New World Press, 1983, p.22.

<sup>12</sup> Mao Zedong, Selected Work, Volume V, April 25, 1956

<sup>13</sup> Dr. Vermeer, Sinological Institute Leiden, China 1983

<sup>14</sup> Resolution on Certain Questions in the History of the CCP since the founding of the PRC 1949, China Reconstruct, October 1981



## PART II

### CHINA'S RURAL ECONOMIC DEVELOPMENT



## *Chapter 4*

### **CHINA'S RURAL ECONOMIC DEVELOPMENT**

#### *Introduction*

In this chapter, I will introduce the People's Republic of China as an emerging country since the Second World War. In particular, I will discuss its experience since the reform and opening up to the outside world (1978 - 1995). In this period, China has developed its rural areas from an agricultural system to a co-ordinated system of both agriculture and rural industry. The country has developed from the old semi-feudal and semi-colonial system into a semi-developed country. It has been successful in changing the negative image it had in the eyes of the world. China's future looks promising, not only for the Chinese people themselves but also for its economy, as it may share in the world economy. Doing it 'their way', the Chinese have transformed their economic system into a new democratic system. This 'Chinese model' has attracted attention all over the world, particularly since the implementation of its first Five-Year Plan (1953-58), collectivisation, 'household responsibility system', and the Four Modernisations (of agriculture, industry, science and technology, and defence). All this has been based on Chinese philosophy.

The sixth, seventh and eighth Five Year Plans, carried out since the Four Modernisations (1978-1995) have played an important role in the development of the new China. The ninth Five Year Plan, started in 1996, together with the 15-Year-Plan (1996-2010), will constitute the third phase of socialist economic development.

China's economic success has yielded different reactions ranging from appreciation to scepticism and there is even a small group that considers China's progress a threat. However, that seems unfounded.<sup>1</sup>

A study of China's experience could be used in comparison with studies of other countries, especially third-world countries sharing similar circumstances. It could also be used in

comparison with developed countries, to better understand the gap between China and these countries in some important sectors of trade. The question is: How did the Chinese manage to achieve their current amazing economic level in such a short time? Moreover, how did they manage to solve their remaining problems in rural economic development, especially those problems related to population, land, and food? These are the questions that will be addressed in this chapter.

#### **4.1. China's Characteristics**

The Chinese leaders have repeatedly said that they would create socialism with Chinese characteristics. This meant proceeding from China's own experiences and its own conditions to attain its strategic goal. The Chinese leaders never intended to blindly copy the experiences in other countries. All economic and social development had to be based on the natural, human and cultural circumstances in China, using planning as a method to achieve their aims.

Since 1960, China has been reluctant to copy the experiences of the Soviet Union. The break in relations between China and the Soviet Union in 1960 has made China independent, and gave it room to develop its own economy and society, also because relations with western countries were non-existent at the time. Doing research into all economic sectors was the basis for developing a socialist system, as was the step-by-step planning of the system to develop the economy. From 1953 to 1995, China has implemented eight Five-Year Plans. In 1996, China started the ninth Five Year Plan, which will be finished in the year 2000. China has continued to develop, even in the most difficult situations.

The Chinese system ensures that economic development is under the continual guidance from the central government. In spite of their mistakes made in the development process, the Chinese have not changed their strategic goals. The mistakes have manifested themselves in policies to achieve the target. Sometimes policies moved to the right, whereas at other times the policy moved to the left. However, these mistakes could be rectified within the inner-party struggle, where critics and self-critics met. Thus, mistakes could be corrected and the

correct political line could be followed. Government continually conducted this task. In this sense, China has a unique system. The Democratic Party and the Communist Party work together under the leadership of the Chinese Communist Party. It is different from a multi-party system where there is a ruling party and an opposition party. To ensure the country's stability, China has a strong People's Army with a long tradition of protecting the people's interest, led by the Chinese Communist Party.

China has a number of special characteristics: It has a large population, the largest in the world, almost 25% of the world's total population. A rough estimate, based on growth rates of the early 1980s suggest that the annual population growth before the successful birth control could be up to 15 million persons. China possesses a great deal of land. Yet the area that can be cultivated per person is far below the world average. China has made agricultural development its top priority, as sufficient food is a prerequisite for political stability.

#### **4.1.1. The Working Method and Political Line**

After the downfall of the 'Gang of Four' and in particular since the third Plenary Session in 1978, the leading bodies at various levels were readjusted and strengthened. Leadership in the Party, the government, and the army is mainly in the hands of cadres worthy of the people's trust. Deng Xiaoping also said: *'In our democratic revolution, we have to act in accordance with China's specific situation and follow the path discovered by Comrade Mao Zedong of encircling the cities from the rural areas'*.<sup>2</sup> Deng emphasised, *'to accomplish modernisation of a Chinese type, we must proceed from Chinese specific characteristics'*. With this in mind the Chinese upheld the 'four cardinal principles' in the drive for four modernisations, bearing in mind the Chinese weaknesses and the fact that China has a large population but not enough arable land. These four cardinal ideological and political principles, held to be basic prerequisites to achieve modernisation are:

- China must keep to the socialist road;



- China must uphold the dictatorship of the proletariat;
- China must uphold the leadership of the Communist Party;
- China must uphold Marxism-Leninism and the Mao Zedong Thought.

None of these four principles can be found as guiding principles in western ideological and political schemes. It is precisely these principles that distinguish China from other countries. They can be used to interpret, analyse, and assess the Chinese situation in various phases of the Chinese development.

China does not have a multi-party system such as exists in Western European countries, where there is one (or more) ruling party and one or more opposition parties. China has its own Chinese Communist Party which has special functions and which serves as the core of leadership for the cause of socialism and the party in power. At present, there are eight democratic parties in China,<sup>3</sup> which participate in state and government affairs and are 'close friends' with the Communist Party, working in full co-operation with the leadership of the CCP, where they turn to for political consultation.

The parties are unified and they co-operate with one another while they supervise each other. The CCP and the Democratic Party dedicate themselves to the great cause of Socialism with Chinese characteristics, and to reunifying China making the country strong and prosperous.

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*Note: A good example of the specific way of political thinking is the question of the human rights, a matter of frequent debate between China and western countries. In order to be able to understand China, it is important and necessary to understand the Chinese reasons for defending their position in a disputable matter. In relation to human rights in China, the Chinese scholars and Chinese politicians point to the historical background of the human rights issues of three generations. After the bourgeois revolution, the first generation was against feudalism and aristocracy and wanted to achieve human rights for individual human beings and the people's rights upheld. The second generation, which was concerned with human rights after the development of the labour movement in the 19th century, wanted change on a social and cultural level; their demands were added to the human rights demands of the first generation. The third generation was born at the end of World War II, and struggled to counter the underdevelopment and backwardness produced by the colonialists and imperialists. They contended that the right to subsistence and development should be regarded as collective human rights and the spearhead should be directed at old and new colonialism.<sup>4</sup> A commitment to human rights and fundamental freedom is at the heart of western policy, while the second and third generation of human rights are given less consideration.*

Essential for the working method is the method of solving difficulties. This will be further explained in Section 4.1.2. Essential for the political line is the Mao Zedong Thought, which will be the subject of Section 4.1.3. After these two elaborations, we will continue our line of reasoning with the implementation of the economic development policy.

#### **4.1.2. The Method of Solving Difficulties**

As we saw in their approach to creating inner-party unity, the Chinese, armed by Mao Zedong, use a dialectical method, not a metaphysical one. This means an analytical approach to everything, acknowledging that human beings all make mistakes, and not completely rejecting a person just because (s)he made mistakes. Starting from this point of view, it is necessary to be good in making compromises, as well as good in putting up a fight at each stage. The integration of principle and flexibility is a Marxist-Leninist approach (the unity of opposites).<sup>5</sup>

This ideological guideline is one of the most essential ones, telling the Chinese people to treat the socialist construction in China as a specific feature of China since the new democratic revolution of 1927 until 1995.

#### **4.1.3. The Mao Zedong Thought**

Deng Xiaoping, the successor of Mao Zedong, while criticising Lin Biao and others, maintained that the Mao Zedong Thought (MZT) sprang from Marxism-Leninism (M-L) and in some cases had adapted and developed M-L according to the Chinese conditions. Deng warned people not to quote MZT separately. He suggested that it should be taken as an integral whole to guide the party, the army, and the people in order to advance the cause of the party and of socialism in China. Moreover, it is the cause of the international communist

movement, and people should have a correct and comprehensive understanding of it, in order to be able to apply it.

The Mao Zedong Thought developed Marxism in many spheres; it had much influence and it provided the people of China with a comprehensive theory. It educated the Party as a whole. It developed Lenin's theory of Party Building in the period of revolutionary struggle and in the period of the formation of the Chinese Red Army, which is now called the People's Liberation Army (PLA). It created a political situation in which there was centralism and democracy, both discipline and freedom, both unity of will and peace of mind. MZT made it easier to overcome difficulties: it helped to build a modern industry and modern agriculture more rapidly and make the Chinese Party and State more secure and better able to weather any storm. It also consolidated the Party and rectified its style of working. It combined a high degree of democracy with a high degree of centralism. It distinguished between two different types of contradictions: those among the people, and those between the people and the enemy. It created a political situation in which the whole party, army and people united under the leadership of the Central Committee of the Chinese Communist Party. Problems were discussed openly, allowing people to criticise the leading comrades when they thought necessary and to rectify styles of work. It helped people to learn from past mistakes and to avoid future ones. It applied the formula: 'Unity criticism unity' (a method of internal struggle within the Party). It gave full scope to democracy in order to unite more than 95 % of the cadres and the masses. It followed mass-line and trusted the masses. It advocated truth from facts and considered the role of the Party as actor, of prime importance.<sup>6</sup>

'Seeking truth from facts' is how Mao formulated the policy. The Party School in Jan'an follows MZT, in order to prevent subjectivism, a-priorism and prejudice in all issues. The fundamental point of MZT 'seeking truth from facts' and the integration of M-L theory with the concrete practice of the Chinese revolution (i.e. the encirclement of the cities from the countryside), was never a subject mentioned by Marx and Lenin. Deng Xiaoping cited Mao: "we should exchange economic and technical expertise with other countries". China wanted to 'develop economic and trade relations with capitalist countries and undertake joint ventures', but the necessary conditions were not present. Because at the time an embargo was

imposed on China, and the 'Gang of Four' blocked any attempt at economic relations with other countries.

The Mao Zedong Thought provided China with a new strategy during the 'New Democratic Revolution'. For the Chinese, it helped to analyse the actual situation in China after the "liberation" and gave guidance to the economic construction. It analysed the international situation since the 1960s and launched the theory of the Three Worlds.

The ten-point analysis of the economic situation in China was the first important issue after the liberation. This issue played an important role in China's Socialist Construction. The leaders had to deal with the relation between heavy industry on the one hand and light industry and agriculture on the other. The uneven historical development of different nationalities had resulted in 70 percent of the national industries being concentrated in the coastal regions. Mao proposed to make great efforts to accelerate the development of the industry in the interior, while still attaining importance to the use and development of the existing industries in the coastal regions and in the interior.

MZT considered the relationship between the interests of the State, the production units, and the producers; it saw this relationship as the basic starting point of socialist construction. It favoured the correct handling of the relationship between accumulation and consumption, between long-term and immediate interests.

MZT regulated the relationship between the central and the local government. It increased the power of local authorities, while strengthening the unified leadership of the central authorities. This method was considered very important in respect to the protection of the unity of a country as large as China.

Regarding the problem of 'learning foreign things with a critical eye', Mao proposed that the experiences in the Soviet Union could be combined with the Chinese reality. The dogmatic attitude, which advocated copying and transplanting foreign experiences indiscriminately, had to be opposed. The Chinese were to reject resolutely, and criticise all decadent systems, styles, and ideologies from capitalist countries. Yet, in order to advance the Chinese

scientific, technological and managerial levels, China was supposed to learn from the Soviet advance in technological and scientific methods, such as high labour productivity and efficient ways of doing business.

During the years between 1951 and 1961, when China suffered serious economic difficulties, grain became the first acute problem. This problem had to be solved first of all. Mao understood that in an economically backward country with a large population, a national economy needed to be developed. This development was based on agriculture. The amount of grain and raw materials and the market scale provided by agriculture were the starting points for developing the national economy as a whole. Mao stressed that agriculture and light industrial production had to be developed first. He criticised a one-sided emphasis on heavy industry at the expense of agricultural and light production. In 1962, Mao further advanced the general policy of 'making agriculture the foundation and industry the leading factor'. This policy is still familiar to the Chinese people all over the country.

These elements of the Mao Zedong Thought are only that particular part of Mao's theory on the Chinese Revolution and Construction that is relevant to this thesis.

#### **4.1.4. The Implementation of Economic Development Policy**

Mao Zedong died in 1976, but his Thought is still present today, and perhaps it will be until the socialist goal has been reached in China. The second generation of Chinese leadership came with Deng Xiaoping, who acted as Mao's successor. Deng said that the Four Modernisations as defined by Mao Zedong and proclaimed by Zhou En Lai 'were developing Marxism and Mao Zedong Thought'. He said that China had to make use of the favourable conditions which now prevailed to accelerate the growth of China's productions forces, to improve the people's material and cultural lives and to broaden their outlook. This was how Deng Xiaoping continued the MZT after Mao's death in 1976.

In 1977, a year after Mao died, the eleventh National Congress of the Chinese Communist Party and the fifth National People's Congress set the nation-wide goal of achieving the Four Socialist Modernisations before the end of the 20th century. The Central Committee and the State Council were urged to quicken the pace of modernisation and a series of relevant policies and agricultural measures were developed and introduced. This was an important revolution and a further consolidation of the Chinese economy and the dictatorship of the proletariat. Its goal is to transform the present backward state of the production forces. This inevitably entails many changes in the production, the superstructure, and the form of management in industrial and agricultural enterprises, as well as changes in the State Administration of these enterprises. These are necessary in order to meet the needs of modern large-scale production. In this context, it is also important to carry out major reforms in the various branches of the economy with respect to their structure and organisation as well as to their technology.

One of the main characteristics of the working class is its direct association with large-scale production. They need the utmost political consciousness and the strongest sense of discipline to be able to play a role in the present day economic, social and political situation.<sup>7</sup>

The four Modernisations covered (a) agricultural modernisation, (b) industrial modernisation, (c) scientific and technological modernisation and (d) modernisation of the defence system. Due to the lack of materials, work force, technology and capital, the Chinese policy makers had to give priority to overall planning. Agricultural Modernisation became the first priority.

During the past 20 years, Deng Xiaoping has demonstrated his ability to surpass the economic results of the first period (1949-1976), without neglecting the role of his predecessor Hua Guo Feng, who ended the Cultural Revolution and the Gang of Four. With great tolerance, Hua Guo Feng welcomed the leadership of Deng Xiaoping of the CCP and the People's Republic. In realising the Four Modernisations, Deng has made an important contribution to building socialism in China.

#### 4.1.5. Rural Policy

Like Mao Zedong, Deng Xiaoping's contribution to agricultural reform has been noteworthy. In his article of May 31, 1980, when the contract system was already in force, Deng Xiaoping said: *'Collective economy continues to be our general objective: where farm output quotas are fixed by household, the production teams still constitute the main economy units'*. However, there are some differences between household and team production. Deng asked *'What does the future hold for these places'*. His own answer was, *'Certainly, as long as production expands, division of labour increases and commodity economics develop, lower forms of collectivisation in the countryside will develop into higher forms and the collective economy will acquire a firm basis'*.

He emphasised that the essential task is to expand the production forces, thereby creating conditions for the future development of collectivisation. In order for this to succeed, Deng formulated four conditions:

A higher form of mechanisation, suited to the local, natural and economic conditions, welcomed by the people. He explained that mechanisation should be seen on a broad scale, not only mechanised ploughing, sowing and harvesting.

A higher level of management, combining accumulated experience and a contingent of cadres with fairly strong management abilities.

A developed diversified economy that will lead to the large-scale expansion of the market economy. This, in turn, will lead to the establishment of a variety of specialised groups or teams, which will result in the large-scale expansion of the commodity economy in rural areas.

An increase in the income of the collective unit, both in absolute terms and in relation to the total income of the economic unit involved.

Deng was certain that once these conditions were met, new forms of collectivisation would be developed, not imposed from above, but as an inevitable response to the demands of a growing production.

Yet, the main problem in rural work remained the low level of emancipation in the people's thinking. They had difficulty in 'determining organisation forms of collectivisation' and in deciding what specific crop or cultivar is best suited to the local conditions. In too many cases, it happened that people arbitrarily attempted to grow unsuitable crops. In many areas in Northwest China growing forage grass in order to expand animal husbandry should be a first priority. In rural work it is important to 'proceed from the local conditions and to take into account the wishes of the people, not propagate one method and require all localities to adopt it'<sup>8</sup>.

These ideological and political guiding principles are a theoretical guide to further China's economic development. They arise from the specific Chinese way of thinking and MZT. This does not mean that the Chinese have isolated themselves from the outside world. On the contrary, the Chinese leaders study the positive and negative experiences from other countries and adopt what they find suitable for the Chinese situation. Therefore, when studying Chinese Economic Development Policy and its Rural Issues, one should first understand the strategic goals of the Chinese economic development policy. That is to say, China's aim was to develop without copying western countries, as they developed under different circumstances and from different historical backgrounds, with much older development policies than China's. Co-operation between China and western countries should be based on respect for each other's systems. China should not be pressurised to become like other countries. Every country should be free to independently manage their own domestic problems. In this respect, the Chinese still hold on to Mao's '*letting a hundred flowers blossom and a hundred schools of thought contend*'.

In view of this, the focus of this research will be on the role of the Central Government and the ruling party in China as the actors. Firstly, the rural development will be investigated - the term 'rural' covering agriculture, rural industry, and non-agricultural activities. The interaction



with urban economy and its role in the national economy will be observed. Further, its prospects for the future will be considered on a wider scale than nationally.

Thus, the next chapters will be limited to the emerging problems of development, modernisation, and future prospects. China's ideological line could perhaps be a prerequisite for peace and political stability in China, as well in international relations.

## **4.2. Achievements, Comments and Challenges**

### **4.2.1. Achievements**

#### **4.2.1.1. A Sleeping Giant has Awakened in Asia**

The Chinese economic success after the Liberation, especially since the Four Modernisations (1978), and since resuming relations with the outside world, has evoked diverse reactions in the world: positive, sceptical and negative ones. Generally, the trend has been positive. Whoever visited China in the last few years must admit that the developments in China have been impressive. This may be regarded as a second 'Great Leap Forward', but in this case under different circumstances.

Moreover, information from the World Bank and the IMF confirms the favourable impression of China's progress in economic growth on a national scale. US China watchers have also been drawing attention to the developments in China. In 1993, former US president George Bush said on a visit to Hongkong that he considered China objectively as an emerging country in Asia. In addition, the Dutch junior Minister of Foreign Trade Yvonne van Rooy said in Jakarta in 1993 that China had emerged as a new great power in Asia for the 21st century. Prof. Ed Rothberg of Staten Island, New York, stated that 'the combination of public ownership with socialised production and the market economy will guarantee a continued rapid development in China's production forces and a continued growth of the people's standard of living'.<sup>9</sup> The sceptical and negative reactions to China's development will be discussed later.

Since 1979, China has implemented a new policy in economic development: the 'Reform and Open Door Policy'. The 6th, 7th and 8th Five Year Plans (1981-1995) have been completed. Now China has just started its 9th Five Year Plan (1996-2000) as a follow-up. The economic results of the past fifteen years have well surpassed the target. The target for the year 2000 was already achieved in 1995. The estimated GNP in 1995 was 5,760 billion yuan<sup>10</sup> (1 US\$ = 8.5 yuan), seven times as high as in 1980 (when it was 820 billion). This shows how fast China is becoming an economic power among the developing countries. Annually, the average GNP increased at a rate of 11.7 %, four percent more than during the 7th Five Year Plan, and the highest increase in the world. The economic growth in western European countries over the same period was a mere 1 to 3 %.

Information from China indicates that per capita GNP in 1992 was 4,420 yuan (US\$ 500), while according to the World Bank report the Chinese GNP in 1992 was US\$ 506 billion nationally, with China ranking eighth after the US, Germany, France, Italy, Britain and Spain. In 1993 China took over the seventh position from Spain, reaching US\$ 581.1 billion. The ratio of the Chinese GNP to the world total, calculated at the 1987 constant rate, rose from 2.3 % in 1990 to 3.2 % in 1994. Per capita income was still under that of 'middle-income' countries in 1993, which was then US\$ 2,490, whereas in China it was still only US\$ 485, taking the 103rd place among the 132 countries and regions surveyed. The conclusion may be drawn that China has been doing well nationally, but due to its large population, income per capita it is still far behind the developed countries.

The consumption by the Chinese people saw an annual increase of 9 % over the same period, higher than any other country in the world. This means that the Chinese market has a strong absorption. Despite the rapid nation-wide economic development, food consumption is still in the transition stage from having enough to eat and wear to being well-off. The housing problem should be solved by the year 2000, according to the planning. But there are still 80 million people in China living below the average national standard of living. They are found in backward regions in the rural areas. Although the first phase of socialist development aimed to have achieved sufficient food and clothing for all Chinese people by 1990, it now

appears that these 80 million people will have to wait until at least 2000. Much attention will be paid to attempting to achieve this goal. The latest information from China indicates that the poverty rate has dropped to 58 million in 1996.

If one reviews the economic achievements over the seventeen years since the start of the reform and the open door policy, the following figures may indicate some of the progress made in important sectors:

#### **4.2.1.2. Industry and Agriculture**

The output of major industrial and agricultural products remained healthy during the eighth Five Year Plan. China retained its position in the first ranks in the world for the output of coal, cement, cotton fabrics, and generated energy. The steel production reached 92.61 million tons in 1994 and in 1995 even surpassed the United States, which occupied the second place after Japan. Still China has been unable to meet all the needs in the rapid development of the national economy, due among other things, to a lack of variety and specialisation in steel production. The crude oil output in 1994 amounted to 148.08 million tons, putting China in fifth place in the world.

#### **4.2.1.3 Development projects**

A total of 240,000 development projects (capital projects) are now in operation, including 700 large ones aimed at creating favourable conditions and laying a solid foundation for further economic and social development. In preparation for the entry into the 21st century, 1000 large state-owned enterprises have been modernised. By the end of 1995, the total installed power-generating capacity was intended to be 213.23 million Kilowatts, a 54.4 % increase over 1990. A nuclear power station, equipped with a domestically designed 3000 kW generating unit, was set up and put into use in Qinshan (Shejiang province). So far, China has 34 large power plants with an installed capacity of over one million kW. All the cities and most of the rural areas now have electricity. However, there were still some 300 million rural people without access to electricity in 1989. 85 % of the fuel consumed by 800 million rural people in their daily lives comes from non-commodity sources. 180 million tons of firewood and 230 million tons of plant stalks are used as energy sources every year and there is still a

20 % shortage. This is one of the main reasons for the continued felling of trees, the subsequent water and soil erosion and the deterioration of the ecological environment.<sup>11</sup>

#### **4.2.1.4. Capital Investment**

The Chinese have paid special attention to transportation, both domestically and abroad. Investments in communications infrastructure have helped to ease the tension in the transportation of both passengers and commodities. Three thousand kilometres of new railway line have been laid. By the end of 1994, the electrified railway network had seen an increase of 2000 kilometres since 1990. The 2,500-km Beijing-Kowloon Railway was completed by the end of 1995, eighteen months before the handing over of Hongkong on July 1, 1997. The road network available for traffic measures 1.12 million kilometres, with a new road built to open the Medoz County in Tibet. Motorways extend to all counties throughout the country.

Aviation has also developed rapidly. China occupies the 11th position in the world as to their in-route turnover (35th position in 1980). There are 87 international air routes connecting major cities all over the world. The number of telephones increased to 58 million connections. Based on 1990 prices, the country's total investments in fixed assets between 1991 and 1995 was expected to reach 3,890 billion yuan, which would amount to an average annual increase of 17.9 %. The actual growth rate is 3.4 % above the planned figure, and has exceeded that of the 1986-1990 period by 13.6 percentage points. Investment in state-owned units jumped by 22.9 % during the period, thereby greatly surpassing the 4.1 % growth during the previous Five Year Plan period. Investment in energy, transportation, and telecommunication has increased significantly and has greatly enhanced the nation's economic strength.<sup>12</sup>

#### **4.2.1.5. Foreign Economic Relations and Trade**

China has used more foreign funds. Between 1991 and 1994 it amounted to US\$ 193 billion. In the current Five Year Plan foreign funds are estimated to have tripled to US\$ 150 billion.<sup>13</sup> With more foreign funds available and the expansion of economic co-operation with foreign countries, China's national economy developed at great speed. The total foreign economic volume surpassed US\$ 1 trillion during the eighth Five Year Plan. The ratio of export volume

to the world total increased from 1.65 % in 1990 to 3 % on 1994, listing China among the 11 major exporting countries of the world. The proportion of foreign trade in the national economy saw a healthy increase. In 1990, the gross export value accounted for 16.9 % of the GNP, while in 1994 the percentage had increased to 23.8 %.<sup>14</sup> In an interview to the Beijing press, given at the end of the eighth Five Year Plan, the Chinese Minister of Foreign Trade Wu Yi said the following about the rapid progress: *'Statistics through the end of 1995 revealed that the country had approved 259,379 foreign-funded projects involving total negotiated foreign investments of US\$ 395.12 billion. The volume of foreign capital actually used, totalled US\$ 135.08 billion'<sup>15</sup>. Some 120,000 foreign-funded enterprises, with a total workforce of 16 million have gone into operation. Industrial projects account for 70 % of the total, and the number of major projects involving energy, raw materials and infrastructure has increased dramatically. Foreign investors have come to China from nearly 160 countries and regions, including 200 of the world's top-500 multi-national industrial and service companies. China currently leads all developing countries in the absorption of foreign investment.'*<sup>16</sup>

In 1995 alone a total of 37,126 foreign-funded projects were approved, involving foreign investments of US\$ 37.74 billion. In comparison with the 1994 investments, the total number of foreign-funded projects dropped by 21.8 % in 1995. Nevertheless, the respective amounts of negotiated and allocated foreign investments registered rises of 10.9 and 11.7 %. These figures indicate that the big capital investors invested more in China than the small ones.<sup>17</sup>

#### *Share of Foreign Trade*

In 1995, the import and export value of foreign-funded enterprises totalled US\$ 109.82 billion, a rise of 25.3 % on the previous year, and accounting for 39.1 % of the national total. The export value grew by 35 % to US\$ 46.88 billion, representing 31.5 % of the national total, while the import value rose by 18.9 % to US\$ 62.94 billion, accounting for 47.7 % of the national total.

Wu Yi, minister of Foreign Trade, acknowledged that *'foreign-funded enterprises have emerged as a major factor promoting the rapid development of the nation's foreign trade'*.

### *Financial Situation*

In 1995, China's financial situation maintained a stable development. The balance of narrow money (tangible money) ended at 2,398.73 billion yuan, a drop of 10 percentage points from the 1994 rate to meet the control target. The balance of broad money (non-tangible money) stood at 6,074.95 billion yuan, registering a growth rate some 5-percentage points lower than 1994. The volume of currency placed in circulation was significantly reduced. The volume of various types of savings deposits rose steadily and the bank payment capacity remained stable. Savings deposits in various state banks rose by 937.55 billion yuan, a rise of 142.86 billion yuan on the growth of 1994. By the end of December 1995, the combined savings deposits balance of urban and rural residents reached 2,966.22 billion yuan, up 812.61 billion yuan on 1994. The fixed deposits of urban residents rose by 608,177 billion yuan.

According to Ma Dehun, a spokesman for the People's Bank, the Central Bank of China has effectively controlled the basic money. On the other hand, the contradiction in economic operation 'remained unsolved', because the country lacks a sound base for lowering prices. The construction scale requiring fixed assets is still large. The agricultural base is quite weak and a number of state-owned enterprises have recorded heavy losses. As a result of the increasing demand for money as a surplus of the overheated economy in 1993 <sup>18</sup>, the growth of the broad money supply is still high.

### *Living Standard*

According to recent estimates, the annual per capita income of urban residents dedicated to living expenses during the 1991-1995 period has grown on average 8.4 %, a rate far exceeding the 3.7 % growth for the previous Five Year Plan (1986-1990). The average per capita income in rural areas is expected to rise by 4.2 % annually in the current period, exceeding the average annual growth (1986-1990) by 0.2 percentage points.

The nation's total retail sales value between 1991 and 1995 was expected to reach 2,040 billion yuan, representing an average annual growth of 23 %, or an actual rise of 16 % in the rural price index in 1995. The latter rate is 6.5 percentage points higher than the average annual growth rate of 3.5 % during the previous Five Year Plan. Savings deposits of urban and rural residents have increased to top 3,000 billion yuan by the end of 1995, thereby

quadrupling the total at the end of 1990. The introduction of the five-day working week has proceeded smoothly in the cities and towns, enabling the labourers to spend more time on other pursuits such as education, leisure and recreational activities.<sup>19</sup>

#### *Social Advancement*

The eighth Five Year Plan has yielded a relative development in science, technology, education, culture, public health, and sports.

Science: The 1991-1994 period saw 125,000 major scientific and technological achievements, an average of slightly over 30,000 annually. A total of 185 state-level invention awards were granted in each of the first three years of the current Five Year Plan period, a 10.1 % rise on the annual average of 1986-1990.

Education: In 1994, the rate for junior middle school and primary school graduates entering higher grades of education stood at 46.4 % and the entrance rate for school-age children at 98.4 %.<sup>20</sup> A lot of progress has been made in cultural undertakings, public health, and sports.

#### **4.2.2. Foreign Comments**

There are roughly two strands of opinion regarding the developments in China: objective analyses and appreciation of the results, or pessimism and scepticism. Most of the media, politicians, and scientists have commented positively on the achievements in China.

The Economist, the London weekly which represents western opinion on economic issues, said that in 1992 that 'western countries have given little thought to a quiet revolution that is gathering pace in Asia'. Neglecting this was regarded as 'a mistake'. 'With China and now India placed for a sustained burst of economic speed, large swatches of Asia will in another 20 years be the homes of several more Japans'. The magazine further remarked that from Korea in the north up to New Zealand in the south, there are 3 billion people, about 55 % of all humanity (probably including at least the South Asian countries). Around 1970, the

economic growth in the region's developing countries began to accelerate. Between 1973 and 1983 the real GNP in Asia went up 6.25 % a year, 'more than double of what the rich industrial countries could manage....'. 'Despite the recent world-wide slowdown, growth in developing Asia has hardly flickered. China and India with two billion people between them and economically underway, have the potential to grow at rates approaching 10 % a year'.<sup>21</sup>

In the same year the Hongkong-based magazine 'Asia Week' acknowledged that the position of India and China in the 'state enterprises rank in the commanding heights of industry and commerce'.<sup>22</sup> The state ownership, with the state in the commanding position is of course a different situation than in western countries, with mostly private ownership.

In a special issue on China's economic development, the Dutch daily NRC-Handelsblad quoted Napoleon: 'When China awakes, the world will rock upon its foundation'<sup>23</sup>. The paper posed the question of why China is successful while these things went totally wrong in the Soviet Union. In their answer the paper referred to what Deng's statement, 'because the former Soviet Union began at the wrong side'. They added, 'One should first restructure the economics and then the politics'. In China the Communist Party still exists in even the smallest village. It still plays a role in developing the economy and the trend of the politics is still in the hands of the party. In the Soviet Union, the situation was quite the reverse. The party has been dissolved while the economic system has not changed. In such a situation, economic reforms are difficult to implement.

'Asia Week' referred to China's economic development as 'the world's fastest growing economy'. The problem China faces now is to spread its wealth more evenly, from areas with a high growth such as the Guangdong province, to less-developed regions inland. According to 'Asia Week', China's solution to this problem has been to give priority to developing the infrastructure from Beijing to Bangkok. 'Asia is ready to unleash a flood of investments in roads, airports, powerplants, ports, and telephone. As the magazine pointed out, between 1993 and the turn of the century, the improvement of the infrastructure, in particular transportation and communication, will play an important role in improving the economic development. No less important is the interrelation within the Asian countries themselves, especially in East Asia.



The 'Far Eastern Economic review' (Hongkong) wrote that Beijing has filled two breaches in its inefficient state-controlled shipping industry by granting two United States companies licences to operate to and from Chinese ports. Referring to the problems of foreign shipping enterprises, the magazine indicated that 'all foreign shipping lines had to use government-appointed agents'. In addition, all arrangements, including rates and scheduling, protected the Chinese shipping companies at the cost of high rates and erratic delivery. The problems of foreign shipping companies are not as simple as those of a MacDonald's branch in Beijing.

By comparing the Chinese development to that of other nations that have passed through similar stages of development, the World Bank predicted excellent prospects for increasing the share of service in China's economy. The World Bank recommended that China should drop its GVAIO (Gross Value of Agriculture and Industrial Output) as an economic indicator and switch to a national accounting system that increased net rather than gross output and include the value of both goods and services produced in the economy.<sup>24</sup>

'International Business Week' of May 17 1993, described the Chinese economic development thus: 'From the upscale cafes in the southern city of Guangzhou to the gritty steel mills of the industrial north, China is in a dash for prosperity. Even after Deng Xiaoping passes from the scene, there will be no stopping the momentum. With the economy booming at 12 % annually and hitting 14 % for the first quarter of 1993, China's emergence is already shaking the world. Though these rates cannot be sustained, the signs are that China's growth will continue impressively despite serious obstacles such as transportation bottlenecks, spiralling inflation, widening class differences, crime, and corruption. The magnitude of change is breathtaking. China's economic boom, once concentrated in the coastal regions, is now flowing inland to the massive population centre along the Yangtze River and to the vast hinterland. At the national level, powerful departments are being stripped of their monopolies in strategic industries and forced to compete in the market place. At the same time, state and local enterprises are busy transforming themselves into Chinese-style capitalist giants'.<sup>25</sup>

All these foreign press comments were more or less positive about the Chinese achievements. Later on in this chapter, I will present some of the negative or sceptical reactions.

#### **4.2.3. Challenges**

The reverse side of all China's successes and achievements is formed by the large problems still facing the Chinese people today. The fairly serious inflation caused retail prices to rise 11.4 % annually on average in the period 1991-1995. The state-owned enterprises are having considerable difficulties in production and operation, with their management and operation systems not yet adapted to the requirements of the socialist market economy. Agriculture remains the weak link in the national economy. The relationship between income and distribution is not yet rationalised, as is shown by the huge disparities in incomes. The economic order is still confused; certain aspects of corruption are spreading. In some areas, there is poor public order and a number of new problems challenge the efforts to promote socialist, cultural and ideological progress, democracy and the legal system.<sup>26</sup>

I do not intend to discuss all these problems. My investigation is focused on the agricultural problems in rural areas. Related issues such as population, land, and food, will be given special attention, as they belong to the essential problems facing China today, both economically and politically.

Ensuring a steady supply of food for the huge Chinese population is a prerequisite for Chinese political stability, as is the problem of keeping prices stable, preventing inflation and retaining a stable relation between rural and urban areas. Then there are such issues as the conflicting situation between demand and supply, sufficient food, clothing and housing; the unbalanced development between rich areas in the east and less developed areas in the central and western parts of China. In addition, there is the increased influence of local governments and the position of the central government, which must be strengthened to lead the country nationally and internationally.

One needs to keep in mind that the 58 million members of the Chinese Communist Party constitute a minority among the powerful 1.2 billion people in China. The unity between the cadres and the masses in all social functions and social strata should be checked periodically. Social stability and social security have been made possible by the economic and cultural development. The policy of opening up to the outside will have its influence on both the Chinese people and on people outside China. The material results of economic development are one factor in deciding how much mutual benefits can be created in international relationships, the other factor is formed by non-material aspects. After the disappearance of the typically Chinese characteristics, internationalisation or globalisation will emerge. Until now, the gap between the rich and the poor is still wide, but it will get smaller. When a balance of some sort has been reached, a new contradiction will emerge.

The question then is whether China can provide better for its people than the current world situation, economically and mentally. The Chinese Communist Party and the Chinese government have decided on the economic target in the year 2010. The gross national product in the year 2010 will be double that of 2000, 'the people will enjoy an even more comfortable life and a more or less ideal socialist market economy will have come into being'<sup>27</sup>. Prime Minister Li Peng is very optimistic that promoting socialist culture and ideology will achieve market results. He believes in strengthening the socialist democracy and the legal system so as to attain all-round socialist progress. All this optimism must yet be realised, thus it is still a challenge!

### **4.3. Rural Policy and Its Problems**

The vitality of rural areas as national economic foundation is of crucial importance. On the other side, it poses problems as obstacles that have to be solved first.

#### **4.3.1. The Aims of Rural Policy**

The Party's basic policy in rural areas, aimed at stabilisation, entailed a more profound rural reform, expedition of rural economic growth, increase of the farmers' incomes and a further

strengthening of the role of agriculture as the foundation of the national economy. This policy is aimed at ensuring the agricultural production to reach a new height by the end of this century, and at raising the living standard of the masses of farmers from the current level (sufficient food and clothing) to a better level (moderate prosperity). This policy was dictated by the Central Committee of the Chinese Communist Party at the end of 1993.<sup>28</sup>

The development of China's rural economy has entered a new stage, characterised by structural readjustment and an improved efficiency. The agricultural production should be adapted to the change in consumption patterns and agriculture must now develop towards a pattern of high yields, high quality, and high efficiency. The stable increase of grain, cotton, and other basic farm produce should be maintained. In order to achieve this, it is necessary to readjust the industrial structure of the rural areas, and expedite the development of township enterprises and other non-agricultural sectors, so as to provide more job opportunities for the surplus rural labour force. Rural markets must be enlivened, removing barriers between different regions, reducing the circulation, and broadening the development of the rural economic resources.

The double-layered management system in the countryside consists of a contracted responsibility system based on the household with remuneration linked to output, together with the combination of unified management and independent management. This has been the economic system in rural areas for a long time. The decision should be stipulated on the premise of adhering to collective landownership. The term for contracting cultivated land may be extended, and the inheritance of contracts for the management and the compensated transfer of the land-use right will be allowed. On the other hand, a rural collective economic organisation must actively set up economic entities to provide service to household operations, gradually accumulate collective assets, and enhance the economic strength of the collectives. A rural social service system must be developed, and the specialisation, commercialisation, and socialisation of the agricultural production must be promoted.

In order to improve rural economic management, the Chinese should develop all forms of integrated management of trade, industry, and agriculture, and closely combine production and processing with marketing. Research in agro-science and technology is called for;

technologies must be popularised. Modern science and technology must be used to transform traditional agriculture. The agricultural production must be geared to the international market with a high added value, and export-oriented and foreign-exchange-earning agriculture must be promoted.

Township enterprises are an important pillar of the rural economy. In order to perfect the system of contracted responsibilities, a co-operative shareholding system should be developed, the property-rights system and methods of management should be innovated in order to further invigorate township enterprises to lay the basis of industrialisation.

All this stresses the need for a strict planning which township enterprises should concentrate on, making full use of the existing small cities and townships. A gradual reform of the residence registration system should allow farmers to work in factories or do business in small towns and cities. Rural tertiary industries need to be developed and the transfer of rural surplus labour to other fields of endeavour should be promoted.

At all levels of government the investments in agriculture have been increased, encouraging farmers and collectives to increase their input of labour and capital. Prices need to be regulated and risk funds must be set up for grain and other basic farm produce. A price protection system must be introduced to prevent major fluctuations of market prices.

The central and local authorities should support the socio-economic development of poor areas, particularly former revolutionary areas, areas inhabited by minorities and remote and border areas. Priority should be given to agricultural capital construction, transport facilities and postal and telecommunication services. Vital would be the exchange of cadres between developed and underdeveloped areas and the economic and technological co-operation between them.<sup>29</sup> This policy was stipulated by the Central Committee Chinese Communist Party and the State Council in 1993, for the period 1996-2000 up to the year 2010. This will be further discussed in chapter 5.

#### **4.3.2. Rural Economic Situation**

Although the rural economy still faces many problems, the trend of the development is optimistic. The following data and analyses give a wide view of the concrete situation in rural areas.

According to a publication of the Rural Development Institute, the rural economic situation in 1994 was quite positive. In 1994, rural non-agricultural employment amounted to 127.8 million yuan (up 7.2 million, or 6% since 1993). The rural industry employed 75.40 million people. The gross output value of the rural non-agricultural sector reached 3900 billion yuan, indicating a growth rate of 35% in nominal terms (or 13% in real terms). Out of it, the gross output value of rural industry was 3090 billion yuan, up 40%. Rural construction, transportation, commerce and services amounted to 810 billion yuan. The net output value of the rural non-agricultural sector was 1060 billion yuan in 1994.<sup>30</sup>

The share of rural industry in the national industries' gross output was 40% in 1994 - up 6 points in comparison with that of 1993.

The development situation in 1994 had the following characteristics. There were 500 enterprises each with over 100 million yuan of gross output and more than 400 enterprises each with over 100 million yuan of sales. The export orientation of the rural non-agricultural sector has become strengthened. Over 200 rural enterprises have acquired the right to be directly engaged in the export trade. Over 400 rural enterprises have established business branches overseas. The interregional co-operation of rural enterprises between the eastern and western parts of China has become emphasised, and the development of rural enterprises in the central and western regions has accelerated.

##### **4.3.2.1. Problems in the Rural Non-Agricultural Sector In 1994**

The capability of labour absorption continued to decline for the rural non-agricultural sector, and especially for the rural industry. The rural enterprises were confronted with a substantial

shortage of capital, especially floating capital. The increased costs reduced the net profits of rural enterprises by an estimated 30-percentage point from those in 1993, especially due to the increased tax rates and prices of material. In 1994 the profitability declined drastically: 17.4% of rural enterprises sustained losses in 1994, while in 1993 only 10-11% made a loss.<sup>31</sup>

Employment in rural areas in 1994: 73% worked in the agricultural sector (a drop of 2.1 points from 1993), 16.4% in rural industry (up 1.6 points from 1993), 10.6% in rural construction, transportation, commerce, and services (up 1%).

The varieties of farm products failed to fit the marked demands. Although the output of grains and meat could meet the overall quantity of demands, the mix of varieties was not fully adjusted to suit the changed market. Meanwhile the overall supplies of cotton, vegetables, oils, and sugar still fell short. The abnormal drop in the rural industrial structure was still increasing and the overall efficiency of the structure continued to decline.

In the readjustment of agriculture in 1994, the reduction of the areas sown with grains and the increase of areas sown with cotton and oil crops were both larger in the eastern than in the western regions.

While the rural non-agricultural sector continued its rapid growth in each region, the growth in the central and western regions accelerated and became faster than that in the eastern region. In terms of gross output value, the rural enterprises in the central and western region had a growth rate of over 10 points higher than those in the east, and they made an increasing contribution to the output growth of the rural non-agricultural sector in the country.<sup>32</sup>

The regional gaps in the growth rates: The incomes earned by rural households continued to expand in 1994. Households in the east benefited more from the rises in agricultural prices than those in central and western regions, because the output growth was larger in the former. The eastern households also benefited more from non-agricultural activities. In 1994, the inflation of the prices of consumer goods was generally higher in central and western regions. As a result the regional gaps of income levels will continue to grow in the near future.

#### **4.3.2.2. Income**

The per capita net income of rural households averaged 1220 yuan in 1994. It represented a growth of 5% in real terms, which was higher than the growth rate of 3.2% in 1993. Although the growth remained lower than the income growth for urban household (which was 7%), the gap narrowed.

In 1994, the ratio of average income for urban households reached 2.63, the largest since 1978. The ratio of per capita consumption between urban and rural households became 3.4, which was not only about 7.3% higher than the ratio of 3.17 in 1978, but also constituted the largest gap since 1952. The evidence indicates that the relative well-being of rural households has dropped to an unprecedented low level. It is a danger signal that should be taken very seriously.

#### **4.3.2.3. Capital Investment**

In 1994 the rural capital investments totalled 514.2 billion yuan, of which 134 billion yuan was invested in agriculture. The sources of the investments were:

164.2 billion yuan came from state-fiscal and banks,

210 billion yuan from rural collectives,

140 billion yuan from rural households.

The state raised its purchasing prices for grain by a large margin. This policy played an important role in raising the nominal income earned by farm households. The rise in purchasing prices contributed 50% or so to the increase in per capita net income of rural households.<sup>33</sup>

#### *The Rural Economy and the National Economy*

In the near future, the role of the rural economy within the national economy is potentially large. In 1994, the outflow of capital from the rural sector through both fiscal and financial channels exceeded 100 billion yuan. A total of 97.5 billion yuan went out through the state-



fiscal system, and 36.8 billion yuan through the financial institutions (banks and credit co-ops).

The 41.4 million rural workers in urban areas earned a total of 151.1 billion yuan cash income, of which 83.8 billion yuan was remitted back to their rural families, and the remaining 67.9 billion yuan was spent in the urban sector or on transportation.

In 1994, the total volume of the trades amounted to 6506 billion yuan, of which the rural areas 'exported' 3321.1 billion yuan.

'imported' from urban areas	3184.9 billion yuan
rural surplus	136.2 billion yuan

The total volume of the trades accounted for 61% of national social products (roughly the same as in 1993).

In 1994, the rural sector produced 53.1 % of the national GDP instead of 50.5% in 1993, of which agriculture accounted for 18.1%, and the rural secondary sector (industry and construction) for 22.9%. The urban sector created 46.9% of the GDP, of which the urban secondary sector accounted for 26.9%, and the urban tertiary sector for 20%.

Table 6 Relationship urban-rural GDP		
<u>Year</u>	<u>Rural GDP</u>	<u>Urban GDP</u>
1978	34.2	65.8
1994	53.1	46.9

Source: Rural Development Institute Publication 1994

These figures (see also Table 6) indicate that the proportional income in rural and urban areas has changed as rural incomes have grown and urban incomes have relatively decreased.

According to the analysis of the Rural Development Institute: in 1994 the national GDP grew at a rate of 11.8% in real terms, of which the rural sector contributed 8.86 points (75.1%) and the urban sector 2.9 points (24.9%) because of the increasing drop in the national industrial

structures. It lies in the aggravated distortions in the relation between output and employment of agriculture with respect to rural industry, which was in turn closely linked with the stagnating level of urbanisation and the trend of national industrialisation.

#### **4.3.3. Domestic Analyses**

Domestic Chinese scholars have strongly reacted to the analyses of both the CC CCP and the Rural Development Institute. The following comments can be considered as attempts to bridge the gap between demands and supply:

Prof. Wang May Kui (professor of economics and director of the Research office of the State Council) emphasised his personal belief that policies and measures designed to strengthen agriculture will be earnestly carried out during the Ninth Five Year Plan period. He called the prospects for China's agriculture and rural economy 'optimistic', and believed that achieving the target of producing 490-500 million tons of grain is indeed possible and in no way excessive. He recognised the complexity of the existing problems. The continuous growth of the nation's population has been accompanied by a reduction in cultivable land, and the comparative returns of the agricultural sector remain low. Providing adequate food for the nation's 1.2 billion population is a primary task of the Chinese government. Moreover, the state has a limited financial capacity for supporting agricultural development, and industrial sectors also find it difficult to invest in agriculture on a large scale.

Wang emphasised that the practice of the past 17 years (1979-1995) has proved that China is able to solve the problems of feeding its population by relying on a deepened reform, perfection of policies, applying scientific and technological achievements to farming, and bringing the initiative of hundreds of millions of farmers into full play. He suggested that introduction of the rural contract system of responsibility linked to production has enabled China to increase its total grain output from 300 million tons to 400 million tons in the 1978-1984 period, with the figure rising to 450 million tons from 1985-1990. Annual per capita consumption stood at 360 kg during the sixth Five Year Plan (1981-1985), rose to 380 kg

during the seventh Five Year Plan (1986-1990) and even further to 377.5 kg during the first four years of the eighth Five Year Plan. In 1995 the grain production output reached a record of 465 million tons. The task for the remaining 5 years (1996-2000) an added 35 million tons to reach the 500 million tons-target, is probably not so difficult. It means that China should average 7 million tons each year.

To ensure reaching these targets, the efforts to solve problems related to stabilising and strengthening agriculture are: protecting cultivated land from natural disasters; widely applying scientific and technological achievements to farming.

Minister of Agriculture of China, Liu Jiang, said in his book *Chinese Agriculture forges Ahead*, October 1995: *"The Chinese Government and people have the confidence and ability to further resolve the problem of food and clothing for the entire population and to maintain a sustained, rapid and healthy growth of agriculture and rural economy"*.

Moreover, the agricultural problems in China are not isolated in the context of the national economic development. State ownership still holds a dominant position in the national economy. In 1993, the total volume of property of state-owned industrial enterprises accounted for 67.5% of the national total, with their sales income and profits accounting for 62.2% and 54.9% of the respective totals. (No figures are available for collective ownership, which constitutes with public ownership the two pillars of the socialist system). The indications are that state-owned enterprises are facing losses, while the private enterprises including foreign investments are increasing hugely. Although since 1984 the focus of China's reform has shifted from the countryside to the cities, the government has designated the reform of state-owned enterprises as the central link in the reform of the economic system. It is inevitable that people worry about the consequences.

Prof. Weimin Li, Senior Research Fellow at the Institute of Agricultural Economics at Beijing has given his clear views on the current agricultural issues in China. In his paper on China's national policy (1995), he defends that China has an enormous capability to guarantee sufficient food to the Chinese people, relying on Chinese resources. He said that China is among the richest countries in the world in terms of endowment of national

resources, including land size and landscape, meteorological and biological diversity. China can produce more food if they use properly all their hills and slopes, waters, pastureland and all wastelands in the country.

The decentralisation policy of the Chinese government established a new responsibility system that puts the provincial governors in charge of the grain supply-and-demand balance. Weimin calls this a 'significant policy' to achieve the balance of total grain production both nation-wide and regional. But he signals that only 9 provinces out of the total 31 are able to export grain. The remaining 18 provinces need to import grain. He suggests that the food balance is heavily dependent on technology today. As to the socio-economic trend, China's target in 2000 is to reach the low-middle income level of the World Bank classification. The population growth has been slowed down in the past two decades. His personal opinion, that China will certainly become a large 'importer', but not necessarily of only grain, but also of technology, is reasonable.

Weimin also introduced a concrete idea for resolving the grain problems - by using all kinds of natural resources. On all levels, close attention has been paid to cropland improvement, but the use of other natural resources has been neglected.

Weimin suggested that the priorities should be shifted to livestock, horticulture, and fisheries.<sup>34</sup> Reclaiming cropland in many hilly regions, pastureland, and lake beaches, developing grain production and diversification of agriculture in the central region. More investment in the environment in the western region, to develop pasture and livestock production is needed. As is improving the intensive agriculture in the coastal region. According to Weimin, the eastern coastal region is the key to a radical adjustment of Chinese future economic and agricultural development. The Chinese 'fishing population' is too small compared to the total farming labour in the coastal region. China's fishing lags far behind many other Asian countries.

#### **4.3.4. The Main Policy Measures**

The latest state of affairs of in China's economic development was described in Li Peng's Report to the National People's Congress in 1996. Premier Li Peng enumerated all the rural problems and announced main policy measures.

The important and most difficult task in economic development over the past 15 years is to ensure a sustained and stable growth in agriculture and the rural economy as a whole. In order to meet the requirements of economic development and to ensure the people's well-being, a steady increase in the output of such basic agricultural products as grain, cotton and oil-bearing crops is required. The aim for the year 2000 is a total output of 500 million tons of grain.

##### **4.3.4.1. Agricultural Development**

China has a great potential for increasing its grain production and thus for solving the food problem by relying on its own efforts. The main policy measures aimed at realising this target include:

- The implementation of a strategy of invigorating the agriculture by relying on science and education, paying more attention to improving the rural scientific and technological contingent, and popularising a series of advanced and applicable techniques.
- Strengthening efforts to tame big rivers and lakes and to dredge medium-sized and small rivers in order to enhance their flood and drought-preparedness capacities.
- Making great efforts to transform medium and low-yielding farmland and building up grain and cotton production bases in Hei Lungjiang and the Huanghe-Haihe basin; continuing to assist the areas that grow grain and cotton in large amounts with developing their economics.

- To accelerate the development of industries that serve agricultural production in order to increase the supply of the means of agricultural production and improve farm mechanisation and modernisation. Moreover, persisting in and improving the system of provincial governors assuming responsibility for the 'rice bag' and the system of city mayors assuming responsibility for the 'vegetable basket'.
- To protect farmland under the law, improve the basic farmland protection system, and to cherish and make good use of every square inch of land.
- To take the initiative to develop a water-efficient agriculture and a grain-efficient cultivation of livestock and poultry.
- To encourage the organic integration of crop-farming with breeding and processing industries in rural areas, so as to promote the integration of agriculture, industry and trade, and the development of agriculture aimed at a high yield, fine quality and high efficiency.
- To make a success of the comprehensive development of agriculture and promote the all-round development of forestry, animal husbandry, sideline production and fishery.

The central and local government should increase their input in agriculture, encouraging and directing rural collectives, individual farmers, and all other layers of society to invest more in agriculture.

The Chinese must fully engage rural resources in farmland improvement projects, water conservancy projects and in road construction and afforestation to improve conditions for agricultural and rural economic development.

#### **4.3.4.2. Village and Township Enterprises (VTEs)**

The emergence of Village and Township Enterprises (VTEs) was characterised as a great innovation of the Chinese farmers. Reforming and developing the VTEs is an important means for promoting a flourishing rural economy and for increasing employment and income for the farmers and improving the national economy. Benefits of the VTEs are:

- Taking full advantage of locally available resources and vigorously developing industries, which process agricultural produce and which serve agricultural production.
- Saving resources and controlling and reducing environmental pollution.
- Guiding an orderly transfer of the surplus rural labour force

In order to create a favourable investment and increasing economic efficiency, VTEs should be relatively concentrated and should be built coincident with small towns.

#### **4.3.4.3. Deepening Rural Reform**

Deepening rural reforms requires a stabilisation and improvement of the contract household responsibility system, linked to output, as well as the two-tier management system that combines unification with diversification. Measures to be taken are:

- Promoting the reform and development of state-owned farms.
- Rationalising the process of agricultural produce and means of agricultural production.
- Establishing and improving a market system for agricultural products, centring around wholesale markets.
- Deepening the rural public service system to constantly expand the collective economy.
- Safeguarding the legitimate rights and interests of farmers to light burdens, and increase their income and arouse and protect their initiative to consolidate the workers-peasants alliance.<sup>35</sup>

### **4.4. Agricultural Development**

#### **4.4.1. General Agricultural Problems in China**

Because of the specific condition of China, the Chinese government has had to give priority to agricultural developments. These specific conditions include the huge population, limited farmland, the complex geographical-ecological situation, the lack of capital for investments,

and a backward technology. The Minister of Agriculture of the PRC, said in his closing remarks of his book 'China's agriculture in development (1945-1995)':

*The development of China's agriculture faces great challenges such as the growing population, the continuously rising consumption level, the increasing demand of agricultural produce, the continuous shrinkage of farmland and the decreasing agricultural resources.*

By the middle of the next century, the population of China will reach 1.5-1.6 billion, which raises questions on the future of agriculture in China, especially regarding food problems. The Chinese leaders have said that in China the entire availability of resources is 'fairly rich', but the availability per capita is comparatively 'inadequate'. For example the per capita availability of cultivated land is only one third of the world average level, the per capita availability of fresh water resources only one fourth, and the per capita availability of forest area one fifth. Furthermore, the cultivated land is decreasing continuously with the enlarging of urban areas, industries, and other public utilities.<sup>36</sup>

The outstanding problems of China's agricultural economy still remain, i.e. the shortage of long-term investments in production has led to a weak basis for agriculture and natural disasters have an increasing impact on the agricultural output. The macro-control by the state was weak and the difficulties in purchase and transfer of farm produce become increasingly prominent in some places. Regional gaps in rural income levels are becoming enlarged, which has constituted a significant obstacle in realising the goals for the year 2000: all rural households would be fairly well off. The marketing channels were apparently blocked, which intensified the shortage of grain supplies. So again, the heavy burdens fell on the farmers and prices for agricultural input rose.<sup>37</sup>

The facts show that the agricultural situation is developing unevenly. The areas with grain crops continued to register a large drop, enlarging the regional gaps in grain output. On the other hand, the output of cotton and oilseed increased rapidly and the gaps between supply and demand narrowed. The output growth was highest for animal products.<sup>38</sup>



This situation cannot be seen separate from history, since serious disproportion had been in existence in Chinese economy before the reform. This is why some people believe that economic adjustment cannot be successful without a thorough reform of the set-up.

In their book Lin Wei \*1) and Arnold Chao mention four main reasons why the set-up should be reformed:

1. To readjust the balance between demand and supply
2. To examine the performance of enterprises and reward or punish them properly by making them responsible for their own profits or losses on the basis of commodity-money relationship.
3. To recognise the relative independence of the enterprises and to give them more power to make their own decisions as a basis for reforming the country's economic set-up.
4. To introduce changes involving people's financial interest since the state has a sizeable financial deficit. <sup>39</sup>

*\*1) Lin Wei, who planned and edited the Chinese text, is a veteran Marxist theoretician and political economist in the PRC who has been a leader setting a new direction in economic theory after the Cultural Revolution. He is currently Deputy Editor of Social Science in China.*

The well-known Chinese economist, Yu Guangyuan\* 2), starting from the economic situation prior to 1980, states among others the following reasons for readjustment and restructuring:

1. A rapid population increase and a sluggish economic growth,
2. The irrational structure of the heavy industries, in processing industries especially the machine-building industry grew too fast,
3. Many produced goods were unsaleable and substandard,
4. Consumption of energy, raw and other materials in heavy industries is too high,
5. The long overdue improvement in living standard has been neglected,

6. The rate of accumulation was too high in the allocation and use of the national income and cut down on consumption,
7. The amount of grain, pork, and cloth consumption rose very little in ten years (1966-1976).<sup>40</sup>

*\*2) Yu Guangyuan, China's leading economist, provides a comprehensive review of the country's recent economic development (1977-1980). He is editor of China's Socialist Modernization (1984 Foreign Language Press Beijing China)*

It can be concluded that the agricultural production problems in China are closely related to the population growth and steadily growing supplies on the one hand. On the other hand, the amount of farmland and cultivated land is also steadily shrinking because much land is used for industrial projects and other public uses. The complexity of the geographical-ecological situation, poor transportation facilities, backward technology, lack of capital, especially for long-term investments, it all adds up. The uneven regional development and regional gaps in the rural investment level has become enlarged while the marketing channels are apparently blocked. The per capita availability of food, fresh water, forest area is especially limited for the farmers. They experience difficulty in purchasing and transferring agricultural produce. The macro control of the state has weakened.

#### **4.4.2. Population Growth and its Consequences**

The population of China is the largest in the world. From 1949 until the early 1970s, the growth of the Chinese population entered a period of rapid increase. With a 'high birth rate and a low death rate', there was a high natural increase. In 1970, the birth rate was 33.4 per thousand, the death rate 7.6 per thousand, and the rate of natural increase 25.83 per thousand.

In 1975, the country's population, according to the census, amounted to 919.7 million, with an annual growth rate exceeding 20 per 1000. This situation brought tremendous difficulties to the state, such as how to increase the accumulation of funds, accelerate the development of the economy, raise the people's standard of living, provide development, develop education and protect the ecological environment. For instance, the output of grain increased by 61 percent from 1959 to 1980, but 48 percent of it was used to meet the needs of the newly added population, so only 13 percent could go towards bettering the people's lives.<sup>41</sup>

To change this pessimistic outlook, the government for the first time implemented family planning in the 1970s. Peng Yun, chairman of the State Family Planning Commission noted that when the New China was founded in 1949 it had a population of 540 million. The figure grew by an average of 13 million annually, hitting 800 million by 1969. The government realised that the population growth needed to be regulated in a family planning programme, combined with other measures to slow the population growth.

This new policy was extremely successful. The birth rate has been lowered and the burden on social and economic development caused by a sharp population growth has been mitigated. The 1970 birth rate of 33.34 per thousand had fallen to 19.68 per thousand by 1991. Based on a projection from the 1970 figures, the number of births was reduced by at least 260 million.<sup>42</sup>

The programme also improved the quality of life throughout the country. Before 1949, the average life expectancy was 35 years. By 1987 it had increased to 69.5. The mortality rate dropped from the pre-liberation level of 20 per thousand per year to 6.67 per thousand. In addition, infant mortality fell from an average of 92.55 during 1944-49 to 22.4 per thousand for the years 1985-87, a 76 percent drop.<sup>43</sup>

Statistics show that by the end of the Eighth Five-Year Plan (1995), the Chinese population will reach 1.214 billion, 13 million fewer than expected. Experts at a conference on population noted that the population has entered a period maintaining a low death rate with a high growth rate.<sup>44</sup>

#### 4.4.3. Limited Land for Cultivation

China is a developing country with a huge population but with a limited amount of cultivated land, inadequate per capita resources, and a weak economic foundation. A rapidly expanding population will conflict with the country's socio-economic progress and create a disagreement between the utilisation of resources and environmental protection, thus bringing tremendous pressure on efforts for socio-economic development and the overall improvement of standards and national quality. At present, per capita cultivated land in China has decreased to less than 0.1 hectare, equivalent to only one fourth the world average, as are per capita freshwater resources which have gone down to 2,600 cubic metres. China boasts the globe's largest grain output but per capita volume was only 383 kg in 1990. Although national income has been climbing by 25 percent annually, the increase has been eaten up by new population growth, resulting in reduced fund accumulation and impeding the speed of economic construction.

A fast growing population has also created great difficulties in employment, education, housing, transportation, and health care. In line with actual conditions, China must on the one hand strive to develop its economy and productive forces, and on the other hand promote family planning and raise the quality of the population through popularising education and providing fine health services. This population policy is closely related with reserving land for agriculture and the existing population.

China is about 9.6 million square kilometres, of which 33 percent are mountains, 26 percent table-lands, 10 percent hills and 31 percent basins and plains. It covers three major climates, from north to south temperate (mild), subtropical and tropical zones.

Considering this, China's land utilisation is diversified. There is relatively little farmland and forest, and much grassland. The cultivated land of the country is 95.333 million ha, which accounts for 9.9 percent of the total area. The 26.3 percent of paddy fields are mainly distributed in the south of the Qinling Mountains, the Huaihe River, and the middle and lower reaches of the Yangtse River in south China. And the 73 percent of dry land is mainly

situated in the 16 provinces in the autonomous region, and municipalities in the north. Thirty-three percent of the dry land is irrigated farmland, mainly in the plains.

Forests cover 134 million ha, 13.9 percent. The grassland resources mainly consist of natural grassland, including grass hills, grass slopes and shoals, grassland in the pastures, semi-pastoral areas, and farming areas. The total area of grassland resources is 393 million ha, of which 84.5 percent is suitable to be utilised, including 69.4 percent of area under utilisation and 5.521 million ha of artificial pasture.<sup>45</sup>

The middle and low yielding fields account for 71.6 percent and low yielding plantations and plots account for 28.95 percent of the total of cultivated land. Low producing forestland accounts for 25.67 percent of the forest area and water area of low yield accounts for 71.85 percent of the aquaculture area.

Of the uncultivated land, there are 68.995 million ha of mountains, wastelands and shoal, of which 13.73 percent is suitable for planting grain, cotton and oil-bearing crops, 6.79 percent for tea, mulberries (for the silkworms) and fruit, 40.87 percent for forestation and 38.61 percent for animal husbandry.<sup>46</sup> The unutilised water area is 1.896 million ha, accounting for 30.03 percent of the area suitable for aquaculture.<sup>47</sup>

#### **4.4.4. Agricultural Production**

##### **4.4.4.1. Cereals**

The main cereal crops cultivated in China include paddy rice, wheat, maize, millet, and sorghum. Among these, paddy rice is the most important food crop, accounting for 29 percent of grain acreage and 44 percent of the total output. Rice is grown mainly in south China, where its acreage takes up 90 percent of the total. Rice production falls into three categories: early rice, intermediate rice and late rice, and their planting area accounts for 30, 33, and 31 percent respectively.

With the development of farming techniques, especially the technique of hybrid rice production, China's paddy rice production has grown. In 1994, the acreage of paddy rice reached 30,171,000 ha, with a production of 175,930,00 tons, on both counts ranking first in the world.

All over China, wheat cultivation is another major crop, second only to paddy rice. Winter wheat is the main variety of wheat, covering 84 percent of the total wheat area, the remaining 16 percent being for spring wheat. These crops are mainly grown in northern China, in the Yangtze River valley. Spring wheat is grown mainly in some chilly regions in the north. The production of both types of wheat has risen quickly owing to the popularisation of new varieties and innovations in the development of cultivation techniques. In 1994, the acreage sown with wheat reached 28,982,000 ha, with a production of 99,300,000 tons.<sup>48</sup>

Maize is planted in three regions; the spring-sowing maize belt in the north; the summer-sowing maize belt in the plain of the Yellow River, the Huahe River and the Haihe River, and the southern maize belt in mountainous areas. These three belts account for respectively 30, 40 and 30 percent of the total maize acreage, and 35, 50 and 15 percent of the total production. The extension of some advanced techniques, such as hybrid maize, using film mulching for maize growing has promoted the development of maize production. In 1994, the average sown with maize hit 21,152,000 ha with a production of 99,380,000 tons.

These three sorts of grain (paddy rice, wheat, and maize) constitute the main food of the Chinese people. Other cereals produced in China are millet, sorghum, etc. Table 7 provides the statistics published by the Ministry of Agriculture.

Table 7 Cereal Growing Area and Output							
Year	1949	1978	1990	1991	1992	1993	1994
Area (1000 ha)	94829	101647	96766	94072	84282	88912	87637
Output (10,000 tons)	9625	26545	41360	40205	41221	40517	39389

(Source: Agriculture in Development 1945-1985, p.11)

These statistics show that the area sown with cereal in the period of the Reform (1978-1994) has decreased by 14,010,000 ha, while the production increased by 138,440,000 tons. The increase of the production yield per unit land farm is a tremendous success for science and technology.

#### 4.4.4.2. Cotton

China is one of the world's principal cotton producers. Cotton used to be grown in Xinjiang, Junnan, and Hainan. At present cotton is mainly grown in the Yangtze River valley, the Yellow River valley, and the interior areas in Northwest China. The Cotton Belt in the Yellow River area accounts for 50 percent of the total cotton acreage and 40 percent of the total output, the cotton belt in the Yangtze River valley for 35 and 38 percent respectively, and the interior Cotton Belt in the Northwest for 13 and 20 percent. Cotton production has developed rapidly since the 1980s. Its sown area has increased to on average 5,700,000 ha. The total output rose to 4,540,000 tons in 1994 from 440,000 tons in 1949, a 10 times increase (Table 8). In 1949, the cotton output accounted for 6.2 percent of the world total, while in 1994 it accounted for 23.2 percent, ranking first in the world. The per hectare cotton yield of China is more than 750 kg, taking the forefront in the world.

Table 8 Cotton growing area and output						
Year	1978	1990	1991	1992	1993	1994
Sown area (1000 ha)	4866	5588	6538	6835	4985	6628
Output (10,000 tons)	217	451	568	451	374	454

Source: China's Agriculture in Development, 1995

The cotton statistics show that the area sown within the period 1978-1994 has increased by 73.3 percent while the output increased by 47.7 percent over the same period.

#### 4.4.4.3. The Oil Crops

Oil crops mainly include: peanut, rapeseed, sesame, oriental sesame, and sunflower. Sesame is grown in ten provinces, autonomous regions and municipalities along the Yangtze River, it

accounts for more than 60 percent of the oil crops. Sunflower is grown mainly on saline alkali and dry land in North China, the Northeast, and the Northwest.

Since the reform and the opening-up, China has made a breakthrough in oil crop production. The output of oil crops in 1993 and 1994 respectively increased by 164,000 tons and 1,850,000 tons over that of the previous year. In 1994, the sown area of oil crops increased by 937,000 ha over the figure in 1993 (Table 9).<sup>49</sup>

Table 9 Oil-bearing crop growing areas and output							
Year	1949	1978	1990	1991	1992	1993	1994
<b>Sown Areas</b> (1000 ha)	<b>4228</b>	<b>6223</b>	<b>10900</b>	<b>11530</b>	<b>11489</b>	<b>11144</b>	<b>12081</b>
Peanut	1254	1768	2094	2880	2976	3380	3776
Rapeseed	1515	2600	6503	6133	5976	5301	5783
Sesame	827	636	669	680	746	755	690
<b>Output</b> (10,000 tons)	<b>250</b>	<b>522</b>	<b>1613</b>	<b>1638</b>	<b>1641</b>	<b>1805</b>	<b>1990</b>
Peanut	127	238	637	630	595	842	968
Rapeseed	74	187	696	744	765	694	749
Sesame	33	32	47	44	52	56	55

Source: China's Agriculture in Development, 1995

#### 4.4.4.4. Meat, Eggs and Milk

Since the Reform China has achieved a rapid development in animal husbandry. In 1994, the total inventories of pigs, poultry, sheep and goats and cattle were 410 million, 3.74 billion, 240 million, and 120 million. The total meat production reached 44,993 tons and the egg production 14.79 tons (Table 10), a continuous growth being achieved for 16 years in a row. The annual growth exceeded 10 percent. At present, meat and egg production ranks first in the world. In 1994, the per capita availability of meat was 38.3 kg and the per capita egg availability was 12.6 kg, surpassing the world's average. The popularisation of advanced and



practical technology in breeding improvement and disease control has raised the animal production level rapidly. The statistics of this production are illustrated in Table 10.

Table 10 Meat, Eggs and Milk Production (1978-1994)						
Year	1978	1990	1991	1992	1993	1994
Meat (10,000 tons)	856	2657	3145	3431	3843	4499
Eggs (10,000 tons)	--	795	922	1020	1180	1479
Milk	--	475	524	564	563	609

Source: China's Agriculture in Development, 1995

#### 4.4.4.5. Aquatic Production

The coastline of China is 18,000 km with more than 5000 islands. The continental shelf with a water depth of less than 200 metres covers 1.5 million square km. There is a large variety of aquatic products, around 2500 fish species, several thousands shrimp and prawn, crab, and shellfish species of economic importance. In 1978 China's total aquatic production was still limited. In 1994, the total production reached more than 21 million tons, 5 times that of 1978 (Table 11). The production of processed aquatic products reached 3.35 million tons in 1994. China's fisheries will develop quickly in a stable and sustainable manner.

Table 11 Aquatic production (1978-1994)			
Year	1978	1990	1994
Total production (10,000 tons)	456	1237	2146
Marine products	350	713	1241
Freshwater products	106	524	906
Area for aqua culture (1000 ha)	2834	4264	5103

Source: China's Agriculture in Development, 1995

#### **4.4.4.6. Tropical and Subtropical Areas**

There is a great potential for the development of China's tropical and subtropical areas where more than 20 million ha of land resources are available, covering more than 10,000 species of higher plants. Of these resources 8 million ha are exploited.

In 1951, China established state farms in Guangdong, Hainan, Yunnan, Guangxi and Fujian provinces and started to grow natural rubber, on a large scale, developing a set of rubber cultivating techniques suited to China's specific condition. In 1994, the cultivated areas for natural rubber reached 588,000 ha, ranking fourth in the world, while the share in the world's total production increased to 6.7 percent from 0.01 percent in 1949, currently ranking fifth in the world. There are nearly 20 other main crops, such as sisal, coffee, tea, fruits, species, medicinal herbs, and flowers.

With a shrinking cultivated area for agriculture, the production output increased 288% within 50 years (1949-1994) while the area sown decreased by 7.5%. It means that the policy of intensification has been successful. The cotton output (1978-1994) increased 47.7%, while the sown area increased 73.3%. Oil crop output in 1993-1994 increased 1,640,000 tons. The output of meat, eggs, and milk also increased remarkably. Aquatic produce increased drastically from 4,560,000 tons in 1978 to 21,460,000 in 1994. Moreover, tropical and subtropical areas have been given new prospects. All this indicates that the agricultural production output that is meant to provide food for the people, shows an optimistic prospect. If birth control is implemented according to plan, the balance between supply and demand of food (grain and non-grain) will be sufficient.

#### **4.4.4.7. Non-Cereal Agricultural Production**

China has limited cultivable land for grain production but it possesses an abundantly diversified geographical and ecological condition, a variable climate situation, and different soil types. Mountains, hills, beaches, and grassland could be planted with many different grains that are necessary for domestic consumption but could also be used as foreign trade commodities.

Tea, sugar beet, fruit including apples, litchis, citrus fruit, pears, and mulberry (for silkworm cocoons) are in great demand in foreign countries.

Some of them will be dealt with here.

### *Sugar*

China has a long history of sugarcane cultivation, while sugar beet has only been in use since the beginning of this century. Since 1949 sugar crop production has expanded rapidly. In 1992 the output of sugar products set the highest record in Chinese history. In 1994 the output of sugar crops was 73,450,000 tons, an increase of 25 times that of 1949, the 1994 sugarcane output being 60,930,000 tons, 22.1 times up the figure of 1949. However, the per hectare yield of sugarcane in China is less than 60 tons, 20 tons less than that of the world's major sugarcane producers. The per hectare yield of sugar beet is about 20 tons, which is half the average level of Asia. China is working hard to promote further development of sugar crop production.

### *Fruit*

There are more than 300 species of fruit trees throughout the country and more than 30 species of fruit are produced for economic purposes, including apple, citrus, pear, grape, plum, apricot, hawthorn, actinide, cherry, strawberry, banana, pineapple, litchi, loganberry, mango, coconut and papaya. Some species have been transferred from abroad and have taken root in China with a rich yield, which makes a great contribution to the development of world fruit production. The total output of apples, pears, and citrus fruit (in 10,000 tons) was 500 in 1978; 1750 in 1990; 2400 in 1991; 2400 in 1992; 3000 in 1993; 3500 in 1994.<sup>1</sup>

### *Tea*

Tea originates in China and from there it has been introduced to the rest of the world. It has become one of the most popular drinks in the world today. There are 18 provinces and autonomous regions in China where tea is produced, mainly in the Yangtze River valley and provinces in the south of China. After 1949, and in particular since 1979, tea production has grown rapidly. In 1994, the tea plantations in China covered an area of 1,135,000 ha with a total output of 590,000 tons, including 200,000 tons for export. China occupies the first place in the world in respect to tea growing acreage, and ranks second in terms of total output and export volume. Tea is one of the cash crops cultivated in some mountainous areas in south China. Tea production has become a backbone of local industries as well as an important means for farmers to get rich. The tea production since 1949 to 1994 is shown in Table 12.

Table 12                      Tea Planting Area and Output /Ha							
Year	1949	1978	1990	1991	1992	1993	1994
Tea planting area (1000 ha)	155	1047	1061	1060	1984	1163	1135
Tea output (10,000 tons)	4	27	54	54	56	60	59

Source: China's Agriculture in Development

### *Mulberry*

China has been the first country in the world to invent mulberry culture, silkworm raising, silk reeling, and silk weaving. Chinese silk is famous all over the world. The history of the Silk Road is the history of China's silk trade to the Middle East and Western Europe. In 1949, the cocoon production was a little more than 30,000 tons, about 14 percent of the highest output in history. Since the founding of the PRC, the development has progressed. In 1970, 121.500 tons were produced, surpassing the output of Japan. In 1980, China ranked first in the world, reaching 249,000 tons, which surpassed the pre-liberation record. At present, the production of raw silk worm cocoon accounts for about 70 percent of the world's total. The earnings from the export of silk products have reached more than US\$ 3,700 million.<sup>50</sup>

#### **4.4.5. Conclusion**

China has an abundant landmass with a diversified geographical and climatic situation. The non-grain agricultural production, of course, could be diversified according to the ecological condition. Many non-grain products mentioned above are important for commercial purposes. The export of these products will become a source of foreign currencies.

### **4.5. Land Management, Reclamation and Protection**

Agricultural, ecological, geographical and environmental complexities have forced the Chinese government to conduct a better management and a central overall planning. It is the eternal balancing act between a huge population and the lack of farmland area; the uneven development between north and south, especially related to the climatic condition; the lack of forests and the vast terrain of desert; many hills and mountains, but a few basins and little lowlands. This condition required better management, and planning on a national level.

#### **4.5.1. Management**

One of the weaknesses of agricultural development and rural development in China is macro control. The uneven development of the regions, the varied natural conditions, the variety in ecology and environment, all these are factors that need to be taken into account on a macro level. For instance, there is the annual frost-free period with little rainfall. Then the topsoil is dry and the climate arid, so that little progress is made in production. Some regions suffer from various degrees of drought. The ecological environment continues to deteriorate. The farmers look to the afforestation efforts, as one of the key problems. The trees they plant grow so slowly that they cannot make a quick profit from timber sales. The lack of proper management in the timber business and the poor survival rate of the saplings are becoming an

acute problem. The local government realises that the key to solving the problem is first to ensure that the farmers have enough food and clothing. This shows the necessity of a life free from hunger and cold, plus an improved ecological environment.

In China, the climate is the bottleneck in the agricultural development. In one area, the rich underground water resources are an advantage. The local government decided to construct an irrigation system to develop these resources, in an attempt to transform some of the low-yielding farmland into stable, high-yielding irrigated fields to guarantee an adequate supply of grain and the necessary cash crops for the farmers. The remaining farmland will be used to grow trees or as pastureland. Such developments, however, require enormous investments, which presented a local government long dependent on state aid with difficult problems. The central government supported the policy of the local government of helping farmers to prosper while improving the ecology, and proposed that a Shelterbelt be built. To realise this, the central government decided to invest every three years until the year 2000.

Most of the initial investments were used to construct an irrigation system. A special organisation was set up by the government at various levels to help the farmers to tap the underground water resources and open irrigation fields. At the same time, funds were used to improve pastureland, to construct roads, build irrigation works, and to plant trees.

The government investments were mainly used to purchase equipment and materials, and to pay for the drilling of wells. Farmers who benefit from the projects volunteered their labour. When the project was completed, they were contracted to farm the land as before. Certain areas, however, are under a unified management in the selection of seeds and methods of sowing, manure application, irrigation and the prevention of plant diseases and pests.

Scientific production has been promoted from the very beginning. Prior to the operation of the project, an overall design, including a quality standard had to be established. The country set up a special work team responsible for the quality inspection of completed irrigated canals and wells. If any poor quality work was discovered, the project was put on hold until corrections were made. In a supporting role agricultural technicians in the country often make use of their spare time and the slack farming season to teach farmers new skills. They are

teaching them the knowledge necessary to select an improved variety of seeds, apply chemical fertilisers and to protect crops.

The newly irrigated fields and the application of advanced production skills have completely changed the results, compared to previous years. When in the latter half of 1991 the region suffered a long drought, all the crops in the fields without irrigated water withered, but those in the project areas grew very well. A total of 5475 ha of the total 6564 ha of improved farmland were planted with grain crops in 1991. The average output of grain was 3000 kg per ha, almost double that of the years before the project was introduced. The output in the remaining fields, planted with oil and other cash crops, was also double that of the previous years.<sup>51</sup>

#### **4.5.2. The 'Three Norths' Shelterbelt Afforestation**

Already before the reform and the open door policy did China have an Afforestation Plan. This plan was enlarged and strengthened after the reform into a long-term plan for economic, ecological and environmental purposes. It covered the Northeast, North and Northwest of China, where the ecological problems were among the world's most devastating. The project was called 'the Three Norths' Shelterbelt Forest. Its main purpose is to protect the environment, raise the land utilisation rate, promote a steady growth of agriculture and animal husbandry, and develop the economy of the Three Norths- areas. The project involved 551 counties (banners, cities and prefectures) in 13 provinces: Shaanxi, Gansu, Ningxia, Qinghai, Qijiang, Shanxi, Hebei, Beijing, Tianjin, Inner Mongolia, Liaoning, Jilin and Heilungjiang. It covered 4,069 million square kilometres, nearly half the Chinese territory of 9.6 million km<sup>2</sup>.

For long-term purposes, the afforestation policy has two goals; to optimise environmental protection and to promote economic development for the future and destiny of humanity, and to protect the environment of the globe and attain a sustainable development.<sup>52</sup>

The project entailed establishing a shelter-forest system to prevent wind, fix sand, conserve water and soil and protect farmland, so as to bring about a balanced ecology in the northern part of the country.

The project was divided into three stages. The first, from 1978-2000 was further subdivided into three phases. The first phase ranged from 1978 to 1985, the second from 1986 to 1995 and the third from 1996 to 2000. During this period, a total of 21.8 million hectares of trees would be planted. A total of 9,257 million hectares of trees were planted during the first eleven years.

The results were dramatic in terms of ecological, economic and social benefits. In the past, there was a low, unstable agricultural production. The 11 million hectares of farmland that used to be hit by wind, sand, and dry heat, are now protected by the forest. Grain output thus increased 10 to 30 percent. The 9 million hectares of desert and semi-desert grasslands are sheltered now. Grass production increased by over 20 percent. The 7.33 million hectares of land devastated by soil erosion are being restored to their full vitality.<sup>53</sup> The amount of silt that flows into the Yellow River has been reduced by 10 percent and more than 6 million hectares devastated by sand are now on the ecological rebound. As time passes, the 'Three Norths' Shelterbelt Forest project will play an increasingly important role in China's ecology.

The success of the 'Three Norths' Shelterbelt Forest project is manifest. The initiative of various sectors was mobilised and the planting of trees and efforts to green the land were supported by all the people. By making use of China's abundant labour and allowing those who plant trees to own them, some 1.1 billion working days were devoted to constructing the Three Norths Forest.<sup>54</sup>

Compared to the results of the period 1984-1988, the survey over 1989-1993 showed an expansion of forest area by 8.03 million hectares, an annual increase of 70.16 million cubic meters of forest growing stock. Currently, China's forest has come to 133.7 million hectares and the forest coverage has reached 13.92 percent of China's territory, with 10,137 billion cubic meters of total forest growing stock. The artificially forested area amounts to 33.3 million hectares, ranking first in the world.



With the completion of the first and second stages of the 'Three Norths' Shelterbelt programme, more than 13 million hectares of trees have been planted over the past 16 years. More than 5.46 million hectares of water and soil conservation forest have been cultivated.

On the other hand, China still faces environmental problems featuring inadequate overall forest resources, serious water losses and soil erosion, land desertification, water shortages and frequent floods, droughts, windstorms and other natural calamities. According to the plan, by the early next century, China will have laid a solid foundation for establishing a fairly comprehensive ecological forestry system and a relatively developed forestry sector by the mid 21st century. It is a giant undertaking, to change China into a green and forested land.

#### **4.5.3. Fighting Desertification for Land Reclamation**

In north China, an intensive control was imperative. Reclaiming land to use as farmland was one of the options.

China is one of the countries in the world with expanding and scattered deserts, and is endangered by erosion. Most of the deserts and eroded land lie in the 11 provinces and autonomous regions in the Northeast, the North, and the Northwest. Their 10,000-km long barren front, has brought one-third of the country under the attack of sandstorms. As a result of the expansive erosion, the environment has been damaged. The advance of desert and erosion has also caused severe problems to the industrial and agricultural production, and it endangered people's livelihood in the area. Every year as much as 13 million ha of farmland is subjected to sandstorm attacks. More than 100 million hectares of pasture land have been seriously eroded, and thousands of reservoirs and water conservancy projects have been damaged. More than 800 km of railroad and numerous roads are also in grave danger. The country's direct loss from sandstorms every year is estimated at 4 billion yuan. As a result of scarce plants in a fragile ecosystem, there is a sharp shortage of fuel. Over 60 % of the country's poor are found in the eroded areas.

Transforming deserts into farmland is the government policy. Some 21.1 % of the Chinese territory are covered by desert, which is more than the amount of existing farmland and about the same as the forest area. The state programme to control desert and reclaim the vast stretches of sand to productive farmland began in 1957. Scientists established sand control experimental stations, one of which was Deng Kou station in Inner Mongolia.

The first National Conference on Science and Technology in 1978 called for the establishment of scientific experimental bases to promote the modernisation of agriculture. It resulted in the establishment of four large bases across the nation, including the base in Deng Kou.

Production and fishery has turned this area into a commercial grain production base. Seventy percent of the province's grain sold to the state comes from these reclaimed areas. Some countries in the area have occupied the place of the biggest per hectare grain producers of the country for three years on end.<sup>55</sup>

The combination of practical experiences and scientific know-how have been an absolute necessity in realising this giant project within a relatively short time.

#### **4.5.4. Technical Experiences**

The combination of practical experience and scientific know-how is an absolute necessity in realising giant projects within a relatively short time, as had been demonstrated in Deng Kou, Yulin, Gansu and Xinjiang projects.

##### **4.5.4.1. The Deng Kou Centres**

The Deng Kou centre for Forest Experiment by desert area has been established in the place of the former (1957) sand control station. The plan called for the integration of earlier scientific achievements to bring about botanical, soil, and economic changes. It became a major part of the Three Norths' Shelterbelt Project. A special report on the working process of this project states:

*Before planting vegetation, the scientists first levelled the sandy terrain, after which they dug irrigation ditches to divert water from the Yellow River to provide vital moisture to the virgin soil. They ploughed deep furrows to bring the rich soil beneath the layer of sand to the surface. The scientists at the project refer to their experimentation effort as 'three-dimensional green engineering'. Tall poplar trees, with the bulk of the fields being planted grains and vegetables. Various fields are fields with watermelons and a variety of sweet melons. The centre botanical garden propagates some 120 different varieties of plants, which are considered easily adaptable to desert areas. Collecting more than 600 varieties of poplar trees, and chose those best suited to the natural conditions around Deng Kou.<sup>56</sup>*

Over the years, the scientists have conducted countless experiments to find plants with a high survival rate in the harsh environmental conditions. Various studies have revealed that the saline-alkali content of the soil at a depth of one meter decreases to a great extent after only two years of growing such plants. Observations carried out since 1984, when this belt was started, have revealed 'dramatic changes' in local environment quality. For example about 10-20 percent more short-wave radiation is absorbed now than in the past, while the effects of droughts in summer, especially around July, have been reduced by 39 percent. The wind velocity in the surrounding areas has decreased by 28 percent, while in the sheltered belt itself it has even dropped by 37 percent. The pattern of sandstorms has been altered, with the volume of shifting sand in the Shelterbelt having been reduced by some 80 %. The volume of dust blowing in from remote windward areas has dropped by 40 percent. At present, the rate of atmospheric turbulence in the area has dropped by near 35 percent. Over the 15 years, the land value increased about 300 times, and economic results have been increasing and are expected to rise even higher in the near future with the advent of lumbering.

#### **4.5.4.2. Yulin City in Northwest China's Shaanxi Province**

Surprising are the changes on the southern end of the Mu Li desert, where a network of ditches criss-crosses fruit farms and high-yield paddies, a scene typical of south China. By 1949, more than 400 villages and towns and 133,000 ha of farmland had been engulfed by drifting sand, while another 13,000 ha of farmland were endangered. In 1985, some 100,000

families were contracted to reclaim 330,000 ha of eroded land, using simple and effective methods.

*Planting stalks of wheat rice and other crops in blocks in order to set up a protective screen so that the sand flow could be stopped and the plants could survive. Planting shrubwoods on the windward slopes of the sand dunes, by gradually removing the sand on the top. Directing the Yellow River and the Wuting River into the heart of the desert so that the river flow would level the area where they would either be covered with top soil or planted with crops. Thanks to the favourable irrigation conditions the desert was transformed into high-yield farmland within two to three years.*

In Yulin alone, 30,000 hectares of farmland have been created, producing 4.5 tons of wheat or 7.5 tons of rice per ha, more than the national average. Forest plantation has increased from 2 percent in 1949 to 34.5 percent in 1985. More than 720,000 ha of forest have been planted. Four Shelterbelts have been created with a total length of 1,500 km. Wind speed in the desert has been reduced by 33 percent, and sand storms have lessened from 70 days per year in the 1950s to the current 30 days a year. Sand washed into the Yellow River each year has been reduced from 516 million tons to 300 million tons. Gone are the days when villages, farmland, and roads were submerged by sand flows. Stable high yields are produced from more than 200,000 ha of farmland under the protection of the Shelterbelts. In an average year, per capita grain yield was 400 kg, which meets the basic demand for food. Due to the long hours of sunshine and the sharp difference of temperature, the rice crops are not only high-yielding but also of high quality. Yulin desert has been brought under control and its miserable history has been put to an end.

#### **4.5.4.3. Gansu Province**

Here the desert covers 3.07 million ha, and the sandstorm front extends to 1,600 km. A Shelterbelt of 1,200 km has been built on 114,000 ha of land. (The State General Plan). These efforts have protected 1,400 villages from the abuse of erosion and 26,000 ha of farmland have been reclaimed. Now the desert has been transformed into fertile farmland irrigated by a network of ditches. Since the 1980s geo-thermal resources have been fully exploited in the

area. A comprehensive development policy of agriculture, forestry, animal husbandry, sideline production, and fishery has turned this area into a commercial grain production base. Seventy percent of the province's grain sold to the state comes from this area. Above all, some counties in the area have occupied the place of the biggest per-hectare producers of the country for three years on a row.<sup>57</sup>

The Shelterbelts have improved the regional climate, and consequently have promoted the prosperous development of its forestry and fruit production. 28,000 ha of commercial forest have been grown, producing 42 million kg of vegetables each year.

The timber reserves have increased considerably, satisfying the basic needs of the local residents, of which 80 percent have built new houses.

#### **4.5.4.4. Xinjiang Province**

In this province the Production and Construction Corps has 88 farms scattered over the Gurbantunggut Desert and the Taklamakan Desert. More than half of the farms is in deserts. Since 1982, a tree planting drive has been launched with the purpose of planting trees for protective belts for the farmlands. By 1990, 80 percent of the farms near the sandstorms had been protected by Shelterbelts. The Milan Reclamation Area was formerly surrounded by sand dunes. More than 2 million trees have been planted here, forming a Shelterbelt. Now the place has a forest coverage rate of 36 percent and a new town has emerged besides the old town of Yixun. By working hard, farmers, technicians and scientists, have changed the previous 'sea of death' into a vigorous 'sea of life'.<sup>58</sup>

As a result of the diversified activities in the aforementioned areas, the achievements are evident and the areas face a bright future once the projects have been concluded. Zhang Wen Ming, director of the Department of Sand Control of the Three Norths' Shelterbelt Forest construction bureau said that more than 10 million hectares of forest had been planted by the end of the 1980s, mainly for sand control purposes. Around 10 percent of desert land had been made arable and more than 1.33 million ha of farmland have been opened up in desert areas. It resulted in a 10-20 percent increase in grain output over more than 11 million ha of

farmland. Another 11 million ha of desert and semi-desert grassland badly affected by sand have been recovered through desalinisation, resulting in a 20 percent rise in output.

#### **4.5.4.5. Land Reclamation and State Farms**

A large-scale reclamation of wasteland resulted in the building of state farms. There are now 5604 farms with independent accounting (including 2,157 state-owned farms) with a combined staff of 5.17 million and a total population of 12.22 million. They have 384,000 ha of rubber plantations, 208,000 ha of tea plantations and orchards and 17,204,000 ha of pasture land, with combined fixed assets of 36.7 billion yuan. Land reclamation enterprises have become comprehensive economic entities with agriculture as their foundation engaged in the simultaneous development of agriculture, forestry, animal husbandry, fishery and sideline production, and encompassing the primary, secondary and tertiary industries.

In 1994, the farms produced a gross domestic output of 33.4 billion yuan. In terms of comparable prices, this was 4,43 times the figure of 1978<sup>59</sup>.

Both state farms, and land reclamation have been measures aimed at safeguarding sufficient arable land and agricultural output to feed the population on the short as well as on the long term. This may put the minds at ease of foreign China watchers who worried that China might become a threat to other countries because of increasing food shortages.

#### **4.5.4.6. Fighting Floods and Protecting Farmland**

One of the Priorities of the Ninth Five-Year Plan is to combat natural disasters, especially flooding. China has more than 1,500 rivers, which have a catchment area exceeding 1,000 km<sup>2</sup>. The major rivers are the Yangtze River, the Yellow River, the Pearl River, and the Huahe River.

In general, rivers and water are beneficial for the people, but in some cases, rivers may turn into enemies. In this part, I will discuss the role of the people in taming the rivers, because flooding poses a major problem. It affects the economy, agriculture, and people's livelihood. For a long time flooding has been recognised as one of the causes of the poverty of the rural population in China, especially of the farmers. Since the liberation, much effort has been put

in attempts to control flooding, but because of the enormity of the problem, many people still face the danger of floods.

The year 1991 may serve as an example here. In that year, flooding caused economic losses of an estimated 39.8 billion yuan. Floods affected 18 out of the 30 provinces, with the Yangtze River, the Huahe River valleys, and the Tai Lake areas in Anhui and Jiangsu provinces being hit the worst. 43.5 million ha of crops were flooded; 260 million people were affected of whom 114.14 million suffered losses; 1729 were killed, 32,227 were injured, 13.955 million were isolated and 5.054 million were evacuated; 2.109 million houses were damaged. The flood victims were helped by the Chinese people, at home and abroad.

Also foreign governments and international institutions gave material and financial aid, so that the people in the flooded areas could start building up their lives again.<sup>60</sup>

According to 1993 statistics, 427 of the nation's 570 cities have achieved some form of flood control. Some of them, Beijing, Shanghai, Harbin, Changchun, and Guangzhou, can combat large floods expected to occur only once every 100 years. 98 Other cities have facilities with the capacity to combat floods expected to occur every 50 years. The remaining, of which many have a population exceeding 1 million, have the capacity to conquer floods expected to occur once every 20 years. In recent years problems related to the ageing, lack of maintenance and declining efficiency of farmland irrigation facilities, have gained prominence. Most water conservancy projects in Anhui province, located in the Yangtze and Huahe River valleys, were constructed in the 1950s and 60s. More than 1700 reservoirs in the province (36 %) are in urgent need of reinforcement. State-owned pumping stations, most of which have operated well for 20 years, are in dire need of updating. One third of the nation's 80,000 reservoirs are beset with operational problems. Only 3 percent of the facilities in irrigated areas covering more than 1500 ha are more or less fully functional, with 60 percent subject to ageing or damage, and the remaining 10 percent on the brink of total failure.

#### **4.5.5. Ecological Environment**

Deteriorating ecological development is also a prime breeding ground for natural disasters. Industrial pollution has become increasingly serious with waste gasses emitted by factories causing acid rain that spawns and aggravates weather abnormalities. Silt resulting from soil erosion has raised the level of riverbeds. The volume of sands washing into the Yellow River (1.6 billion tons annually) has raised the level of the riverbed in the lower reaches by 10 cm per year. In some areas, a section of the river has been raised above the ground level. The annual volume of sands washing into the Yangtze River stands at 520 million tons. The Jingjiang Dike, the largest water diversion project on the river, is more than 10 meters above ground level. Breaches in the dike would allow flood water to inundate the entire Jiangshan plain and Wuhan City, with the disastrous consequences of such an event being all but inconceivable. Some 4 million km<sup>2</sup> of land in China is subject to soil erosion, with a mere 600,000 km<sup>2</sup> being readily reclaimable. In various areas, the inefficient management of collective mountain forests has led to the reckless felling of trees by the people because of the lack of other energy sources thus deteriorating the local ecological environment to varying degrees.<sup>61</sup>

#### **4.5.6. Strengthening Flood Control**

To ensure the safety of key metropolitan areas and other economic centres, the government has been improving flood control works along the principal stream of several large rivers to enable them to withstand the heaviest torrents. Dams were built, creating reservoirs that reduce losses from torrential rains. High and stable yields in the major grain and cotton production areas should be secured now. New projects built with enormous budgets are: the



Three Gorges Water Conservancy Project on the Yangtze River, and the Xiaolangdi Project on the Yellow River. Although China has made significant water conservancy progress in recent years, only 18 percent of its water resources have been developed and used. Moreover, China still lags far behind other nations in this respect. During the next five years, China will increase its water supply capacity by 60-80 billion cubic metres. For this, investments of 65 billion yuan in water conservancy projects were needed by the end of 1995. This amount does not include the specially funded projects that target agriculture, soil conservation, and hydropower plants. The state has allocated 35.1 billion yuan for these projects, which is a large increase over the 5.4 billion yuan spent during the previous Five Year Plan (1986-1990).

Between 1996 and 2000 water works will account for 5-8 percent of the country's total capital construction projects. It is estimated that the central government will invest 111.9 billion yuan in water conservancy infrastructure during that period.

Since the early 1990s China has expanded the amount of irrigated acreage under cultivation by 2 million ha, and the country is committed to building new irrigation facilities for grain production, which is expected to reach 50 million tons a year by the end of the century. It means that the target for the year 2000 - a total of 500 million tons of grain will be easily achieved.

China will increase the irrigated acreage by an additional 3.33 million ha. Installed capacity is increasing by 1 million kilowatt on an annual basis, and by the end of 1995, the newly installed capacity will hit 5.41 million kilowatt. During the years 1996-2000, the installed capacity of small and medium-sized rural hydropower plants will be up by 1.2 - 1.5 million Kilowatt per year. Electrification plants will be accomplished in another 300 counties, and China will have 600 counties with primary electrification as a result of using the hydropower potential, by the year 2000. By that time, the capacity of hydropower plants operated by water conservancy departments will be 30 million kW, accounting for 37.5 percent of the nation's hydropower capacity. China will also accelerate soil erosion prevention projects in the Yellow, Yangtze, and Pearl River valleys, with 250,000 km<sup>2</sup> of eroded areas being reclaimed.

During the ninth Five Year Plan (1996-2000) China will give top priority to flood control, as approximately 50 percent of its population, one third of its farmland and some major cities (where the industrial and agricultural output value account for 70 percent of the national total) are in danger of being flooded.

Fighting droughts in the north and fighting floods in the south of China are two tasks the Chinese people are faced with in protecting their land from natural disasters and creating new land resources from desert and damaged areas. Only by using dialectical methods and technology can these problems be solved and will the increased agricultural output needed for the continuous population growth be met.

#### **4.5.7. Conclusion**

The comparison between 1978 and 1994 shows that China's gross forestry output rose from 4,806 billion yuan to 61,107 billion yuan with an average annual increase of 17.2 percent. The proportion of the output value of major forestry products has risen sharply, from 102,000 tons to 374,000 tons, of resin from 338,000 to 569,000 tons; and the forest area cover rose from 12 percent to 13 percent.

The afforestation project gives China not only more agricultural land, but it also improves the quality of the environment and the ecology. More trees mean more housing, more reconstruction, and more prevention of floods, erosion, and desertification. Besides, wood is a source of energy for people's daily needs, heating and cooking. This is important as China still lacks sufficient energy.

The anti-flooding programme has many positive effects: protecting the land from disaster; guaranteeing the people's prosperity and health. On implementing this programme the Chinese government spent much time and money, building dams in rivers and building water conservation installations, in order to conserve the rain in artificial, man-made lakes. Dikes

have been built to prevent the rivers from flooding the agricultural land in the east and south-east of China.

After a fierce struggle against natural disasters, the Chinese have enjoyed the preliminary achievement in agriculture. The nature of the struggle has been enhanced from manual drudgery to scientific work. However, the danger of flooding in China still exists, and it should not be neglected.

#### **4.6. Agricultural Development and Farmers' Income**

This section will introduce the development of agriculture from the late 1970s to 1995. The success of agricultural development is evident in the political and material success.

##### **4.6.1. Agricultural Development and Science**

In the 45 years from 1949 to 1994, China's agricultural development has demonstrated the capability of the Chinese people to produce sufficient food for the population. The government invented the slogan 'without agriculture no stability, without industry no prosperity'. In this period a lot of experience has been collected in terms of land reform, collectivisation, creating peoples communes and the 'household responsibility system', agricultural reform, open door policy and currently the double management in rural economic development. Rural areas faced their share of problems, of course, especially in agriculture. For example in the period of the 'Great Leap Forward' several natural disasters occurred, besides, rural areas were also affected by political struggle and outside pressures.

Now, the People's Republic of China has put its economic development strategy down in the Ninth Five Year Plan and the Ten Year Plan (1996-2000 and 1996-2010), giving priority to agricultural development and the development of the industrial and service sectors.

In an article, the American China watcher Lester Brown expressed his doubts as to China's capability of feeding its population in the year 2030. These doubts were not shared by many other China watchers outside China. In addition, Nong Run, a Chinese economist, has addressed this issue, stating that China will have no problem whatsoever in feeding its population, not only today, but neither in the year 2030. With accurate data and figures, he showed that China's capability to feed its population should not be doubted, even in the year 2030 when the population will have grown to 1.6 billion. Lester Brown was concerned about the decrease of arable land because of the development of industries and other public services on farmland, but he failed to take into account the reclaimed land and the virgin land in China which is still to be used. China has 75 million ha suitable for agricultural production. The government plans to reclaim 770,000 ha every year.

During the period 1990-2000, China will cultivate 30 million ha. Brown calculated that during the next forty years (up to 2030) 20 percent of the existing farmland would disappear, so that China would need to import 378 million tons of grain or rice in 2030. If we accept this calculation, China is going to need a huge amount of foreign currency to be able to import these huge amounts of grain. The next question would be, what country /countries would China import this grain from?

#### **4.6.2. The Chinese Capacity to Feed its Population**

There are two ways out of the Chinese food problem. First and foremost, the solution may lie in expanding the amount of farmland. If 770,000 ha (out of the 75 million) of existing virgin land would be cultivated every year, which is necessary to cover the population growth for each year, China would still have a land reserve for 100 years, far into the 21st century. China's agricultural ecology is rather different for farmland because of the lack of low land

and plains. Only 12 percent of the land consist of plains suitable for grain. The other parts are 10 percent hills, 33 percent mountains, 26 percent table-lands, and 19 percent basins.<sup>62</sup> Not all of this is suitable for grain or rice paddies. But maize, potatoes, and other vegetables are cultivable anywhere to fill the people's needs, according to the local conditions.

The intensive afforestation programme which had already begun before the reform and modernisation, has yielded results: desert has changed into arable land, erosion is prevented, land fertility is preserved or enhanced, an agricultural environment has been created with enough water. The farmland area has been considerably increased. New farmland stretches from Inner Mongolia through Kansu to Xinjiang. However, in 1949, there was 95.6 million ha of arable land in China, which had been reduced to 76.5 million ha in 1993, amounting to a loss of 19 million ha, which is 43185 ha for every year. Based on these data, the estimation of farmland loss should perhaps be rethought.

The second way out of the food problem is increasing the yield per unit of land. At present, the sown area for grain is 1.6 million ha. The yield per unit should be increased from 262 kg to 400 kg in the period 1990 - 2030. This means an increase of 138 kg per ha. This estimate is rather optimistic (or incorrect). It should be taken into account that there are 13.5 million ha of moderate or low yield areas, which have room for improvement, so the total grain output may rise from 424 million tons to 466 million tons.

Another important factor in this is that the Chinese technological achievement at present is 30 percent below the world level. But this is changing too. Chinese scientists believe that the application of modern biological engineering technology in crop breeding is a positive factor in increasing the yield per unit. Apart from Brown's signal, the Chinese government still faces an enormous challenge in increasing its agricultural output.

#### **4.6.3. The Measures to Guarantee Food Security**

To ensure food security in the near future, the government has drawn up some measures it will take:

- Top priority will be given to agricultural investment with the focus on cereals.
- Construction of water conservancy work to protect farmland from floods or droughts.
- Tapping more food resources to exploit all its agricultural resources, developing the production of other crops to ease the pressure on grains.
- Encouraging scientific education, and scientific and technological research.
- Improving the household contract system with remuneration linked to output and the dual operational system with a unified and decentralised management.
- Deepening reform of the system of grain purchase and sales. Further improving the system of grain reserves and control of the supply and demand of grains.
- Strictly carrying through the state's birth control policy. Readjusting the supply and demand of grains through both the domestic and the overseas market.

#### **4.6.4. Using Science and Technology**

According to recent statistics, since 1949 China has recorded a total of 30,000 scientific and 122 technological achievements in agriculture. However, when compared with the developed countries, the Chinese agriculture lags some years behind, especially in terms of the low applicability rate of technological achievements<sup>63</sup>, said Minister Liu Jiang. Science and technology needs to be directed at developing the economic construction. China has now achieved a lot and will do more in the near future. In 1949 for the most part, the country lack advanced research facilities and equipment. After four decades of hard work, China has more independent scientific and technological research institutes.

Between 1970 and 1988 the nation launched 25 satellites, including a number used for scientific research. The launching of the weather satellite Feng Yun-1 in September 1988 represented a major break-through in Chinese space technology, and made China only the third country in the world to launch a satellite, which synchronised with the sun. Its main purpose is to obtain global weather reports that are transmitted to earth stations throughout the world. This information may be particularly important for predicting natural disasters. The satellite also provides data on the movement of the oceans, which has proved invaluable for studying marine life and coastal realignment, harbour development and the exploitation of all shore resources.

In the agricultural field, nuclear technology has been used for breeding to develop more than 190 different crops of grain, vegetables, fruit and flower seeds, which has led to a three billion kg increase in the nation's grain yield. Major cereal crops, from the new varieties, now cover more than 6.6 million ha, making China one of the leaders in this field.<sup>64</sup>

A high quality grain is now grown nation-wide and a patent right for its use has been exported to the United States and other countries. China leads the world in terms of its successful cultivation of hybrid rice. The nation's computer industry has also developed rapidly in recent years. Many colleges, research institutes, factories, schools and even chicken farms have installed computers.

#### **4.6.5. Promoting Research**

During the past 40 years China has made great progress in agricultural science and technology. The implementation of this strategy will demonstrate that science and technology are the key to success and that education is the foundation. The role of agricultural science is to be increased to account for more than 30 percent of the growth of China's agricultural production. Examples are:

1. Cultivar and Seed improvement. Seed improvement and the development of new and better cultivars has always taken up an important position in China's progress in agricultural science and technology, and in increasing the yield of crops. In the period

1949-1994 China developed more than 5000 new cultivars in 41 crop species, which made it possible to have three to five times replacements for all major crops, and replace all the old cultivars by new cultivars. This helped to raise the per ha yield considerably. More than 300 good stocky paddy rice cultivars are being used today, increasing the per ha yield of a rice paddy. The Chinese scientists discovered and used wild paddy rice of male sterility to successfully select fine rice cultivars of strong hybrid vigour. The first comprehensive agricultural technology was exported to the United States and then to Mexico, Brazil, Italy, Spain, Portugal, Nigeria, Egypt, Japan, the Philippines, Indonesia and Argentina. Today hybrid rice accounts for half of China's paddy fields and more than 65 percent of China's rice output. The total acreage growing hybrid rice has exceeded 160 million ha, to which the additional 240 million tons of rice produced in 1993 were attributed, averaging 1.5 tons per ha. Some progress has been achieved in the hybridisation of maize, wheat, vegetables, and rubber trees.<sup>65</sup>

2. Disease and pest control. China has also made marked progress in the control of plant and animal diseases and pests. Building a network for the forecast of crop diseases and pest succeeded in getting 25 plant pests and diseases under control.

Locust pests have been controlled for 25 years, which has been acclaimed a pioneering work in the field of world veterinarian science. China is leading the research in the development of a vaccine against hog virus pneumonia, The low-toxic vaccine against chicken diseases enables the Chinese farmers to develop mechanical feeding on the farms.

3. Crop cultivation and fish farming. China has made very good progress in crop cultivation. Its multiple crops index has reached 155 percent, being one of the highest in the world. Mixed and multiple cropping have been successful. Since the 1970s China has evolved a wheat cultivation method by recording the leaf age on the basis of a morphological index of the leaf age which may ensure a 10 percent increase in the yield. Moreover, China has extended the technique of cultivation under plastic cover to the greatest area in one country in the world.



China succeeded in the artificial breeding of fresh water crabs in brackish water. In the 1980s, China is the leading country in the technique of moving seaweed seedlings to southern China where they are exposed to more sunlight, thus greatly increasing the output of seaweed.

All these achievements in science and technology of agricultural production show the progress made in this field, including the increased yields. This ensures a continued increase in agricultural output in the short and the long term.

#### **4.6.6. Production in the Main Agricultural Fields**

The results of scaling up and intensification during the previous Five Year Plan (1991-1995), especially in grain, animal husbandry, fishery and vegetables are described below.

##### **4.6.6.1. Cereals**

Cereals are the main agricultural product, which does not negate the importance of other agricultural products. The cereal output of 445 million tons in 1994 increased to 465 million tons in 1995. As a comparison, the production in 1949 was 113 million tons.

The general development between 1949 and 1994 in all major farm produce has been an increase: the output of cereal increased 3.93 times. The output of the main agricultural products for 1949 and 1994 are shown in Table 13. The exact figures of meat and fish production are as yet unknown.

During the period of the reform (1978-1995), grain output developed quite unevenly as can be seen from in Figures 9 and 10. The diagram showing the grain production during the 8th Five Year Plan (1991-1995) gives a year-by year situation. In 1992, statistics showed that the production fell far below the 1991 figure. The reason for this sudden drop is that in 1991 several natural disasters happened, as is shown in the 1992 statistic.

Table 13 Increase of Major Farm Produce in China (1949-1994) in 1000 tonnes

Year	1949	1994
Grain	113,200	4445,100
Cereal	98,250	393,890
Cotton	440	4,340
Oil Seed	2,650	19,900
Sugarcane	2,830	73,450
Jute	0	350
Cured Tobaeco	40	1,940
Tea	40	590
Fruit	1,200	35,000

Source: Chinese Agriculture Forges Ahead

#### 4.6.6.2. Animal Husbandry

China's livestock is increasing very fast. The number of large domestic animals in stock by the end of 1994 reached 150.10 million head, or 2.5 times the 1949 figure, which is an average annual increase of 2.1 percent. Pigs in stock amounted to 414,620 million, 0.5 times the 1949 figure, with an average annual increase of 4.5 percent. Sheep and goats reached 240,530 million, or 5.8 times the 1949 figure, an average annual increase of 3.9 percent. The average annual increase of animals in stock between 1978 and 1994 was 3.53 million heads, among which a pig increase of 5 million heads every year. Pig breeding has a long tradition in China.

China is taking up an increasingly larger proportion of livestock in the world. Its share rose from 7.1 to 9.4 percent, and pigs rose from 39.4 to 47.5 percent. The prospects for animal husbandry in China look bright, because there is abundant grassland. China produces 23.4 percent of the world's meat, nearly one quarter, 25 percent of the world's poultry eggs and 37.5 percent of the world's wool.

Fig. 9

## Cereal Production 1978-2000

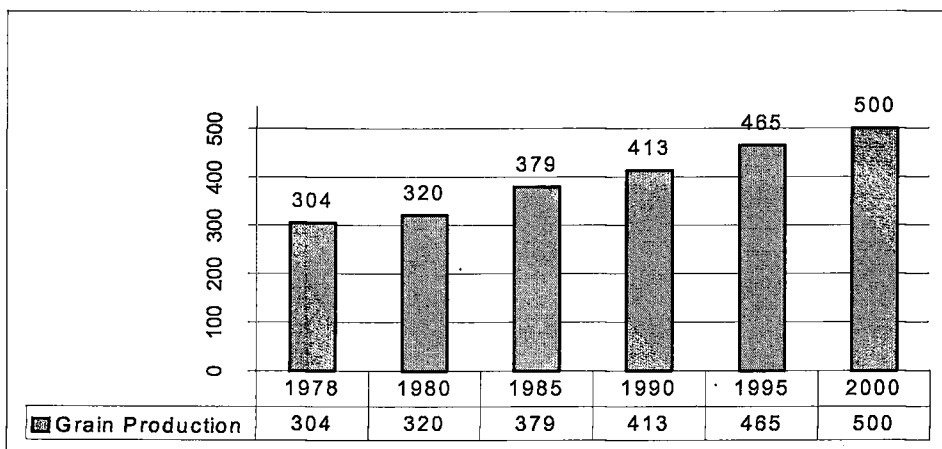
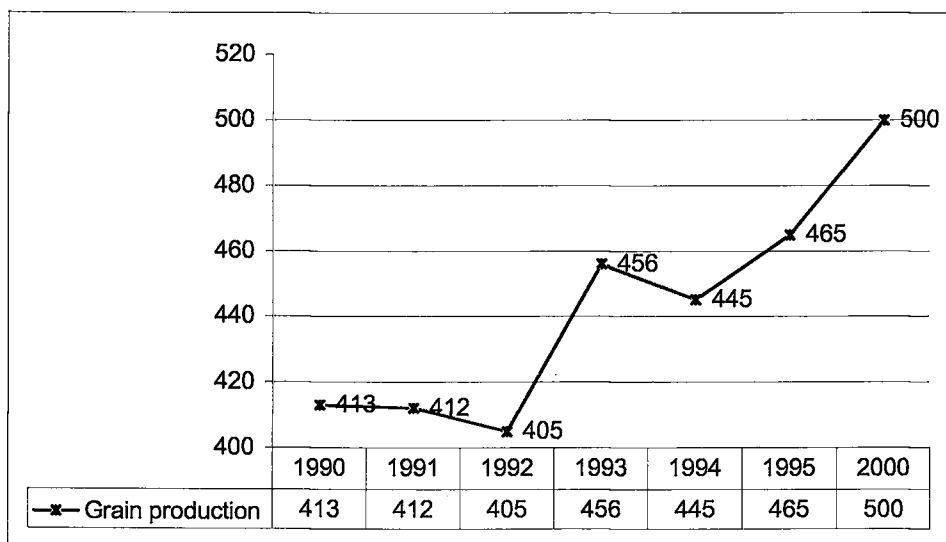


Fig. 10

## Cereal Production 1990-2000



#### **4.6.6.3. Fishery**

Since the implementation of the Reform and the open-door policy, to the development of inland and offshore fishing may also be added ocean fishing. In 1994, China produced 21.43 million tons of aquatic products, 48 times the 1949 figure. China's output of aquatic products has been increasing at the average annual rate of 450,000 tons. This includes a 15 times increase in the output of freshwater products, and a 12 times increase of marine products. China's fishing industry has focused on fish farming, fishing and processing, always taking the local conditions into account. Between 1978 and 1994 the average freshwater fish farms grew from 2.82 million ha to 5.1 million ha. Output from fish farms now accounts for 5 percent of the total fish output (was 26 percent in 1978).

Although China did not start ocean fishing until 1985, there are over 40 national or provincial ocean fishing enterprises which formed joint ventures, co-operative enterprises, and enterprises of solely Chinese capital. They have more than 1,000 fishing vessels and make a total haul of over 600,000 tons per year. Ocean fishing has become an important component of China's means for international co-operation.<sup>66</sup>

#### **4.6.6.4. Vegetables**

After cereals, vegetables are one of the leading 'food factors' of China's agricultural policy. The agricultural modernisation has focussed on vegetable production. For a long time the Chinese diet, especially in rural areas, consisted mainly of two elements, i.e. cereals and vegetables. Meat and fish were consumed much less. Before the liberation, the per capita supply of vegetables was about 0.015 kg a day. Since the 1980s, the government planned to increase this to 0.15 kg a day. In reality it is now some 120 kg per capita annually, so this target has been reached.<sup>67</sup>

Vegetable farming usually takes place in the suburbs of the larger cities to solve transportation problems, as city populations have a large demand for vegetables. Although the consumption of fish and meat has increased, there is still a large daily need for vegetables.

#### **4.6.7. The Chinese Consumption Pattern**

The Chinese goal for annual consumption per capita, which used to be 312 kg of grain including soybeans, changed in 1994 to 377 kg, which included. 25 kg of meat 10 kg of eggs, 9 kg of aquatic products, 23 kg of fruit, 120 kg of vegetables, 8 kg of vegetable oil and 8 kg of sugar. These figures show a dramatic increase in the living standard in China, especially in food consumption. In comparison to Western living standards and daily needs, they are still far behind, but the gap is narrowing.

Moreover, the government policy regarding birth control has intensified. China now has a total of 317 million households, an increase of 1.7 percent since the policy of 'one couple, one child'. The population growth since 1994 is only 5.54 million, and it has drastically decreased since the reform of 1978.<sup>68</sup> The average Chinese family now consists of only 3.74 persons. An exception to the population policy is Tibet Autonomous Region, which has an average family size of 5.57. While Shanghai is the largest City in China, it has the smallest families, averaging 2.89 persons.

One may draw the conclusion that due to birth control policies the burden to feed has been lightened, while food supplies have increased. The composition of the food has also improved: the nutritional value of the food much higher which is a bonus for the health of the Chinese people. The latest information from China indicates that there are still some 58 million people living in poverty, especially in the remote areas (1996). For China's total population in 1995 (1.2 billion), the poverty figure is still 4.8 percent. This remains a challenge for the leaders of China for the 21st century. The peoples food has improved and increased dramatically, as can be seen in Table 14.

Table 14 Current and Expected Food Consumption (in kg per capita per year)			
Food	1978	1994	Expected by 2000
Cereals	248	257	377
Edible oil	1.97	5.66	8
Meat	5.76	11.68	25
Domestic fowls	0.25	1.68	--
Eggs and egg products	0.8	3.06	10
Fish	0.48	2.71	9
Vegetables		120	182.5

Source: China's Agriculture Forges Ahead

#### 4.6.8. The Farmers' Income

The increase of agricultural production has increased the capital accumulation and increased farmers' incomes, although the per capita income of the Chinese farmer is still low compared to many foreign countries. On the other hand, this growth is stable.

For an evaluation of the Chinese economic development as a whole, in particular concerning the achievements in the agricultural sector and farmers' incomes, there are two perspectives. To point out its weaknesses, China should be compared with the developed countries, but to point out China's progress, it should be compared with the situation in the past, before the Liberation, and before the Reform and open-door policy.

Since the Liberation (1949), and especially since the Reform and open-door policy (1978), the level of farmers' incomes has steadily increased, as has their living standard. The living conditions have improved, the living space extended, and the overall quality of life has improved.<sup>69</sup>

The net income of Chinese farmers per person increased from 43.8 yuan in 1949 to 133.6 yuan in 1978. During the period of the reform and open-door policy the farmers' income jumped to 1,220 yuan in 1994, which is nine times the amount of 1978, averaging an annual increase of 67.9 at an annual rate of 15 percent.

The main source of this increase has always been agriculture, but the proportion changed, declining because of new sources coming from non-agricultural sectors. In 1980, the proportion of income from agriculture was 88.6 percent, but in 1994 the proportion dropped to 68.12 percent. The proportion of income from non-agricultural sectors rose from 11.4 percent in 1980 to 18.9 percent in 1985 and further to 31.88 percent in 1994.

The money in farmers' savings deposits exceeded 481.6 billion yuan, or 86 times the 1978 figure, at the end of 1994, increasing at an average annual rate of 32.2 percent, which indicates that the farmers' living standards must have improved. A part of their increased income has been saved in accumulation deposits.

The living space in housing per person rose from 9.4 m<sup>2</sup> (1980) to 20.71 m<sup>2</sup> in 1993. At the end of 1994, every 100 Chinese rural households possessed 75 television sets, 34 refrigerators, 15 washing machines, 80 electric fans, 174 wristwatches, 136 bicycles, and 63 sewing machines. Some farmers even bought a motorcycle or automobile.

## **Conclusion**

Although the living standard of the farmers has increased a great deal, there is still a gap between China and the developed countries. Because China has plenty potential natural and human resources, and because the basis of the economy is stable and healthy, I optimistically believe that this giant country could narrow this gap and close it gradually, on the way to the second phase of its socialist economic development in the early years of the next millennium. The third phase of this socialist development will be achieved in the mid 21st century. Raising the standard of living of the people is the fundamental goal of Chinese reform. To

enable the people to enjoy a fairly comfortable life is one of the aims Jiang Zemin mentioned in his speech at the 15th CPC Congress in 1997. There is still a lot to be done during the third stage of socialist development. This will be discussed in the next chapter.

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<sup>1</sup> Jiang Zemin. Building socialism with Chinese characteristics

<sup>2</sup> Deng Xiaoping, Xinhua News Bulletin 16 November 1993

<sup>3</sup> There are 8 political parties in China:

Committee of Kuo Mintang

The Democratic league

The Democratic National Construction The Revolutionary Association

The Association for Promoting Democracy

The Chinese Peasant's and Worker's Democratic Parties

Th China Zho Gundang

The Jius San Society

The Taiwan Democratic Self Government League

China Facts and Figures 1990

<sup>4</sup> The principal policy of human rights and development of the country according to the social economic development and national condition

<sup>5</sup> The unity of opposites meant to solve the conflict within the party. China doesn't recognise multi party system as do well-known Western countries

<sup>6</sup> Argumentation, discussion, criticism, self-critiques, and seeking truth solve Chinese Political differences. Solutions by 50% plus one are not unusual in Chinese political life

<sup>7</sup> The relationship between discipline and freedom when compromises are impossible, discipline is forced to make the final decision. The lower must accept the leader's decision, and members must accept the leader's decision

<sup>8</sup> To practice democracy in rural areas required all localities to adopt decisions, forced to accept decisions after seeking optimal unity

<sup>9</sup> Beijing Review August 23-29 1993

<sup>10</sup> Li Peng Report to National People's Congress March 5, 1996

<sup>11</sup> Wang Huijing and Li Boxi in China towards the year 2000, 1989

<sup>12</sup> Qian Ning, Beijing Review December 18-24 1995

<sup>13</sup> China Today 1995

<sup>14</sup> China Today 1995



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- <sup>15</sup> Li Peng in his Report to National People's Congress March 5, 1996
- <sup>16</sup> Beijing Review, March 18-24 1996
- <sup>17</sup> Beijing Review, March 18-24 1996
- <sup>18</sup> Beijing Review, March 18-24 1996
- <sup>19</sup> Beijing Review, March 18-24 1996
- <sup>20</sup> Qian Ning, Beijing Review 18-24 December 1995
- <sup>21</sup> The Economist, May 3rd, 1992
- <sup>22</sup> Asia Week, December 18, 1992
- <sup>23</sup> NRC Handelsblad, 4 March 1993
- <sup>24</sup> China Business Review, July August 1995
- <sup>25</sup> Special Report on China
- <sup>26</sup> Li Peng in his Report to NPC March 5, 1996
- <sup>27</sup> Li Peng Report March 5, 1996
- <sup>28</sup> Xinhua News Bulletin, 16 November 1993
- <sup>29</sup> Xinhua News Bulletin, 16 November 1993
- <sup>30</sup> Publication of Rural Development Institute 1994
- <sup>31</sup> Publication of Rural Development Institute 1994, p. 11
- <sup>32</sup> Publication of Rural Development Institute 1994, p. 10
- <sup>33</sup> Publication of Rural Development Institute 1994, p. 13
- <sup>34</sup> Papers on China's national policy
- <sup>35</sup> Li Peng in his Report on the National People's Congress March 1996
- <sup>36</sup> China's agriculture in development 1995
- <sup>37</sup> Rural Development Institute publication 1994
- <sup>38</sup> Rural Development Institute publication 1994, p. 5
- <sup>39</sup> Lin Wei and Arnold Chao, in China's Economic Reform University of Pennsylvania Press Philadelphia 1982
- <sup>40</sup> Yu Guangyan, China's Socialist Modernization, Beijing 1982
- <sup>41</sup> Wong Huijiang and Li Bo Xi, China toward the Year 2000 (1982).
- <sup>42</sup> Peng Yun, Beijing Review December 28, 1992
- <sup>43</sup> Peng Yun, Beijing Review December 28, 1992
- <sup>44</sup> Peng Yun, Beijing Review December 28, 1992
- <sup>45</sup> China Agriculture in Development 1995, p. 8
- <sup>46</sup> China Agriculture in Development 1995, p. 7
- <sup>47</sup> China Agriculture in Development 1995, p. 8
- <sup>48</sup> China Agriculture in Development 1995, p. 11
- <sup>49</sup> China Agriculture in Development 1995, p. 14
- <sup>50</sup> China Agriculture in Development 1995, p. 23
- <sup>51</sup> Beijing Review, January 20-26, 1992

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- <sup>52</sup> Beijing Review, January 20-26, 1992
- <sup>53</sup> You Fang, Minister of Forestry, Beijing Review, August 28, 1995
- <sup>54</sup> Beijing Review, January 20-26, 1992
- <sup>55</sup> Beijing Review, October 31, 1994
- <sup>56</sup> Beijing Review, October 31, 1994
- <sup>57</sup> Wei Li Ming, Beijing Review January 20-26, 1992
- <sup>58</sup> China's Agriculture Forges Ahead, 1995
- <sup>59</sup> China Today, October 1991
- <sup>60</sup> Li Rong Xia, Beijing Review April 15-21, 1996
- <sup>61</sup> Zhou Shunwu, China Provincial Geography 1992 p.3
- <sup>62</sup> Minister of Agriculture, Beijing Review 20-26, 1996
- <sup>63</sup> Rao Fengqi. Science and Technology in New China, China Reconstructs October 1989
- <sup>64</sup> Agriculture forges ahead, p. 80
- <sup>65</sup> Agriculture forges ahead, p. 88
- <sup>66</sup> Agriculture forges ahead, p. 88
- <sup>67</sup> Donald L Plucknett, Vegetable Farming Sytem in China, Westview Press Inc. USA, 1981
- <sup>68</sup> Ministry of Public Security China, Beijing Review 20-26, 1996
- <sup>69</sup> China's Agricultural Development, 50 years FAO, by the Ministry of Agriculture, China 1995

The first part of the paper discusses the importance of understanding the cultural context of the research. It highlights the need for researchers to be sensitive to the values and beliefs of the communities they are studying. This is particularly important in the field of health research, where cultural differences can significantly impact the effectiveness of interventions.

The second part of the paper focuses on the methodological challenges of conducting research in diverse cultural settings. It explores the limitations of quantitative methods and the potential benefits of qualitative approaches. The author argues that a mixed-methods approach, which combines the strengths of both quantitative and qualitative research, is often the most effective way to understand complex cultural phenomena.

The third part of the paper presents a case study of a health intervention in a rural community. The study found that the intervention was more successful when it was tailored to the specific cultural needs of the community. This finding has important implications for the design and implementation of health programs in other cultural contexts.

In conclusion, the paper emphasizes the importance of cultural competence in research. Researchers must be able to understand and respect the cultural differences of the communities they are studying. Only then can they develop effective interventions that truly benefit the people they are serving.

## PART III

### RURAL DEVELOPMENT AND MODERNISATION

The first part of the paper discusses the importance of understanding the underlying structure of the data. This is particularly relevant in the context of machine learning, where the ability to identify patterns and relationships in the data is crucial for making accurate predictions. The second part of the paper focuses on the development of a new algorithm for analyzing time series data. This algorithm is designed to be more robust to noise and to better capture the underlying trends in the data. The third part of the paper presents the results of a series of experiments that compare the performance of the new algorithm to that of several existing methods. The results show that the new algorithm is able to achieve higher accuracy and better generalization performance than the other methods. Finally, the paper concludes with a discussion of the implications of these findings for future research in the field of machine learning.

## **RURAL DEVELOPMENT AND MODERNISATION**

### *Introduction*

In China, rural areas are dominant compared to urban areas. As a rough estimate, it can be said that the rural population is 90 percent, while the urban population is only 10 percent of the total. Of the utmost importance is the role of the peasants working in agriculture, to provide for the people's daily needs. Therefore, their role is also crucial in guaranteeing political and social stability. The uneven distribution of the population, however, makes the situation extremely difficult. With the lack of transportation, food distribution is difficult and relations among the people are uneasy. As said in Chapter 2, most of the people that live in the Western part of China belong to an ethnic minority. To make the situation more complex, these people belong to the relatively most backward population group in China.

Another problem is the shortage of food, such as cereals, due to the lack of arable land. The Western part of China is a mountainous highland. Now, the production of most cereals is concentrated in the eastern part of China. As China has only 7 percent of the world's arable lands, while it has 22 percent of the world's population, it may be understood that growing enough high-yielding crops to feed everybody may be problematic. How the Chinese could produce enough food for the biggest population in the world, and how it could mobilise all its resources is one of the major questions to be answered here. Another major problem, and challenge to the Chinese government is, how agriculture could grow enough cotton to clothe everyone. In other words, to increase the people's prosperity nationally, and to narrow the gap between China and the western countries is an undeniable challenge.

Rural development and modernisation are the scope of this thesis. In Chapter 4, I have discussed the agricultural development. This chapter will discuss the non-agricultural sector in rural areas. I will focus on the role of regional and sectoral development. The reform of the Peoples' Communes created opportunities to start specialised agricultural activities, and to develop non-agricultural activities such as rural industries, agricultural processing industries, and trade. The role of the townships in replacing the role of the old Peoples' Communes

(PCs) is to take responsibility in the (re)structuring of rural areas, and to take responsibility for the political stability. I will furthermore describe the role of the VTEs (Village Township Enterprises) in supporting the agricultural development sector, the urban economy and in absorbing the work force surplus.

As China is a large country with 1.2 billion people and an annual population growth of 1.5 percent, it is necessary for the Chinese government to further the agricultural development in order to ensure that the daily needs of the people will be met in the future. Besides, the non-agricultural sector needs to be increased to provide non-agricultural products that will increase the people's prosperity.

China has abundant resources in the non-agricultural sector. Once problems of transportation and energy have been solved, an optimal exploitation of the regional resources should be possible. In addition, the development of regional economies will give a strong impetus to the sectoral economic development. The co-ordination of these two aspects is a prerequisite for industrial development, and domestic and international trade expansion.

To link rural and urban areas within a country of 9.6 million km<sup>2</sup>, the government has given its full attention to the development of transportation, communication and energy. The infrastructure of transportation and communication has been given first priority in the Five Year Plans (Five Year Plans), especially the 6th, 7th and 8th Five Year Plans.

The uneven economic development of east and west, also seen from a historical and cultural point of view, necessitates the government's attention not only to economical, but also to political and psychological items to ensure political stability. China has many different nationalities, and the proportional distribution of nationalities is unbalanced. The Han nationalities make up the majority (90 percent), whereas the 56 ethnic minorities make up the remaining 10 percent. The Han nationalities are concentrated in East and Central China, and the national minorities mainly live in the west of China and in the border regions. Yet, the area belonging to the Han nationalities covers approximately 50 percent of the surface. All this makes the development policy rather complex and difficult.

Huge national economic projects need huge capital investments. Although China's national economic volume in GNP now ranks seventh in the world after the United States, Japan,

Britain, Germany, France and Italy, the per capita income still lags far behind the developed countries. China has now become the biggest foreign capital recipient in the developing countries. Yet, the increase of national economic development is still a prerequisite for the increase of individual incomes, as well as for the increase of social contradictions.

The burden of the sheer size of China creates the following question: Can China achieve its target for the first half of the 21st century (i.e. the third stage of its socialist economic development)? This remains to be seen. The results of the ninth Five Year Plan (1996-2000) could indicate China's increasing development, as the country enters the 21st century full of hope, challenge, and competition. All these problems will be addressed in this chapter and in the next.

## **5.1 Rural Industry**

Since the separation of the agricultural sector from the industrial and sideline sectors in the 1980s, rural industries have emerged rapidly. The townships have played an important role in improving the rural non-agricultural development. The township authorities addressed rural industries, trade services and other sideline production as well as political problems. This new situation helped to speed up the establishment and development of rural industries, which had been established since 1950 in the process of agricultural development.

Thanks to the activities of the provincial, city and county governments the industries have spread fast all over the country. However, of the 420 enterprises in the period from 1950 - 1957, only 133 were local (32 percent) and 287 were central industries (68 percent). Rural industry was still weak. The change of management from a centralised to a decentralised system, where local authorities were in charge, has enhanced the growth of local industries.

Local industries showed considerable success, in particular organisationally, because the local industries were more active under the co-ordination of the People's Communes (PC). Because of the blockade by the US and western countries in the 1950s, and the breakthrough



of Sino-Soviet economic co-operation in the 1960s, the spirit of self-reliance of the Chinese people manifested itself in the increase of PCs and rural industries.

In this period, there were three economic production forms in the countryside:

1. The co-operative forms in the agricultural sector
2. The sideline production organisation
3. The industrial form

The development of sideline production played an important role in increasing the rural production output and encouraging trade activities. Together, these three forms created a comprehensive economic development in rural areas. The agricultural development included crops, livestock, forestry, fishery, industry, trade, and also transportation, small hydropower industry, etc. The co-operation between agriculture and non-agriculture became closer, creating the unity of rural economic development. This unity sets the pace for the development of industrial enterprises. During the period of the Cultural Revolution (1966-1976) industrial enterprises increased as a sole alternative.

The domestic situation has improved since the Chinese are no longer internationally isolated. This can be seen in the restoration of the Chinese seat in the UN (in 1971), and in the normalisation of economic relations between China and the Western world, in particular with the USA, since President Nixon's visit to China in 1972.

The development of local industries plays an important role in the economic development of rural areas. Local industries provide financial support to agriculture and absorb its surplus work force. For example, Wuxi County in Jiangsu province has developed rapidly. Due to the density of the population (879 persons per km<sup>2</sup>), there is only 0.01 ha of land per person. In fact, rural industries have developed enormously and developed on a large scale, entering into contracts with the industries in the large cities, e.g. producing goods that are needed by the city industries. Thus, the local industries do not work only for the needs of the rural areas, but also for the needs of the cities and the national development. This brings rural and urban areas together.

### 5.1.1 Rural Scientific Research

After the government has studied China's rural condition, its geography, population distribution, climate differentiation, transportation facilities, energy resources, social condition, national unity and stability, special attention has been given to the development of the rural economy. China's special condition is taken into account, which means that the developments in foreign countries should never be copied blindly. The distribution of the population in China - with 80 percent in rural areas- differs greatly from western European countries, where the population in urban areas may account for 85-90 percent. Therefore, China cannot copy the European concepts. According to European surveys, economic markets can create wealth, which can enhance political power. In many cases, the intervention of political power is based on the general European situation, where the population in rural areas is a small minority and thus given less attention.<sup>1</sup>

In China, the situation is different, so the solution should be sought more essentially conform the predominant position of the rural areas as far as population is concerned. The government established a 'Rural Development Institute' (RDI) in 1985, to replace the old institute of Agricultural Economics. The Rural Development Institute has done research into the exploitation of the general law of the Chinese rural development as a whole and its concrete pattern during the primary stage of Chinese socialism. It uses Marxism-Leninism and the Mao-Zedong-Thought as the ideological guidelines for its research, and advocates a systematic and thorough integration of studies of China's natural condition with solid scientific research of history and status quo of China's rural development. Its field research covered: macro management, organisational structure, production set-up, ecology and environment, rural society theory and policy, regional economy and poverty. The Rural Development Institute was intended to change the old views on rural problems, which concentrated on agriculture, to a new view, which focuses on the unity between agriculture and rural non-agricultural economics.

The role of the Rural Development Institute is to investigate and lay down the fundamental views on the problems in rural areas, in the following ways:

1. Research in the non-agricultural sector. Research concentrates on relations among rural non-agricultural lines of production, such as the building industry, transportation, commerce, and catering and other services in the tertiary industries. Through the study of interrelationships, development trends, labour resources and problems concerning sustainable development, research in the field seeks to formulate theories and methods, and to offer policy suggestions on rural industries and employment.
2. Research into ecology and the environment, concerned with the effects of the utilisation of China's basic natural resources and the relationship between socio-economic development; it examines economic and productive factors that have an impact on ecological and environmental conditions.<sup>2</sup>
3. Research into rural societies takes up the issues of culture, education, population, the quality of human resources, the position of women, customs and habits as well as the current social structure, functions and operating mechanisms in rural China. This research attempts to create a Chinese system of rural sociology, to provide a scientific and theoretical foundation for the readjustment of the state's policies on rural social structure, functioning and operating mechanisms.<sup>3</sup>
4. Research into regional poverty in order to formulate a theory for regional economic growth, it focuses on the analysis of contrasting types of regional economic growth, various restraints and obstacles, and on the mechanism for development in regional economics. It is presently concentrating on ways of developing the mountainous and poor areas, and measures needed to rid these areas of poverty.

The Chinese rural economic development policies have generated activities that focused on both general experiences and the unique Chinese pattern of agricultural and rural development. They worked with problems of transformation and modernisation in a traditional rural economy. In addition, they included theories and experiences of the transformation of agricultural technology, the cultivation and establishment of the rural market system. Moreover, the problem of de-ruralising, and the position and function of agriculture in the national economy and the changes in economic priorities were included.

The RDI, the Rural Development Institute, functions as a scientific institute that focuses on research in rural areas, so that a good understanding of the rural situation can be achieved, in particular in the non-agricultural sectors. Researching ecology and environment, rural societies and regional poverty, the Rural Development Institute should formulate the theory of transformation of agricultural technology and address other problems of de-ruralisation. This research and theory could guide rural development.

### **5.1.2. Township Enterprises**

The separation of the agricultural economy from the non-agricultural economy has led to the opportunity to develop the latter more intensively. Since 1978, the township enterprises have been opened up. This is a suitable way for China's economic development in rural areas to accelerate the economic development of township enterprises to become an important component of the rural - and national - economy.

Township enterprises developed in ten years (1978 to 1987) from the initial handicraft and agricultural product processing industry to construction, transportation and commerce and service trade. There were 17.5 million township enterprises with fixed assets of more than 160 million yuan, employing 88.05 million workers and staff, or 22.6 percent of the total labour force in rural areas. Their total output value increased from 49,300 million yuan in 1978, to 476,000 million yuan in 1987, which is an increase of nearly ten times. The annual growth average increased by 28.7 percent.<sup>4</sup>

The township enterprises paid 83,000 million yuan in taxes to the state. About 15,000 million yuan was used for supporting agriculture and 58,000 million yuan was used for construction in the countryside. As a result, in the field of culture, education, and transportation, the peasant income increased 297,000 million yuan through the development of enterprises. The improvement of the cultural and material lives of the peasants gave new impetus to the production process.

Products made by township enterprises account for a large percentage of the national production. The production of coal, cement and medium and small-scale farm tools

improved. The volume of other goods such as textiles, clothes, leather and artificial leather and paper continued to increase, thus accounting for a large percentage of the total output value of the township enterprises. At the same time, in order to further stimulate the countryside's enthusiasm in developing a rural commodity economy, and to promote the development of productivity, the township enterprises changed from collective ownership into a more flexible system, a multi-style economy containing co-operatives, combined households and individual household managements. The Chinese-foreign joint ventures and the Chinese-foreign co-operative business operations with public ownership played the leading role.

During the period 1978-1987 the number of township enterprises increased, as did the number of workers and staff, the percentage of labour force in rural areas, the total output value, the total income of enterprises and labour productivity. In addition, the output of main industrial products in the township enterprises increased enormously. The best experiences in some areas are models for further development on a national scale.

All this fits in the strategy aimed at bringing about industrialisation of the rural areas. This will cause changes in the employment structure which are representative of a reduction of the total agricultural population and an increase in the industrial population.

### **5.1.3. Improvement of Township Enterprises**

During the seventh Five Year Plan (1986-90), the government adopted a more active policy towards township enterprises. In order to promote the development, active support, rational planning, correct guiding, and strengthening of the management were provided. The local governments at various levels were advised to give priority to township enterprises. They worked out specific regulations regarding the exploitation of resources, technical backing, credit, and preferential treatment in tax collection and co-operation between urban and rural areas to guarantee the development of township enterprises. The government formulated different policies concerning tax collection in the light of different areas and trades, and on standardisation of township enterprises, management of labour hygiene and labour protection.

Training centres were set up. So the township enterprises could play a more important role in rural areas and increase their share in the national economic development.

#### **5.1.3.1. Widening the Base of Rural Employment**

Township enterprises have changed the employment structure of the labour force in the countryside by such working methods that provided new opportunities for the labour force surplus. Since 1981, township enterprises have absorbed eight million surplus labourers per year. More and more peasants have been working in industry, construction, transportation, and commerce and service trades. The township enterprises have lightened the burden of the state in stabilising the national economy. The absorption of the surplus labour force by township enterprises has created a better condition for agricultural management and increased the labour productivity, but it also promoted the realisation of agricultural modernisation. Because of the lack of arable land, each household owns only about 1.2 to 1.3 ha of land, which makes it difficult to realise agricultural modernisation. In some areas, mostly coastal areas in suburbs where township enterprises have been developed, household farm machinery co-operative farms have been established, each cultivating 3.5 to 15 ha. That way they are able to use more farm machinery to increase grain output and general economic efficiency with less labour force.

#### **5.1.3.2. Providing Funds for Agriculture**

Between 1980 and 1987, township enterprises contributed more than ten billion yuan to agriculture, five times the funds provided by the state for agricultural production during the same period. In addition, raw materials used by township enterprises should be supplied by agriculture. On the contrary, the township enterprises have also promoted further development of agriculture by providing agricultural equipment and other technology such as chemical fertilisers.

#### **5.1.4. Achievements and Problems**

In 1993, the rural non-agricultural sector reached an output value of 2,700 billion yuan, at a growth rate of 67 percent. In terms of the industrial sector, the output value of rural industry was 2,098.3 billion yuan, a growth of 65 percent. That of rural construction was 277.9 billion

yuan, a rise of 77 percent; transportation stood at 147.7 billion yuan, an increase of 63 percent. Rural commerce including catering and services reached 197.3 billion yuan, a growth of 78 percent. The growth rate for rural construction and commerce remained higher than that of rural industry. The rural industry, construction, transportation, and commerce sectors accounted for 75.8, 11.5 and 7.9 percent respectively of the total output growth of the rural non-agricultural sector.<sup>5</sup>

In 1993, the Ministry of Agriculture estimated the share of the rural non-agricultural sector in the national non-agricultural output to be 49 percent, a rise of 6 percentage points over 1992. The share of rural industry in the national industrial output would be around 40 percent, 7 percentage points higher than in 1992. The rural non-agricultural sector is also expected to account for about 50 percent of the national growth in non-agricultural output, with estimations indicating its share will roughly increase by 6 percentage points over 1992. It shows that township enterprises have become 'the mainstay' of the Chinese economy.<sup>6</sup>

Yet, the achievement was not optimal. The main products produced by rural industry continued to grow and most recorded a rising share in the total national output. In the initial stages of the development, rural industry concentrated on only a limited number of industrial products such as building materials, farm machinery, coal mining, food processing and textiles, later rural industries became more diversified.

In 1994 the development of the rural non-agricultural sector improved. The employment in this sector amounted to 127.8 million, up 7.2 million, or 6 percent from that in 1993. From this labour force, the rural industries employed 75.4 million persons, up 2.8 million or 3.9 percent, while those engaged in rural construction, transportation, commerce, and services amounted to 52.4 million, less than 50 percent of the entire rural non agricultural sector.<sup>7</sup>

#### **5.1.5. The Development of the Rural Non-Agricultural Sector**

The Rural Development Institute (RDI) in its Annual Report over 1994 showed the specifications given in Table 15. It shows that the development of non-agricultural output increased between 5.3% and 8.1%.

Table 15      The total output of the rural non-agricultural sector in 1994		
	output	% of total rural output
Total value of rural non-agricultural sector (in billion yuan)	2,700	
Rural Industry (in billion yuan)	2,098	7.5
Rural Construction (in billion yuan)	277.9	8.1
Rural Transportation (in billion yuan)	147.7	5.3
Rural Commerce, Catering and Services (in billion yuan)	197.3	7.9

Source: Rural Development Institute Annual Report 1994, P.19

### 5.1.6. Problems

The increasing development of the rural non-agricultural sector did not happen without any problems. The Rural Development Institute summarised some constraints:

1. The capability of labour absorption kept declining for this sector, especially for rural industry.
2. The rural enterprises were confronted with substantial shortages of capital, especially floating capital.
3. The emergence of a number of new factors increased the cost and reduced the profits of rural enterprises. Due to the rise of tax rates and material prices, the growth rate of the net profits earned by rural enterprises dropped by an estimated 30 percentage points from that of 1993.
4. The decline of profitability. In 1994, 17.4 percent of rural enterprises were making losses, as opposed to only 10-11 percent the previous year.
5. In terms of product structure, most products produced by rural enterprises were primarily processed intermediate goods rather than end products, and both the percentage of the products up to standard and the percentage of superior quality goods were quite low.<sup>8</sup>



### 5.1.7. Measures

To ensure a sustainable rural economic development and a growth in quantity and quality of the output, the Chinese people should expand their planning of economic resources to include the whole region and sector. Ensuring food production is the first priority to secure political stability. Village Township Enterprises (VTE's) should be enlarged by taking the following measures:

1. Exploring and exploiting various resources of China's rural areas, from coastal to border areas and narrowing the gap of prosperity between developed and underdeveloped regions, especially in western parts of China. Providing energy from diverse resources. Improving and extending transportation, communication, and other infrastructure in order to stimulate growth of township enterprises. Increasing the human resources potential for all ethnic nationalities without discrimination, by improving education and technical skills.
2. Expanding long- and short-term educational facilities. Educating people in science and technology and inspiring them to reach the state goal by comparing them to other countries that are far ahead. Consciously recognising that science and technology could change the world.
3. Mobilising capital investment from domestic sources and from abroad to enlarge capital investment in many economic and cultural sectors. If China is to continue on the road of the socialist system by using the socialist market mechanism policy it should protect the self-reliance policy. And optimally using foreign capital as additional funding, paying full attention to proportionate public ownership, co-operatives, private enterprises and foreign investments, in particular during the period of China's per capita weakness.
4. Improving the general prosperity, thus lightening the burden of the working people. Paying full attention to the increase of rural non-agricultural output and expanding its capacity to absorb the labour force surplus in rural areas by establishing more medium- and small sized industrial projects. Encouraging projects nearby the people's dwellings and minimising the flow of migrants to the cities. Emigration is projected to increase the labour force in backward regions in the border area. Increasing the social security of the rural population, by improving their health service, and providing recreational facilities for all ages.

5. Increasing the national income by developing traditional products to a high quality, enabling China to compete in the international market offering low prices, high quality, and good service; using competition to confront the monopolies.

## **5.2. Regional Development**

### *Introduction*

Regional development in China has the advantage of the abundance of natural resources but it faces many challenges and difficulties, such as an uneven development, densely populated backward regions, a poor infrastructure, and a varying cultural and historical development. This situation is true for more than 50 percent of the Chinese territory that is dominated by ethnic minorities, which make up only 10 percent of the entire country's population. Since the ninth Five Year Plan, central and western areas have become the priority for rural development. Proceeding from the ninth Five Year Plan's blueprint for national economic and social development, the fundamental task for agriculture through the end of the century is a steady increase of the supply of agricultural products. This should raise the income level of farmers and accelerate rural economic development in an all-round manner in order to satisfy the need for national economic development and ensuring a comfortable life for people throughout the nation. How this may be reached in such difficult conditions as the uneven regional development of the eastern and central-western regions, will be reviewed in this paragraph. In doing this, it is imperative to understand the government policy for this large and complex task, full of economic, political and other specific problems characteristic for the regions of China.

### **5.2.1. Regional Development Policy**

In the short term, the government policy is aimed at narrowing the gap between the eastern region of China and the central-western part, especially the west. It also aims to increase the financial support and construction investment in the central and western parts of the country. It aims to achieve that goal by giving priority to arranging the development of resources and

infrastructure in the regions. In addition, the readjustment of the regional distribution of the processing-oriented and labour-intensive industries is another means to narrowing the gap. While straightening out the prices with the aim to enhance the capacity of self-development in these regions, and to strengthen the economic association and co-operation between the eastern and the central and western regions<sup>9</sup> is also essential.

Some provinces that geographically are part of the western region belong economically and administratively to the central part, and they are closely related with those Minorities Autonomous Regions. Four of the autonomous regions are Inner Mongolia, Xinjiang, Uigur and Tibet, and the prefectures in Yunnan province. There is also Guangxi Zhuang autonomous region. The status of Yunnan is that of a province but there are minorities with autonomous prefectures, living together with the Han nationalities. Guizhou also possesses province-status, with a mixed population of Han nationalities and minorities. Sichuan is the most populous province in China, with both Han nationalities and Tibetan minorities. Qinghai province, bordering with Tibet and Xinjiang has the status of an autonomous province. The western part of China covers more than 50 percent of the Chinese territory, and is mostly inhabited by minorities, all with different cultural backgrounds. Some 94 percent of China's population belong to the Han nationality. They live in the eastern and central part of the country, in more or less 50 percent of the total area. In 1956, Mao Zedong, writing about this situation, stated '*If the relationship is found to be abnormal, then we must deal with it in earnest and not just in words*'. He emphasised that a thorough study should be made of what system of economic management and finance would suit the areas of the ethnic minorities. In addition, he emphasised that the Chinese must sincerely and actively help the minority nationalities to develop their economy and culture<sup>10</sup>.

#### *The Trend of Regional Development*

In order to follow the development level of the townships in the whole country, the township enterprises should grow faster in central and western inland regions, with special attention from the central government. The government must then continue to give these regions preferential treatment, allocating extra budgets as special aid for the poor. In order to implement the 'demonstrative project of co-operation' between eastern and western township enterprises, the government has chosen 124 'pilot zones' where the infrastructure is relatively

good, with a complete construction plan and an excellent investment environment. There the local governments have formulated a specific 'plan for the poor'<sup>11</sup>.

To encourage township enterprises in the more developed eastern regions to make their own investments and build factories in the western regions is to encourage a form of "east helps west". In accordance with the state industrial policy, the superiority of different regions and the principle of seeking best economic returns, the state has selected 1,000 pilot projects as models for east-west co-operation - with technology, training of technicians and leading managerial personnel for township enterprises in the western regions. The aim is to develop small industrial zones and new towns where there are concentrations of sizeable township enterprises of a considerable level of development. In order to develop industrial enterprises, the production must become more society-oriented and specialised, on an increasingly larger scale. The property rights reform will cause operational changes and a readjustment of the products of the township enterprises, making them break through the limitations of local communities, develop associations with other township enterprises to form groups for larger scale co-operation. The joint-stock co-operation system will bring new vigour and vitality into township enterprises, a start of a new phase of development.

With the introduction of various forms of ownership, township enterprises will undergo changes and the progress of urbanisation of the countryside will accelerate. Ultimately the township enterprises will have caused the changes in the division of production between the cities and the countryside. They will turn rural economy from farming as the main undertaking to a relative concentration of township enterprises as the major economic form, leading to urbanisation and industrialisation. This will give the rural labour force surplus a broader workplace. Such a development policy will mean a big leap for China's rural urbanisation in both quality and quantity, and it will accelerate the Chinese economic development in rural areas as the foundation for the national economy.

#### **5.2.1.1. Narrowing the Gap between the East and the West**

Balancing the regional development in China has been an urgent programme issue in the period of the ninth Five Year Plan (1996-2000). The uneven development dates back a long time and has several causes, historical, geographical, and cultural. In the 1950s, Mao Zedong pointed out that 70 percent of the Chinese industries was located along the East Coast and only 30 percent in the central and western areas. In the 1960s these latter areas enjoyed an

industrial boom when a great number of factories 'mushroomed' in the west, either newly founded or relocated from the east, with the cold war panic growing high. As a result, industries developed in the inland areas, among which heavy and defence industries. The situation changed after the Modernisation, when the east developed rapidly, in particular since the opening of the Special Economic Zones, and coastal cities could trade freely, with foreign investments. The absorbing capacity of the east is very strong, yielding good results. Nevertheless, the west remained a backward region.

Describing the situation in the two regions, Dr Hu Angang from the Chinese Academy of Science suggested that 'a significant rectification in this field is a must, given the current development'. In 1992 the Central authorities decided that during the seventh Five Year Plan the state should promote rapid development in the east, establishing energy and raw material bases in the central areas and actively prepare for development in the west. Deng Xiao Bing in his 1992 south tour speech said that 'those regions with a powerful development impetus should not be impeded from taking off. Those places with favourable conditions should be encouraged to go ahead'. These preferential policies made the east coast the nation's most prosperous region, at the expense of the west.

Now the situation should be rectified systematically, because this imbalance causes friction between the regions.

The imbalance manifests itself in gross domestic production per capita. For example, Shanghai Local Gross Product per capita was 9.5 times that of Guizhou province in 1993 – and rose to over ten times in 1994. Because of this disparity, conflicts have emerged. There has been a large-scale brain drain from the poor to the rich areas. Engineers and technicians who used to be poorly paid could make a fast fortune in the developed coastal areas, with the result that the rich areas became richer and the poor areas became poorer. Moreover, the rising financial industry and real estate businesses in the rich areas were stimulated by the preferential policies of the government, becoming magnets for investors all over the country and overseas.

On the other hand, the poor areas had no way of securing capital. Most of the provinces primarily inhabited by ethnic groups such as Guizhou, Yunnan, and Qinghai are low-income

areas. The East Coast's economic development has reached a sound circle supported by 'self-accumulation' and 'self-development'. While the proportion of central government investment in its real estate sector has dropped dramatically, investments from local, private and overseas sources are rising rapidly. This unbalanced development must be changed, without negating the positive aspects of the East Coast. How to use the positive aspect of this region to support the west has been laid down in the regional development policy.

#### **5.2.1.2. General Measures**

Balancing regional development will become an important task for the government, especially during the rest of the 20th and early 21st century as a follow up to the achievements, and emerging problems in 1995. Dr Hu Angang, member of the Chinese Academy of science, the government's think-tank, has mentioned five measures to be taken.

1. Establishing an integral domestic market which will co-ordinate regional development through promoting a free circulation of production materials in a reasonable way.
2. Establishing a system of transfer payment that the Central Government will use to provide financial support to regions where the per capita GDP is under the national average.
3. Public service and investment in public facilities should be conducted according to a common and standardised level. Compulsory education for nine years, basic medical care facilities, sanitary water for drinking, and so forth should be implemented. In addition, a bottom level for investment in public facilities, such as railway lines, highways, seaports, airports, optic cable telecommunication, large scale flood prevention, electricity network for rural areas, etc. should be implemented.
4. Active promotion will be given to regions in the west and mid-west in their drive for reform and opening up, private enterprises should be encouraged, and township enterprises supported. The energy industry will be further developed and the industrial structure will be reshaped.
5. Migration of labour forces will be encouraged and better guided. Migration from underdeveloped areas enables people to receive technical training while earning higher incomes.

These measures will balance the uneven development between rich and poor areas and aim to close the gap between them, creating mutual help to achieve the economic targets of the year 2000 and beyond.<sup>12</sup>

The above mentioned measures must be adapted to the concrete conditions of the region. Here I will introduce a short review of some areas, especially in the west, to understand their weaknesses and their potential. Each region has specific characteristics in economic development and political stability. So, each region will be presented in a brief review of the areas based on their administrative status, historical background, and ecological environment. Three regional unities will be introduced.

### **5.2.2. Northwest China**

Xinjiang Oeigur autonomous region is the largest region in China, situated in the Northwest. In 1995, the population of Xinjiang was 16 million. Township enterprises are found in this area, but they started late. Xinjiang has a bright future of economic development. It borders with the Republics of Kazakhstan, Kirgistan, and Tadjikistan. All these countries have established diplomatic relations with China.

The potential of Xinjiang is large. Although the Gobi desert makes up for 22 percent of the total area of Xinjiang, there are abundant natural resources. Mineral resources are varied and plentiful. Up to 1992, more than 100 minerals were found in more than 3000 big and small deposits. The deposits of coal, mica, asbestos, jade stone, rocksalt, gypsum, and non-ferrous metal are among the largest in the whole country. There are prospects of deposits of petroleum and natural gas, gold, crystal, and iron. The petroleum reserve ranks fourth in the whole country, those of coal rank eighth. There are rich reserves of gold and gold mines of high grade. Xinjiang has a very good perspective for industrialisation.

Its hydropower potential is 33.5 million Kilowatts and there is a large potential of solar energy and windpower. The whole region has more than 50 million hectares of natural resources, accounting for 22.7 percent of all usable grassland in the country. There are about 55,000 hectares of water surfaces that can be used for fish farming. Xinjiang has 1.43 million hectares of forest, covering only a little over one percent of its total area. There are a great many wild animal species.

### *Economy*

In the 39 years between 1949-79 the total industrial-agricultural output value increased at an average annual rate of 7.7 percent. The output value of agriculture and animal husbandry increased 4.3 times from 490 million yuan to 2.14 billion yuan. The cultivated land reached 7.2 million ha, increasing threefold. The total grain output registered 3.94 billion kg, growing 4.5 times. Grassland for raising livestock covered an area of 82.3 million ha and the number of animals came to 25.85 million, increasing 2.5 times. The total industrial output value increased 39 times from 80 million yuan to 3.14 billion yuan<sup>13</sup>.

### *Transportation and Communication*

Highway transport is the most important means in this region, to connect all places with Urumqi, its capital city. Communication lines reached a length of 25,049 km in 1987. Xinjiang connected with Gansu - Qinghai and Tibet. The mileage of operating railways - 5000 km- is the largest among the provinces in China. The opening of a railway to central Asia and the opening of a highway to Pakistan have become important for international relations.

### **5.2.3. Tibet**

Tibet Autonomous Region lies on the southwest end of China. It borders from west to east with India, Nepal, Sikkim, Buthan and Myanmar (Birma). The area covers over 1.2 million km<sup>2</sup>, making it the second largest region after Xinjiang Uigur. Nevertheless, its population is no more than 2.08 million (1987), it is the most sparsely populated of China's regions, only 2 people per km<sup>2</sup>. More than 90 percent of the population is Tibetan. There are also Tibetans living in other areas of China. The topography of Tibet is extremely complex. The capital city of Lhasa lies 4000m above sea level. The main economic resources are farming and animal husbandry (sheep and yaks). Through lack of transportation, the region was relatively isolated from the rest of the world for a long time. Since the 'Liberation' in 1951, followed by the reform in 1959, the region was conducted systematically to end the system of slavery.



In 1982, after Panchen Lama returned to Tibet, the central government decided to design 43 projects to lay the foundation for further development. They covered energy, transportation, commerce, tourism, education, medicine, and municipal construction. Nine hotels were built to accommodate foreign visitors and tourists.

As a follow-up to the 43 projects, the central government worked out a new 62 projects-plan, costing 2.4 billion yuan, which was completed in 1995. The projects marked another milestone in the economic development of Tibet. The projects covered foreign trade construction in 37 frontier and poorer counties and processing bases for the export of agricultural and livestock products.

#### *The Central Government Policy*

The government policy towards Tibet pays special attention to its specific condition. In accordance with the will of the Tibetans, the government granted autonomous rights in 1975. The Tibetans are allowed to have 2 children per couple in the cities and 3 to 4 in the countryside. The central government has given power to regional authorities to manage customs and tariffs, tax rates and methods of payment. Four companies have been created with decision-making powers, working with the local government. There are 79 other enterprises from across China to expand foreign trade with Tibet. Tibet has also foreign trade offices and companies in 22 coastal cities, including Shenzhen, Zuhai, Shandou, Xiamen, Shanghai, Guangzhou, Hainan, Tianjin, Qingdao, Dalian, and Jantai. These companies are engaged in trading economical and technological goods with Japan, Europe, America and south-east Asia, where customers are attracted by low tariffs (only 80 percent, whereas it is up to 200 percent in other parts of China). Tibet earns 300 million yuan in customs duties each year, which has further helped the economic development of the region.

#### *Cultural Development*

For a long time, Tibet had a system of slavery. Since 1959, when drastic changes occurred in Tibet, the central government has paid special attention to the education of the local population. In 1951, over 90 percent of the population in Tibet were semi-literate. The few schools that did exist were either Buddhist seminaries or government run schools catering exclusively to the children from the upper class.

Since the 'Liberation' of Tibet in 1951, a number of schools have been founded, including the Lhasa primary school. Attendance to this school is free, since it received support from the People's Aid Programme for Education. The early graduates from this school now work for Tibet in important positions. The central government has steadily increased the amount of money available for educational purposes in Tibet, going from 2.75 million yuan in 1978 to 180 million yuan in 1989.

The education system in Tibet is unique in China. The children of peasants and herdsmen get free education and free room and board if they have to leave home for it. There are special financial grants for education. Teachers from the rest of China are dispatched to Tibet on a rotation basis; and classes are held in the Tibetan language. There are at present a total of 2,864 schools and institutes at various levels in Tibet, with a student body of 221,971 (91.28 percent of the Tibetans or members of some other ethnic minorities). Some 75.66 percent of the full-time teachers are also Tibetan or come from another minority group.

#### *Traditional Tibetan Medicine*

Tibetan medicine is an important resource for the Tibetan regional income, and it has a history of 1600 years. In recent years, the central government has used more than 15 million yuan in developing the local medicine. Tibet has 1 school of medicine, 10 hospitals, 3 pharmaceutical plants, and 800 doctors practising traditional Tibetan medicine. Traditional medicine has been set up in hospitals in 71 counties, one of them in Beijing. Experienced doctors of Tibetan medicine were recruited and they have published 20 ancient medical books and records, selling more than 1 million copies. The best of these have been published in Tibetan-Chinese and Tibetan-English, one even won the top national book award.

There are more distinctive historical heritage objects in Tibet, which are very valuable to the development of China's modernisation. In a project aimed at studying Tibetan social - cultural development, an Institute of Tibetan Studies has been set up. A dozen Tibetan research Institutes have been set up across China, including the Chinese Tibetology Research Centre in Beijing, founded in 1986<sup>14</sup>.

### *Economic Development*

Before 1951, Tibet was extremely backward economically, politically and culturally. After democratic reforms were carried out in 1959, productive forces were liberated and fast progress was made in industry, agriculture, and livestock farming. In 1980, its gross cereal output was 5,050 billion kg, or 3.1 times the 1959 figure; and the number of livestock was up 2.2 times over the 1958 figure. The total industrial and agricultural output value amounted to 55.4 percent, crop growing to 36.3 percent and sideline occupations to 8.3 percent. In 1980, its industrial output value registered 150 million yuan, making up 25.3 percent of the gross regional product. At the 20th anniversary of the founding of Tibet Autonomous Region in 1985, the total industrial-agricultural output value came to 890 million yuan.

Animal husbandry is promising, because Tibet is one of China's major pastoral areas, with its grasslands making up 18.7 percent of the national total. At the end of 1987, Tibet had 5.633 million heads of oxen, 308,000 heads of horses, 5.979 million heads of goat, 11.676 million head of sheep and 156.000 million head of pigs. Tibet produces meat, including mutton and beef, milk products, and sheep's wool. In 1987 it produced 467,000 tons of cereals, including wheat and rapeseed.

The industrial output value was 197 million yuan in 1987. The figures for 1995 were not yet available because the communication still leaves a lot to be desired. Waterpower is a potential that is being developed. By the end of 1987, the region had 21,695 km of highway. Tibet possesses a large amount of mineral resources. Among them are over 40 proven mineral ores, such as iron, chromium, copper, lead, cobalt, rock crystal, sulphur, salt, arsenic, borax, barite, gypsum, muscovite, graphite, and coal. These are all waiting to be exploited. All these data on Tibet indicate that Tibet is the weakest region in the west part of China in production, but rich in mineral resources and thus promising a bright future.

#### **5.2.4. Southwest China**

The Southwest of China covers Junnan, Guangxi Zhuang Autonomy, Guizhou, and Tibet. Tibet has been described extensively because of its specific condition and will be excluded from the following discussion. The Southwest regions border with Myanmar, Laos and

Vietnam. The Sichuan province is closely related to these provinces but also with Tibet. Southwest China is the gate to Southeast Asia. The population consists of ethnic minorities and Han nationals. Geographically this region is very complex, but it is very valuable, for not only politics and economics, but also for the defence system. The region is still backward compared to the eastern part of China. The per capita income is very low. E.g. in Guizhou province the per capita income is 200 yuan, whereas the Chinese average was 700 yuan. The region is still in the first phase of modernisation. Many girls leave school because their parents cannot afford the tuition.

Since the liberation followed by modernisation, the government and local people have marked some progress in economic development. The highway now leads beyond the mountains. A fine new race of hybrid rice has been popularised, greatly increasing the grain output. The food and clothing problems of many peasants in the mountain villages have been solved. In some places diversified economy (non-agriculture) has been introduced by planting trees, tea and medicinal herbs, and by making ethnic handicrafts.

#### *Guizhou*

The people in Guizhou are beginning to shake off poverty and march towards prosperity, narrowing the gap between the east and the south-west. This in spite of the fact that the people are still far behind those in the east of China, and a saying in Guizhou that 'you cannot find flat land larger than three feet'. In an editorial, 'China Today' stated that the future for this region is promising<sup>15</sup>.

The construction of highways, railroads, and civil aviation has freed this area from isolation. Several hills have been removed to build a large international airport. Guizhou has many advantages; for instance, it is rich in water, minerals, and tourist resources. It has beautiful scenery, caves, and folklore that are being exploited, attracting overseas tourists and investors. The complex topography is now being appreciated as a beautiful area.

#### *Guangxi*

Quilin, in Guangxi Zhuang Autonomy is well known among overseas tourists for its beautiful caves, and so it attracts foreign currency. In 1998, President Clinton visited this beautiful scenic tourist project.

Guizhou borders on the province of Yunnan, and on Guangxi. Guangxi has the largest population of ethnic nationalities in China. And it was the Southwest Silk Road of China's ancient history. These factors attract many tourists and investors. The road leading to Southeast Asia through Yunnan and Guangxi have strengthened co-ordination to develop economic co-operation of this region with other border countries.

Southwest China has proven to be an area of rich energy resources. It has a hydropower potential of 190 million kW, making up half the country's total. Its natural gas reserves also make up half the country's total. Highways are opened to traffic, greatly promoting the exchange of goods. The construction of the railway between Kunming, Capital City of Yunnan, and Nanning, Capital City of Guangxi Zhuang Autonomy, which started in 1991 and has been completed in 1998, enables goods from various provinces and autonomous regions in the Southwest to be shipped out by rail to seaports in Guangxi. Border trade with Southeast Asian countries is growing daily.

The population of Southwest China makes up one fifth of the country's total. Unlike Tibet, Southwest China has sufficient labour forces. Its minority nationalities make up half the country's total. Guangxi Autonomy covers 230,000 km<sup>2</sup> and has a population of 40.23 million. In 1990, the population density amounted to 18 people per km<sup>2</sup>. Sichuan, the hinterland of these border areas has the most populous province: 104.54 million people for an area of 570,000 km<sup>2</sup> in 1987. The density is 184 per km<sup>2</sup>. Yunnan is populated by 22 nationalities, including Yi, Bai, Hani, Dai, Lisu, Va, Lahu, Naxi, Jingbo, Blang, Achang, Tami, Nu, Bengkong, Drung and Jino. The bulk of the population is Han, living mainly east of the Yuanjiang River.<sup>16</sup>

#### **5.2.4.1. Investments**

China is making its third major readjustment to the economic structure of the Southwest. The first adjustment was conducted in the 1950s, the second at the turn of the 1960s and 1970s, including the building of industrial systems and establishing large defence projects, energy and raw material bases, among which the Xichang satellite launch centre and Chengdu-Kunming railway. These adjustments took place under a highly centralised planning system with all the investments coming from the central government. Current plans will also focus

on the construction of communication and energy bases. Part of this investment will be in the form of loans from the World Bank and other international financial organisations.

Summing up, the development of Southwest China (including Tibet) shows the potential of this region. This is shown by the construction of the Sichuan Ertan hydroelectric station, Guizhou's Weng Fu phosphate mine, Yunnan's Chaopu yellow phosphate mine, Guizhou and Guangxi's Bingguo aluminium plants, the expansion of the Sichuan Panchihuan Iron and Steel Corporation, the Nanning-Kunming Railways and Chengdu's Shangliu and Guiyang's Longdongbao airport.

Although the west part of China shows a lot of progress, it still lags behind in economic development. The central government has the policy to encourage local people and local governments to become more active; and it emphasises its efforts to increase investments, both by themselves and by foreign investors. In this way the gap will be narrowed and the situation of the east and the west part of China will become more balanced.

#### **5.2.5. Southeast China**

The southeastern part of China is a rich area. Fujian and Zhejiang have close economic relations with Southeast Asia: Hongkong, Macao and Taiwan. The creation of five Special Economic Zones: Zuhai, Zhushan, Shantou, Xiamen and later the island of Hainan has had an important influence on the prosperity of the region. Many non-Chinese publications predicted that the economic development here would influence the economic development of China's hinterland. There will certainly be mutual influences, particularly after the handing over of Hongkong to the PRC in July 1997.

Besides many positive factors, this region has a large drawback; it shoulders an important burden in terms of natural disasters. Each year the Southeast of China suffers from severe flooding. According to the statistics, the flooding rates in terms of natural disasters rose from 32.7 percent in the 1970s to 49 percent in the 1980s and 51.8 percent in the first four years of the 1990s. In 1991, direct economic losses caused by serious flooding in the Yangtze and the Huaihe (Yellow) River valley topped 70 billion yuan. In 1994, nation-wide economic losses,

from a combination of catastrophic floods, droughts, storms, and tidal waves hit 175.2 billion yuan. In 1995 Jilin province alone suffered 28 billion yuan in direct economic losses from flooding. The figures of the losses after the severe floodings of 1996 are not yet available.

While China has experienced rapid national economic development, its disaster prevention, resistance and reduction endeavours have lagged far behind. Coastal areas have accelerated the pace of urban construction and attained notable achievements in land reclamation and comprehensive agricultural development. However, no significant improvements have been made in flood control standards for major rivers and lakes, and existing facilities have only been able to prevent light flooding.

According to 1993 statistics, 472 of the nation's 570 cities (83 percent) were faced with flood control tasks, as Beijing, Shanghai, Changchun, and Guangzhou can only resist floods expected to occur once every 100 years. The Chinese government is building a giant project to prevent further floods: the Three Gorges Projects in the Yangtze River, with a budget of 120 billion yuan per year, is expected to be finished in the year 2009.

#### **5.2.6. East China**

Three municipal cities belonging to East Coast China: Beijing, Shanghai, and Tianjian will not be reviewed here, as they are urban areas. The focus will be on Hebei province and Jiangsu province. The other east Chinese province is Shandong province.

First, we will review the developing prefecture of Zhukou, in Henan province. Henan is not directly a coastal province but it is close to Hebei province, and suitable to give an overview of the situation at prefecture level.

##### *Zhukou Prefecture*

In 1978, the per capita income in Zhukou was only 60-70 yuan. It has increased eleven times in the period 1978-1994. In this period the region had 1500 enterprises engaged in light industry and textiles, food processing, pharmaceuticals, leather and machinery manufacture.

Over 3000 of these products have been exported to more than 10 countries and regions in Europe, America and Asia.

All counties and cities in the prefecture have inaugurated domestic and international dialling services. Over 20 well-equipped hotels are open to business. The prefecture has 8 power plants that generate 120 million Kilowatts annually. Every village has an electricity supply. Transportation is convenient. Highways and railways connect the prefecture with Beijing.

State, collective and individual businesses in the prefecture show signs of flourishing. The educational, scientific, technological and cultural sectors have also made much progress. Over 40 scientific research institutions employ some 90,000 people, specialising in various disciplines. Scientific and technological achievements that have won state and provincial awards have reached over 3000 items.<sup>17</sup> The situation of Zhukou reflects the developing situation in eastern China.

#### *Hebei Province*

Hebei lies around Beijing, the capital city of China. There are co-operative projects with foreign funding. Out of a total of 439 projects in Hebei, 356 have used foreign investments (a total sum of US\$ 8.43 billion), and they expected to absorb another US\$ 5.33 billion in foreign funds during the eighth Five Year Plan (1991-1995). Sixty out of the 439 projects have been listed as key projects of the state and the province during the 8th Five Year Plan. Hebei is one of the top ten provinces in terms of main economic targets. The GNP in 1990 was 89.67 billion yuan, the seventh in China. The total industrial output value (1990) was 111.6 billion yuan, ranking eighth nation-wide.

Hebei's ten major undertakings are centred round coal, petroleum, power, textile, metallurgy, building materials, machinery, and electronic and light industries. Hebei books 22,000 industrial enterprises including more than 500 large and medium-sized entities. At present 450 foreign funded enterprises are formally registered in the province.<sup>18</sup> Hebei, the province surrounding Beijing, acts as a supplier of agricultural products to Beijing.



### *Jiangsu Province*

Jiangsu province is the smallest province in China, but the most densely populated and economically developed. The area is 102,200 km<sup>2</sup>, 1.07 percent of the national total, with a population of 60.2 million, nearly 600 people per km<sup>2</sup> (1983). In 1982, when the reform and opening to the outside world began, the province led the country in agricultural and industrial output, producing 9 percent of the national total.

The development process of Jiangsu is illustrated by the following facts. In 1949, Jiangsu's industrial and agricultural output value totalled 4.3 billion yuan. In 1957, after the first Five Year Plan ended, the output value had risen to 8.1 billion yuan. In 1966, at the beginning of the Cultural Revolution, the output value doubled again to 32.9 billion yuan. In 1981 it was 65.4 billion yuan, in 1982 73.69 billion yuan. Therefore, over a period of 33 years Jiangsu's total output value has increased 16 times. In 1952, the per capita income was 95 yuan. In 1982, it had risen to 512 yuan.

The ratio of industrial to agricultural production has changed drastically: from 3:7 to 7:3. The province has transformed itself from a predominantly agricultural, to a predominantly industrial area. In 1982, the industrial output value had jumped to 50.3 billion yuan from only 1.22 billion yuan in 1949. Jiangsu became second only after Shanghai, China's largest industrial city. Its industry has grown gradually on the basis of agricultural development and by lending support to agriculture.<sup>19</sup>

The heavy industry in Jiangsu plays an important role in the process of development. In 1949, its output value was only 60 million yuan, 5.5 percent of the total industrial output value. In 1982, it had jumped to 20.5 billion yuan. The products include machinery, chemicals, electricity, iron and steel, coal and modern electronics. The light industry in Jiangsu developed just as rapidly in the same period. In 1982 light industry had risen to 29,813 billion yuan, from 1,156 billion yuan in 1949, an increase of nearly 26 times.

Industry is thriving in the countryside; it has changed the appearance of the countryside where in the past farming was the only economic activity. Most of the small rural industries, which now are everywhere, are financed and run by people's communes and production brigades. They appeared first in 1958 and have made great progress since the 1970s. In 1982, the total output value of small rural industries reached 13.5 billion yuan, or 26.8 percent of

the province's total industrial output value. About 4.29 million peasants or 18 percent of the rural workforce are employed in these small enterprises. This means that the basic pattern of China's rural economy has shifted from agricultural domination to a foundation of agricultural-rural industries.

#### *Agricultural and Non-Agricultural Foundation*

Since the 1970s the agricultural structure of Jiangsu has changed markedly as a result of the rise of industry and the rapid economic diversification, including the growth of handicrafts, food processing and sideline industries. By 1982 more than 8 million Jiangsu peasants had left of farming and had gone to work in industry, sideline production and commerce. The share of rural industry and sideline production in the total agricultural output value rose to 31 percent in 1982 from 5 percent in 1970. In the same period the farming share declined to 55 percent.

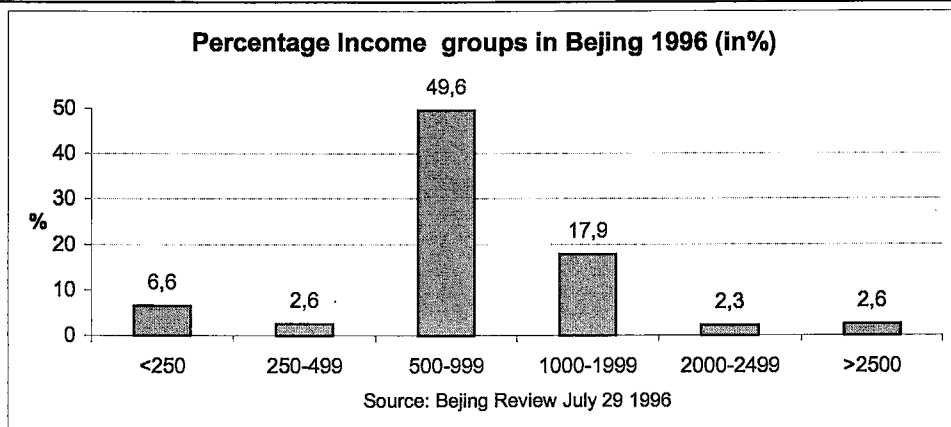
Jiangsu has too many people and not enough land, so there really is a large surplus of labour in the countryside. This situation should not affect the output of grain production. In 1978, grain output was 22.74 million ton, which had increased to 28.55 million ton in 1982 (up 25 percent). The output of cotton and oil crops rose respectively 21.3 and 115 percent. Although concrete figures for 1995 could not be obtained, we may assume that in Jiangsu production in the industrial sector has steadily risen, as it is the most developed province in China.

#### **5.2.6.1. The Prosperity of the People**

There are no figures available for the level of prosperity of the people in East China. We might take the Beijing situation to be illustrative. A survey yielding 916 valid answers in Beijing revealed that of the 870 (95 percent) people, who disclosed their incomes, 45.1 percent receive a bonus below 200 yuan, and 7 percent below 340 yuan. The majority of people in Beijing have middle or low incomes, there is only a small percentage of rich people. The inquiries revealed that 9.6 percent reported an income below 250 yuan. The residents' incomes are subject to several factors such as age, education, and occupation. Generally, the older a person is, the lower their income is and the higher a person's education, the higher their income. The highest income earners are private entrepreneurs followed by company employees, professionals, officials, service trade employees, teachers, and workers. (Figure 11).<sup>20</sup>

Fig. 11

Income Groups in Beijing ( in %)



### 5.2.7. Central China

After reviewing the situation in the west and the east, it is interesting to see what role central China can play in narrowing the gap between the two and in developing China's rural economy as a whole.

Central China can be categorised as a region that belongs neither to western China nor to eastern China. It includes the provinces Qinghai, Gansu, Sanxi, Sichuan, Saanxi, Hubei, Hunan, Henan, Jiangxi and Anhui. The region plays an important part in linking the central part to the east as the source of raw materials needed by industries in the east, such as coal, minerals, and other products. To understand common progress of rural development, seven trade groups are relevant: industrial products, tea, tongoil, foodstuffs, minerals, chestnuts, fruits.

The provinces of Hunan, Guizhou and Sichuan are sometimes described as 'the golden delta' of manganese and other resources of crucial importance for industry. The seven groups, consisting of over 130 firms from over 30 counties in the provinces, have established trade and economic ties with 2 eastern provinces and several municipalities, including Shanghai, Guangdong, Heilungjiang and Guangxi. The relations have extended abroad as well, to foreign countries such as the United States, Japan, Southeast Asia, and the former Soviet

Union. From 1989 to 1994, the business value across the borders of the provinces has been over 2 billion yuan, and the groups have carried out more than a hundred co-operation prospects. Thus, the central region is playing an important role in bridging the gap between west and east, to ensure common prosperity and a national economic development.

#### **5.2.8. Uneven Development**

It is the national duty of China to accelerate the development of poverty-stricken areas where the incomes are below the national average. This applies to some 65 million people. In 1995, the average annual income was 1,578 yuan, which is 130 yuan per month, while the absolute poverty line with the rural population lies at 530 yuan (annually). The poorest populations are mostly concentrated in ethnic minority regions in the remote provinces and autonomous regions such as the provinces of Yunnan and Guizhou, Guangxi Autonomous Region, where the per capita average income is under 500 yuan.

In an effort to spur the economic development in poverty-stricken areas, the State Council announced its decision to grant an additional 1 billion yuan annually in poverty relief loans with low or no interest. Ethnic minority regions will be the focal point of these efforts. By the end of September 1995, a total of 44 central government departments were supporting 142 poor counties inhabited by ethnic minorities. The World Bank Poverty Relief Programme for Southwest China entered in a full-scale operation in August 1995. The programme will provide loans of more than US\$ 240 million to help solve the problems related to inadequate food and clothing for Chinese citizens in 35 impoverished counties in ethnic minority areas<sup>21</sup>.

#### **5.2.9. The Prospect of the Gap between East and West**

##### *Some Points of View*

Before formulating the concrete actions aimed at narrowing the gap between eastern and western China, we should first review the position and the solutions of the central government.

1. The central government has recognised that this enormous gap cannot be tolerated much longer. Jiang Zemin, the President of the People's Republic of China has said that China shall continue to devote great efforts to developing township enterprises, and particularly support those in central and western areas, and in regions with minority nationalities.
2. In order to narrow the gap, the central government has decided to support the agricultural sector in rural areas, with a total population of 860 million people, by using foreign capital to improve medium and low yield farmland. To strengthen the construction of agricultural infrastructure facilities, promote the introduction and application of water conservancy technology, as well as dry cropping technology and machines for fertiliser application.
3. The emphasis for the use of foreign capital in western regions will lie on the comprehensive development of agriculture. Moreover, to help the poor, the development of local economics will be emphasised, enhancing their ability to achieve sustained development, by opening channels for attracting foreign capital<sup>22</sup>.

The World Bank provided US\$ 3.27 billion, directed to agricultural development in China. China has used multilateral foreign funds between 1979 and 1995, bilateral governmental and non-governmental channels to introduce more than 400 foreign funded or foreign aid projects valued at over US\$ 3.4 billion. The agricultural sector as a whole has used foreign funds to a total of US\$ 10 billion<sup>23</sup>.

4. In 1992, the output value of the township enterprises of the eight provinces and autonomous regions in west China rose to 52.57 billion yuan. It accounted for only 3.1 percent of the total output value of 1,650 billion yuan of the national township enterprises, or a drop of 1.1 percent from the previous year. But comparing with Jiangsu alone, township enterprises' output value exceeded 300 billion yuan in 1992, accounting for 20 percent of the country's total. In 1992, the growth rate of the western provinces and autonomous regions reached 34 percent, yet they still lag behind the national average of 46.7 percent.
5. It is important that the whole party and the Chinese people recognise that a number of people and areas need to become prosperous first, in order to gradually achieve common

prosperity. It should be understood from a dialectical and historical point of view that the imbalance is a historical phenomenon. Efforts to narrow the gap must be an important principle for a long time to come.

The eastern region should make full use of its favourable situation, and further increase its economic vitality, by changing its economic growth mode and rising economic quality and efficiency. The 5 Special Economic Zones, and the 14 open coastal cities and open areas should bring into fuller play their role of demonstration, radiation and promotion in reform and development<sup>24</sup>.

To put these five measures into concrete action, the strategic purpose of the economic development should not be forgotten. The specific conditions of the various areas, their weaknesses and strengths should be taken as a starting point for a stipulated plan and for priorities. For example, the Xinjiang Uigur Autonomous Region is full of proven mineral resources, which are of crucial importance for its industrialisation. Tibet, the least populated area of the country, should be attracting new production forces from outside Tibet with the co-operation of the autonomous authority to avoid negative feelings between Han and Tibetan nationals. South-west China geographically links the developed area with the less developed areas, and is also important in sustaining relations with south-east Asia. It is imperative that more information becomes available, to better formulate concrete action.

Moreover, of course, one should always keep in mind that, although the east is the best-developed area of China, in comparison with the developed (western) countries, it is still under-developed. The following slogan may be suggested: To increase economic growth in the west and central parts, the superiority of the east needs to be used to ensure prosperity for all Chinese people all over the country.

### **5.3 Rural Economics And Development**

#### *General View*

Earlier in this chapter, I have discussed the rural industry and its development, and also the regional development. I have shown the uneven development between the various regions,

and discussed measures needed to narrow the gap. The central Chinese region and the problems of the poverty-stricken areas have been dealt with also. Now I will review the rural economics and its development on nationally, focussed on VTEs, and the development of an infrastructure; power and energy, transportation and communication; technology and manpower; the problem of capital investment. Then I will introduce the initial form of agricultural, industrial and commercial co-operation, concerning the improvement of management and efficiency. The relationship between rural economics and foreign trade will also be discussed.

We may start from the point of view that the Chinese national economy is based on agriculture; but another leading role is played by industry. The two sectors have close ties and can be of mutual support, viz.: the production output needs to be distributed, first of all among the Chinese people themselves, but also for foreign trade. Exporting goods will facilitate the import of foreign goods, and especially of advanced technology, which in its turn will supply the Chinese economy with much-needed materials for the development.

The agricultural development in China has demonstrated the ability and superiority of the Chinese economic development policy, as it provides food for the Chinese population (22 % of the world population), whereas the area of arable land per capita is far below the world average. Therefore, one may assume that the worries voiced by some foreign China watchers, about a possible shortage of food in the future, are unnecessary. In the year 2030, when the Chinese population is predicted to have grown to 1.6 billion, there will be no hunger, nor will there be any danger that foreign countries would be affected by grain import into China.

During the 8th Five Year Plan (1991-1995) China's gross national product increased by an average of 12 % annually, reaching over 5,760 billion yuan or 720 billion US\$ by the official exchange rate of 1995. The original target of quadrupling the GNP of 1980 by the year 2000 has been fulfilled five years ahead of schedule. The rural economy developed in an all-round way with the agricultural output value increasing at an average annual rate of 4.1 %; and township and village enterprises maintaining an excellent growth momentum. The industrial output value increased by 17.8 % per annum on an average. The readjustment in the product mix was accelerated, as is reflected in the considerable increase in the output of coal, iron and steel, chemical fibres, chemical fertilisers, automobiles, and electric household appliances.<sup>25</sup>

In addition, the Minister of Agriculture wrote in an article that the Chinese agriculture is making a greater contribution to global agriculture. Statistics released by the UN Food and Agriculture Organisation (FAO) indicate that China accounts for about one-third of the total world-wide increase in staple agricultural products. Between 1980-92, China accounted for 31 kg of every 100-kg of the world's grain production, as well as 40 kg of every 100 kg of meat and 37 kg of every 100 kg of aquatic products.

#### *Primary Task for 1991-1995*

Further improvement and development of agricultural production and the rural economy are the 'primary task' for economic and social development. Consequently, rural reform will be continuously intensified and the household contract responsibility system with remuneration linked to output, stabilised and improved, i.e. the increase of economic growth is the main purpose. To do this, all types of social service need to be developed. Agriculture will be invigorated by relying on science and technology and education. Great efforts will be made to popularise agricultural scientific and technological achievements.

The target for major agricultural produce set for 1991-1995 was 447 million tons, and 455 million tons have been achieved.

<b>Cotton:</b>	target was 4.64 million tons, achieved: 4.75 million tons
<b>Oil crops:</b>	target was 17.26 million tons, achieved: 18 million tons
<b>Sugar crops:</b>	target was 73.72 million tons, achieved: no data

Of major importance is the scientific work in agriculture. For instance, in 1995 the area cropped with **hybrid rice** and corn will be more than 16.67 million hectares and 18.67 million hectares respectively. The area cropped with wheat, corn, and rice, cultivated with advanced technology will be about 6.67 million hectares each. It was estimated that in 1995 a total of 4 million hectares of cultivated land would use plastic mulch.<sup>26</sup> In the same period, 25 million hectares of land will be forested, 12 million hectares of hillsides will be closed off in order to facilitate afforestation and 18 million hectares of forest will be added to bring the proportion of national forest from 12.9 to about 14 %.



The second phase of the Shelterbelt construction projects (afforestation projects, see Chapter 4) in the Northeast, north and Northwest will be implemented. The Shelterbelt projects on the upper and middle reaches of the Yangtze River will be placed on top of the development list.

27

### 5.3.1. Rural Industry

Since 1978, rural industry has developed simultaneously with agriculture. Industrial activities have been given more specific attention after the splitting up of agriculture. Its total output value was 38.20 billion yuan and 28,265 million workers were actively employed in the 1,524,000 Commune Brigade Enterprises (CBEs), which was 9.5 % of the total labour force in Communes.<sup>28</sup> In December 1978 the government started with the Reform and Open Door Policy - a new policy in rural areas with the idea of 'socialist modernisation'. It was a turning point in the history of modern China and its rural policy. Some of the agricultural processing products were transferred from urban factories to CBEs and the former were expected to provide the necessary equipment and technical guidance. The state was to provide tax concessions or exempt the CBEs from tax depending on the specific conditions.

There remained an imbalanced development of the different sectors of the economy, and in April 1979, the central committee of the Chinese Communist Party proposed a set of programmes to readjust, reform, and rectify policies and to raise quality standards. The purpose was to hasten the development of agriculture and light industry and accelerate the growth in construction and heavy industries. **Reform** meant a reduction in over-concentrating on economic management and a gradual decentralisation of the management system. **Rectifying** included rejuvenating and reorganising the leading body and consolidating the management of the enterprise. **Raising standards** referred to both management and technical standards of the enterprises. These measures were to create an environment in rural development where groups would start operating enterprises in addition to those run by the Communes and CBE's.

With the specialisation of labour and various lines of business in rural areas, there would be more and more people leaving their farmland to work in forestry, livestock raising and

fishery. Some of them would turn to operating **small industries** and work in the **service trade** in small towns and villages. This is an inevitable historical process that provides conditions for agriculture to develop in depth and breadth, and changes the overall arrangement of the population's industry into the current situation.

In March 1984 the Central Committee of the Chinese Communist Party and the State Council agreed to the suggestion of the Ministry of Agriculture, Animal Husbandry and Fishery to change the name of the CBEs into township enterprises. According to the data provided by the Department of Township Enterprises during 1983-88, the total of new enterprises is 18,881,600, of which 423,500 were township run, 1,166,500 village run and 1,199,900 jointly run. And the number of workers in the same period became 95,454,600 - of whom 36,745,700 were individuals, and 48,936,400 were employed in townships and villages, together over 50 %. <sup>29</sup> Since the specialisation of production in rural areas, the structure of agriculture and light and heavy industries has changed as can be seen in Table 16.

Table 16. The Contribution to the Economy of Agriculture, Light, and Heavy Industry			
Year	agriculture	light industry	heavy industry
1976	30.4	30.7	38.9
1985	34.5	30.7	35.0

Source: Zhang Zhongji, Beijing Review, September 1986

The changes indicated for 1985 were an increase in agriculture and light industry, while the number of workers in heavy industries decreased.

#### *Rural Industry in 1995*

These structural changes between primary industry (I), secondary industry (II) and tertiary industry (III) lead to these sectors forming respectively, 21.2 %, 51.8 %, and 27 % of the GDP.<sup>30</sup> The Rural Development Institute - Report indicates that the proportion of primary industry dropped by 2.7 percentage points in terms of 1993 and tertiary industry dropped 0.9 percentage points, while secondary industry rose by 3.6 percentage points compared to 1993. The decline in primary industry is considered a normal trend. The proportion of secondary industry continued to climb from 48.2 to 51.8 %. The proportion of tertiary industry continued to drop, recording a fall of a percentage point, the lowest level since 1989. It means

that increasing machine production plays an important role in the increase of the tertiary industry, thus producing more.

The Chinese employment structure in the 1990s can be characterised by a reduction in the proportion and number of those employed in the primary sector.<sup>31</sup>

### *Trade*

Urban and rural sectors trade commodities and labour services, the total value of which amounted to 650.6 billion yuan in 1994. Of this the rural sector 'exported' 332,101 billion yuan to the urban sector and 'imported' 318.9 billion from the latter, resulting in 136.2 billion yuan of rural surplus. The total value of trades accounted for 61 % of the national social products, roughly the same as in 1993 (RDI 1994). The role of foreign trade in the national economy will be reviewed later.

The important role of the rural economy in the national GDP is demonstrated in Table 17. It covers the period 1978 - 1994 and the numbers are percentage points; it shows the increasing proportion of the rural economy and a decrease in urban economy.

Table 17      The Percentage of Urban and Rural Areas in 1978-1994			
Area	1978	1993	1994
Urban	65.8	49.5	46.9
Rural	34.2	50.5	53.1

Source: RDI 1994, p.14<sup>32</sup>

Based on the above-mentioned achievement, the Chinese economists made a forecast for the rural economy in 1995. The gross agricultural output value is expected to grow 4.5 % per year under normal weather conditions (Scenario I), 3 %, if the weather is worse than normal (Scenario II) and 6.5 % if the weather is exceptionally good. The gross output value of township enterprises is expected to grow 30 % in Scenario 1 and 15-20 % in Scenario 2.<sup>33</sup>

These figures show that the national economy is growing. The growth of gross domestic products reached 5773.3 billion yuan in 1995, an increase of 10.2 % over the year 1994. Further progress was made in the reform of state-owned enterprises, and by opening up to the outside world. In foreign trade, the national import and export for the year totalled 280.9

billion US dollar, an increase of 18.6 % over the previous year.<sup>34</sup> The average annual rate was 4.1 % in township and village enterprises. The industrial output value increased by 17.8 % per annum.<sup>35</sup>

#### **5.3.1.1. Energy and Water Conservation**

The enormous increase of the rural economy demands an enormous amount of energy. Moreover, energy must also serve the urban economy. Therefore, the capacity growth of the energy supply must be larger than the economic growth, in order to prevent stagnation in the production process. The situation in China is quite different from this ideal situation. The demand for energy far outreaches the supply. Consequently, the production process slows down to balance the capacity of the energy supply.

After the founding of the People's Republic of China the government did pay attention to increasing the energy resources. They exploited power for industrial and agricultural development. By 1957 the installed capacity had reached 2,470,000 Kilowatts. There came an end to the irrational distribution of power. Since electric power began to appear in regions inhabited by minorities (1958-66), the electrical output increased at annual rates ranging from 11.4 to 18.8 %.

In 1981, after the modernisation had begun, China had 72 large power stations with capacities over 250,000 Kilowatts, and some 300 medium-sized ones, with a capacity over 50,000 Kilowatts. Every province and region except Xinjiang and Tibet have their own power grid. The five major grids in the east, Northeast, central and Northwest regions of China have capacities ranging between 9,500,000 and 4,000,000 Kilowatts. There are 88,000 small hydroelectric stations, built by counties, communes or production brigades, with a combined capacity of 5,300,000 Kilowatts, more than the total installed capacity for the entire country in 1957.

Using electricity is more widespread in some agricultural districts than in others, due to differences in natural condition, and in the degree of economic development.

### 5.3.1.2. Energy Demands

The increased demand for energy, in particular electricity is logical since there has been an increase in agricultural and township enterprises, but it has caused a real electric power shortage in China. The difference between demand and supply has come to the surface. Twenty to 30 % of China's industrial capacity goes unutilised because of an insufficient power supply. The gap between power demand and supply is in the order of 40 billion Kilowatts.<sup>36</sup> China plans to raise its Hydro-power capacity to 80 million Kilowatts by the end of the century.<sup>37</sup>

In 1989 about one quarter of the industrial capacity was not brought into full play as a result of power shortage. Three hundred million rural people still have no access to electricity. Eighty-five % of the fuel consumed by 800 million rural people comes from non-commodity sources. This means that 180 million tons of firewood and 230 million tons of plant residues are consumed every year, and there is still a 20 % shortage. This is one of the main reasons for the uncontrolled felling of trees, with its resulting water and soil erosion and the deterioration of the ecological environment. Now the Ministry of Agriculture has suggested the local government to pay more attention to the development of forest-energy or other energy sources in accordance with local conditions.

Forest energy projects have been developed, which entails the planting of 12 million hectares of forest in the next twenty years. The objective is to ease the severe shortage of firewood, and to protect the ecology-friendly forestry from being damaged as well. Firewood accounts for one-third of the country's resource consumption. In the years 1991-1995 the government has channelled its efforts to rural energy construction.<sup>38</sup>

The energy projects should be completed by the year 2000. The rural electrification programme, initiated in 1985 in 318 counties, been a successful way for China to solve the power shortage in rural areas rich in hydropower resources. Power stations with a total capacity of over 3.6 million Kilowatts will be built. The present power generating capacity in the 300 counties is only 1.31 million Kilowatts. If the power programme is successful, 115 million farmers should be freed from their difficulties caused by power shortages.

The annual per capita power consumption is about 700 Kilowatts, which is equal to only one quarter of the world average. The power industry has been a 'bottleneck-sector' that has

hampered China's national economical and social progress. To solve this bottleneck, efforts are made to gradually link the separate power grids across the country into an integrated network, to raise the proportion of electrical power in energy consumption patterns and to raise the proportion of hydraulic energy and other new energy sources.

China has abundant energy resources, but most have not yet been exploited. The lack of transportation hindered the distribution of energy. Currently, the exploitation of energy is high, but lack of transportation has kept the industrial and agricultural growth small. The construction of large enterprises in eastern China uses much coal energy, while the coal resources are situated in the west. It is therefore imperative that the development of energy, transportation, and the dislocation of industries should be co-ordinated. The exploitation of energy sources such as coal, oil, geothermal energy, water, wind, and tidal resources, electricity and nuclear power must be done rationally and proportionally.

To accelerate the power development, the government has been seeking foreign investments. In the years 1985-1995, the government attracted a total of US\$ 14.3 billion in foreign funds for power development. Some US\$ 11 billion has been used in power construction. About 63 large and medium-sized hydro- and thermal-power projects have been constructed, with a total installed capacity of 40 million Kilowatts. Preliminary calculations reveal that the share of foreign capital in the total investment in power construction will increase from 11 to 20 % to attain the target for the year 2000.

#### **5.3.1.3. Water Conservation**

Since the Liberation, the Chinese government has regarded water conservancy as the lifeline to agricultural development and remarkable results have been achieved over the past 40 years. Many motor-pumped drainage and irrigation stations have been set up. By 1989, the country's grain and cotton production had increased many times (in 40 years).

Control of the rivers has two main functions, prevention of floods that damage land and property, and channelling the river to facilitate irrigation in order to produce a higher yield of grain per unit of land, and providing the people with water, especially the people living in the northern part of China and in particular in the cities.

During the 7th Five Year Plan (1986-90) water supply programmes were established for 400 water-deficient cities. Approximately 8,800 water supply facilities were built at township level. Such projects have eliminated drinking water shortages for 45 million people and 25 million head of livestock. It was predicted that China would have invested 65 billion yuan in water conservancy projects by the end of 1995. The figure does not include specially funded projects that target agriculture, soil conservation, and hydropower plants. State allocation of funds for water conservancy amounted to 35.1 billion yuan, a six-fold increase over the 5.4 billion yuan spent during the 1986-90 period. Between 1996 and 2000 water works will account for 5-8 % of the country's total capital construction projects. In December 1995, the Ministry of Agriculture estimated that the central government would spend at least 111.9 billion yuan on water conservancy infrastructure during the 9th Five Year Plan.

### **5.3.2. Transportation and Communication**

Transportation and communication are the most important aspects of the infrastructure for economic development. They are still the weak points in China's development. It is of vital importance to connect the industrial regions with agricultural areas; to connect the energy resources with the planting projects, the rich regions in the east with the poor areas in the west. This requires an enormous transport network. Today the most densely populated east has a relatively better developed transportation system than the west of China.

Although the transportation capacity has increased sharply, it is not sufficient as long as the industrial development remains faster than the growth in transportation capacity. The total cargo demand for railways, highways, waterways and airways, and petroleum and gas pipelines outnumbers the transportation capacity. In addition, the domestic capacity of passenger transport also lags far behind, so that it stagnates or even becomes a complete chaos in some places.

In 1988 the total transported cargo was 2,335 tons per km, an increase of 5.1 % over 1987. In 1989 it had increased to 2,554.2 tons per km, or 7.2 % over '88. Passenger transportation was 592.8 billion persons per km, 4.5 % less than over 1988, because cargo transport had the priority, cutting passenger traffic.<sup>39</sup> The role of transportation in China is important for the

economic development, but also to consolidate the unity of the Chinese nationalities. Ninety-three percent of the Chinese are Han, while 55 minority nationalities live scattered over a vast area. Without sufficient transportation, it is easy to see that minorities may become jealous of the majority who is concentrated in an area with relatively sufficient transportation.

In the economic sector, the lack of transportation causes a great difference in the prices of goods. Whereas producing costs relatively little, goods become very expensive when they have to be transported from the cities to the remoter areas. This increases the economic difficulties for people living in poverty-stricken areas. Compared to the situation 40 years ago, transportation has developed enormously. The transportation network increased from 259,000 km in 1952 to 1,274,000 km in 1981. The freight transportation increased 15.9 times, while passenger transportation increased 10.1 times.

#### **5.3.2.1. Train Transportation**

Although every year 53 % of China's travellers and 70 % of China's goods are transported by train, there is still a large gap between the responsibility of the railway and its actual ability to bear it. Though major arteries may shorten the interval between trains to eight minutes only, the Chinese railways are able to handle only 30 - 40 % of the freight volume that China's national economy demands, which has slowed down China's progress towards modernisation.<sup>40</sup>

To do something about this situation, 11,000 km of new railways have been built between 1991-95, totalling 60,000 km since 1949. The completion of the Beijing-Kowloon Railway in 1995 and Beijing West railway station have attracted much attention. The government had used 40 billion yuan or US\$ 5 billion for the project Beijing-Kowloon. Most of it came from the central government, and local governments plus foreign investors. Although several major projects have been put into use in the past five years, China is still far behind many developed countries. In the next five years the Chinese will speed up the construction of railway networks with another 10,000 km; and raise the speed from the present 48 km/h to 140 km/h.

In order to increase railway transportation there are a number of projects that will be constructed in the next 15 years (until 2010). One of these is the Nancing-Kunmin Electrical



Railway, 898 km long, approved by the government in 1990 and which has been finished in 1997, with a total investment of 6.5 billion yuan.<sup>41</sup>

#### **5.3.2.2. Highway Transportation**

Highways are used primarily for the transportation of people and the distribution of commodities. However, they are essential to forge relations among the people and to improve economic development. In 1949, China had only 75,000 km of highways, most of them cobblestone roads. Since then (until 1995) the network of highways grew to 1.14 million km, including 109,000 km of national highways, 160,000 km of provincial highways, 350,000 km of county highways and 370,000 km of village roads. National highways are the main arteries of China's overland transportation (Fig. 12).

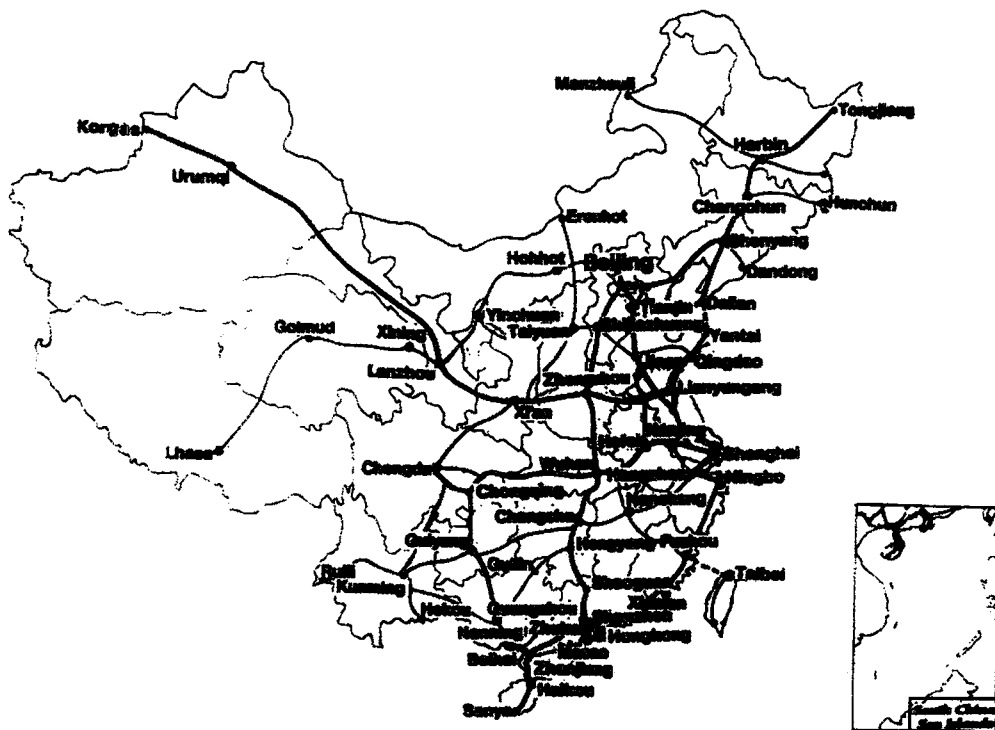
The highways were constructed in three periods: the first was between 1950 - 1957, during the First Five Year Plan. The second was in 1958-1980, with a rapid popularisation of highways throughout the country. The highway mileage increased from 254,000 km to 888,000 km, and 90 % of all townships and counties were made accessible by road under the influence of the 'Great Leap Forward' and the Cultural Revolution. The third period started in 1981, when the "Four Modernizations" began. The construction of highways improved with a better road quality. High-grade highways and expressways were built in the remoter areas.

Since the implementation of 'Reform and Opening' in the 1980s, along with the transition from a planned economy to a socialist market economy, traffic was made possible between different cities and between rural and urban areas, between the east and the west and between the north and the south. This resulted in a sharp increase in demand for medium and short distance travel, small-scale freight transport and a large increase in passenger flow as well as a steep rise in highway traffic. Due to poor road conditions and mixed traffic with various vehicles, the average speed on certain sections is no more than 30 km/h. Traffic has become an outstanding bottleneck hindering economic development and improvement in the people's living standards. China's communication bureaux have shifted emphasis to the economically developed regions with urgent traffic problems, constructing and renovating roads radiating from economic centres and coastal areas to neighbouring and hinterland areas.

In addition to the increase in traffic, highways connecting energy bases, harbours and large and medium-sized cities, tributary roads to railway arteries connecting economic zones and

Fig. 12 Map of China's National Highways

Fig. 12 Map of China's National Highways



important townships, and tourist highways and roads to poor areas have to be built or renovated. A certain number of expressways will be constructed according to necessity and feasibility.

Today, highways in China are no longer the cart roads they once were. They have become fully facilitated, with smooth surfaces, clean, and with neat traffic markings. Highway construction still lags behind the sharp increase in transportation volume. The central authority has developed a mammoth long-term-plan for enhancing the country's communication network. The plan covers the construction of highways, waterways, and important and relevant safety systems. In 1990 construction was started of a highway network of 12 national arteries totalling 35,000 km between Beijing and all the province capitals, major cities (with a population of over one million), minor cities (with a population of over 500,000). The network will be completed in 2030<sup>42</sup> (See map of China's National Highways, Fig. 12).

#### **5.3.2.3. Development of Communication**

The Chinese government has paid special attention to improving communication to fulfil domestic needs as well as to facilitate international communication in the framework of the open-door policy. In 1949, there were only 20,000 post offices in China, of which only 400 in rural areas. In 1981, the situation had changed drastically, with 6.6 times as many post offices and 2,455,000 telephone connections. 90% of the Communes have telephone connections and 876 cities have access to international communication. To speed up the communications network in China, in the year 2000 1.6% of the people will have a telephone. Of the 76 counties in Tibet, 51 will have telephones within a short time. In Shandong, on the East Coast, 50 % of the people will have telephones in their homes. The enormous increase in communication by radio, television by satellite, is a revolution in the Chinese communications system. However, the extent of the success differs per area.

### **5.3.3. Science and Technology**

For a large country such as China, with such an enormous population, the role of science and technology is crucial for its development, especially in agriculture and non-agricultural sectors in rural areas. Moreover, in view of the open-door policy, China needs a scientific and technological programme to join in international economic co-operation and to be able to compete internationally. If it fails to develop its science and technology, China will be doomed to stay behind the developed countries.

#### **5.3.3.1. Education**

To lay a sound foundation for science and technology in China, a good education system with an adequate programme is a prerequisite. The socialist educational system has reached an outstanding achievement in education since 1949. According to an official report, it has been basically established and great progress has been achieved,<sup>43</sup> and a contingent of more than 10 million teachers been formed. In the 1980s especially, educational reform was gradually implemented, including planned phasing into compulsory nine-year education. Vocational and technical education has made considerable progress. The number of students in secondary vocational and technical schools is more than 50 % of the figure of senior middle schools. Higher education has developed fairly quickly. The number of students at institutes for higher learning and colleges for adults has reached 3.76 million. Adult and ethnic minority education in rural areas with local governments assuming overall responsibility and authorities at different levels participating in management has achieved remarkable results.

The integration of education with science and technology and agriculture is beginning to show great vitality. International educational communication and co-operation have also received extensive promotion. However, China's education still lags behind that of the world community and is incompatible with the acceleration of reform, opening-up, and modernisation. Achieving the modernisation of industry, agriculture, science and technology, and national defence, is a prerequisite. Directing economic construction onto the track of scientific and technological progress, and achieving an overall improvement in the quality of workers depends on education.

The programme of education starts from the point that, in 1993, the situation of low economic efficiency and the lack of product competitiveness of Chinese enterprises has remained unaltered, a general spread of agricultural technology is difficult, valuable resources and the natural environment have not been sufficiently drawn on and protected; and the population growth has not been efficiently brought under control. The low quality of workers' skill is one of the most serious problems. Thus, China's only option in the realisation of socialist modernisation is to develop education, enhancing national standards and turning the heavy burden of a huge population into a human resources asset.

The programme also indicates that the present world political climate is in a state of flux. International competition is becoming ever more intense while science and technology are developing rapidly. Global economic competition and the race in overall national power are in essence a contest of science, technology, and national quality. Whichever country attains higher standards of education, geared to the 21st century, will occupy an advantageous strategic position in international competition in the new century.

#### *Meeting the Demands of Economy and Social Development*

Junior and senior secondary school graduates who fail to enter schools of higher learning will receive varied years of vocational and technical training to make sure that anyone joining the work force has had the necessary education and training. The higher professionals trained by institutions of advanced education will meet the demands of economic, scientific-technological and social development. Illiteracy among the young-middle aged will be reduced nation-wide; ideological, cultural and professional skills of people will be raised through vocational training; nine years of compulsory education will be implemented; and it will be guaranteed that all school age children can enter schools, and dropping-out will be prevented as much as possible. Most of these measures are directed towards the rural population.

#### **5.3.3.2. Science and Technology in Rural Areas**

For the purpose of a long-term national programme, science and technology will be introduced in rural areas. By the end of this century, several hundred million farmers will have changed their occupation from farming to other trades, without having moved to urban

areas. Wang Hu Jilong, author of 'China towards the year 2000' wrote that science and technology are going to be the most active and dynamic factors behind these earth-shaking changes. Several million township enterprises will emerge in rural areas. They will not only engage in traditional industrial production such as the processing of agricultural and sideline products, construction, foodstuff transportation, and mining, but also in high-tech and newly emerging industries such as the bio-engineering and micro-electronic sector. Both agriculture and industry will develop rigorously in the rural areas. The difference between town and country will become less distinct. Particular emphasis will be laid on rural occupation, small and medium-sized enterprises, township enterprises, and the tertiary sector.

Technology in rural areas will increase under the market competition system. As an example we may take a look at the development of Xianjiang-Wenzhou-Wenzhou county in the Jiangsu province, where the production of plastic shoes has demonstrated the possibilities of technology in non-farm enterprises. In Linzhi county (Wenzhou) 15 % of the households are working in metal production.

The development of science and technology in China's agriculture has accounted for more than 30 % of the growth in agricultural production. The breeding of new cultivars and the popularisation of good seeds have always taken up an important position in China's progress in science and technology. Raising the yield of crops has also been very effective. In the period, 1949-1994, China developed more than 5,000 new cultivars in 41 kinds of agricultural crops. China has been world leader in the breeding of fine paddy rice seed. The popularisation of hybrid rice has greatly contributed to the country's increased production of grain. In 1994, hybrid rice accounted for half of China's paddy fields and over 65 % of China's rice output. The total area cropped with hybrid rice has exceeded 160 million hectares, to which the additional 240 million tons of rice produced in 1994 were attributed, an average of 1.5 tons per ha. Hybrid maize breeding is recognised all over the world. There are more than 400 fine hybrids of more than 20 kinds of vegetables. Chinese breeders have introduced diploid of one rubber tree and polyploid of another and bred a stable polyploid of the rubber plant, thus blazing a trail in this field in the world.<sup>44</sup>

### **5.3.4. Capital Investment**

The most important precondition for the development and modernisation of China is abundant capital investment. The Chinese government, realising this, has first mobilised all domestic sources to accumulate funds, i.e. farmers, entrepreneurs, co-operatives, and state revenue from state-owned enterprises by local and central authorities. Secondly, resources needed to be drawn from foreign countries, in the form of borrowing from international finance institutions, borrowing from governments and inviting private capital to participate in joint ventures in China.

#### **5.3.4.1. State Expenditure**

Gigantic projects needs large capital investments. Because China's domestic resources were limited, the demand for capital could not be met. Moreover, there was the demand for a better living standard for the people. It is understandable that the government policy sought adequate capital abroad. This should mainly be used to transfer advanced technology into increased economic growth.

Foreign capital functioned as an auxiliary to the main source of capital - the domestic one. Due to stagnant industrial and agricultural production in the pre-modernisation period, as well as to chaotic management and enormous enterprise losses, China's state-run enterprises suffered losses totalling 17.7 billion yuan in 1976, more than three times the figure for 1965.<sup>45</sup> In 1994 the Chinese government had a budget deficit for the first time, expenditure exceeding revenue by 770 million yuan. In 1995 the deficit increased to 2.96 billion yuan.

#### **5.3.4.2. Sources of State Revenue**

The main sources of the state revenue are the social products devoted to social funds, the surplus production created by the working people for society. These surplus products were and are the material basis for the political, economic and cultural development and progress in all societies. Another source of state revenue is part of the compensation funds, that is the depreciation of state enterprises, which could be used temporarily as accumulation funds to expand production.

There are also extra budgeting funds, including the funds controlled by the local financial authorities, such as additional taxes, sharing of profits made by state-run industries, etc., income from urban public utilities and funds in the state enterprises. The external funds, which were about 10 percent of the budgeted funds before 1957, rose to about 20 percent from 1958 to 1967, and in the 1980s amounted to roughly 40 percent.

#### **5.3.4.3. Budget policy**

After the blockade by the United States and other countries had been lifted in 1971 and China could take up its rightful place in the United Nations, with the new Reform and Open-Door policy, the way was paved for the influx of foreign investments into China. Nevertheless, throughout it all, China made it clear that it wished to *"maintain its independence, keep the initiative, rely on its own efforts, struggle hard and build up the country through thrift and hard work"*. The government paid special attention to 'obtaining foreign aid' and making use of foreign funds, according to its ability to repay as well as to absorb the imported technology.

From time to time fixed assets increased according to plan. In 1992, the total investment was 758.2 billion yuan, the second highest peak since the Reform and the Opening Up to the outside world. The budget was divided into state-owned enterprises, the collective units and individual investments. In 1993 the investments in fixed assets had increased to 1,182.9 billion yuan and in 1994 1,592.6 billion yuan.

In 1995 a new structure of the budget system was implemented - the Budget Law. The income of the central government decreased because the portion of the local governments had been apart. The state revenue in 1995 was 618,773 billion yuan, while the expenditure grew to 680,917 billion yuan., so the state budget showed a deficit of 66,442 billion yuan.<sup>46</sup> The deficit was caused by extra expenditure to support some counties and townships that were still in a financial crisis, and by some chaos in the financial and economic order. Expenditure still grew too fast, caused by the Budget Law and controlled by the National People's Congress on the implementation of the Central and Local Budget draft. Nevertheless, the Minister of Finance said that the financial work for 1995 was 'very successful' because the financial policy was promoting the pattern of economic growth. It was also successful because of the great efforts that were made to rectify the financial and economic order and



the strengthened financial legislation. Therefore, revision of the tax system was on top of the agenda for 1996.

#### **5.3.4.4. Foreign investment**

The volume of foreign investment in China is rather large and may easily give the impression that foreign funds 'dominate' the whole economic circulation in China. During the first four years of the 8th Five Year Plan (1991-1995) 200,000 foreign-funded projects were approved, 3.66-fold the number of the 7th Five Year Plan. The volume of negotiated foreign investment between 1991-1994 totalled US\$ 306.04 billion, compared to only US\$ 27.12 billion between 1986-1990. The actual amount of foreign investment in that same period was US\$ 75.93 billion - only 24.5 percent. But a completely objective picture of the 'approved figure' and the 'realised figure' can only be given when we have more detailed information, and only then, can we draw a conclusion.<sup>47</sup>

#### *Growing Investment*

Based on 1990 figures, the country's total investment in fixed assets between 1991-1995 was expected to reach 3,890 billion yuan, a figure representing an overall annual increase of 17.9 percent. The actual growth rate is 3.4 percentage points above the planned figure, and exceeds that of the 1986-1990 period by 13.6 percentage points.<sup>48</sup> Investments in state-owned units jumped by 22.9 percent during this period, thereby greatly surpassing the 4.1 percent growth during the previous five years. Investment in energy, transportation, and telecommunication has increased significantly, and has greatly enhanced the nation's economic strength.<sup>49</sup> This is the effect of the budget policy on the national economic development policy. The financial policy in the rural economy will be reviewed below.

#### **5.3.4.5. Budget Policy towards Rural Economy**

Prior to the modernisation, the Chinese government policy gave priority to the development of the rural economy. From 1952 to 1976, the state invested a total sum of 130 billion yuan in agriculture, of which 68.4 billion yuan were appropriated for capital construction - farmland capital construction and water conservancy, equipping agriculture with modern technology, farm machinery, chemical fertilisers and electricity, establishing a network of scientific

research, and increasing the number of agricultural forestry colleges from 20 to 43 in 1976. Summarising the development of agriculture, Zhanbu and Liu Wenbu said 'China's agriculture advances along a zigzag path'.<sup>50</sup> This was followed by a setback in the last period of the Cultural Revolution.

The Ministry of Agriculture in its publication 'Agriculture forges ahead' has given new information about the state budget for agriculture including agricultural infrastructure-, which was 274 million yuan in the 1950s. The amount of agricultural credit balance of the state banking was Ren Min Bi 420 million in 1950. The state's financial allocation to support agriculture in 1978 had jumped to Ren Min Bi 15,066 billion yuan and the agricultural credit balance to Ren Min Bi 11,580 billion yuan. Within thirty years, the state's financial support given to agriculture had increased 54 times; and the agricultural credit 26 times.

Between 1979 and 1993 the total financial support for agriculture in the country reached 331,536 billion yuan and the state bank provided a total of 4,935,309 billion yuan. Financial expenditure for agriculture and the agricultural credit balance of the past 14 years are respectively 2.1 and 7 times as much as those of 30 years before the reform and opening-up policies were launched. As one of the results, the use of fertiliser increased. The increase of the use of fertilisers has also been extremely important. In 1994, China used 33,180,000 tons of chemical fertilisers, which put China among the countries in the world that used the largest volume of fertiliser.

This budget policy enables China to feed its people, the largest population in the world living on a relatively small bit of arable land (compared with the rest of the world).

### **5.3.5. Structural Reform in Rural Economics**

Since the Liberation the old system transformed into the new one, and this development went on until the end of the Cultural Revolution. Since then, the policy of Reform and Opening Up has had a dramatic effect.

#### 5.3.5.1. Why Restructure?

China's rural economy had been restructured several times since the Liberation (1949). These restructurings took place to confirm the relationship between the economic structure and the actual situation, to rectify mistakes, and to consolidate achievements until the goal of social-economic results had been achieved. The current restructuring of the economy in China is precisely such a process, aimed at realising the 'superiority of the socialist economic system.'<sup>51</sup>

In 1976 the Chinese people, confronted with the great task of modernising the country's industry, agriculture, science, technology and national defence, saw the need for the reform of aspects of the relation and the superstructure, such as forms of management, activities, and ways of thinking. The task of restructuring the national economy was raised at the Third Plenary Session of the 11th Central Committee of the Chinese Communist Party at the end of 1978, and at the second and third sessions of the Fifth National People's Congress held in 1979 and 1980. The task is given great importance, though the policy decision on the readjusting, restructuring, consolidating and improving of the economy is centred on readjustment.

The principal problems with the country's economic structure, such as the structural production, marketing, urban construction, local undertakings and expenditures, are not under the control of local authorities. These problems 'lie in the poor handling of the relation between the state and the enterprises' - 'too much state control and too little power in the hands of the enterprises', according to an analysis.<sup>52</sup>

The state enterprises themselves simply have no decision-making power in management at all. In urban collectively owned enterprises the means of production are collectively owned, but in reality they are at the disposal of local state departments in charge, which treat them as state enterprises. They can readjust them, merge them with others, and change their lines of production although the enterprises carry out independent business accountings that are responsible for the enterprises' losses and profits.

### **5.3.5.2. The Rural Economic System**

Similar things have happened to the collective ownership of the rural People's Communes (PCs) which operate on three levels of ownership with the production team acting as the basic accounting unit. The independence of the PC at different levels, particularly at the production team level, should have been respected and maintained. Only, according to Ju Guang, that was not the case, 'it was up to the local departments in charge to decide on such production-team-matter as what and how to grow, even how to space their crops, when to sow, when to irrigate, when to apply fertiliser and when to harvest.'<sup>53</sup>

The rural economic reform produced two things: (1) The creation of the economic household responsibility system (contract system) and (2) The stimulation of sideline production to increase non-agricultural production, followed by township enterprises. All this has given more responsibility to the farmers; they work harder, and have higher incomes. The specialisation of agriculture, after it had been separated from political tasks, made agriculture grow rapidly with the intensifying of the work for grain production, forestry, animal husbandry, fishery and other things according to the local conditions. Thus, the farmers not only increased the grain production, but also the production of various other local resources.

Township enterprises are run by townships, or villages combined households or individual households in rural areas. In the course of ten years, township enterprises developed from early handicrafts and agricultural products processing industries into a large-scale processing industry of agricultural and sideline products, industrial construction, transportation, and commerce and service trade. In 1987, there were 17.5 million township enterprises in China. To stimulate the present enthusiasm in developing a local commodity economy and to promote the development of productivity, township enterprises have changed the collective ownership into a more flexible system, representing a multi-style economy with mixed elements such as co-operatives, combined households and individual household management, Chinese-foreign joint ventures and Chinese-foreign co-operative business operations, with public ownership playing the leading role.<sup>54</sup>

### **5.3.5.3. Creating New Structural Forms**

Since the new experiences in rural economic development, the rural people have created some initiatives to elevate the rural economic development to a higher level, greater quantity,

and better quality. Some of them have been legalised by the government and put up as models for the national economic development. The government granted management autonomy and the conversion into market oriented organisations. This transformation of management mechanism will be the focus of China's economic restructuring since 1992, said Li Peng in a national conference on economic restructuring.

After drawing the lesson from the previous economic reform, the Chinese mobilised all the possibilities of vertical-sectoral development of the rural economy and 'regional co-operative development' such as the Torch programme and Agricultural, Industrial and Commercial Corporations (AICC).

### *1. Torch Programme*

The Torch Programme deals with the commercialisation of technical enterprises. The State Council in 1988, seven years after the establishment of the 5 Special Economic Zones and 14 Coastal Port Cities approved the programme. The implementation of the Torch Programme is under the supervision of the State Science and Technology Commission. The programme is designed to promote commercialisation and industrialisation of new high-tech achievements. Within 5 years the State has succeeded in establishing new and high technology bases and development zones at various levels. It has resulted in a boost of scientific exploration in inland areas and coastal areas with greater economic and technological development.

The Torch Programme focuses on the following industrial sectors: new materials, biological technology, electronics and information processing, new energy, and high efficiency energy-saving devices and environmental protection. A Torch Programme must produce products which meet a number of requirements, including having a high technological level, high added value, a promising market potential, high input-output ratio and the capability to fill a void in the domestic market or replace products imported from abroad.

With facilities and preferential policies of the government, the Torch Programme has spread widely. A great number of enterprises and Scientific Research Institutions have shown increased interest in the Torch Programme. At present programme-related projects can be found throughout China in all provinces, municipalities, and autonomous regions. Shanghai alone, China's largest industrial city has 283 Torch Projects, including 48 state-level projects. Total investment has grown to 890 million yuan. The recent estimates are that completion of

these projects will result in increasing the country's output value by well over 3 billion yuan. The projects are expected to earn profits and taxes of over 685 million yuan and create foreign exchange savings of US\$ 223 million annually.

The response from enterprises and scientific and technological circles was overwhelming and an increase in the number of units applying for Torch Programme projects was recorded. High-tech development zones, which have provided an extremely important base for implementation of Torch Programme projects, have gained a greater importance in many cities. In 1991 and 1992 alone, the State Council approved the establishment of 52 state-level high-tech industrial development zones that have become high-tech industrial bases.

The Torch Programmes have proved to be a new structural form of economics in the individual sector to increase high technology, which is of the utmost importance for the economic development of China as a whole.

## *2. Agricultural, Industrial and Commercial Co-operatives (AICC)*

The AICCs were introduced as co-operatives in the new economic structure in a united campaign of different trades at the level of villages and townships. During my stay in China in 1993, I visited three AICCs – in the Jiangxi province, the Fujian province and in a Beijing Suburb. They are organised in corporations for selling their products and purchasing their needs. Each of them has a specific focus in their daily activities. I will describe them briefly in order to examine the policy in practice

1. **Sunwai Village, Jiangxi province** Sunwai Village has taken up the challenge of the small-scale peasants' economy. They have developed the well-planned socialist commodity market, have made great efforts to build rich and 'highly socialised' new socialist villages with distinctive economical and moral Chinese features.

The village is situated near Nanchang City, the capital of the province. Since more and more arable land has been taken over for urban construction, they have been facing the acute difficulties of a decreasing volume of arable land and a steady increase in their population. The village is displaying the spirit of self-reliance and

hard struggle. Its goals are to serve the city and to enrich the peasants. It has become an important supplier of the city's needs. The people believe in the 'superiority' of the socialist system.

The tremendous historical changes in Sunwai Village, which was reformed in the 1980s, are aimed to rid the village completely of poverty and to 'successfully follow the road of prosperity and happiness'. Sunwai Village has not only taken up vegetable production, but has also put more village labour and funds into livestock raising, fishery, sideline production, industry, commerce, transportation, communication and service trades. It has implemented the multi-management policy by combining agriculture, industry, and commerce in one entity so that the three enterprises can keep pace with the daily use and seek profits by conducting some other trades. All together, there are 3000 staff members and workers. It has 24 affiliated organisations. The companies and factories manufacture more than 500 kinds of products (pharmaceuticals, soda water, and processed food). The output value exceeded a hundred million yuan. All the companies' products sell well on markets in the USA, France, Southeast Asia, and Hongkong - more than ten countries and regions.

The Sunwai Village AICC attaches special importance to the quality of products and abides faithfully to the contracts. The company is willing to establish extensive economic relations with people of all occupations and of the same trade. They have relations with compatriot Chinese in institutions in Hongkong, Macao and other countries. Sunwai Village launched its action under the slogan 'Three lai, one bu' – (three 'yes', one 'no') meaning that they (1) welcome material to be processed, (2) accept samples for processing and (3) accept spare parts to be assembled (=three yes); and one no - they do not make up for deficiencies.

Proceeding from its actual condition, Sunwai Village has been making a marked progress as a new model on village level.

2. **Hongshan Village (Fujian province)** Before 1978 Hongshan Village was unknown. Its total output value was merely 9,120,000 yuan. In 1991, this infertile village became full of vigour and vitality. The people set up an evergreen vegetable garden

and prosperous enterprises. They have achieved remarkable accomplishments. In 1990, the village was cited as a 'ten bad village countrywide'. Now they attract visitors from all parts of the country for the refined and prepossessing appearance of the village. It has been named the 'Flying Phoenix' and received awards from the Great Wall of the People for their progress. Hongshan Village is located at the western outskirts of the famous historical and cultural town of the East Sea Coast - Fuzhou City, the capital of the Fujian province. There are nineteen administrative villages. It covers an area of 24 km<sup>2</sup> and has a population of 26,000.

At present, Hongshan Village has more than 20 preliminary-approved enterprises. In 1991, the annual output value reached 118,000,000 yuan. The main products are pectin enzyme '851', oral liquids and other serial products, Jiuli Oil, goggles for the electric welding stove that darken automatically by electronic cassette, dark boxes, nucleic acid and laser therapy machines. These are all products of light industry.

An administrative committee was formed, composed of some leaders such as the Committee members of Science of Fuzhou City and District, Fuzhou University and Provincial Goods and Materials, Purchasing Bureau and some other individuals such as several experts and professors. This organisation has taken the state policy as its basis, using traditional industry as the foundation; colleges, universities and scientific research units as supports. It has taken measures to introduce and advance things from abroad and join them to related units at home. It is an organisation that collects its own funds, with free managing of businesses, assuming sole responsibility for profits or losses, and with much self-development and self-restraint.

The garden-like district has chosen to emphasise electronic information, biochemical drugs, new materials, and the organic technique of fine chemical industry and light mechanics and electricity. By the end of the 20th century, the 'Flying Phoenix' will have a transitional corporation on international economy and a drive to export economy.

Hongshan Village encourages its young people to take part in education and activities. Regulations have been issued on the professional policy of Home Associates and talented persons and projects are referred to foreign introduction. The policy actually



is the urbanisation of the village, or getting the 'village' to do more urban activities. Statistics of Hongshan Village are not available. Nevertheless, the provincial role in the economic sector is very strong. The total output was 2.8 times that of 1949. Now the industrial output value is more than half of the total provincial industrial and agricultural output value.

The economic background history of Fujian has had a strong influence on the development of Hongshan Village. Fujian province developed marine transportation with foreign countries. After the Opium War (1840) treaties forced Fuzhou and Xiamen to open as trading ports. Now Xiamen is one of the Special Economic Zones and Fuzhou is one of the 14 coastal Cities. They have close relations with Taiwanese investors.

In 1987 the rural economy of Fujian province increased in an all-round way. The industrial production increased steadily and the economic efficiency was greatly improved. The provincial agricultural output value totalled 13,297 billion yuan, accounting for 33 % of the province's industrial-agricultural production. Thus Fujian has entered the industrialisation period with promising perspectives. The situation around Hongshan Village also influences the development of the village. As it is a coastal province, Fujian's fishery is well developed. Fujian has not only several hundred km<sup>2</sup> of inland water areas, but also 136,000 km<sup>2</sup> sea fishing grounds. Especially by the zigzag coastline where the sea floor is flat, the water is rich in nutrients and is suitable for growth and propagation for various kinds of plankton. Fujian has more than 600 varieties of fish, more than 100 fishing ports, large and small. The 1950 fish output totalled 70,000 tons only; in 1987, it had increased to 982,000 tons (14 times).

Seawater cultivation is developing rapidly. Propagation grounds for shellfish have been set up in the shallow waters along the coast. The coastline is 3,300 km long, there are 1400 offshore islands, and 15 km from the city there is Mawai Port, a foreign trade port. The harbour has a capacity for 10,000 vessels of the class berths and smaller. Xiamen, a Special Economic Zone, belongs to this province. This island has close relations with overseas Chinese in Southeast Asia and other parts of the world, which have given support to the Chinese economic development especially in

Fujian province. This is a good environment to support the development of Hongshan Village. This is one of the differences with Jiangxi province, which does not have these advantages as it is situated farther from the coast.

3. **Luguo Jiao Township (Outskirts of Beijing)** Luguo Jiao was formerly named Marco Polo Bridge. It is currently in a situation of transformation from township status to becoming part of Beijing. Some years ago Luguo Jiao was a village on the outskirts of Beijing but since the changes after the reform of 1978, it is becoming part of the city of Beijing. This township is a highly developed model of economic development. The economic activities are co-ordinated in an AICC. The area covers 54 km<sup>2</sup> on which one finds Western Beijing Railway Station and Feng Railway Station, both listed in the 8th Five Year Plan (1991-1995). There are many very convenient transportation facilities, i.e. the railway lines Beijing-Guangzhou, Beijing-Shanghai, Beijing-Taiyun and there are highways around the city. There are also the highways from Beijing to Shijiazhuang, Beijing to Zhoukuotian and over 20 bus lines. One may say that Luguo Jiao has changed from a township into an urban area. When I visited this project I could see the results of this transformation and observe the economic activities in a higher developed rural economy.

In this area there are more than 100 large and medium-sized state-owned enterprises and institutions, such as Beijing Heavy Duty Electrical Machinery Plant, Xuan Da Elevator Co, Ba Yi Film Studio, Studio of the People's Liberation Army, as well as residential areas such as Maliandao, Taping Jia and Berdati, with about 300,000 residents. As Luguo Jiao is now more like a city than a township, there are differences with Sunwai Village and Hongshan Village.

Luguo Jiao has a special economic structure to co-ordinate agriculture, industry, and commerce in a united Corporation in a modern way. There are 12 Special Trade Companies under its management, such as

- Agricultural Company
- Industrial Company
- Commercial Company
- Supply and Marketing Company

And a lot of firms attached to the corporation, with a total staff of 70,600, more than 20,000 ha of cultivated land and 300,000,000 yuan in fixed assets.

There is plenty non-staple food such as vegetables, pork, eggs, fruit and fish for the people's daily needs. There are more township enterprises, 20 high and new technology enterprises mainly producing transport machinery, automobile fittings, building material, electronics, chemicals, pharmaceuticals, optical cells, garments, food, furniture, plaster, arts and crafts, printing, hotels, restaurants, storage facilities, special railway lines, etc. An area of 17 km<sup>2</sup> of this corporation is part of the municipality of Beijing, with high and new technological industries development. The region enjoys the advantages of the policy of tax reduction or remittance. The income value of the corporation amounted to 730,000,000 yuan, and profit tax 160,000,000 yuan; 21 % of the 1992 profit tax.

Various enterprises consist of joint ventures with foreign enterprises. In 1993, one could see the progress of the economic development in all three AICCs that I visited, only at different levels. This is certainly one of the positive aspects of the restructuring where the power has been transferred from the central authority to the management of the townships.

However, it is most likely that the delegating or sharing of power between the central authority and the management of the township is insufficient. The most important factor on which the success of all this rests is the moral factor of humans both in government and in enterprises. For instance, corruption can be found anywhere, whether communist or not communist. Both in China and in western countries corruption and abuse of power exists alike. The law is broken all over the world by those who are corrupt. Perhaps a good moral could change this.

Those three examples of local economic units after restructuring and expanding Village Township Enterprises (VTEs) show that they play an important role in augmenting not only production output but also in improving political consciousness to the people's needs. They are also important to the increase of scientific and technological skills of the labour force and to the reduction of the differences between rural and urban areas in a wide sense.

The conclusion one may draw from these three examples:

VTE models can be used as prototypes to further the development of VTEs in China.

1. VTEs can take the initiative to improve their own enterprises in an expanding condition and specialise in various trades.
2. The VTEs should not only improve the peasants' experience in farming but also build factories producing commodities for foreign trade.
3. The developed VTEs could expand their activities to develop science, technology, and applied science, to co-operate with foreign investors, and to use their experience for development at a provincial level, as can be seen in Hongshan Villages.
4. VTEs are meant to become modern, urban cities, enjoying urban facilities, and opportunities, like Beijing capital with the Luguo Jiao experience.

All these three models demonstrate their own specific character and they can be used as prototypes for improving and modernising VTEs across the country.

### **5.3.6. Rural Economy and Foreign Trade**

China's rural economic development is not isolated, only for the domestic market, but it relates closely to the international market. It entails the export of domestic products and the import of foreign goods, such as to support the national economic development optimally, especially in the form of advanced technology or mutually benefiting capital investments. This chapter will review the general development of China's foreign economy and trade.

#### **5.3.6.1. General**

The development of Chinese foreign economic relations and trade has been divided into two periods. The first phase covers the transformation and the readjustment of the national economy with foreign economic relations and trade, laying the foundation for the development in the second phase: After 1950 the situation changed, but the development was very slow. At that time, the only foreign relations were with the Soviet Union and some east European countries. In 1960, the Soviet government unilaterally decided to withdraw all the 1390 specialists then working in China. The 343 specialist contracts and technical co-

operative projects suffered enormous damage. The second phase is the normalisation of China's relations with the world and its effect on international economic relations and trade since 1970

With self-reliance as its basic prerequisite, China has always attached importance to the import of new technology. Emphasis was placed on the import of complete plants. Between 1952 and 1977 some 706 items of new technology and complete plants were imported, most of them from the Soviet Union and other East European countries.

In 1972, the United States normalised the relations with China, and the embargo, which had been in existence since 1950, was lifted. This marks the beginning of the resumption of relations with western countries. Between 1972 and 1977 China imported huge chemical fertilising equipment from Japan, West Germany, Britain, France, Holland, the US and other countries. This equipment was needed badly for the development of the Chinese agriculture. In addition, petrochemical installations, power-generating machines, coal cutting machinery, oxygen-making equipment, data-processing equipment, refining equipment, and other equipment were imported. They were all needed for China's economic development.

Importing such technology increased the volume and value of the exported goods. After 1977, China's economic relations with foreign countries grew. In 1975, the figure of foreign trade reached 14.75 billion US\$. It soared to 29.39 billion in 1979, up 42.4 % from 1978. In 1980 the total trade volume reached 37.82 billion US\$, of which the exports amounted to 18.27 billion and the imports to 19.55 billion US\$.

In 1976, China traded with 160 countries and regions. The number grew to 174 in 1980, 88 of which are committed by agreements or protocols. Trade between China and Japan occupies an important position in the economic life. Western and Northern America is China's second-largest trading partner. Sino-EEC relations were officially established in 1975 when China appointed an ambassador to the EEC in Brussels. In 1978, China and the EEC signed a long-term trade agreement. In April 1978 a 5 years textile agreement was initiated. In 1980, the EEC granted general preferential treatment to China, creating favourable conditions for the expansion of bilateral trade. The trade was worth 5.08 billion US\$ in 1979, an increase of 54.3 % over the figure of a year earlier.<sup>55</sup>

The Chinese-American trade relation marked the resumption of China-US trade since the signing of the Shanghai Communiqué in 1972, ending the disruption of more than 20 years. In that year trade between the two countries was less than US\$ 100 million, accounting for only 0.2 % of China's total volume of foreign trade. This increased to US\$ 260 million in 1978. The establishment of diplomatic relations in 1979 and the visit of Deng Xiaobing to the US, and the formation of the Sino-US joint Economic Committee in May of that same year, provided other stimuli for the bilateral The Sino-US agreement that came into force on February 1, 1980. In this agreement the two sides grant each other 'most favoured nation' treatment

### 5.3.6.2. Foreign Trade and Modernisation

In 1980, trade relations had been expanded into regions in Asia, Africa, and Latin America. The trade volume had been growing steadily. Chinese trade with the Soviet Union and the Comecon (excluding Romania) between 1977 and 1980 remained roughly at the level of 500 million US\$. Hongkong and Macao are of special significance for trade with the mainland of China. Hongkong is the largest source of foreign currency and the largest port of transit for Chinese export commodities. The Hongkong and Macao markets became all the more important to China's exports because deficits frequently appeared in trade with other capitalist countries. In 1984 China obtained one third of its foreign exchange earnings through exports by way of Hongkong, about half of the Chinese commodities from the mainland of China to Hongkong are in transit to other countries and regions. In the same year of 1980 the geographical distribution of China's Foreign Trade Value was as given in Table 18.

Table 18      The Geographical Distribution of China's Foreign Trade Value		
<b>First World</b>	<b>US\$</b>	<b>5.25 billion</b>
United States' share	US\$	4.70 billion
<b>Second World</b>	<b>US\$</b>	<b>18.57 billion</b>
Japan's share	US\$	8.96 billion
EEC share	US\$	4.97 billion
<b>Third World</b>	<b>US\$</b>	<b>8.2 billion</b>
Hongkong, Macao	US\$	5.18 billion

The sum total of trade with the First, Second and the Third World plus Hongkong/Macao is US\$ 37.23 billion. This is a good start for capital expansion.

#### **5.3.6.3. Utilisation of Foreign Funds**

Foreign countries have seen that the Chinese management of its economic development is serious and credible. China has invited foreign capital. Although China has a huge population, its economic foundation is poor and per capita income is very low. Raw materials are cheap and labour is cheap. Businesses in China will achieve positive economic results. Foreign business will provide China with an opportunity to acquire the use of foreign funds.

The Chinese government established the State's Foreign Investment Commission and the China International Trust and Investment Corporation (CITIC) in large cities in China. Institutions such as the Commission for Control of Import and Export Affairs, the Ministry of Foreign Trade and the Bank of China have also strengthened their work in using foreign funds. The National People's Congress has establish some relevant laws, among them: The Law of Joint Venture (1979), the Income Tax Law Concerning Joint Ventures with Chinese and Foreign Investment (1980), the Individual Income Tax Law (1980) and other detailed implementations of the law concerning joint ventures of Chinese and foreign investments.

There are three **types of foreign funds** used in China: financial credit, commodity credit and direct investment. Financial credit can be divided into two types: export credit, provided to large state or private banks, and government credit, which is chiefly the loan provided to China. The second, commodity credit, is primarily credit used in compensatory trade and certain processing and assembling businesses. The third type, direct investment, includes joint ventures and enterprises with sole foreign investment.

**Imported advanced technology.** From 1950-1980, China imported technology of a total value of 27 billion US\$. About 60 % of the annual increase in output value in the 1980s was achieved by the use of imported technology. The imported advanced technology included metallurgical equipment, machine construction, motor machines, coal mine equipment, aeronautics, telecommunications, chemical industry, precision machines, generator energy equipment, universal machines, shipping construction, television manufacture, software technologies, transport equipment, etc.

#### **5.3.6.4 Foreign Debts**

At the end of 1989, China's foreign debt balance amounted to US\$ 43.1 billion, with a funded debt balance of US\$ 37.03 billion and an unfunded balance of US\$ 4.27 billion<sup>56</sup>. Eighty-two % of the existing foreign debt (of US\$ 40 billion<sup>57</sup>) are medium and long-term loans. Short term loans account for 18 %. According to the official information 'there is no problem' with regard to the nation's ability to pay back both the principle and the interest on foreign loans, as was demonstrated during the 'Asia crisis' on the financial markets in 1997.

These foreign economic relations, foreign trade, co-operation, investments, and loans have played an important role in boosting the agricultural development and the development of the VTEs. It means a mutual benefit to both China and foreign enterprises. China has benefited in economic growth with foreign capital, advanced technology, and skills. On the other hand, the foreign investors have entered a new market, with low prices, low wages and an enormous market for their industrial products. This is based on Deng Xiaobing's theory of 'using momentum'.

#### **5.3.6.5. Rural Economics and Foreign Trade**

The party's rural economic policy released the peasants' enthusiasm for production and increased the supply of farm and subsidiary products. The system of sharing foreign exchange earnings among producer areas and departments in proportion to the export volume provides an incentive to them to explore and promote external economic activities such as processing and assembling for foreign customers. Compensatory trade and joint ventures are a new trail to expanding business, improving management and meeting the changing demands of the market. This will also help China to learn all about advanced technologies and modern methods of management.

#### **5.3.6.6. VTEs (Village Township Enterprises) and Foreign Trade**

The huge growth of China's foreign economic and trade sector can be partially attributed to the tremendous contribution made by township enterprises. Statistics indicate that the value of export delivered by VTE's in 1994 reached 339.8 billion yuan with their foreign exchange earnings, surpassing one-third of the country's total exports. Chinese township enterprises



held a dominant position in the export trades such as clothing, handicrafts, hardware, the export of light industrial goods, textile and building materials.

Export oriented township enterprises are regarded as the most vigorous points of growth and an important new force in Chinese foreign trade. During the period 1991-1995 (8th Five Year Plan) the volume of exports by township enterprises increased at an annual average rate of 40 %. This development trend indicates that the share of export-oriented township enterprises in China's foreign economic and trade sector will become increasingly larger.<sup>58</sup>

Moreover, China's VTEs have been engaged in international trade for a relatively short period of time, yet they have developed rapidly, consolidating and expanding their share in the international market. This lies mainly in the fact that in an environment of reform and opening-up township enterprises have given full play to their own strong points and firmly seized every opportunity for development.

#### **5.3.6.7. VTE's Strong Points**

Many people are surprised about the rapid developments in China's rural economy, but it is obvious that the Chinese have seized every opportunity for development. Some of these opportunities are:

- (1) Exploiting the strong points of China's expansive rural land and rich natural and human resources; developing the export-oriented economy by seizing the favourable opportunities offered by developed countries and regions which are shifting their labour-intensive industries to developing nations.
- (2) Developing the export-oriented economy by making the most of the advantages of township enterprises. These are born in an environment of a healthy market economy and various production factors including raw and semi-finished materials; and their existence, development, and improvement depend on the market.
- (3) Some large and medium sized township enterprises in eastern coastal areas are developing the export-oriented economy by fully exploiting their abundant economic strength and their advantages in technology, equipment and products. Quite a number

of township enterprises have grown into large and medium-sized enterprises that can compare favourably with the state-owned enterprises.

#### **5.3.6.8. Diversified Foreign Economic Resources**

China has mobilised all its economic resources in order to increase the foreign trade results. The opening-up has clearly influenced China's economic development. Besides the large scale national economic foreign trade, rural economies, VTEs, and other specific relations have been created after the modernisation. China has 5 Special Economic Zones, which have played an important role in attracting the foreign investor.

#### **5.3.6.9. Border Trade**

Alongside the border, the local people have developed trade relations from its most traditional form (barter system) into modern trade relations. Opening this border to trade changes the isolated environment of the ethnic minorities living there. Over 20 ethnic minorities in the border areas belong to the same racial groups as the people in neighbouring countries or areas. They not only have identical spoken and written languages, customs, religious beliefs and festivals, but also many marital relationships.

From Junnan province in the southwest of China to Heilungjiang in the northeast, many minority groups are living in areas directly bordering on other countries. The central government designated **border trade zones** where local and overseas traders could freely engage in business in 27 counties and cities. To date, along the Sino-Myanmar, Sino-Laotian and Sino-Vietnamese borders (over 3000 km), 17 ports and over 90 outlets have been opened to Southeast-Asian neighbours. The Guangxi-Zhuang Autonomous Region has lifted all border custom posts and repealed restrictions not allowing Vietnamese border business people to exceed a 20 km limit from the border, but permitting them to enter seven border counties and cities.

Border trade between the Tibet Autonomous Region and Nepal has been flourishing. In 1991, a small Tibetan border town received 3000 trucks from Nepal with a total value of trade amounting to 180 million yuan. In 1992, the Chinese and Indian government signed an agreement to open border ports, resulting in a restoration of the traditional border trade. For

further development the autonomous regional government has set up border trade areas and economic development zones in 10 border counties.

In the Xinjiang Uighur Autonomous Region live Uighur, Hui, Kazhak, Kirgiz, Xibe, Mongolian, Tajik, Usbek, Tartar, Russian and other ethnic groups, beside the Han nationals. The opening of rail transportation from Urumqi, capital of Uighur, to the Alataw Pass, provides a link with the second European Transport Corridor, which goes from Lianyuangang in the Jiangsu province (east China), to Central Asia and Western Europe. It is important for the economic relations and cultural development of the people living in the border areas.

Xinjiang Uighur Autonomous Region has opened 11 border inspection stations and 30 border 'barter markets' such as Taxorghon Huor and Balato. Border trade in Inner Mongolian Autonomous Region is the latecomer, surpassing the old, along a border over 4000 km. It has opened 11 land, water, and airports. Technical renovations from Mazhouli and Erenhot ports have raised the transport capacity of the railways. Barter markets have been established. Border towns with favourable conditions have been encouraged by the autonomous region to set up mutual trade markets for residents. In 1992, China and Russia jointly set up a closed mutual trade market area covering 209,000 square meters in the western suburb of Manzhouli.<sup>59</sup>

This chapter has indicated that for a good rural economic development and modernisation China will need a better and more stable domestic economic development and will need to use foreign capital, technology, and skills. On the other hand, the increasing capacity of economic growth and foreign trade will offer good opportunities to foreign enterprises to support the Chinese development programme. In this context, I quote an ABN-AMRO executive Kalf, who said in a seminar in The Hague in 1993 'To be there is less risky than not to be there'.

China's economy-observers will follow the co-operation between western countries and China very closely in the future. China seems prepared to enter the 21st century facing the international powers in many fields, with full hopes, up to the challenge and competition.

## 5.4. Overview

Chapter 5 describes the further development of agriculture in rural areas, the main foundation of China's National Economic Development, with non-agricultural development and modernisation. The increasing number of Village Township Enterprises has demonstrated the growth of rural production, from agricultural processing to rural industrial and trade service in the whole country. The uneven development of the different Chinese regions has emitted a warning to the government to beware and prevent any further negative effects of the situation. The government policy of narrowing the gap between the rich and the poor areas boiled down to their giving special attention to developing the poor areas, using the superiority of the richer east to support the poorer west. On the other hand, the exploitation of the western potential is aimed at supporting the economic development of the central and eastern parts of the country. This mutual support is aimed at increasing the growth of the Chinese economy in volume and quality, and to expand foreign economic relationships and trade with neighbouring countries, especially in Southeast Asia border areas, and the rest of the world.

Proceeding from the concrete condition of local resources, the development and modernisation of rural economics should be given optimal productivity in quantity and quality, by developing energy power and water conservancy, widening the transportation and communications network, the use of achievements in science and technology, and larger capital investment through millions of VTEs in every part of the country. It is important that economic ports and gateways to the rest of the world have been established. This was followed by restructuring the economic units and improving the management and efficiency in agriculture, industry and commerce in a modern form of a democratic centralised economic structure. A solid basis of China's economic development in rural areas will give a stable economic development of China so that it may reach the goals set for the year 2000.

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<sup>2</sup>. Rural development Newsletter July 1992

<sup>3</sup>. Rural development Newsletter July 1992

<sup>4</sup>. China Facts and Figures Township Enterprises

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<sup>6</sup>.Ibid. p.19

<sup>7</sup>.Rural Development Institute Beijing Report of 1994

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<sup>9</sup>. Premier Li Peng, Explanation of Proposal CPC for Economic Development, November 1995

<sup>10</sup>. Mao Zedong, Selected Work V, p.295

<sup>11</sup>. Prospect of Development of Township Enterprises Ministry of Agriculture 1995, p.19

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<sup>28</sup>. Department of Township Enterprises

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<sup>31</sup>. Statistical Year Book 1993

<sup>32</sup>. Report Ministry of Agriculture 1993, p.131

<sup>33</sup>. Rural Development Institute 1994, pp 16-17

<sup>34</sup>. Report on the Implementation of the State Planning Chen Hua, March 5, 1996

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<sup>36</sup>. David Deny, The Chinese Business, July-August 1985

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## PART IV

### RURAL DEVELOPMENT AND FOREIGN RELATIONS





## **CHINA'S BILATERAL RELATIONS**

China's rural economic development is not an isolated matter. It is closely related with developments in urban and international markets. This chapter will introduce China's economic relations with international markets, both in developed and developing countries, as manifestations of Chinese economic prospects. It will focus on China's relations with respectively Indonesia/ASEAN, the Netherlands, Russia, and Japan. Special attention will be paid to the China-US-relations. China is the country with the largest economy of all developing countries, and the USA has the largest economy of the developed countries.

The Netherlands is one of member states of the EU. It is introduced as an example of how a country could support China's economic development with its rich experience and its science and technology, today and tomorrow. China-Russian relations will certainly play an important role in the near future. Japan is the biggest partner of China in economic relations up to now. However, it could be surpassed by the United States in the near future. Many of these relations are important to China.

### **6.1. China-Indonesian/Asean Relations**

The relation between China and Indonesia dates back a long time, at least since World War II. Because the basic historical backgrounds and social economic conditions are similar, the diplomatic relations, which were 'frozen' since 1967, were restored in 1990. During the period 1967-1990 Indonesia's foreign policy, which entailed not accepting Taiwan as separate from the People's Republic of China, the so-called 'One China Policy', never changed.

The government of the Republic Indonesia was one of the first countries to recognise the People's Republic of China in 1950. The two countries became the organisers of the Bandung Conference in which also other Asian and African countries participated. These countries were struggling with international issues, particularly the struggle for decolonisation. Since 1967, the relation between China and Indonesia was 'frozen' because of internal problems in

Indonesia. Relations have been restored since late 1989. Indonesia had already decided to restore direct relations in 1985 and in 1989, President Suharto, after four years of resumed economic relations, decided to normalise the relationship with China. In December 1989, a Chinese government delegation talked with counterparts in Indonesia. Afterwards the two sides issued a joint press communiqué, saying that the relation between the two countries would soon be normalised, and that it would be based on their national security construction and maintaining regional security.

Four years later, Minister of Foreign Affairs of Indonesia, Mr Alatas and his Chinese counterpart, Mr Qian Qichen, negotiated on co-operation in safeguarding and promoting peace and development in the world and especially in the Asian-Pacific region. In economic and trade relations new conditions developed rapidly. The first step towards normalisation was clearly motivated by economic and trade interests. After repeated negotiations and the motivation for normalisation already clear, Indonesia decided to increase its exports of non petroleum products and natural gas, entering China's market. China needed imports of many goods for its economic construction. For nearly four years China directly imported Indonesian goods worth about US \$ 1 billion and trade will further be increased to 1 billion annually. China's exports to Indonesia include soybeans, cotton, corn, coal, and machinery.<sup>1</sup>

The second step of restoration was taken when Mr Ali Alatas and Mr Qian Qichen signed the Communiqué on July 3, 1990 in Beijing, declaring the resumption of the relations. It announced that Prime Minister Li Peng would visit Indonesia. Before signing the Communiqué, President Jiang Zemin met him and expressed his happiness about the successful talks between Alatas and Qian Qichen and assured him that his party would abide by the principle of 'never interfering with other Parties internal affairs' in handling its relations with foreign Communist parties and other political parties.<sup>2</sup>

The two foreign ministers told reporters they believed China and Indonesia had begun a new chapter in their relations and called the signing of the Communiqué an event of historic significance.

Talking about Indonesia's relation with Taiwan, Alatas said the Chinese government was aware that the trade contacts between Indonesia and Taiwan would continue after the resumption of relations between China and Indonesia. However, Alatas also said that

Indonesia's One China Policy would remain unchanged. He emphasised that, even during the period when the two countries had suspended diplomatic relations, Indonesia still recognised the government of The Peoples Republic of China as the only legitimate government of China.<sup>3</sup>

In August 7, 1990, Prime Minister Li Peng made an official goodwill visit to Jakarta at the invitation of President Suharto. In his speech to the State Banquet held in his honour by President Suharto, Li Peng said that he had spoken with the President on bilateral relations as well as on international issues of common interest in a sincere and friendly atmosphere and had come to a common understanding on a wide range of issues.<sup>4</sup>

In his speech, Li Peng said that Indonesia had become one of the countries full of economic vitality in the Asian region. In international affairs the Indonesian government follows the Ten Principles of the *Bandung Conference*\* and develops friendly relations with other countries in the world. Together with Asean countries, Indonesia had made remitting efforts for a comprehensive, fair and reasonable political settlement of the Cambodian question. He remembered that China and Indonesia have been close neighbours since ancient times, the two peoples having had a tradition of friendly exchange and having cemented a profound friendship.

*The Bandung Conference, the Asian-African Conference held in Bandung, Indonesia, in April 1955 addressed the question of World peace and co-operation and formulated the following ten principles:*

1. *Respect for Fundamental Human Rights and for the purpose and principle of the Charter of the United Nations.*
2. *Respect for the sovereignty and territorial integrity of all nations.*
3. *Recognition of the quality of all races and of the quality of all nations large and small.*
4. *Abstention from intervention or interference in the internal affairs of other countries.*
5. *Respect for the right of each nation to defend itself singly or collectively, in conformity with the Charter of the United Nations.*
6. (a) *Abstention from the use of arrangements of collective defence to serve the particular interest of any of the big powers;*  
(b) *Abstention by any country from exerting pressures on other countries.*
7. *Refraining from acts or threats of aggression or the use of force against the territorial integrity or political independence of any country.*
8. *Settlement of international disputes by peaceful means, such as negotiation, conciliation, arbitration or judicial settlement as well as other peaceful means of the parties' own choice, in conformity with the Charter of the United Nations.*
9. *Promotion of mutual interests and co-operation.*
10. *Respect for justice and international obligations.*

Li Peng continued, 'at present the international situation is undergoing dramatic and profound changes with a complicated impact on the world'. While the relaxation of the tension, the de-escalation of military confrontation and the removal of certain regional hot spots have provided new opportunities for striving for world peace, factors causing stability in the world. Some regions are still plagued by tension and turbulence. He indicated that the economic gap between the developed and developing countries is further widening. The developing countries are confronted with even greater challenges. 'Therefore', he said, 'it is indeed necessary for him to strengthen unity and to work for the establishment of a new international political order and a new international economic order'.

ASEAN: On the role of ASEAN, of which Indonesia is an important founding member, Li Peng said that, although China differs with Asean countries in its social system, this difference shouldn't become an obstacle to the establishment and growth of friendly relations and co-operation between the two sides. And so long as the *Five Principles of Peaceful Co-existence* and the Ten Principles of the Bandung Conference are strictly followed, countries with different social systems and ideologies can surely co-exist in amity and conduct a mutually beneficial co-operation, he added.

*The Five Principles of Peaceful Co-existence (Mutual respect for sovereignty and territorial integrity; Mutual non-aggression; Non interference in each other internal affairs; Equality; and mutual benefit and peaceful coexistence) were formulated during the visits of Zhou En Lai to India and Birma in June between sessions of the conference. The conference was instrumental in broadening China's relations with foreign countries and in presenting a united front of Third World Countries.*

Based on the said principles China will support Asean countries in their efforts for maintaining regional peace and strengthening regional economic co-operation. This support will involve their proposition for turning Southeast Asia into a zone of peace, freedom, and stability. Li Peng emphasised that China stands ready to expand exchange and co-operation with the Asean countries in economy, trade, science, technology, culture and in other fields on the basis of equality and mutual benefit.<sup>5</sup>

#### **6.1.1. China-Asean relations**

Through the relationship with Indonesia the relations with other Asean countries improved. Foreign Minister Chen Qichen said that China felt positively towards the proposal launched by Mahathir in December 1990, which related to Southeast Asia and East Asia strengthening their economic co-operation to make the region more secure and prosperous. He expressed his satisfaction with his first contacts with Asean, marking the beginning of the dialogue between China and the regional group of countries on the positive attitude towards developing economic relation with China. China is willing to co-operate with the group in various fields, such as economics, trade, and culture.<sup>6</sup>

At the first meeting of the China-Asean joint Co-operation Committee held from 26-28 February 1997 in Beijing, an in depth discussion took place on a wide range of topics related to China-Asean solidarity and 'south-south delegates' co-operation. On the development of China-Asean co-operative relationship they agreed that remarkable progress had been made between Asean and China as well as between individual Asean member countries and China. In economics and trade as well as in science and technology, co-operation mechanisms had started smoothly. The meeting agreed that there was a great deal of potential for further co-operation, and discussed ways and means to promote greater co-operation and to address constraints and limitations.

Based on the existing strong foundation of the Asean-China co-operation and extensive mutual support in such areas as natural resources, industrial and technological structures, both sides agreed to focus and expand their co-operation on economics, trade, science and technology, tourism and other functional areas.<sup>7</sup>

#### **6.1.2. Trade Relations**

According to an Indonesian source, Indonesia's export to China increased from US \$ 568.5 million in 1989 to US \$ 1.990.9 million in 1991. This means that within two years trade value

from Indonesia to China increased 3.5 times. Over this short time, China's ranking changed from number seven in 1989 to number four in 1991, after the USA, Japan, and Singapore.<sup>8</sup>

The prospect of economic and trade-relations between China and Indonesia-Asean is promising, especially since the relationship between the two sides became official. Although exact figures for period 1991-1996 are not available, the economic growth of East Asia had been very large. However, this will undoubtedly be affected by the recent Asia crisis, followed by a global economic recession, but the figures are not yet available.

For a long time to come, into the 21st century, the co-operation among these countries should increase continuously. The similarities of their historical backgrounds as colonised countries, and their similar social conditions should be an important reason for a continuous solidarity, not only between China and Indonesia/Asean, but also with other developing countries in Africa, the Middle East and Latin America.

## **6.2. China-Netherlands-Relations**

China has a stable relationship with the Netherlands and with the European Union as a whole. The relation with the EU is still in progress. The Netherlands has a thorough knowledge of China, of both its old and of its contemporary condition. The Netherlands is intensifying the relationships at governmental level and in enterprises and business. There are some agreements between governments (G to G), varying from Ministries of Agriculture to those of Economic Affairs and Science and Technology. Besides the relation with the Netherlands, the relations with Germany and France in the economic sector are substantial.

### *The Netherlands Foreign Policy*

The Dutch have the tradition of 'going out into the world' and that is how they acquired their wealth. The Dutch economy is in a good position to respond to economic globalization and liberalisation, which leads to more intense competition.<sup>9</sup> The policy suggests that the Dutch companies will have to make a continual effort in innovation, to stay ahead of their competitors and safeguard their share of the market. This policy has and will be demonstrated by the Dutch government towards China. In the meantime, the position of Europe in the world 'has gradually declined'. Therefore, if Europe wishes to be heard on the world stage to

ensure peace and stability, it will have 'to learn to speak with one voice'. (Ibid. p. 20). These efforts of uniting the voice of Europe to build a co-operative between Europe and China are very important.

The Netherlands have been working hard to unite Europe, to accelerate the realisation of the EU, and since "Maastricht" until the summit conference in Amsterdam 1997, progress was evident. But, compared to developments in the world as a whole, the progress of the European Unification needs to be accelerated. However, this does not depend on one country alone.

### 6.2.1. Netherlands-China Relations

The Netherlands' relations with China date back to the seventeenth century. *Dutch Sinologists* (see boxes) know very much about China's history and its characteristics. The contact between the two countries was established a long time before the liberation war, and continued after the creation of the People's Republic of China.

*Professor J.J.L. Duyvendak, who founded the Sinologist Institute in Leiden wrote in his book 'China tegen de westerkim' (1927) his impression of two slogans in Guangdong in 1925, 'The empire is as a flood, a wild beast, away with imperialism' hanging on the other side of the Pearl River, and on the Guangdong side the slogan 'The three principles of the people and their principles for the salvation of the fatherland'. Duyvendak wrote:*

*'... That these words are found at the very entrance gate where the disastrous history began of the relationship between China and the rest of the world' ( p. 274). The slogans have proved to be weapons more dangerous than the most advanced warfare. From his personal experience Duyvendak wrote: 'However, I can testify that those originally in charge, have made a pleasant, energetic and businesslike impression on me. Communists, as some would call them, they certainly were not. Sun Yat Sen, the master, had shown them the way, and they were convinced that this was the way in which China could free itself from the pressure of foreign powers; that it would be able to avoid the dangers of the invading western capitalism, that it would end military mismanagement and achieve true progress' (p. 275).*

*When Duyvendak published his book in 1927, the peasant war in China had just been launched. Seventy years later the Chinese people's demand to modernise China had begun through the zigzag-policy under the leadership of the Communist Party.*

*Prof. Zuchrer, who succeeded Duyvendak as head of the Sinological Institute had a profound knowledge of China's geography, agriculture, industrialisation and the complex problem of geographic nature, problems of the population and the need for food and textiles. He was also an expert on problems connected with education, cadres, and literacy programs. Zuchrer analysed the Cultural Revolution ' which, to the surprise of many, has led to a new orientation which may be very important in its present development' (China's contemporaine geschiedenis en plaats in de*



*wereld, 1972). On the People's Communes Zuchrer wrote: 'So these are people's communes with an average size of 30 to 40,000 members, i.e. a large organisation with a strong internal decentralisation.' (...) 'This now, is a principle that has progressed ever more strongly. It is one of the most remarkable phenomena in the modern development of China. On the Cultural Revolution Zuchrer wrote 'Here decentralisation has progressed even further, so that essential tasks no longer are the responsibility of the commune, nor the central organ, but have been delegated to the villages (Production Brigades) and in some cases to an even lower level as far as small teams.' According to Zuchrer, 'the communes function as a link between the countryside and the urban sector, between agriculture and industry.' When Zuchrer introduced his opinion, the Cultural Revolution was still in full swing but his analysis reaches far ahead into the current situation in China.*

These two pioneering Dutch scholars have contributed much to the understanding of the Dutch people and their government of China's historical condition and the need for a political strategy towards China.

### **6.2.2. Far Reaching Policy**

The abundant information resources have been used to build a relationship between China and the Netherlands. Besides economic and trade relationships, long-term purpose agreements between the two countries have been undersigned, especially in scientific co-operation and exchanges between the Netherlands Ministry of Education and Science and the Chinese Academy of Social Sciences. On the basis of their wish to stimulate and develop academic co-operation and exchanges in accordance with the principle of reciprocity and mutual benefit, both parties reached the following agreement concerning scientific co-operation and exchanges for the years 1993, 1994, 1995 and 1996.

#### **I**

1. *Exchanges of scholars on lecture tours and research scholars (visiting scholars in the fields of economics, law, sociology, demography, literature, history, philosophy, research on international relations and political sciences.*
2. *Joint research. Both parties recognise the value of joint research that is being carried out by research groups at institutions under their responsibility.*
3. *Joint research projects of mutual interest. Both parties have expressed their desire to further the existing scientific co-operation. For this reason, both parties welcome proposals for joint projects to be executed by institutions under their responsibility.*
4. *The memorandum signed by Minister Dr. Ir. J.M. Ritzen of Education and Science of the Netherlands and Professor Ruxin, Vice President of the Chinese Academy of Social Science, will replace the memorandum of 1996.*

## II.

*Agreement on Scientific Co-operation and Exchange between the Ministry of Education, Culture and Science of the Kingdom of the Netherlands and the State Science and Technology Commission of the People's Republic of China. The agreement signed by Minister Ritzen from the Netherlands and Professor Song Jian, State Councillor and chairman of the State Science and Technology Commission of China. The Agreement covered: Exchange of scholars on lecture tours and research scholars (visiting scholars), joint research scholars; joint research projects; financial agreements; procedures and exchanges information in the field of education and science and technology. The other, in economics, management and law programme. Memorandum on scientific co-operation and exchanges between the Ministries of Education of the Netherlands and China which has been begun in recent years will be following agreement concerning scientific co-operation and exchanges for the years 1997, 1998 and 1999.*

## III.

### *China's Information Centre.*

*The Sinology Institute at Leiden has played an important role in educating the Netherlands about China. In 1969 the Documentation of Contemporary China was created. The activities are to collect material, to be a research centre together with the library for contemporary Chinese studies. Now the Research Centre is equipped with information technology to obtain links with the Internet for up-to-date information on China.*

*The documentation and research centre is also active in teaching modern Chinese history, economic development, political development, social development, Chinese law and foreign relations. The staff members undertake supervision of students' work leading to a higher degree. Research work belongs to the principal task of staff members and a magazine is published. There is also an Information Service serving business delegations to China.*

*The Institute plays an important role in getting the Dutch and Europeans to understand China's current development in a wide sense. And in the future it will give an important impact to the relationship between the two countries and between EU-China.*

*Doing business in China is promising for Dutch enterprises. It has positive aspects in the form of joint ventures, direct investment and other forms of co-operation and investment. Moreover, China's market is very abundant for investment but also for marketing Dutch products. The transfer of the profit had been ruled exactly. I have never heard of any open conflict between Chinese and Dutch enterprises.*

**The traffic of trade.** The total value import from China increased from fl. 1.3 billion in 1990 to 3.2 billion in 1994. It means an increase by a factor of 2.6 within four years. Export from the Netherlands to China increased from fl. 354 million in 1990 to fl. 1.3 billion in 1994. The Netherlands surplus in China means available re-investment in China, while surplus of China in the Netherlands is useable to import advanced technology. China was the sixth partner of The Netherlands in Asia (after Japan, Taiwan, Hongkong, Singapore, and South Korea). And The Netherlands was China's fifth partner in the European Union after Germany, Italy,

France, and Great Britain (Directorate General of Foreign Economic Relations, June 1995). The Netherlands export to China consists for one-third of machines, e.g. specialised machinery for agriculture and food-industries. Twenty percent of the Dutch export consisted of chemical products. (Ibid. p.31). The Dutch import from China consists of manufactured commodities such as garments, shoes, toys, and sports gear.

**Agriculture.** For China with its 1.2 billion population or more, the role of agriculture is decisive for social stability. Although the agricultural products are relatively sufficient, this sector is still top priority to China's economic development. China needs a variety of machines for agriculture, not only big equipment, but also small machines that are useful in China's complex topography. Minister of Agriculture for the Netherlands, Van Aartsen, in his last visit to China praised the result of co-operation with China. Minister van Aartsen (who became Minister of Foreign Affairs in 1998) said that Chinese have a big interest in the Dutch help for Chinese agriculture. The Netherlands experts are active in Chinese projects for animal husbandry with new technology, projects for chicken feed, laboratories for artificial insemination, all of which came from the Netherlands. A project for horticultural technology has been opened in Shanghai. Until 2002 four Dutch specialists will be working there.

**China-Netherlands economic relations.** The economic relations between China and the Netherlands are growing slowly but steadily. This was already predicted when Prime Minister Lubbers and Financial Minister Kok visited China in 1995. The increase in the number of Chinese students or scholars visiting Holland has become an important human investment for China leading to a greater degree of understanding for China in the Netherlands, especially for long term investment purposes..

Since the Netherlands have opened their political and economic relation with China in 1954 and signed the Agreement on The Mutual Establishment of Charge d'Affairs officially, the relationship has never ceased. In 1971 when the Chinese seat in the United Nation was restored, the Netherlands economic mission was led by Sidney J. van den Berg. The delegation members, no fewer than 21 persons, were all from large Dutch enterprises, such as Akzo, KLM, AMRO Bank, Unilever, IHC Holland, etc. Most of them are still represented in China.

Official Sino-Dutch diplomatic links were established on 16 May 1972, after the visit of President Nixon to China in that same year. Since the Shanghai Communiqué of 1972, the relations between the Netherlands and China have been effective. The common communiqué of the two countries is the basic relation, confirming the principle of mutual respect for sovereignty and inviolability of the territory, non-interference in each other's internal affairs and equality and mutual advantage.<sup>10</sup>

**Trade relations.** In the period 1970-1973, the Dutch import from China rose from fl. 96.722 million to fl. 160.439 million. This means a rise of nearly 100 percent within three years. Many Dutch enterprises have high expectations of the economic possibilities in China.

**Investment.** The Dutch investments in China should logically grow rapidly, conform to the Dutch foreign policy and the rising demand in China. The absorbing capacity of China is very big. Not only for the Netherlands, but also for Europe, Russia and United States, and even developing countries in Africa, South East and Central Asia. According to De Nederlandse Bank (The Netherlands (state)Bank) sources, in 1992 total investment of the Netherlands enterprises in China was fl. 101 million against fl. 17 million in 1991. In 1994, the investment of the Netherlands enterprises in China totalled fl. 344 million. The following companies were involved: Philips, Unilever, Akzo Nobel, Heineken, and Shell, which are among the to the biggest investors in China. ING Bank, ABN-AMRO Bank and Rabobank are present in China for financing activities.<sup>11</sup>

**The future prospects.** After visiting China, the former Dutch minister of Transport and Communication Mrs. Smit-Kroes declared: 'I am positive about the chances for Dutch Companies in the harbour projects in China. China would like to use Dutch expertise'. Mr. C.J.A. van Lede warned the economic mission going on the official visit of Prime Minister Lubbers that the mission 'expected to return with large orders'. The first official financial co-operation between Bank of China and AMRO Bank was signed on May 13, 1983. The AMRO Bank was prepared to assist in several tasks such as the introduction of corporation and banks in China, mediating and assisting in realisation of contracts, giving advice and supplying documentation, giving advice about financial structure for trade, financing projects and trading on short and medium term. The bank was also prepared to give advice about guarantees for and from the Chinese authorities as well as to grant co-operation in these matters and other matters related to traffic payment, to deal with collection documents and to

export financing from the Dutch exporters and to participate in international loans in Deutsche Mark, Yen, US dollar loans to the credit of the Bank of China and CITIC (China International Trust and Investment Co-operation). In addition, in financial relation of syndicated loans from Hongkong in various companies in China, such as hotel financing, cement factories, breweries, coal mines, chemical factories and electronic factories. This co-operation brought Dutch-Chinese economic relations to a new phase. The co-operation agreement between the AMRO-Bank and the Bank of China with a value of US \$ 60 billion in payment per annum and with 29.000 employees and 350 offices in several important trade Centres in the world give an enormous perspective to the international co-operation. It is clear that the Dutch policy is not only directed to trade relations with China in the short term, but also in the long term.<sup>12</sup>

**Bilateral economic prospects.** The Dutch see enormous economic prospects in China. Economic development nation-wide, regionally and sectorally, the absorption potential of foreign economies in the form of trade investment is very big. In the sector of agro-industry, chemicals, pharmacy, telecommunication, environmental technology, medical technology and infrastructure, the outlook is very promising. It is advisable that the Dutch government should pay special attention, so that the position of Dutch enterprises in China will be strengthened.<sup>13</sup>

To this aim, the Dutch Ministry of Economics published a brochure, advising companies to pay attention to:

- Consolidating and intensifying contacts at political level with the Chinese decision makers and inviting the related Chinese officials to visit the Netherlands; doing research for a possible intensification of the co-operation in the technological field;
- An active policy for information on enterprises, etc.

This way the Dutch enterprises will be well informed on the Chinese economic development, that could be beneficial to the Netherlands enterprises.

**Conclusion.** The historical experience between China and the Netherlands and available information about the two countries are important conditions to build a new relationship in the current time and in the future. The relation will be mutually beneficial on the short and the

long term in scientific and technological co-operation, economy, and trade. As long as the two countries honour the principles agreed upon, the relationship will go further. Both sides have their fields of excellence and weaknesses and they mutually support each other.

### **6.3. Sino-Russian Relations**

Sino-Russian relations date back to the end of World War II, when they were both socialist countries. Due to conflicts in ideological and political practice, there were some periods when the relationship was frozen. However, diplomatic relations in terms of G to G still existed at a low level. Gorbachev visited China in 1989, since then the relationship has improved and the dispute problems were resolved step by step. After the border conflicts had been discussed and agreements signed, the economic and business relations opened new possibilities.

When Li Peng visited Moscow in 1990, some achievements were made and a new channel of co-operation was opened in bilateral economic and technological co-operation.<sup>14</sup> Two way trade volume in 1989 reached 4.82 billion Swiss Francs, up 18.7 percent over 1988. Border trade expanded considerably. In 1990, China sent 15,000 workers to the Soviet Union for various construction projects and more than 200 contracts on bilateral scientific and technological co-operation were signed.

In the area of culture, education, and sports, 600 Chinese students were sent to the Soviet Union in 1989 and 320 Soviet students came to China. Eight colleges and 11 art institutions within the two countries have established direct links for exchanges.

Further progress has been made in Sino-Soviet border negotiation on reducing the bilateral border military presence and formulating measures to strengthen mutual trust. All of this indicates that despite the complex events which took place in China and the former Soviet Union and the drastic change in the international situation over the past years, it is highly possible for China and the Soviet Union to establish a 'new type' of friendship on the basis of the Five Principles of Peaceful Coexistence.

Answering the press, Li Peng hoped his visit to Moscow in 1990 would further enhance bilateral ties in political, economic, cultural and technological fields and help reduce the level of military confrontation along the border. He said: 'The first task was to expand bilateral economic co-operation.' China hopes to maintain friendly and good neighbourly relations along a border of no less than 7000 km, including Kazakhstan, Kirgistan and Tajikistan. It was also specified how the border conflicts would be solved, especially with the Russian Federal Republic, a border extending along 4,300 km in the Northeast of China. Jiang Zemin has visited Moscow and introduced the Chinese economic development and the reform in rural areas. Jeltsin has already met with Jiang Zemin 5 times after 1990.

The ending of political and border conflicts between the two countries has had a good effect on co-operation in the economic and business sectors. In 1997, the volume of economic relation should reach US \$ 7 billion and it was agreed that in the year 2000 the volume of economic and business relation would be increased to 20 billion US dollars.

In improving the relations between Russia and China, the role of Russia is very important. Russian relations with the European Union in the west and with Asia, especially with China and Japan has been improved. The two countries have agreed to a co-operation in economic sectors and in the exploitation of Siberia, the east part of Russia, without solving the claim of Japan on four islands in the north side of Japan which have been occupied by Russia since World War II.

### **6.3.1. Conclusion**

The new relationship between China and Russia after the end of the Cold War and since the resumption of relations in 1979, will give a new impetus to improving co-operation, not only between the two countries but also between Asia and Europe. Russian territory covers both the Asian and European continents, and the two countries are linked by two international rail networks, one of these running all the way from the east coast of China to the port of Rotterdam in the west of Europe. This brings Asia closer to Europe and vice versa, which is important for the development of all kinds of Eurasian relations.

#### 6.4. China-Japan Relations

The relations between China and Japan are unique. In economics and business, Japan is the biggest partner of China, but non-economic relations are still in query. In two-way trade volume, Japan leads with a volume of US\$ 60 billion, while the United States are far behind. The business relation has drastically changed since 1972. It has risen from US\$ 1 billion when the two countries normalised relations to US\$ 16.5 billion in 1991.<sup>15</sup> China exports raw material to Japan, especially coal, while Japan provides China with a considerable loan. But when a Japanese company did not win the right to equip the Chinese Three Gorges Dam project in the Yangtze River, which was won by European countries, the Japanese Ministry of International Trade and Industry set up an office to promote sales of Japanese industrial plants overseas. The new office is designed to set up a system that enables Japanese industry to use government assistance, i.e. to win overseas plant projects through lobbying and financial help. There are a total of 133,728 Japanese citizens living elsewhere in Asia for economic and business activities, the second largest number after North America. From this total, 13,664 were living in Taiwan, 24,500 in Hongkong, and 19,379 in China.<sup>16</sup> These figures show that there are fewer Japanese living in China than in Hongkong. The position of the Japanese in China is dwindling.

The relations in non-economic sectors indicate various problems. The situation between the two countries since World War II has not been stable. For example, the Japanese attitude to the war casualties in China (especially the massacre in Nanking in 1937) is still questionable for the Chinese people. The Japanese position about the war criminals of World War II is in question. The Japanese position and attitude to Diaoyu (Sensaku) Island made China protest that the Japanese policy towards that island was unacceptable to the Chinese. The relationship between Japan and US considering regional security, which involves China's interest, made China more critical towards the Japanese foreign policy. In particular so when 'security alliance' with the United States was redefined at the time when the two countries were growing increasingly wary of Chinese developments. It is tempting to infer that there is a correlation between efforts to brace up US-Japanese security ties and the watchful attitude of Washington and Tokyo toward an alleged 'China threat'.<sup>17</sup>



There are five issues that could endanger the future good relations between China and Japan, as indicated in the following boxes.

### **1. The theory of the 'China threat'**

*The China threat was first mentioned in 1990 by Murai Tomohide, professor at the Defence University Tokyo in his article entitled 'On the Potential Threat of China'. The article described China as a potential adversary in view of its comprehensive national strength and long term development.<sup>18</sup> Since then Tokyo University has been spreading the issues on the 'China Threat' in the United States and other regions. This threat comprised a military threat, an economic threat, a racial threat, and a threat to civilisation.*

### **2. Military threat**

*China was supposed to be a military threat because China is a potential adversary in view of its comprehensive national strength and long term development. In 1992 China's National People Congress adopted a law on the territorial seas and adjacent areas of the People's Republic of China confirming China's claim of sovereignty over its territorial waters, including Nansha Island in the South China Sea and Diayou island in the East China Sea, which are situated between Taiwan (China's territory) and Okinawa (Japanese territory). This event was a 'sign' that China was pushing its military expansion and attempting to establish a regional hegemony.<sup>19</sup> This situation was followed by US policy preparing to sell US aircraft F-16 A/B to Taiwan. This policy is in conflict with the Sino-US August 17 Joint Communiqué related to the Taiwan issue. Japan planned to pass legislation allowing dispatches of troops abroad to take part in UN peace keeping operations, thus violating the Japanese Constitution. The Japanese media claimed that the modernisation of China's navy revealed China's strategy seeking marine hegemony in the 21st century and the US media alleged that China was expanding outside its territory.*

*Ross Munro, correspondent for Time magazine in Beijing and Hongkong, claimed that China was the only power in the world whose military power is rapidly expanding and the Chinese aimed to dominate East Asia.<sup>20</sup> This opinion made the attention to China's development change colour.*

### 3. Racial threat

*It is a fact that the Chinese have been the ones who originally made a success of business in Southeast Asia (SEA). This made some local people jealous of the Chinese prosperity, which was due to their hard work. Japanese investment in SEA is the largest investment of western capital in Indonesia and other SEA countries. Racist feelings date back to colonial times. As in Indonesia, where the Chinese population, which occupied the unlucky position of 'buffer' in colonial times, has become the scapegoat in the time of the Republic. The current racial issues in Indonesia at the time of the political crisis in May 1998 have been corrected by the new Habibie government, who apologised openly.*

### 4. The threat to civilisation

*Some people use the Chinese civilisation, Confucianism and, Buddhism as a 'weapon' to confront the Chinese civilisation with other civilisations. They say that the Chinese civilisation is building a coalition with Islam against western civilisation or Christianity. Professor Huntington of Harvard University embellished the China threat theory with his article in 1993, entitled 'The Conflict of Civilisation' in which he underlined how the Chinese civilisation presents a challenge to western civilisation.<sup>21</sup> He stated that after the end of the Cold War, the ideological conflict had been replaced by a conflict of civilisations, as the origin of international conflicts and wars.<sup>22</sup>*

### 5. Economic threat

*The source of the fear in Japan and in the USA was the economic growth of China as the biggest in the world economy. This opinion was spreading rapidly after the visit of Deng Xiaobing to South China in 1992 and the adopted policy of building a socialist market economy in China. The western media described China as a super tiger ready to leap and called China the 11th economic power in the world<sup>23</sup> Trend Magazine in Germany and Financial Review in Australia spread the issue.<sup>24</sup>*

*The International Monetary Fund released a report that used the purchasing power parity method and estimated China's GNP at US \$ 1.66 trillion US dollar, six percent of the global economy in the world and in size third, after the US and Japan. According to the generally accepted exchange rate conversion method, China's GNP was only US 419.2 billion in 1992, accounting for 2 percent of the world economy. That information aggregated China's economic strength.*

*This opinion increased people's fear of China because the food shortage in China may affect the world. Lester Brown, head of the US World Watch Institute estimates that China's population in 2030 will have reached 1,63 billion, while its arable land will dwindle greatly in the process of industrialisation. He predicted that China's self reliance in food supply will decrease greatly and the food shortage in China will cause a world wide food crisis in the 21st century. This news caused some panic and confusion but the Chinese denied this prediction.<sup>25</sup>*

## 6.5. China-United States Relations

The main focus in this research is on China's foreign relations with Indonesia, the Netherlands, Russia, Japan, and especially the USA. The USA is the largest of the developed countries with which, since 1972, China has established economic and business relations. However, the human rights issues, stability and security and the Taiwan issue are closely related with economic development. To understand the prospect of this relation, we should first reassess the US position in the eye of the Chinese. Since the failure of the US in the Vietnam War, the position of the US in the world has essentially declined. However, the

country is still growing stronger and richer. European countries, close partners of the USA, are also in the process of 'decline'. However, the situation can not be turned back to that of the early post World War II-years. The emerging of third world countries has also decreased the position of the old powers, in both economic and political influence. The emerging of the OPEC countries in 1970 was a blow to the US monopoly in oil, a failure in economics, followed by failure in the military field in Vietnam.

The ending and outcome of the Gulf War between the UN (led by the USA) and Iraq was harmful to the reputation of the USA, especially in the eyes of most developing countries. To them it was mainly a 'demonstration of strength'.

The relation of China-USA followed a zigzag course. First the US blockade of China ended with the visit of President Nixon in 1972, an unavoidable development after the restoration of China's seat in the UN (1971). The Shanghai Communiqué obliged the US to acknowledge Taiwan as China's territory, following the UN Resolution. The visit of Deng Xiaobing, followed by the one by Jiang Zemin has demonstrated the relationship between the two countries more closely. The 'task force' studying the relationship between China and USA, which had recommended the US policy towards China motivated: 'Because the US has significant economic interest in China, it must be able to negotiate with China to solve market access barriers, reduce the Sino-US trade deficit and protect the intellectual property right.'<sup>26</sup> On the other hand, China needs the transfer of advanced technology from the USA to increase its economic strength.

This is why the relation between China and the US has been widely discussed in the world.

#### **6.5.1. China-US Economic and Business Relations**

There are two opinions on the trade deficit among the two partners. This difference of opinion arises from different accounting methods. According to the Chinese data, China-US bilateral import-export to the US in 1995 had a surplus of US \$ 8.59 billion, while according to the data of the US, the deficit was US \$ 33.81 billion.

The Chinese ministry of Foreign Trade Wu Yi explained this significant difference by pointing out that the criteria for the compilation of trade statistics differ per country. It depends on how to record direct import from the country of origin and indirect import via a third country, and how one records export by the country of destination, including goods directly to the place of destination and goods exported to the country of designation via a third place. The US recorded import from China as direct, and indirect through third countries like Hong Kong. In 1995, 60 percent of Chinese exports to the US were exported or transhipped from Hongkong and the high percentage of added value incurred in the course of transshipment was recorded in the US total import<sup>27</sup>. Furthermore, 70 percent of Chinese exports were processed products, including a high proportion of intermediary products imported for processing trade. According to Wu these two factors have considerably skewed the authenticity of bilateral trade figures.

Table 19 China-US bilateral Trade Statistics (Unit. US \$ Billion)						
Chinese data				US data		
	<u>Chinese exports</u>	<u>Chinese imports</u>	<u>Chinese balance</u>	<u>US exports</u>	<u>US imports</u>	<u>US Balance</u>
<u>1993</u>	16.96	10.69	6.27	8.78	31.53	22.77
<u>1994</u>	21.46	7.49	13.97	9.29	38.78	29.49
<u>1995</u>	24.71	16.12	8.59	11.75	45.56	33.81

(Source: Beijing Review, June 10-16, 1996)

China's trade surplus is a result of interregional industrial restructuring that has never skewed the US balance in the past ten years. China's trade statistics show that 70 percent of the country's surplus with the US 'resulted from enterprises with foreign investment, the surplus of which was generated through processing trade. The difference in capital and technological composition between the Asian economy 'has led to a mutually complementary production and trading structure', Wu concluded.

The different stages of economic development carry different characteristics in their own economic structure. Trade relations between China and US are mutually complementary and the non-competitive nature of the two economic structures will benefit both sides.

The present stage of China's trading system is moving closer to international norms from its primary stage of industrialisation. Moreover, from a long-term prospective, China promises to be 'a vast market'. Improved competitiveness of 'US high tech products' on the Chinese market will not only facilitate the development of US trade with China, but will also promote China's economic development and alleviate problems arising from bilateral economic and trade relations, China hopes. But the article concludes that the US has greatly exaggerated its trade deficit with China.

According to an analysis of Leon T. Hadar, trade between China and the US rose from US \$ 4.8 billion in 1981 to 48.1 billion in 1994, turning China into the sixth largest US trading partner. From 1990 to 1994, US export to China grew by 3.8 percent, whereas the US to the EU exports rose 4.9 percent. Export to the rest of the world increased by 30.2 percent. Thus, the percentage of US export to China was the lowest.<sup>28</sup>

#### **6.5.2. Trade of High Technology**

The export of US high technology to China still remains a problem. American businesses lost many opportunities to gain access into China's market and to sell their high-tech products because of the export control measures adopted by US against China.<sup>29</sup> The annual review of China's most favoured nations (MFN) trade status has seriously eroded the confidence of both business communities to establish a long term and stable co-operative relation. Therefore, the Chinese proposed the status of MFN for China should be permanent.

The US-China Trade implementation report said that the US government agreed to pursue the liberalisation of co-ordinating multilateral export. Control, export lists, and procedures, including restriction on the export of computers and telecommunication equipment, are consistent with the national security interest of the USA. On the other hand, the US staunchly supported China achieving the of contracting party status to the General Agreement on Market party status to the General Agreement on Tariffs and Trade (GATT, now the World Trade Organisation, WTO) and work with the Chinese government and other WTO contracting parties to reach an acceptable protocol of accession (US-China Trade Implementation of Agreement on Market access and Intellectual Property page 17). The US

made three specific *Memoranda of Understanding* (MOU) commitments to liberalise export restriction on products destined for China. These included <sup>30</sup>

- Pursuing the liberalisation of the Co-ordinating Committee on Multilateral Export Control (COCOM) export contracts;
- Considering liberalised treatment of computer exports for civilian use;
- Liberalising control exports of telecommunications products.

Regarding the second and third MOU commitments on liberalising export control, the procedure allows US companies and individuals to export computers with the capacity of up to 1,000 million theoretical operations per seconds (MTOPS) and virtually all civilian telecommunication products belong to this category. This will eliminate 35 percent of the individual licenses previously required for this prescribed destination<sup>31</sup>.

*MOU: Memorandum of Understanding between China and the USA to the implementation of the Agreement on Market Access and Intellectual Property. The two countries resolved the investigation on January 17, 1992, when the US and China signed the MOU that committed China to provide a stronger protection for Intellectual Property rights. To review China's implementation of the provisions of the market, access, and intellectual property rights MOUs. In addition, the negotiations of the US-China MOU on market access in October 1992 were successful.*

### **6.5.3. China-US Economic Prospects**

The Chinese-US economic relations are positive, but this does not mean that there are not any problems. Both sides should take the step into non-economic fields. The SCIS Task Force (see note 41) reviewing the development of a consensus for the future concluded that US-China relations have reached a crossroad. Following a period of progress in the 1980 and a downturn after June 1989, the overall relationship has been subject to individual events. Short-term concern, misunderstanding and domestic politics in China and the United States have precluded the formation of a strategic vision and long-term framework for US-China

relations. Analysts have said that with the collapse of the Soviet Union, and in the wake of the Tienanmen tragedy, the US-China relationship 'lost its guiding principles'. There used to be a common strategic purpose and goodwill. Now, there is no domestic consensus that guides the US-China relations either in Washington or in Beijing, said the conclusion. The report said that 'the Chinese leadership wrongly assumed that President Clinton's decision to delink trade and human rights in 1994 would improve bilateral relations.

The debate over the Most Favoured Nations (MFN) trade status fractured into several issues, leaving US-PRC economic and military relations without fully defined objectives. A lack of US consensus on the China policy reflects the remaining concern about the Tienanmen crackdown and human rights. There is also concern about China's growing military capabilities and intentions, the ballooning trade deficit and its effect on US jobs and the future of Taiwan. All these problems still remain unresolved and could distort economic relations. Since the visit of President Clinton to China in June/July 1998, most of these problems have become clearer and the perspective of the relationship is certainly bright.

Delinking economic problems from non-economic issues could be seen only as a pragmatic approach. However, linking economics to human rights issues is fundamentally difficult to accept. A long-term relationship might be realised if the only issue is the economy and not the relationship between economy and human rights and stability/security issues.

However, the settlement of economic issues might positively affect human rights and stability/security problems. If, on the other hand, human rights and stability/security issues receive a disproportional degree of attention, it could have a disastrous effect on economic issues. From the many problems listed by the SCIS taskforce, I intend to review the human rights issues and stability/security for both sides.

#### **1. Human rights issues in China**

*The western media have aired the human rights issues in China separate from economic issues, i.e. hailing individual rights but neglecting collective rights. The SCIS Task Force noted that issues on Tienanmen, June 4, 1994 have been 'a point of contention' in US-China relations. Washington has condemned Chinese behaviour while Beijing mistrust US motivation in promoting human rights. Washington will continue to support human rights in China and encourage China to uphold those human rights conventions to which it is a signatory<sup>32</sup>. The document advised to engage China on*



human rights issues through regular dialogue through many channels; mutually engaged through presidential and high-level visits and technical exchanges. US business engagements in commercial relations in China should not be depicted as agents of human rights policy. A human rights policy toward China should be promoted both bilaterally and multilaterally, encouraging China's self proclaimed support for the rights of its minorities in Tibet and elsewhere. Such is demanded from China according to western opinion. President Clinton has revised his

The Chinese position towards these problems is clear. China will explain and introduce the Chinese view of human rights. Zhu Muzhi, director of Chinese Society for Human Rights Studies<sup>33</sup> demonstrated the Chinese experience and practice on human rights: China has solved the problems of providing enough food and clothing for its people, a truly primary need of the people. The sustained and rapid development of China's economy proves that the people's congress system is a democratic system which can guarantee that the government carries out the people's will. A prosperous China provides the world with a vast market and great employment opportunities can develop friendly relations with various countries. During his visit in Europe, Zhu Muzhi emphasised that the Chinese people are now masters of the country and are enjoying guaranteed constitutional rights. He didn't accept allegations that China is a terrorist country devoid of human rights. He called such claims 'absolutely outrageous and grossly unfair', adding that the people in western countries have little understanding of the actual condition in China. Many are even decided and confused by rumours and 'mud-slinging' accusation spread by those with ulterior motives.

Moreover, he said that some TV-stations in western countries have recently telecast sensationalist news reports about Chinese hospitals selling the organs of criminals sentenced to death. He criticised the US State Department that described China as a virtual hell that tramples on human rights. According to Zhu Muzhi, after the reform and opening up human rights situation is continuing to improve along with monumental achievement in related pursuits.

## 2. Tibet issues

The theme of Tibet is also frequently featured in the western media. Zhu Muzhi said that western countries have collaborated with the Dalai Lama to issue claims that China has trampled on the human rights of Tibetans, with no understanding what life was like in the old Tibet government by Dalai Lama, who was the owner of the largest number of serfs. The Chinese people previously struggled to ensure the independence of the country. After realising the goal, said Zhu Muzhi, however, they have called for solutions to problems related to adequate food and clothing and

*ensuring the overall prosperity of the country. China has adopted a system of People's Congress and the political consultative Conference, which is quite appropriate for actual conditions of China.*

*Democracy, or the absence thereof, he said, 'depends on whether or not a nation acts according to the will of the majority of the people'.*

*Clinton urged Jiang Zemin to open discussions with the Dalai Lama. Jiang Zemin assured Clinton that as long as the Dalai Lama recognises Tibet as a region of China and Taiwan as a province of China, negotiations are open.*

*Zhu Muzhi said that the Tibet issue has been a continual point of contention, heavily pursued by western countries. Despite both international and domestic opposition, the US started 'Radio Free Asia' and publicly declared that it would direct programming contents at China and other Asian countries. According To Zhu, it is 'obviously a forum designed to separate Tibet from China'<sup>34</sup>.*

#### **6.5.4. Peace and Security**

Before these human rights issues arose, the problems facing China and the US were clear, i.e. co-operation in the economic field and a dialogue on human rights problems. Here it is crucial to review Clinton's remarks in his address in America, two days before Jiang Zemin visited the USA in 1997. Clinton remarked that China is a great country with a rich and proud history and a strong future. For good or ill, China will play a very large role in shaping the 21st century. In world economic position, China has moved up from the 22nd largest trading nation to the 11th place in 1995. It is projected to become the 2nd largest trading nation after the US by 2020. Which role is of crucial importance in influencing the world economics in the future, where China's basic economic system 'will maintain public ownership in a dominant position, while developing other diverse forms of ownership'.<sup>35</sup>

Clinton disclosed that the number of Chinese students now studying in US is 40,000 that could be a channel of cultural and ideological influence. China disclosed that by the end of 1996, an aggregate of 152,570 Chinese students were in the US, including 120,910 sponsored by the Chinese government. This will be a challenge to the Chinese government in ideological front's education. According to some US and China studies, the position of America is in decline, while the Chinese is increasing. An American analyst said that 'more

than half of the public and slightly less than half of the leaders believe that the emergence of China as a world power might be a 'critical' threat to vital US interests in the next decade<sup>36</sup>.

Clinton's position to the people of America who disagree with American China-policy and who would like to confront China before it has become even stronger, is that this view is wrong, because isolation of China is unworkable, counterproductive and potentially dangerous. Isolation would encourage the Chinese to become hostile and to adopt policies of conflicts with American interest and values. The American objective is not containment and conflicts, but co-operation and making the American difference clear.

### *3. Taiwan issues*

*The US position on Taiwan prior to Clinton's visit to China was vague. During his visit, president Clinton reiterated that there will be:*

*1. NO US support for the 'Two China's policy'; there is only One China;*

*2. NO US support for Taiwan independence;*

*3. NO US support for Taiwan efforts to join the United Nations;*

*This policy is the result of successful diplomacy and a victory for Chinese reunification policy.*

*Reuniting Taiwan with mainland China is very important to China. With US policy very clear, the negotiations between China and Taiwan can be opened.*

#### **6.5.5. The Latest Developments in Sino-US Relations**

The visit of President Clinton has greatly improved Sino-US relations. There is more understanding, there is more discussion and an open dialogue, which enhances co-operation efforts and eliminates differences.

**The Visit.** Clinton visited China from June 25 to July 3, 1998, returning Jiang Zemin's visit to the USA in 1997. Both were State visits. Clinton's visit consolidated and expanded the agreement reached in 1997. His first visit was to the ancient Chinese capital city of Xian. The two heads of state discussed many new problems related to the interests of the two countries, and aired the outcome at a press conference in Beijing, where they issued a joint statement. Later, Clinton visited Shanghai, and he visited village elections in a suburb of Xian to see the democratic system at work in China's grassroots. There he took the opportunity to enjoy the more than 2000-year-old burying ground of China's first emperor, Qin Qihuang, and he visited the Great Wall, the historic monument of China's powers. Before flying on to

Hongkong, China's latest city with status of 'Special Region', Clinton visited the famous site of natural scenery, Kuelin.

#### **6.5.6. The Summit**

The two heads of State reached many agreements, and improved understanding during the visit. They demonstrated the progress they had made in building their constructive strategic partnership.

Clinton expressed his hope that his frank and open talk with president Jiang Zemin, and his trip to China 'would help extend the areas of co-operation, reduce differences and increase the American people's understanding of China, and the Chinese people's understanding of America, so as to further expand the friendly partnership between the two countries.'

Jiang Zemin indicated that peace and development are the main themes of today; both hope and challenge. Economic globalisation has accelerated the expansion of internal economic co-operation and trade, while scientific and technological advance, particularly information technology (IT), gives a new impetus to human progress and social development. However, regional conflicts, caused by racial, religious and territorial disputes, drugs trafficking, terrorism, and environmental degradation remain unresolved. The financial crisis in Southeast Asia has caused economic and political turmoil. The nuclear arms race in India and Pakistan has created sudden tension in the region. All these issues need special attention.

Jiang added that in the new historical condition, China and the US share extensive common interests and will not shrink from shouldering their responsibilities on major issues concerning peace and development in the Asia-Pacific region and the world at large.

China and the US share a common objective in preventing a proliferation of weapons of mass destruction and are committed to maintaining regional stability. The two countries will conduct their relations from a strategic and long-term perspective, remove all interference and firmly promote a sound and stable development of Sino-US relations, where possible expanding the areas of co-operation.

Both presidents also agreed to have a human rights dialogue at governmental and non-governmental levels in a spirit of equality and mutual respect; and to establish a non-governmental human rights forum. They agreed to promote co-operation in culture, education, health, and other fields. They agreed to increase academic exchanges and promote the exchange of high-school teachers and students with a view to enhance mutual understanding.<sup>37</sup> During this summit, more details have been discussed than in 1997, when Jiang visited the US.

#### **6.5.7. Joint Statement**

The joint statement issued by the two presidents further mentions that they strive to enlarge bilateral co-operation in the field of biotechnology, vigorously promoting the peaceful use of biotechnology. Efforts will be maintained to eliminate the anti-personnel landmine (APL), which is a threat to civilians. They agree to work toward the early ratification of the Amendment Protocol and urge others to ratify it as well. They call to stop all further nuclear tests and adhere immediately and unconditionally to the comprehensive test ban treaty of its cornerstone. Where possible, they hope that India and Pakistan can resolve their longstanding dispute, on Kashmir, peacefully and completely.

The Joint Statement recalls that China and the US have long sought friendly relations with both India and Pakistan, and it reaffirmed their respective policies to prevent the export of equipment, materials and technology that could in any way assist programmes for nuclear weapons in either India or Pakistan and to this end will strengthen their national export control systems.

#### **6.5.8. China and Global Economy**

- Since 1986 China has asked to become a member of GATT/WTO. However, to this day admission still has not been granted, even though the EU and Japan have supported the membership publicly. Since 1992 the US and Chinese governments have met in both bilateral and multilateral contexts to discuss the conditions of China's accession to GATT

or its successor, WTO as a result of completed Uruguay Round. Negotiators must resolve a number of critical issues before formulating a protocol of accession for China. Among these issues are:

- the lack of transparency in China Trade Laws and Regulations
- the time table of China's tariff reductions and
- the ability of China's central government to apply GATT 1994 obligations uniformly across regions and provinces
- China – US economic prospects
- Peace and Security Issues.

#### **6.5.9. GATT/WTO**

The Chinese government accepted the market access in a MOU (Memorandum of Understanding), designed to bring China's trade regime closer to the international trade standards required by GATT. This is an indicator that China is ready to undertake GATT 1994 obligations. In October 1994 the US government, the Chinese government and other GATT contracting parties were engaged in negotiations to develop a mutually acceptable protocol of accession to enable China to join GATT/WTO.<sup>38</sup>

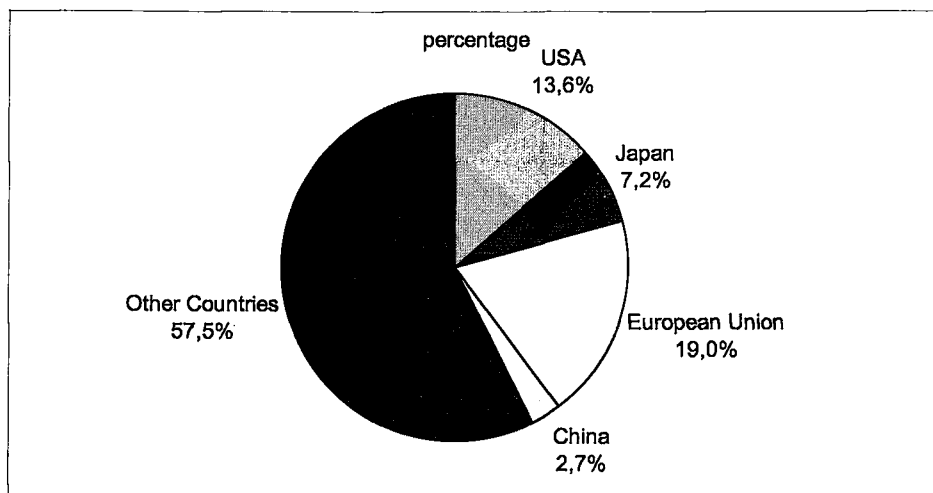
The Chinese position in the World Trade Organisation is clear. Since 1979, the Chinese economy has become closely related with the world economy,<sup>39</sup> as emphasised Li Lanqing, Vice Premier of State Council. Based on self reliance, Chinese economy had been motivated and influenced by world economy. The Chinese economic boom in turn will present a large market that will certainly become a positive force contributing to the growth of World economy.

During the past 40 years, especially since the implementation of reform and the open policy, China has built a considerable foundation in terms of overall national strength, personal training, and acquired experience, enjoying domestic and social stability. Infrastructure facilities have been dramatically improved, the socialist market system and the legal network

are being perfected.<sup>40</sup> All these achievements create favourable conditions for further reform and opening to the outside world. Li Lanqing summed up that the Chinese people by no means deviate from the road toward a prosperous future, which they have found through painstaking exploration at great cost. This analysis of the high-ranking Chinese authority on Chinese economic development has been accepted by the world opinion, directly or indirectly.

The US politicians and businessmen have seen the prospect of the Chinese economic development in the future. The SCIS-US-China Policy Task Force<sup>41</sup> which submitted its study result on China-US economic relations, recommended: 'Globally and regionally the new consensus should reflect shared US-China value proposition' as a means of promoting US interest while giving direction to the overall US-China relationship with the recommendation on Economic and Commercial Relations. The basis of China's importance to the US is shifting from geopolitics as a source to product as a strategic content. To the Soviet Union, geo-economics as a source of production site, commercial market, and an economic partner and competitor as can be seen in figures 14 and 15.

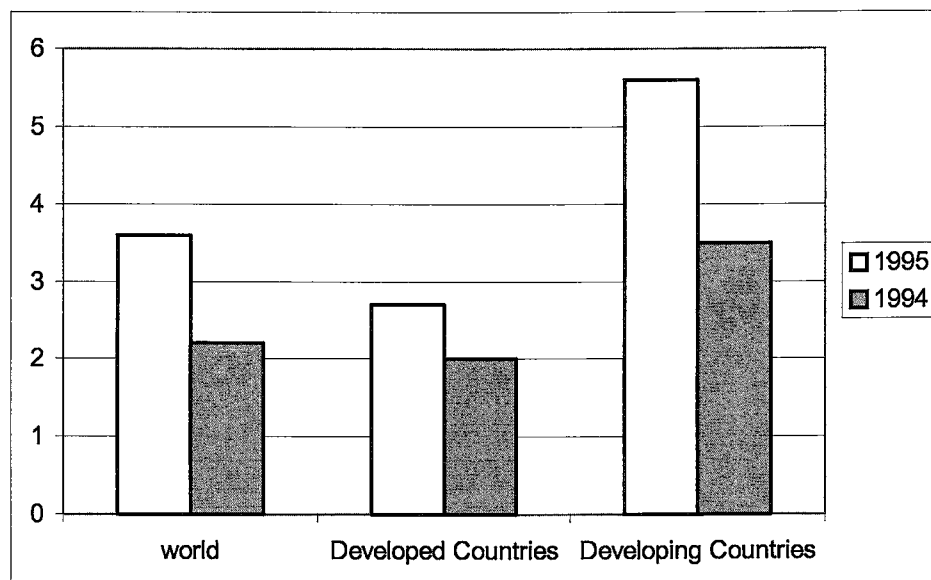
Fig. 14. Position of Major Countries in World Trade



Source: Chinese Publication

Fig. 15

World Economic Growth 1995 &amp; 1994 (in %)



## CONCLUSION

In the case of human rights in China and other parts of the world, it would be wise if the governments and people concerned could solve their own human rights problems. In the specific case of Tibet, let Tibetan and Chinese governments rule the specific condition of the Tibet characteristics. Open Tibet to the outside world to show what is actually happening there. Radio Free Asia should be reconsidered, as Asian people themselves should be free to honour their own values.

The Chinese government has noted that the many negative views on China arise from misunderstandings about the concrete situation in China. It is a reality that information about the actual situation in China is very sparse due to the lack of well-informed media. The role of the media is of crucial importance. To improve the understanding of China more attention should be given to getting information about China from original sources.

Because the US is the largest developed country, and China the largest developing country, their co-operation, dialogue and competition is crucial, not only to these two countries, but for world peace, co-operation and development.



This conclusion is largely focussed on China-USA relations. That does not mean that the conclusions on the relations with other nations are to be neglected. By Focussing on China-USA relations gives priority to the key relation. Chinese foreign policy applies to all countries, but special attention is given to the country with which there are still unresolved problems.

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<sup>1</sup> Beijing Review, February 19-25, 1990

<sup>2</sup> Beijing Review, August 20-26, 1990

<sup>3</sup> Beijing Review, February 19-25, 1990

<sup>4</sup> Beijing Review, February 19-25, 1990

<sup>5</sup> Beijing Review, August 20-26, 1990

<sup>6</sup> Beijing Review, August 5-11, 1991

<sup>7</sup> Asean Secretariat, Jakarta

<sup>8</sup> Annual Report 1991-1992, Indonesian Ministry of Trade

<sup>9</sup> Foreign policy of the Netherlands, September 1995

<sup>10</sup> Siregar, T.M., Open Door Policy 1987/88 Unpublished

<sup>11</sup> Siregar, T.M., Open Door Policy 1987/88

<sup>12</sup> Siregar, T.M., Open Door Policy 1987/88

<sup>13</sup> Siregar, T.M., Open Door Policy 1987/88 , p. 34

<sup>14</sup> Beijing Review, 23-29, 1990

<sup>15</sup> Li Peng, on domestic and world issues-Beijing Review, 1-7-1991

<sup>16</sup> Masayoshi Kanabashi, staff reporter of Asian Wallstreet Journal, October 1997

<sup>17</sup> Ni Feng, Institute of American Studies under the Chinese Academy of Science, Beijing Review June 16-22, 1997

<sup>18</sup> Wang Zhong Ren, Beijing Review, 14-20 1997

<sup>19</sup> Wang Zhong Ren, Beijing Review, 14-20 1997

<sup>20</sup> Wang Zhong Ren, Beijing Review, 14-20 1997

<sup>21</sup> Wang Zhong Ren, China Threat' Theory groundless Beijing Review, 14-20, 1997

<sup>22</sup> Wang Zhong Ren, China Threat' Theory groundless Beijing Review, 14-20, 1997

<sup>23</sup> Wang Zhong Ren, China Threat' Theory groundless Beijing Review, 14-20, 1997

<sup>24</sup> Wang Zhong Ren, China Threat' Theory groundless Beijing Review, 14-20, 1997

<sup>25</sup> Wang Zhong Ren, China Threat' Theory groundless Beijing Review, 14-20, 1997

<sup>26</sup> The Executive Summary of the Report 1997

<sup>27</sup> Wu Yi, Beijing Review, 10-16, 1996

<sup>28</sup> L.T.Hadar, The Sweet and Sour American Relationship

<sup>29</sup> Wu Yi, Beijing Review, 10-16, 1996, p. 13

<sup>30</sup> Wu Yi, Beijing Review, 10-16, 1996, p. 27

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- <sup>31</sup> Report of SCIS USA-China, p. 5
- <sup>32</sup> Report of SCIS USA-China, p. 5
- <sup>33</sup> CSHRs Beijing Review, August 25-31, 1997
- <sup>34</sup> CSHRs Beijing Review, August 25-31, 1997
- <sup>35</sup> Beijing Review, November 10-16, 1997
- <sup>36</sup> L.T. Hadar. The Sweet and Sour Sino-American Relationship, p. 27
- <sup>37</sup> Beijing Review, July 20-26, 1998
- <sup>38</sup> Beijing Review, July 20-26, 1998
- <sup>39</sup> China Economic Reform and Opening, Beijing Review, January 8-14, 1996
- <sup>40</sup> China Economic Reform and Opening, Beijing Review, January 8-14, 1996
- <sup>41</sup> Task Force co chairs: Senator Mac Baucus (D. Mount) Harold Brown, (CSIS Counsellor, representative Jim Kolbe) (R-Ariz), Senator Frank Murkowski (R. Alaska), senator Charles Robb (D. Va), Lawrason Thomas, Amoco Corporation). Task force Corporate members: American Express Company, American International Group, Ameritech, Amoco Corporation, AT&T, First National Bank of Chicago, General Electronic Company, General Motor Corporation, NYNEX Corporation, Owens-Corning Fiberglas Corporation, Philip Morris Companies, Inc, Procter and Gamble Company, Sara Lee Corporation.



## **PEOPLE'S LIVING STANDARD, SOCIAL SECURITY AND CULTURE IN RURAL AREAS**

### **7.1. Introduction**

Chapter 7 introduces preliminary results of Economic Reform and Opening Up, but also its problems. These results manifest themselves in domestic consumption, living standards- especially for the elderly- social security system, pensions, housing, medical services, unemployment, poverty relief, cultural life, education, science and technology in rural areas, social and cultural problems, rural labour forces surplus, social, ethical and cultural problems.

The increasing growth of the Chinese economy has resulted in an improvement in the living standard of most Chinese people. They now enjoy better social security and a better cultural life. China's GNP has jumped to 5,304.5 billion yuan in 1995 from 820 billion yuan in 1980- a 6.4-fold increase. However, the per capita income still remains far behind that in the developed countries, due to its large population.

#### **7.1.1. Domestic Consumption**

Total retail sales have gone up by 15 percent to 1,080 billion yuan. The national economic growth has given the Chinese people more prosperity in many aspects. At the end of the eighth Five Year Plan the per capita income of city dwellers had increased by 7.7 percent, and that of the rural population 4.5 percent. Total sales of consumer goods had risen by 10.6 percent. The prosperity of the people also manifested itself in the savings-deposits of the people (rural and urban) which approached 3,000 billion yuan in 1995. In 1996 these deposits increased by 1000 billion yuan. Food and clothing have been adequate since 1990, while the housing needs will be fulfilled by the year 2000.

Supposing the Chinese goals have been achieved in 2000, the third phase of the socialist development will still have to be carried out: narrowing the economic gap between China and the western countries is still a great challenge.

Hard work is required in order to consolidate the current achievements. The quality of the living standard needs to be further improved. The social security system and the cultural life need further development. Improvement of housing and housing equipment, medical service and care for the elderly is still in progress. True development of Chinese cultural life is still in an initial phase. Science and Technology need much more development. In any case, the foundation has been laid, and in principle, the basic needs of the people have been fulfilled. Achieving optimally is only a question of time. The aim for the first half of the 21st century is the attempt to reach the middle level of income of the developed countries.

#### **7.1.2. Ensuring the Living Standard for the Elderly**

For a long time, many retired rural people were not eligible for pensions. The social insurance system varied per local collective, household and individual situation. Most elderly people without any savings faced financial difficulties after retirement.

In November 1995, the State Council issued a circular outlining the suggestions concerning further improvement of work on the Rural Endowment Insurance. The circular was issued to more than 2,000 counties throughout the country, noting the progress made in the rural social endowment insurance system. This is of major importance in the activities deepening the country's reform, guaranteeing farmers' interest, relieving farmers of the fear of worry after retirement. To China's 900 million farmers, implementation of the social endowment insurance marks an end to dependence on other support during one's old age, which had lasted for thousands of years. In January 1991, the State Council had authorised the Ministry of Civil Affairs to establish an experiment with the rural social endowment insurance system. When the Chinese came to understand the significance of the system, they enforced it with great enthusiasm and the programme quickly spread.

Currently 50 million farmers in 1,500 counties and 28 provinces, autonomous regions and municipalities have become participants. After rural inhabitants had grasped the importance of social insurance, many decided they no longer wanted to be dependent on their children.

### **7.1.3. Reform and the Social Security System**

Economic results have manifested themselves in the social security system and improved people's cultural life. The higher the economic achievements, the higher the prosperity for the people, especially in rural areas.

The principal goal of the reform of the social security system is directed at old-age pensions, both in urban and rural areas. The socialised management of pensions has been introduced to all state-owned and collective enterprises in 2,024 cities and counties, and has been expanded to cover employees of foreign-funded and private enterprises as well as self-employed individuals.

**Pensions.** As the country with the world's largest ageing population, China is facing an enormous task. The number of elderly people (60 and over) has exceeded 100 million. (Beijing Review, February 2-18, 1996). It is estimated that in the next six years this number will rise to 130 million, accounting for 10 percent of the total Chinese population.

In 1995, China had 87.5 million employees and 20.32 million retired people participating in the programme involving the socialised management of retirement pay, a system under which employees pay a prescribed portion of the premiums. Individuals pay premiums equivalent to 2-3 percent of their salaries, with the rate in some cities, such as Beijing and Tianjin, set at 4-5 percent. 12,000 enterprises nation-wide have introduced supplemental old-age pension insurance for more than 3 million employees. Over 700,000 employees have insured their own old-age pensions with individual saving accounts, with the amount of accumulated funds exceeding 50 million yuan.

A multilevel old-age insurance system is rapidly taking shape, and socialised management and services related to old-age pension insurance have been strengthened in order to reduce

the burden that state-owned enterprises previously shouldered. Pensions in 1,406 cities and counties nation-wide are uniformly paid by social security institutions while retirement services and management organisations have been established in many other places.<sup>1</sup>

**Birth control.** In order to improve the quality of life, a birth control policy has been carried out for more than 20 years. However, the success of the programme has not come easy. Much resistance originated in the tradition of raising sons in order to provide a guarantee for one's old age.

This is slowly changing. But the entire tradition is changing, as the Ministry of Social Affairs now advises farmers to save part of the money traditionally spent on weddings, funerals, wine and cigarettes, and convert consumption funds into production funds. In the past five years, farmers throughout the country have paid premiums worth 5000 million yuan.<sup>2</sup> The success of the birth-control policy appears from the decreasing birth rate, which increases the quality of life of the Chinese people.

## **7.2. Housing**

Good housing is essential for a comfortable life. Since 1949, in particular since the Reform and the opening-up (1978), housing construction in China has evidently expanded. During the eighth Five Year Plan housing construction is still one of the priorities. The results are impressive.

If the government's economic development plan works, people's living standards should be quite comfortable by the year 2000, with each urban household having an economical and practical apartment, eight m<sup>2</sup> per person on average. Since 1979, China has accelerated the construction of urban residential areas with more than 2,000. In the past 20 years (1976-1996) a total of 120 million m<sup>2</sup> of dangerous housing were rebuilt or repaired in urban areas. In 1990, there were still 5.4 million urban households who had a per capita living space of less than 4 m<sup>2</sup>, of these nearly 500,000 households had a per capita living space of less than two sq. meters. By 1995, the per capita living space of city and town residents was supposed to have grown to 7.5 m<sup>2</sup>, with half of the housing being apartment buildings. By the year 2000,

the per capita living space will have increased to 8 m<sup>2</sup> on the average and apartment buildings will account for 80 percent of all residential housing. The minimum living space for city and town residents will be 6 m<sup>2</sup>.

Rural housing conditions are better than in the cities. In the past, farmers lived in detached and mud houses. At present, the per capita building floor space in rural areas is about 20 m<sup>2</sup>, and the living space an average 17.8 m<sup>2</sup>. Farmers build their own houses. They have generally profited from the diversified economy and the household contract responsibility system. According to statistics, farmers spent a total of 61,14 billion yuan on building houses. In 1988, an average of 700 million m<sup>2</sup> of new houses had been built since 1979. Half of the rural people have moved into new houses. The Chinese are optimistic about the plan to have new homes built for all Chinese people.

However, there are also some problems in rural housing. Although the per capita living space has expanded greatly, the heating, drinking water and hygiene facilities are lagging behind urban centres. Currently 90 percent of rural villages do not have running water and 30 percent are without electricity. Building activities in some rural areas are spontaneous and without any planning.<sup>3</sup>

In 1995, activities concerning housing reconstruction had succeeded: all the old houses had been repaired or rebuilt with bricks replacing mud. In Beijing, the difference is 0.16 yuan per m<sup>2</sup> in an apartment building and 0.12 yuan in a one-story house. A young couple with a combined average income of 110 yuan per month will pay about 4.50 yuan or 4.09 percent for a two-room apartment of 25 m<sup>2</sup>. A comparison with the situation in the Netherlands shows that the rent paid by low-income groups in the Netherlands averages 31 percent of their income after subsidy. Some people believe that rents in China are too low. In rural areas, some commune brigades have built low-rent apartment buildings. However, one-story farm cottages are still the majority, financed and owned by the family.

Developing industry and township enterprises based on agriculture is an important factor for the rapid development of the country and the acceleration of comfortable housing in the countryside. New techniques have improved building efficiency. According to the General Plan, by the year 2000 all Chinese should be housed comfortably.



**Medical services.** For the 900 million people in rural areas medical services form a crucial aspect of rural social insurance: Medicare, public hygiene, epidemic prevention, and maternity and child hygiene. The medical institutes include county-level hospitals, traditional Chinese medical hospitals and special hospitals, public health centres at township level and village level. These institutes are responsible for treating common and frequently occurring diseases and for providing first aid. Each level has its own responsibility.

By the end of 1994, China had more than 2000 county hospitals containing approximately 400,000 beds. Each hospital was staffed by 177.7 doctors and health care workers on average. China also had more than 500,000 township public health centres with a total of over 700,000 beds, 900,000 doctors, and health care workers. Eighty-nine percent of Chinese villages have medical and health care units. The medical and prevention network has become one of the pillars of China's rural health care service.

China's medical service system had been initiated in 1940 under difficult conditions in areas fighting the anti-Japanese war. It was improved in the 1968 directive of Mao Zedong. The health care system set up by farmers through co-operation and mutual aid basically satisfies the needs for medical and health care service.

Since in the early 1990s the government implemented the programme of 'Health for All by the Year 2000', the rural co-operative medical and health care system has developed rapidly. China is currently committed to radically upgrading the quality and broadening the scope of the rural co-operative medical system. With support from the WHO, the State Council Research office and the Ministry of Public Health have organised universities and colleges to conduct research on the most appropriate ways of reforming the health-care system in 14 counties in seven provinces.

A co-operative medical and health care system for which funds are jointly borne by the collective and the individual was established in economically less developed areas. The share of the farmers is minimal as they have little capacity to take risks. In the nation's most economically advanced rural areas the co-operative medical insurance works best. Because of the limited financial resources, the public health service must work hard to deal with all the problems.

**Unemployment Insurance.** By the end of 1994, the unemployment insurance programme covered 95 million employees. In that same year, over 1.87 million unemployed workers received relief funds. The reform has yielded gratifying results in reducing medical service expenses and ensuring basic medical services. In addition, significant progress has also been made in universalising the socialised management of medical expenses for retirees and employees affected by serious illness.

In terms of industrialised injury insurance, pilot projects for the socialised management of industrial injury payments based on a floating rate have been launched in 868 cities and counties throughout the country. With regard to childbearing insurance for enterprise employees, socialised management of the childbearing fund has been introduced to 539 cities and counties nation-wide.

**Poverty relief.** In order to help the poor areas, the Chinese government established the 'Help for education for the poor'-foundation in 1991, allocating 200 million yuan per year, specially aimed at the development of education in poor areas. In addition, 30 to 40 million yuan in education fees paid by enterprises directly under the central government are used exclusively for educational development in poor areas. For the development of the nine-year compulsory education in 225 counties of 12 provinces and autonomous regions, loans of 200 million dollars have been received from the World Bank.

As a result of the government's call to organise the entire society to give support to the poor areas ('the Hope Project'), donations have yielded 350 million yuan. 749 Hope primary schools have been set up and over one million children who had been forced to leave school because their families were too poor to support them, have resumed their education. Various other measures have also been taken to provide university students from poor families with financial aid. In 1994 alone, the government allocated 217 million yuan to be used exclusively for helping students with financial difficulties receive a higher education.

In order to help peasants in poor areas raise their cultural level, the government has taken measures to help the peasants free themselves from illiteracy and move towards a higher cultural development.

According to statistics, Chinese illiteracy totalled 320 million in 1949 - 80 %! Thanks to the hard work of the Chinese people and its leaders, the illiteracy rates have dropped greatly. By 1990, the number of illiterates over the age of 15 had come down to 180 million - 22.2 percent. In 1994, this figure had dropped to 150 million - 17 percent of the 1.2 billion people.

The Chinese government has paid great attention to improving education in minority areas. A look at the five ethnic minority areas / autonomous regions - Guangxi, Xinjiang, Inner Mongolia, Tibet and Ningsia - shows that the difference in average of the enrolment rate of these children and those in the rest of the country, dropped from 2.5 percentage points in 1990 to 1 percentage point in 1994.<sup>4</sup>

### **7.3. Cultural Life**

The improvement of the cultural life of China's rural population creates new opportunities for the national economic development.

Since 1949 the Chinese government has paid much attention to farmers' cultural life and has established a huge cultural system devoted to education, health, sport, and recreation. Almost all townships and villages have public spaces for recreational activities, including outdoor basketball courts, cultural centres, open-air cinemas, and libraries.

Wang Bin, professor at Beijing University, expert in rural sociology, thought that the Chinese village culture (or rural culture) centring on each household, had a traditional foundation, but was hampered by social reform. At present in the countryside, there is a rising tide of market economy, so that farmers' enthusiasm for production is in high gear. Nevertheless, the village culture still lags behind. An important reason for this was in the minds of some local leaders who only paid attention to 'making profits and developing the economy' and the weak rural collective economy, which influenced rural cultural development. The withdrawal of some service institutions from the areas where the people do not have adequate food and clothing prevents them from becoming self-sufficient.

In some places, one finds peasants' philharmonic orchestras, and many villages increase their recreational and sports activities and strengthen the position of the writers and artists in their ranks. Public places of entertainment have been established. Lectures on science, technology, and culture are frequently given. Colourful recreational activities change the social conduct in the villages.

At different levels the authorities have paid much attention to changing the rural conditions, e.g. by sending culture to the countryside, the establishment of the nationally culturally advanced counties, the construction of a '5,000 km frontier' cultural corridor - a plan sponsored jointly by ministries and committees, including the Ministry of Culture and the State Education Committee, which covers development targets and concrete measures for Cultural Activities and Education for Chinese Village Children for the year 2000. It is estimated that in 1997, twenty state rural children's cultural gardens will be completed and more of such gardens will be constructed in all townships, counties, prefectures, municipalities, and provinces in China.

The Ministry of Culture has allocated funds to support drama troupes to entertain rural children, to recover, perfect and improve the county-township-village cultural network as a precursor to rebuilding the village culture.

Recently the Beijing Cultural Bureau has raised 2 million yuan for installing TV-sets, video players and karaoke machines in cultural centres in the remote mountain areas. In the sparsely populated remote areas and the areas where ethnic minorities live, the government has spread and supported flexible and practical mobile cultural centres that combine film projection, books, performances and picture exhibitions. Universities have received 10 million yuan in funds and will open training classes at the Central cultural cadres Management Institute and art schools throughout the country were asked to be geared to the needs of the public.

Sponsored by the Cultural Aid to the Poor, the Poor Committee, the Press and Public Administration and the Farmer's Daily, the 10,000 Villages Library Project (1994) was put into effect throughout the country. By the end of 1995, small libraries were going to be built in 25,000 villages. In 1994 the Cultural Aid to the Poor-programme committee established 28 satellite TV receiving and transmitting stations in poor areas.

**Education for the People.** For further economic development, it is imperative for the cultural level of 800 million farmers in rural areas to improve. Despite the limited resources, education and science take up an important place in this development. A start has been made with an education system on a rational structure and with a quite complete range of subjects.

By 1994, the country had altogether 683,000 primary schools with 128.2 million pupils, an increase of 4.7 percent over the 1990 figure; 82,000 regular middle schools with 49,817,000 students; an 8.6 percent increase over 1990; 1,080 universities and colleges with 2,799,000 students, a 35.7 percent increase over 1990; 1,172 schools of higher learning for adults with 2.3 million students, an increase of 41.1 percent; 18,700 secondary vocational schools of various grades and types, a 39.8 percent increase over the 1990 figures. These figures indicate the potential of education in the social and economic development in the first quarter of the 21st century.

**Science and Technology.** In order to attain the long- and short-term purposes for rural economic development, Chinese leaders have given special attention to the development of science and technology to accelerate the people's capacity to boost economic development. Xin Naiguan, Director of the Science and Technology Division of the Chinese Agricultural Science Institute said that nearly 5000 new cultivars have been developed by scientists across the country over the past 45 years. Seeds for staple crops such as wheat, rice and corn have been upgraded four to six times.<sup>5</sup>

Improving seed quality alone has been responsible for a yield increase of 50-130 percent. The wheat yield is currently five times the figure of the early 1950s, and the Chinese annual farm output in 1994 doubled the annual total of a decade before.<sup>6</sup>

In the meantime, a bulk of new varieties promises an even greater growth. For example, hybrid wheat 901 has increased the yield per local unit area by 39.4 percent as the Beijing Seed Company showed on a 600,000 hectares test site in North China. The most dramatic result has come from rice hybridising methods developed for rice export by Yuan Long Ping. Over the past dozen years, Yuan's hybrid had increased the country's total rice production with more than 240 million tons, more than 50 percent of the national grain production (1995). Yuan's hybrid technology has been used by many other counties, leading an official

with the UN Food and Agricultural Organisation (FAO) to praise Yuan's work as a contribution to mankind as a whole.<sup>7</sup>

In Chapter 5, I already discussed the role of science and technology. Here I will focus on the role of human resources in rural areas, especially with regard to culture.

China has a total of 50,000 small cities and towns under intensive construction which provide opportunities for a booming cultural life, as was announced jointly by the State Bureau of Technological Supervision and the Ministry of Construction. The Village and Township Planning Standard stipulates the installation and replacement of recreational and sports facilities, including cultural centres, homes for youths and children, cinemas and theatres.<sup>8</sup>

With the five-day working week, more people have leisure time in which they can explore their creativity and for example take courses to enhance their cultural life. The increase of cultural activities in rural areas meant an increase of human resources through education, courses, and training for social practices, which made people healthier, not only physically, but also mentally.

This development of rural people's social and cultural life runs parallel to the economic growth. Besides, they have a mutual influence on each other.

#### **7.4 Social and Cultural problems**

The Chinese efforts to fight poverty and promote a better living standard and social security have achieved much. Nevertheless, many problems remain to be solved. In 1990 the population living in deprivation dropped from 85 million to 65 million in 1995, and to 58 million in 1996. Estimates are that this problem can be solved by the year 2000. The system of the five-day working week was introduced in cities and townships. Urban and rural people are both moving towards a relatively comfortable standard of living. Their cultural life has also been enriched<sup>9</sup>. However, behind this success still lay many problems. Two large problems concern social and cultural issues: the agricultural work force surplus and the

ethical problems. It seems that these problems emerged from the effects of the combination of technological development and growth of production.

#### **7.4.1. Rural Labour Force Surplus**

During the final year of the 8th Five Year Plan worries emerged over the labour force surplus, which western countries refer to as unemployment. Raw estimates refer to 100 million people. Causes are the use of more machinery in agriculture, the decrease of cultivated areas and the bankruptcy of some state-owned enterprises. The solutions for these problems varied according to the individual country's condition and environment. Indonesia for example, has solved the problem through transmigration, resettling farmers from the rural overpopulated islands of Java and Bali to sparsely populated outer islands such as Sumatra, Kalimantan, Sulawesi and Irian Jaya. In China the work force surplus will be distributed into industrial or other projects such as township enterprises, and is limited in sparsely populated areas.

#### **7.4.2. The Proportion of Rural and Urban Population**

Some estimates show that 68 per cent of the Chinese people live in rural areas and 32 percent in urban areas. These were wrong figures. Chinese sources estimate that in 1985 the urban population counted 211.9 million. In addition, if one excluded those people living in semi-rural areas surrounding the cities, the total population of the cities would amount to 118.3 million. This would mean that only 12 percent of the total population live in cities. Thus, the rural population amounts to 80 to 88 percent, an overwhelming figure. On the other hand, big cities such as Beijing, Shanghai, and Tiantjin are inhabited by a population of about 10 million.

China has a historical background as an agricultural nation. The revolution started in rural areas and re-education of young people during the Cultural Revolution also started in rural areas (see 2.3.1). Because of this situation, China could not follow the western urbanisation policies, where only between 5 and 15 percent of the population live in rural areas.

## **7.5. Way Out**

In order to solve the labour force surplus, national politicians, scientists and central and local leaders are working hard to find a way to resettle the labour force surplus. The idea is that China should not practise traditional European urbanisation, but rather create a new system of urbanisation of rural areas according to the specific Chinese situation and condition. Moreover, the promising development of township enterprises will concretely contribute to reducing the surplus, along with a growing rural economic development and the role of secondary industries to boost rural industrialisation.

The following should probably be considered seriously: deepening the reform in state-owned enterprises and the reform in administrative institutions, the social effects of competition and the preservation of stability in the cities.

Currently the capacity of township enterprises is promising. Upon entering the year 1997, China had a total of 23 million rural enterprises. Among them, there are more than 5000 large and medium-sized companies and 736 conglomerates. They are expected to become market oriented in an effort to integrate the development of agriculture with rural industries. Township enterprises with a value added output of 1770 yuan in 1996 accounted for one-third of the Gross Domestic Product.<sup>10</sup> This is promising, not only as it may absorb the surplus labour force, but also for the whole social and economic development.

### **7.5.1. Social, Ethical and Cultural Problems**

The Chinese leaders have recognised that behind the economic progress ideological, ethical and cultural problems have emerged. The positive material developments had gone ahead under pragmatic slogans launched by Deng Xiaoping in 1980 such as 'the white or the black cat - no problem as long as they catch the mouse', 'let some people first become rich and then the others' and the theory of 'using momentum'. Yet, to some people these slogans may sound



capitalistic and unacceptable as they entail a separation within the Chinese people. I think this criticism is one-sided and tendentious.

Since the new policy was launched in 1979 (reform, open door policy, importing western technology), The Times suggested that also 'the western lifestyle' should be adopted and copied by China.<sup>11</sup> This suggestion is still open for discussion.

The Central Committee of the CCP in its Communiqué of 1996 mentioned a 'failure in the promotion of ethical and cultural progress and even a change in the nature of society'. It further stated 'While promoting material progress, we must effectively raise the promotion of ethical and cultural progress under the current new situation'. This is of crucial importance to the Chinese leaders. 'The Soviet Communist system collapsed, not just because it was contained by western military power but also because it was penetrated and ultimately subverted by information and ideas, including the big ideas of democracy', said Strobe Talbot, deputy Secretary of State of the US in his article 'Democracy and National Interest'.<sup>12</sup> This is why the Chinese leaders worry that the so-called 'freedom of information' will have negative effects on the Chinese people.

The CC of the CCP has taken steps for introspection. In order to ensure the socialist progress, they have decided to stop passive corruption, put right wrongdoings, eradicate social evils, prohibit the spreading of cultural garbage, and to improve public security. The document emphasised the basic ideology: adhering to patriotism, collectivism and socialism. It is important to arm the whole party and educational cadres and the people with socialist ethics and the principle of love for the motherland. Also promoting family values, respect for the aged, love for the young, equality between the sexes, harmony between husband and wife, industry and thrift in household management and neighbourhood unity.

**How to improve the ethics in urban and rural areas.** Gradual progress will be achieved by small steps, first by improving the farmers' livelihood and quality of life, constructing rural areas in a new style as the target of the activities of building civilised villages and townships. This will happen with proper planning allowing the progress to spread from village to village in gradual progress, with the consolidation of the grassroots government, the strengthening of the collective economy, the enhancement of rural collective organisations, promoting family planning, conservation and environmental protection. Villages and townships can work out

these rules in accordance with state laws and regulations, break away from outmoded customs, oppose illegal religious activities, work hard to bring culture, science and technology to rural areas to continue the 'aid the poor' programme.

These are the political directions meant to guide the people in making their own cultural progress and strengthening the socialist economy.

## 7.6 Conclusion

This chapter shows that the economic results are really improving the people's living standard. The material results have been positive, and encourage the Chinese to be enthusiastic and achieve even more. The enthusiasm has manifested itself in the people's social life, social security and cultural life. On the other hand, there are also some negative side effects to the improved material situation and the implementation of the social-economic system, and these should not be underestimated.

The signal from the Chinese leaders that these negative effects could do damage to the results is of crucial importance. Seen from China's position and its strategic goals, it is imperative that action be taken before it is too late.

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<sup>1</sup>. Beijing Review, July 31, 1993

<sup>2</sup>. Beijing Review, February 12-18, 1996

<sup>3</sup>. Beijing Review, May 13-19, 1991

<sup>4</sup>. Beijing Review, May 13-19, 1991, The Progress of Human Rights in China, 1995

<sup>5</sup>. Beijing Review, April 8-14, 1996

<sup>6</sup>. The Agricultural Ministry Report 1994

<sup>7</sup>. Agricultural Ministry Report 1994

<sup>8</sup>. Li Fugen, China Today, September 1966

<sup>9</sup>. Li Peng, Report to NPC, March 1996

<sup>10</sup>. Beijing Review, February 3, 1997

<sup>11</sup>. Times, 18 February, 1987

<sup>12</sup>. Foreign Affairs, Vol. 75 No. 6



## **GENERAL DISCUSSION: THE ROLE OF VILLAGE TOWNSHIP ENTERPRISES**

### *Introduction*

This final chapter summarises the study, divided into three parts. They will briefly describe the historical background of this project and show the relationship between the past and the present, i.e. the transformation period from liberation to the current modernisation.

This Chapter is a summary of the survey covered in Chapters 1 to 7 and as such is still open for discussion also because of its large scope but less specification. It serves as an introductory study of the Chinese economics with its special characteristics. The chapter is divided into three parts. The first part introduces briefly the historical background of Chinese economic development, a transformation from the old system to the new one, a socialist country, after the end of the Chinese Revolution in 1949 to the end of 1970s, characterised as country in transformation and adjustment. The second part covers the period of economic development by the policy of reform and opening up in rural areas. This new strategic policy was guiding the socialist market economy condition, its process and its preliminary results since 1978 to 1995 as the focus of the survey-investigation. The third part, is to give special attention to the role of the Village Township Enterprises, not only in the rural economic development, but also its role in the increasing national economic development and foreign trade, thus making China a promising country. Finally, the prospect of the Chinese socialist market economy until the end of this century and beyond is examined, with the Chinese role and contribution to the international economic development through co-operation and competition in peace.

During the period 1949 to 1978, the Chinese leaders laid down the socialist economic foundations whereupon the leaders of 'Reform and Opening up' introduced the "Four Modernisations". Despite the situation being difficult during the transformation and the Cultural Revolution, the hand-over of the 'baton' of leadership took place smoothly and with full tolerance and understanding.

From 1949 to 1995, there were two phases to Chinese economic development. During the first phase, the socialist economic foundation was laid, while the second phase saw the fulfilment of the plans laid down by the strategic architects, based on actual national conditions and the international situation. During the 15-year period the "Four Modernisations" programme has demonstrated the superiority of the Chinese methods to build the country according to their plan. Agricultural modernisation was set as the top priority. It is surprising to the outside world that China, a country with the largest population of the world but lacking in land, capital and technology, and with poor infrastructure facilities, has managed to provide the population with sufficient food, ending the old history of hunger and starvation. The government reformed the Peoples' Communes according to the new situation after thirty long years. Non-agricultural enterprises emerged, called Village Township Enterprises (VTEs) which accelerated rural economic development, supporting the urban economy and increasing foreign trade (export and import) and deepened reform and exploration and exploitation of local resources to grow domestic products.

The development of power energy, water conservation, transportation, and telecommunication will change the face of rural areas by the year 2000. The increase in foreign economic relations, co-operation and foreign trade, importing advanced technology, invited foreign investment and increased exports as the pre-requisite to sustained economic development. The special attention to increase in science and technology education will be a guarantee for a far-reaching strategy for international co-operation, competition, peace, and development.

### **8.1. A Brief Historical Background to Modernisation (Prologue to the Reform and Opening up)**

After China's liberation the Chinese launched an economic transformation from the old economic system into a new one. In 1995, the fundamental transformation and development had taken 45 years (1950-1995). This period may be divided into two parts. The first (1950-1978) was characterised by fundamental changes in rural areas. The second part (1980-1995), to be discussed here, was a period of development and modernisation. The process

of the first part was the confiscation of bureaucratic ownership into state-ownership of enterprises. The land controlled by the landlords and rich farmers was distributed to the landless and poor peasants and others. The maritime customs, foreign trade, transportation, banking had been put into the hands of the Peoples' government. Private enterprises that did not operate against the revolution were allowed to continue. Since that time, China has had three kinds of ownership of the means of production: the state enterprises, private enterprises, and the small-scale landowner peasants, who did not take long to introduce a co-operative economic form of operation.

The peasants, small landholders, united into co-operative economic organisations for better economic results. These were organised in the form of mutual help, and then improved into a higher co-operative based on working together and each getting according to his input. The co-operative system developed from a simple to a more complex organisation is called a high-level co-operative. All this happened as part of the first Five-Year Plan 1953-1957. The economic development policy was launched on a self-reliance principle. Only Sino-Soviet Union foreign economic co-operation existed in China. However, in 1960 this project was ended and the experts withdrew from China. This situation forced China to work harder and struggle against embargoes and the effects of the withdrawal of the Soviet Union.

Ideological and political disputes between China and the Soviet Union became more serious. In China, disputes also emerged about the way socialism should be developed in China. Mao launched criticism against revisionism and 'capitalist roaders' in China. He pointed out that the development of socialism in China must proceed from its own actual conditions, and he warned against blindly copying the methods of foreign countries. He criticised the planning method for being too centralistic. The mass method in economic development in China should be practised. The enthusiasm of the masses was an important effect in the period of "The Great Leap Forward": the emerging of Peoples' Communes as the concentration of the power in the rural areas, manifested by the 'Masses enthusiasm' and the struggle between two lines of thought, international polemics, and economic and political pressures.

The historical role of Mao Zedong in China's revolution and its economic and social development has been decisive and invaluable. He provided China's people with the theoretical guide to lead China according to its actual conditions and the situation abroad. After the death of Mao, the National Congress accepted a resolution that assessed Mao's role in China's history. Congress concluded: Mao was a great Marxist, and a great proletarian revolutionary, strategist and theorist, although he made various mistakes, some of them quite serious, especially in his later years. Judging his life as a whole, his contribution to the Chinese revolution far outweighed his errors. From an early age he had dedicated himself to the Chinese revolution and fought for it throughout his life. <sup>1</sup>

Commenting on failure in the period of Mao Zedong, the National Congress of the CCP said it was a result of the socialist movement being young and inexperienced. In assessing the Cultural Revolution (1966-1976), the Congress summed up: Despite the economic losses, progress did not come to a complete halt. Grain output increased relatively steadily. A large number of industrial enterprises using advanced technology went into operation. Roads, railways, and bridges were built. Scientific accomplishment ranged from satellites and nuclear bombs to new hybrids of rice. Despite domestic turmoil, the Peoples' Liberation Army (PLA) continued to defend the Chinese motherland as its first duty. In addition, a number of advances were made in foreign affairs. The resolution added: "The successes took place in spite of the Cultural Revolution". <sup>2</sup>

#### **8.1.1. Foreign Relations**

The relations with foreign countries were resolved successfully. Whilst the Cultural Revolution was still underway in 1971; the Chinese rights in the United Nations were restored by a supporting majority of member states. The visit of US President Nixon to China in 1972 marked a victory for Chinese foreign policy. In 1975, the relationship between China and the European Community had been sealed by both sides. The diplomatic relationship between China and the US, Japan and Western European countries had been normalised. Despite the ideological dispute, diplomatic relationships with the Soviet Union never ceased, while the political relationship did not worsen. During this period, political and economic relationships with developing countries remained constant and stable. The relationship between China and other countries based on Mao's theory on

the division of three worlds as introduced to the sixth United Nations Assembly in 1974 is still ongoing.

### **8.1.2. Production**

The idea of Modernisation in China came from Mao Zedong, was made public by Zhou Enlai and specified by Deng Xiaobing. The guiding principle of Modernisation, based on Mao Zedong's thoughts was as follows: Make the past serve the present, and foreign products serve China. Implementing this theory, the Chinese government launched a readjustment to its policy for agriculture. It made its top priority the accumulation of capital and the mobilisation of the farmers. The mission of the Peoples' Communes to concentrate power was adjusted to this reorganisation. The Peoples' Commune System was reformed to become more efficient and achieve higher productivity. Agriculture was managed separately from non-agricultural activities. The cultivation of the land was decentralised into the hands of households with a contract responsibility system. The farmers worked harder than before, to improve agriculture production growth. At the same time the non-agricultural sector operated more extensively, for example in agricultural processing, light industry, sideline products and trade. This system intensified and extended agricultural production. It increased not only output of grain products, but also cotton, oil crops, animal husbandry, fishery and others. The non-agricultural products also developed rapidly under a system called Village Township Enterprises (VTEs). So now rural economics covered three economic sectors; agriculture, VTEs, and services, especially trade.

### **8.1.3. Conclusion**

China's modernisation period was characterised by the slogan "Reform and Opening up to the Outside World". The agricultural reforms increased production output, improving farmers' living standards. At the same time, the VTEs' expansion played a role in absorbing surplus rural working population, supporting the urban industries and strengthening a solid national economic foundation in rural areas, improving production quality and encouraging national foreign trade.



In this case, it is impossible to consider the reform and opening up without considering its historical background, because the development and modernisation can only be seen as a logical follow-up to the development that went on before.

## **8.2. China's Economic Development and Modernisation 1978-1995**

### **Reform and Opening Up**

Since 1978, the Chinese government has taken some important measures to realise the Four Modernisations Programme policy. The Four Modernisations include (1) Agriculture, (2) Industry, (3) Science and Technology, and (4) National Defence. Agriculture had been set as the top priority, followed by the other three, industry, science and technology and national defence. This paragraph will summarise the implementation of the policy in rural areas; the reform of agriculture, seen as a guarantee of stability, and the development of the non-agricultural sector called Village Township Enterprises (VTEs); the exploitation of local resources, expanding foreign trade, developing the infrastructure, science and technology by systematic planning.

#### **8.2.1. Agriculture: Tasks, Problems, and Results**

Based on the Chinese saying: 'Without agriculture no stability, and without industry no prosperity', agriculture was set as the top priority. Agriculture was separated from non-agriculture, which had been under the management of the Peoples' Commune since the end of the 1950s. Such a policy will give more responsibility to agriculture, intensify the farmer's efforts to realise the task of agriculture and solve the difficulties. Agriculture will produce more grain and also non-grain crops to feed the Chinese, which is the largest population in the world, but short of arable land. That was made more serious by its decrease of area of land, due to an increase in industrialisation and requirements of land for public utilities.

In order to solve the lack of cultivated land for grain, while the population growth increases continuously, a balance must be achieved between supply and demand for grain. This is done by increasing the individual farmer's productivity by setting household production to a

contract system, and increasing the amount of available cultivable land by land reclamation, by increasing non-grain food production by exploitation of grassland, and increasing livestock. Moreover, this is done by exploiting hillsides for fruit and vegetables, using lakes and rivers for fishery, lowering the population growth through the policy restricting families to one child per couple, and by delaying marriage.

The agricultural output per unit is increased by using science and technology and by intensifying research into China's agricultural methods. More than 30 percent of China's agricultural growth is a result of science and technology. For example: a marked progress in breeding and disease and pest control in rice, the development of a vaccine against hog viral pneumonia and the use of low toxic vaccines against chicken disease allowing Chinese farmers to develop mechanical feeding on the farm.

Thanks to the increase of non-grain food, grain consumption could be reduced and replaced by meat, milk, eggs, fish, fruit, and vegetables, leading to a better nutrition. The average life expectancy of the Chinese has increased from 39 in 1950 to 70 years today. The health of the population has increased considerably, as has the overall standard of living.

For long-term purposes, the government has taken some social and ecological measures. The birth control policy of one child per couple and also a delay in marriageable age has lessened the burden on Chinese authorities. Before the implementation of birth control measures, the Chinese population growth averaged 15 million per year. Now this has been reduced to 7.5 million per year on average. An afforestation policy plays an important role in protecting the land from erosion and flooding. Desert land has been reduced by planting new trees, and food losses could be reduced by protecting the land from natural disasters like flooding, and better water supplies could be used to improve grain fields and increase the yield per unit of land.

### **8.2.2. Results**

The result of all these measures is that the balance between consumer and supply is positive. During the period 1950-1995 grain production increased by 450 million tons from 113,200 million tons in 1950. On the other hand, the population increased to 1,214 million

from 540 million in the same period. Grain production increased 3.9-fold whilst the population increased 2.2-fold. Thus, the ratio of population growth to food production growth is positive.

### **8.2.3. VTEs and Their Historical Task and Role**

The VTE is a new emerging economic institution in rural China. Since the separation of non-agricultural economic and social activities from agriculture in the Peoples' Commune, this new institution has developed rapidly, but is still in its initial phase. In the beginning of the ninth Five Year Plan (1996-2000), the total number of VTEs was 23 million and they employed 127.8 million people in 1994, 69.3 percent more than in 1987. According to the Ministry of Agriculture, 4,531 VTEs have entered the ranks of large and medium-sized businesses. Their fixed assets average 35.46 million yuan, 645 times the national average level for VTEs. Their profits and taxes payments are respectively, 399 times and 381 times the average level. VTEs with value added output of 1,770 million yuan in 1996 accounted for one third of the GDP (BR2-3/7-97). The VTE's function is to support agricultural development, and to make a bridge to urban industries, absorbing agricultural workforce surpluses, improving productivity and quality to increase foreign trade, and to strengthen the national economic development.

Indications are that the VTEs and their popular name "Rural Industry or Township Enterprises" are still in an embryonic stage, still making progress in their development. Agriculture and the VTEs are the two children of the rural economy of China. For a long time, these two sectors were organised through the Peoples' Communes. Since modernisation in the 1980s, the two have been separated. Rural industries were directed to organise all non-agricultural activities in rural areas, to develop industrial elements, sideline economy, commerce, and other services.

China's rural policy based on that theory of "collective economy" continues to be the general goal. As long as production expands, division of labour increases, commodity economics develop into a higher form, and the collective economics develop, the collectivisation in the countryside will develop into a higher level of management. Thus developing a diversified economy, and increasing the income of the collective unit both in

absolute terms and in relation to the total income of the economic unit. VTEs are designed to improve the collective economy in rural areas.

#### **8.2.4. Results and Problems**

Since 1978, the vitality of rural industries has demonstrated its abilities and capacity. Since separating from the agricultural activities of the Peoples' Communes in 1950-1957 local industries accounted for 32 percent whilst central industries accounted for 68 percent of the national industrial output since separating agriculture from Peoples' Communes. In populous areas rural industries expanded rapidly. In the period 1978-1987, the VTEs were active in traditional handicrafts, agricultural production processing industry, transportation and commerce and service trades. There were a total of 17.5 million VTEs with fixed assets of 160 million yuan, employing 88 million workers and staff, or 22,6 percent of the total labour force in the rural areas. Since 1981, the VTEs have absorbed 8 million rural workers a year. Total output value increased to 476 million yuan in 1987 from 49,200 million in 1978, and taxes paid to the state amounted to 83,000 million yuan.

The government supported rural industries to improve VTEs' management, working out specific regulations for exploitation of resources, technical backing, standardisation and widening rural employment. In 1993, the output value of the VTEs increased to 2.700 billion yuan with a growth rate of 67 percent. The share of rural non-agricultural output value was estimated at 49 percent in 1993. The VTEs received scientific support from the Rural Development Institute

Due to the lack of financial investment and technical know-how of workers and staff, the VTEs face difficulties in improving their role and share in national economic development, and in strengthening their position in general, as well as linking their activities with the big national industries in the cities.

#### **8.2.5. Exploration and Exploitation of Local Resources**

To increase economic resources, exploration and exploitation of local resources is imperative. The Chinese have many ideas, proceeding from their local actual conditions, to

create diversified resources. The opening of Special Economic Zones (SEZ) in Southeast China has attracted foreign investors into China since the 1980s. The five Special Economic Zones have played an important role in increasing economic development with the aid of special regulations. The opening of 14 coastal port cities along the East Coast of China enlarged China's windows to foreign countries, and special regulations were introduced. Regional development included two important policies: to exploit the special conditions of western China from the north-west to Southwest China and Tibet, categorised as poor areas, and Xinjiang with its rich mineral resources and wasteland. Tibet is well known for abundant grasslands, especially good for animal husbandry, and its valuable historical heritage. Southwest China has a specific topographical condition, but is rich in hydropower resources and is linked to the countries of Southeast Asia. Northwest China and Southeast China played an important role in linking the many parts of China. The development of this west and central part of China will have changed this area from being a relatively isolated region to one with an important position in China and in international relations.

The Eastern part of China is well known as a rich area, with its high per capita income. This will be directed to increasing the prosperity of the whole of China, and will, directly or indirectly, play an important role in increasing economic development in the western and central regions of China.

Government policy is aimed at narrowing the gap between the rich and the poor areas; it is a crucially important policy, not only for economic development and stability, but also for national unity among the Han nationality and the ethnic minority population. This policy means that closing the gap between the rich and the poor areas in east and west is a top priority. The gap is too wide. For example, the gap between rich areas such as Shanghai and the poor province of Quizhou per capita income is 10:1, an extremely polarised income level.

#### **8.2.6. Rural Economic Improvement**

The growth of VTEs and the intensification of economic reform and regional development increased the number of VTEs surprisingly. Since the period 1983-1988, the VTEs numbered 18,881,600 with a total of 95,454,600 workers (average of 5 workers per

enterprise). The year 1995 saw a regrouping of these VTEs into primary, secondary and tertiary industries, respectively 21.2, 51.8 and 27 percent. The secondary sector plays an important role in increasing industrial products. According to Rural Development Institute statistics, the role of rural economics in the national economy has changed dramatically. In 1978 the urban enterprises decreased to 46.9 percent, while rural economy increased from 34.2 percent to 53.1 percent in 1994 in industrial proportion (1987-1994). In 1995, China's Gross Domestic Product totalled 5,773.3 billion yuan (or \$687 billion dollars). The Statistical Communiqué of the PRC on the 1998 National Economic and Social Development indicates that the 1997 Gross Domestic Product has increased to 7.955 billion yuan, or US\$ 904 billion (US\$ 1 = 8.27 yuan). This increase of the national and rural economic growth was due to the increase of energy, transportation, telecommunications, foreign trade, the improvement of science and technology, and capital investments.

### **8.2.7. Structural Reform**

#### **8.2.7.1. Rural Economic Structural Reform**

Besides horizontal economic reform, vertical reform was also implemented in China for greater economic results. The Chinese people had taken the initiative to restructure its agricultural and non-agricultural enterprises. My visit to China in 1993 included discussions on national economic development policy in Beijing, as well as visits to grassroots VTEs in Beijing, Fujian, Jiangxi, and Guangdong. There are three ways in which VTEs improved, changing their activities according to local conditions. Firstly, the VTEs saw changes from agricultural production to industrial activities and ideological education. Secondly, the agricultural activities have been improved to industrial activities and linked to science and technology activities. Thirdly, agricultural activities changed to urban activities, in the form of the Agricultural, Industrial, and Commercial Corporation. The first of these three forms of VTEs is represented in Sunway Village in Jiangxi Province near Nanchang City, the second is the Flying Phoenix in Foochow in Fujian province, and the third is Luguo Jiao in suburban Beijing. All three models of VTEs showed an improvement to a higher standard, in the form of the initial stages of Agriculture and Commercial Corporations of China.

### **8.2.7.2. The Torch Programme**

A new development in China is the so-called Torch Programme. Its activity is in technical commercialisation enterprises, approved by the State Council in 1988. The project was placed under the supervision of the State Science and Technology Commission. It was designed to promote commercialisation and industrialisation of new technical achievement. The Torch programme has become important in many cities, and has proved to be a new structural form of economics in individual sectors to increase high technology and to increase economic development in China. This project has been spreading widely, attracting a great number of enterprises and scientific research institutions. The Torch Programme can be found throughout China in all provinces, municipalities, and autonomous regions. Shanghai alone has 283 Torch projects, including 48 state level projects. The production has increased in export commodities, as well as the production of large national industries.

### **8.2.8. Foreign Trade**

Due to the rapid development of rural industry, foreign trade has increased sharply. In 1980 the Chinese partnership in foreign trade increased to 174 countries and regions. Sino-Japanese trade occupied an important position. China and the EU established their official relationship in 1975. Sino-American Trade relations began after the signing of the Shanghai Communiqué in 1972. In that year trade between the two countries was less than \$100 million. Since the diplomatic normalisation in 1979, the trade value has jumped to \$2.45 billion. In 1980, Chinese foreign trade to the first world (USA and Soviet Union), the second world and the third world totalled 37.27 billion dollars. In 1997, the total amount of foreign trade had increased to 350 billion US dollars.

The emergence of rural industries expanded the foreign trade of China. Rural enterprises take part in foreign trade with enthusiasm, such as processing and assembling for foreign customs and import technology for rural areas. The VTEs' value of exports in 1994 reached 339.8 billion yuan, or \$40 billion. Rural areas exported commodities are: clothing, handicrafts, hardware, light industrial goods, textiles, building materials, and agricultural process products. During the period 1991-1995, the volume of township products increased

continuously. The 5 Special Economic Zones (SEZs), the 14 coastal city ports, and the "border trade areas" are newly created channels to increase the volume of foreign trade. In 1995 foreign trade increased to \$280 billion from \$5.08 billion in 1979 (55-fold).

The increase of light industry products in China's exports also manifested itself in increasing foreign trade volume. Since 1990 the value of such products increased annually at a rate of 24.3 percent. In 1993 the total value increased from \$19.1 billion (in 1991) to \$35 billion. The traditional market expanded to Southeast Asia, West Asia, South America, and Africa, as well as to some developed countries in Europe and North America.

During the period of the 8th Five Year Plan (1991-1995), the foreign trade volume increased more than 100 percent. In 1991 \$135 billion, 1992 \$170 billion, 1993 \$195 billion, 1994 \$236 billion, 1995 \$ 280 billion. In comparison with the foreign trade volume of 1978, it has increased 7.5 fold within 16 years. According to the World Trade Organisation, China now ranks 11th amongst the world's largest export/importers.<sup>3</sup>

### **8.2.9. Infrastructure**

The government has paid special attention to infrastructure, spending huge amounts of the budget on the construction of energy projects, water conservation, transportation, and telecommunications.

**Energy.** In the past, the national economic development was accompanied by the development of energy projects and water conservation, such as man-made lakes. The first provide power and light, and the second provides water for agricultural irrigation and drinking water. Transportation commodities and communication connected all parts of China across the country.

China's energy resources have been increased to optimise industrial productivity. At the end of 1995, total installed power generating capacity was planned to be 213.24 million Kilowatts, a 54 percent increase over 1990. Nuclear power stations designed and equipped domestically with a capacity of 300,000 Kilowatts have been put into service. Today China has 34 large power plants with a total installed capacity of over 1 billion Kilowatts.



Electricity supplies cover all cities and most rural areas. Coal, crude oil, and electricity are important energy sources in China. Natural gas and hydropower play an important task in China's industrialisation.

The development of the power industry in China is one of the top priorities in China's industrial development. There are 73 large power stations with a capacity of 50,000 Kilowatts. Every province has its own power grid. Xingjiang, Tibet, and Southwest China possess abundant power energy resources. Small hydroelectric units built by counties' Commune and Production brigades have a combined capacity of 5,300,00 Kilowatts. However, demand still far outstrips the supply. Because of insufficient power supplies, at least 20-30 percent of China's industrial capacity remains unutilised. The gap is estimated at 40 billion Kilowatts. A large part of rural China is still without electricity. In 1988, one quarter of the industrial capacity still lacked electrical power. 230 million tons of firewood is still an important energy resource.

China has abundant energy resources awaiting exploitation. Coal is one of the most important ones. Because of poor transportation, the distribution of coal to the consumers across the country is still limited. Oil, geo-thermal, water, wind, tidal, solar, electrical and nuclear power are China's main sources of energy. Foreign investors are still scarcely investing into power projects. In the past ten years (1985-1995), foreign investment into energy projects totalled \$14.3 billion. According to the planning, total investment of foreign capital in power construction will increase from 11 to 20 percent to attain the target for the year 2000.

#### **8.2.10. Water Conservation**

The construction of water conservation is the lifeline of agriculture. The construction of reservoirs is a very important project to ensure entrapment of water in the rainy season in order to provide water resources in the dry season. Many motorised pumping and drainage stations have been set up. During the last 40 years (1950-1990) grain and cotton production increased manifold thanks to water distribution for agriculture. Controlling the rivers from flood and channelling the rivers for irrigation has limited loss, given higher yields of grain per unit of land, and provided water for 400 water-deficient cities. There were 8800 water

supply facilities built at township level. There was an investment of 65 billion yuan in water conservancy projects by the end of 1995. Between 1996 and 2000 waterworks will account for 5-6% of the country's total capital construction budgets.

It is essential to eliminate drinking water shortages for 45 million people and 25 million head of livestock. Besides the 65 billion yuan invested in water projects, there are still investments needed for agricultural water projects in hydro-power plants. The Central Government has provided 111.9 billion yuan for water conservation during the 9th Five Year Plan.

### **8.2.11. Transportation and Communication**

For a long time transportation and communication remained the weak point in connecting industrial areas with agricultural regions. Today the situation has changed but there are still difficulties in many remote areas of China.

Since China consists of 9.6 million km<sup>2</sup>, with 40,000 km of mainland borders and seacoast, transport in China is not only a huge challenge to Chinese economic and social development, but is also essential to the further integration of the Chinese people - for harmony in life and social stability as a guarantee for further economic modernisation.

In 1988, the total volume of large transportation was 2,335 ton km, the total volume of passengers was 592.8 billion person km. To harmonise all the nationalities, the need for sufficient transportation is paramount. The total network of transport systems increased from 259,000 km in 1952 to 1,274,000 km in 1981. Rail transport is able to handle only 30/40 percent of the freight volume, and this has slowed down China towards modernisation. During the 8th FiveYear Plan new railways were laid totalling 11,000 km, bringing the total since 1949 to 60,000 km. The average speed needs to rise from 48 km per hour to 140 km per hour. In 1949 there were only 75,000 km of highway, and this has since been increased to 1.14 million km (by 1995), covering national, provincial, county and village roads. In air travel, China jumped in world rankings from 35th to 11th in 1995, with 689 domestic routes and 87 international routes. The plan for 2000 will increase this by

10,000 km. Sea routes have also increased markedly. The production and operation of cars, ships, and aeroplanes increased at an imposing rate.

Communications have expanded from the central government into all directions of China, reaching provincial, county and local authorities. China and foreign nations are easily connected. In the year 2000 there will be 1.6 telephones per 1000 people. In the hinterlands, telephones are being installed in the homes. Shandong province, for example, will have provided a telephone for 50 percent of the population. In Tibet, out of 71 counties, 50 counties will have home telephones. Radio and TV by satellite will introduce a communications revolution in China. The improvements to China's telecommunications systems will play an important role in the overall improvements within China to the year 2000.

#### **8.2.12. Education, Science, and Technology**

China has introduced a relatively complete programme in education, science, and technology. China must work hard towards reducing the gap between China and the developed countries in this sector. Education, science, and technology (EST) were decided to have top priority in the 9th Five Year Plan besides agriculture. To reduce the gap, China has introduced a long term EST crash programme. The education system at both elementary and secondary school levels has been reformed. A compulsory nine-year education system has been implemented. Vocational and technical education has developed fairly quickly. The number of students at Institutes for Higher Learning and Adult Colleges has reached 3.76 million. Integration of education with science and technology, and international educational combinations and co-operation have also been promoted. This sector has been directed to accelerate national economic and social development for long term purposes. Rural areas will witness the changes by the end of this century. Science and technology will be the most active and dynamic factor behind the Chinese earth-shaking changes.

The first four years of the 8th Five Year Plan (1991-1994) saw 125,000 major scientific and technological achievements, an average of 35,000 annually, an 0.7 fold increase on the annual figure of 18,000 for the previous Five Year Plan. Of these achievements, there were

185 state level invention awards, a 10 percent rise on the annual average of 1986-1990. During the ten year plan the budget for education will be higher in order to keep pace with economic and social developments.

In 1995 the Chinese Academy of Science (CAS) at its working conference took some key research areas closely related to industrial technology and essential to social development, and included them in the 9th Five Year Plan. These key research areas included coal technology, industrial and manufacture automation, electronics, automobile technology, comprehensive uses of gas, advanced medical equipment, biological technology and natural medicines. The CAS will carry out over one hundred basic research projects, which will be selected based on China's actual situation and national needs.

### **8.2.13. Environmental Protection**

Environmental problems remain a durable issue, closely related to natural and economic development and people's living conditions. In the old days, China's environmental pollution was quite serious, resulting in the destruction of forest ecology, flooding, soil erosion, desertification, and salinisation, especially in the cities of Shanghai, Tianjin, and Shenyang. Since the liberation, more serious attention has been given to environmental control. Because of the increase of production and the population growth, environmental problems have increased. Air pollution from smoke and sulphur dioxide is a big problem.

Sections of major rivers are polluted, especially near the cities. Huge quantities of rubbish and slag from the factories and mines are piled up in many cities. Most cities are plagued by traffic noise. Railways run through city areas and some airports are located near cities, becoming an important source of pollution. Only 12 percent of the country is covered by forest. Destruction of the ecological balance has led to increasing frequency of natural disasters. From 1950 to 1985, an average of 20 million hectares of land was subject to disaster. These figures rose to 40 million hectares in the 1972-1981 period. Environmental items need a fundamental and overall solution, before things seriously threaten economic development and human life.

#### 8.2.14. Solutions

The Chinese government has taken serious measures to tackle these problems. It promulgated Environment Protection Statutes, including Environmental Protection. More serious action has been taken since 1979, and followed by a series of decrees by the State Council strengthening environmental protection. These included a method for collecting Sewage Discharge fees, the law for the Protection of Marine environment, the Forestry Act, Protection of Aquatic Products resources, and Protection of Valuable and Rare Wild Animals.

Controlling Industrial Pollution in co-operation with Economic Readjustment is meant to prevent the spread of new pollution. Solving the pollution problem needs to be accompanied by an upgrading of the technology and a renewal of equipment. In capital construction, pollution needs to be controlled. Scientific research is needed to turn harm into benefit, waste into useful things. In order to implement this goal, China has set up the Chinese Academy of Environmental Science and the Chinese Monitoring Station. Similar agencies are established in the provinces, autonomous regions, municipalities, the relevant department under the State Council and the major enterprises. Environmental protection is being handled as a long-term project, both nationally and locally.

The Chinese have taken measures to control the environment and to battle against pollution in an area of 260,000 km<sup>2</sup> in the Huaihe River Valley which destroyed sources of drinkable water for millions of people. Desert is being changed into useful land. Forests are enlarged through mass planting. Water conservation projects are built to prevent flooding.

The growth of the domestic product (GDP) between 1991-1995 by an annual rate of 12 percent has led to sharp discrepancies between the economy, the population, the resources, and the environment.

The National Environment Protection Agency (NEPA) revealed in 1995 that the average daily density of suspended particles in the atmosphere above Chinese northern cities hovered around 392 kg/cubic m, whilst the level above southern parts of the country averaged 242 kg/cubic m. <sup>4</sup> Although the levels differ, pollution affects all land, rivers, air, cities, urban and rural areas, transportation, industries and daily life in the cities. The battle against pollution must be fought totally, fundamentally and continuously by changing

people's way of thinking. Environmental issues should be part of the education system. China's development programme between 1996-2000 features rapid economic growth. The programme "China's Agenda 21" indicates the seriousness of environmental protection.

As a consequence of this Programme, a budget has been provided of 188.8 billion yuan as investment for 1996-2000. In addition, the budget for the "Three Gorges Project" in the Yangtze River needs 150 billion yuan for a ten year period (1993-2003). Between 1985-1990, China earmarked 47.6 billion or 0.7 percent of the national total GDP for environmental control. China is currently passing through a transitory stage from low to medium income levels, and shoulders responsibilities outlined in international treaties. China is not only engaged in one of the world's largest environmental control efforts, but is also one of the largest markets for the international environmental protection industry. Foreign investors also have taken part in local environmental protection. China needs international co-operation in this sector. Foreign investment currently accounts for only 10 percent of China's total investment in environmental protection. China has attracted the participation of well over 100 foreign businesses.

#### **8.2.15. Strengthening the Economic Foundation and Modern Management**

China's economic development is enormous, in function, task, and purpose. This large country with its huge population needs a strong foundation and secure planning, balanced development and modern management. Without these elements, it will be difficult to manage China's economic development under the current international situation, which is full of challenges.

A strong foundation must be laid in rural areas, with agriculture and non-agriculture as the two pillars, which must mutually support one another. A strong rural development will mean a strong foundation for big and medium sized industries in cities and other businesses, above village Township level.

China has 2,897 counties and 48,712 townships that will become the stronghold of the whole of the country.<sup>5</sup> The success of the development of VTEs in rural areas will be a guarantee for the success of China's "Programme 21". The 500 larger enterprises in China

could not do much without a strong economic base. In these townships 20 million, small, middle-scale and big VTEs have been established, which will be permanent suppliers to the big city industries as well as permanent markets for industrial products.

**Strengthening the VTEs is imperative.** The actual demands of rural people all have to do with satisfying their basic needs. Sufficient food and clothing has been fulfilled since 1990, and now the need is for a better per capita living space (increased from 8.13 m<sup>2</sup> in 1978 to 11.6 m<sup>2</sup> in 1983). It is estimated that in 1996-2000 an average of 770 to 900 million m<sup>2</sup> of rural housing will be created every year. According to a general observation during the period 1983-1995, the target for the year 2000 seems realistic.

Social development and cultural life in rural areas show the expansion of education, public health, commerce, transport and service facilities. In 1983 more than 35,000 cultural stations, 140,000 libraries, clubs and cinemas and 55,000 clinics were built. Rural highways reached 600,000 km with 90 percent of townships and 80 percent of the larger villages accessible to motor transport. Postal routes were 4.1 million km, there were 8 million biogas pits and 40,000 solar energy furnaces. Improved drinking water facilities were available for 90 percent of the rural population.

The guiding principle for Village and Township Planning must be to ensure a rational use of available land and to save arable land. This guiding principle must be based on long-term planning objectives: i.e. the distribution of villages and towns, selection of land and requirements for technical and economic analyses, the need for land to construct houses, public buildings, production buildings, roads, transportation and communication facilities, and for planned greening, water supply and drainage, power projects and telecommunications. Progress in 1983 (6th Five Year Plan): about 30 percent of the nation's villages and towns have worked out their plans. Many provinces and municipalities have begun to incorporate the construction of public utilities into the Village and Town plans for the benefit of overall planning reconstruction. According to information from the Rural Development Institute, the rural sector produced 53.1 percent of the national Gross Domestic Product instead of 50.5 percent in 1993, indicating that major achievements had been reached in rural areas in the period of the 7th and 8th Five Year Plans.

These implementations of the Rural Economy Policy have promoted the transformation in agriculture from a self-supporting or semi-self-supporting economy to commodity

economy. Agricultural producers and operators gradually increased the amount of crops planted. The Chinese authorities estimated that in the year 2000, 200 million rural labourers and their dependants would be taken out of agriculture. Most of them will not be able to enter the cities, but will have to stay in the rural areas. Alternatively, rural towns will be the focal point of the entire construction of villages and towns in the near future. Moreover, workers from the state enterprises in the cities who lose their jobs will add to the unemployed in the national context. What the solution is for the labour surpluses in rural areas and additional unemployment in the cities is still not clear. There is a possibility that the Township Enterprises, by concentrating on these two sources of unemployment which have arisen due to increased productivity and the introduction of modern equipment, could become the absorbers of current and future unemployed labourers.

#### **8.2.16. Strategic Economic Purpose**

The Chinese economic development is a planned economy combined with market mechanisms. The latter should be subordinated to the former. The Chinese leaders formulated this doctrine of a "socialist market economy" and adopted it at the end of 1993. Since then, the socialist planned economy has been conducted based on public ownership of the means of mass production. Through planned economy China intends to overcome anarchy in social production and eliminate the resultant huge waste of social labour, and to concentrate the manpower, material and money of the country as the important manifestation of the superiority of the planned economy in China. The plan is based on two basic types of socialist public ownership.

The two basic types are:

1. Ownership by the entire people covers minerals, water, state-owned land, forest, and other sea and land resources, state-owned factories, farms, commerce, banking, transport, communications and similar enterprises.
2. Collective ownership by the labouring masses. It covers the production, transportation, supply and marketing, credit and consumption fields in the rural areas. Besides it covers the various forms of co-operative economy, in



the handicrafts, industry, building, transport, commerce, services and other trades in the cities and towns. The purpose is to create the principle of "from each according to his ability and to each according to his work" (Mahong 1990).

Individual economy and state capitalist economy by urban and rural labourers is allowed to develop within a certain framework. Individual economy is supplementary to the economy under public ownership. The Chinese government will protect individual parts of the economy that are beneficial to enterprises that bring convenience to peoples' lives, and, at the same time will restrict its inherent blindness in operation and ban its illegal activities. Actively developed joint ventures or co-productions with overseas firms are pursuant to the principle of equality and mutual benefit. <sup>6</sup>

### **8.3. Future Prospects**

Proceeding from current economic and social development conditions, this paragraph will give a preview of the near future and prospects for the Chinese economy to the years 2000, 2010 and beyond. It will be divided into:

1. Remaining problems upon entering the 9th Five Year Plan (1996-2000);
2. Results of the first year(s) and the reform of state-owned enterprises;
3. Economic targets for the year 2000, and political guidelines towards the year 2010;
4. Top priorities upon entering the third stage of socialist economic development.

#### **8.3.1 Remaining Problems upon Entering the 9th Five Year Plan**

At the onset of the ninth Five Year Plan, the Chinese authorities accepted that some problems still remained, which must be solved as the 9th Five Year Plan proceeds.

- Inflation remains excessive; although it dropped to 5 percent in 1996.
- Agriculture is still the weakest link in the economy.
- State enterprises are slow to reform.
- Debt repayment is still problematic.
- Great disparities in earnings among members of society still exist.
- Differences in central and local taxes still exist.
- There is a great lack of financial and economic discipline.
- Patterns of extensive economic growth are seriously restricting a sound development of the economy.
- Social order in some rural areas is poor. Not enough has been done to combat social problems.
- Formalism and bureaucracy in government departments have impaired the close ties between government and people.

All these problems should be resolved during the 9th Five Year Plan.

### **8.3.2. The Results of the Ninth Five Year Plan**

The first year of the 9th Five Year Plan economic development showed the following result: Inflation dropped from 14.8 percent to 10 percent and in 1996 to 5 percent. The Gross Domestic Product reached 6,770 billion yuan from 5,304,500 billion yuan in 1995, an increase of 9.7 percent. Grain output increased from 460 million ton to 480 million ton. Cotton and oil crops slightly decreased. The iron and steel industry reached 100 million tons, the original target for 2000. Investments in fixed assets reached 2,360 billion yuan, an 18.2 percent increase over 1995. Investment in the central and western parts of China accounted for 43 percent of the total state investment in different key projects. An expressway with a total of more than 1,100 km was completed. Fifteen million kilowatts of power generation capacity was added, and the number of telephone connections increased by over 20 million.

Reform of state-owned enterprises was intensified, whilst other urban reforms characterised by development in banking changes were initiated throughout the country. This helped to optimise the financial structures of some cities. There was in the mergers between bankrupt enterprises and the dispersal of redundant employees accelerated. Export/import volumes exceeded US\$ 289 billion, an increase of 3.2 percent over 1995. International tourism brought in more than \$10 billion. In addition, there was actual direct investment of more than \$40 billion directed to infrastructure facilities and basic industries. Over 2000 major scientific and technological advances were officially recognised by the ministries and commissions concerned. All projects developed positively, except for those concerning cotton and oil crops.

### **8.3.3. Economic Target for 2000**

The economic targets for the year 2000 are currently:

- To improve the regional economic structure and to put continued emphasis on economic development of science, technology, and education. To increase living standards and cultural life and develop various social undertakings. To provide the Chinese people with better housing, and to produce enough agricultural products to reach 500 million tons of grains, needed to feed 1.3 billion people.
- To increase industrial production output: electricity 1,100 billion Kilowatts. In steel production 100 million tons has been passed, surpassing USA and making China the second largest producer after Japan.
- To readjust the proportion of tertiary industries to the GNP, from one quarter to one third.
- To increase foreign trade volume from 281 billion dollars to 400 billion. A reserve of foreign exchange amounting to \$ 100 billion dollars has been achieved to make better conditions for the advancement of technology imports.

- To protect the stability of the yuan (Ren Min Bi) against foreign currencies. The exchange rate of the Ren Min Bi is 8.4 yuan to one US dollar. Steps to make Ren Min Bi convertible have been taken in the plan. The decreasing inflation rate from 21 percent in 1993 to 15 percent in 1995 indicates the improvements brought about by better monetary policy. On the other hand, the foreign debt total amounting to US\$ 97 billion must be taken into account.

The top priorities focus on three sectors:

1. Agriculture and water conservation;
2. Education, science and technology;
3. Environmental protection.

Implementing the programme will guarantee greater national stability and unity and increase the role, the living standard, and the cultural life of the farmers. Education, science, and technology prepare the national economic development for a higher quantity and quality of Chinese products for sustainable economic development for the future. While the environmental protection will provide better conditions for economic development and social life. With these three top priorities and the implementation of other projects, the Chinese are entering the 21st century with a more relaxed and wider vision, initiating new steps to respond to world problems and challenges.

#### **8.3.4. Entering the 21st Century with New Guidelines**

In order to reform urban matters especially with the involvement of the government, China has laid down guidelines with clear concepts:

1. Implementation of the 15-Year-Plan (1996-2010) proposed by the Chinese Communist Party, modified by Central Government and legalised by the National Peoples' Congress as the guiding principle. Changing the operation mechanisms of state enterprises and establishing a modern enterprise system, with public ownership as the mainstay of the foundation of the socialist market structure. Using public ownership to promote the development of the state and collective economy.

Encouraging the development of individually-owned, privately-owned and foreign invested sectors.

2. The establishment of a sound market economy control system requires the transformation of government functions and reforms in governmental organisation. The government's function in management consists mainly of devising plans or systems and implementing macro-economic control policies, the appropriate construction of the infrastructure facilities and the creation of the right conditions for economic development. It also has to maintain the basic supply and demand in the economy, and to promote the optimisation of the economic structure, guiding the national economy in sustained rapid and healthy development and bringing about all-round social progress.
3. Simultaneously special attention needs to be paid to the guideline on rural economics. Here township enterprises function as important pillars of the national economy. The rural economy must be strengthened by planning, making full use of the existing small cities and towns. It is necessary to develop rural tertiary industry and promote the transfer of surplus rural work forces to other fields of endeavour. The guidelines for agriculture direct the promotion of a combination of agriculture, science, and education, the strengthening of research in agri-science and technology. Modern science and technology need to be used to transform traditional agriculture. Efforts should be made to gear agricultural production to the international market, and develop products with high added value, and export-oriented and foreign exchange earnings agriculture.

These guidelines manifest the strong will and position for deepening reform and further opening to the outside world. Co-ordination and mutual support between rural and urban economies and further opening China's national economy to the outside world by peace and development are part of these guidelines. Yet, the results of the guidelines remain to be seen. It is important that they are carried out smoothly. The Chinese people must take care not to become arrogant because of what they have already achieved such as a much better standard of living. The social and economic differences between rich regions and the poorest are still to be reduced and the differences in culture and prosperity between the Chinese nationalities still exist.

### 8.3.5. China and Foreign Economic Relations

The prospects for China's foreign economic relations and foreign trade look bright. The reactions of businessmen, scientists, and politicians to China's economic development and its prospects are positive. The minority opinion looks at the China of 12 of years ago, and some views are political and influenced by the student demonstrations of 1989.

As to the issue of China entering the World Trade Organisation, most politicians are positive. In co-ordination with foreign businessmen, China has approved 220,000 foreign funded enterprises. In 1994, actual foreign investment stood at \$97 billion. Approved foreign investment abroad had \$5.2 billion with more than 21,600 enterprises established more than 4,600 enterprises in 130 countries and regions. Rapid development of contracted projects and labour service is undertaken abroad. The total value of contracts rose to \$40.38 billion with the total business turning hitting \$25.57 billion. Substantial development was recorded in turn of technology transfer, foreign economic and technical aid, and multilateral economic and technical co-operation with UN development organisations and a number of other international organisations.

In the future, China will mainly advance on its progress in establishing a socialist market economy. The country will operate in accordance with international norms and improve the export management system. Using economic and legal means to regulate imports, China will protect inexperienced industries and provide opportunities in line with international practices. China will also provide opportunities in foreign trade policy, to gain access to the Chinese market and to ensure equal competition are current standard policies. Introducing a unified foreign trade policy to clear transparency, formulating and publishing industrial policies in a timely manner in order to provide guidance for foreign investors. In the future, China will make use of foreign capital with the focus on the development of agriculture, energy, communications, raw materials for the industrial sector, as well as basic industrial projects using advanced technology. China will encourage foreign investment in relatively backward areas in central and western China. In addition it will provide these areas with greater assistance in attracting foreign investment and improve their investment environments and conditions, gaining greater autonomy for the examination and approval

of foreign funded projects and appropriately adjusting industrial policies to enhance their appeal.<sup>8</sup>

These are the prospects for China's future economy: a socialist market economy. Co-operation with foreign countries and foreign funds will play a role in China's economic development, as has been predicted and explained in Chapters 5 and 6.

### **8.3.6. Deepening Bilateral Relations with Other Countries**

In Chapter 6 I described the bilateral relationship between China and some important countries, Indonesia, the Netherlands, Russia, Japan and the United States. Every country has its own specific relation with China. Indonesia, also a developing country, is one of the member states of ASEAN, and the Netherlands, one of the developed countries, is a member state of the European Union.

The relationship between China and the United States has long been the most complicated one. Besides, both are the biggest countries, China is the biggest developing country while the USA is the biggest developed country. However, thanks to a unique diplomacy launched by the Chinese (according to Jiang Zemin), it has greatly improved. Not only with regard to economic and trade issues, but also in non-economic areas such as politics and regional and global issues. The two countries are well aware that it would be impossible to resolve all the problems in one blow. Thanks to mutual understanding, the relation has developed and improved. Solutions that have been agreed on could be implemented directly, while the problems that remained unresolved remained on the agenda so that they could be further discussed. Some examples are the Taiwan issue, Tibet, and the human rights in China. These issues need some further discussion.

Agreements have been signed in the form of a Joint Statement by President Jiang Zemin and President Clinton when Jiang Zemin visited the White House in 1997, on issues such as global and regional stability, economic and trade promotion, and co-operation in the field of science and technology. These agreements have been elaborated during President Clinton's visit to China in June-July 1998.

### **8.3.7 Expecting Economic Results in the Near Future**

Thanks to the seriousness and flexibility of Chinese diplomacy towards the United States and other countries, the Chinese government has collected some beneficial results, in both a material sense and a favourable international political environment. Under these circumstances, the Chinese are trying to reach their most important goals, i.e. improving their economic development, and increasing the co-operation with other countries. Moreover, China aims to improve scientific and technological co-operation and transformation, which should strengthen China's position when attempting to increase its economic production both in quantity and quality. Furthermore, this could be a contribution to a better world economic development.

This has also strengthened China's position in handling domestic affairs. The Chinese leaders are expecting to reap the results by 2010. They are fully confident to march towards success and reach their goals by the mid 21st century. They aim to have achieved a more comfortable lifestyle in the year 2000 and to be a prosperous, strong, democratic and culturally advanced socialist country by the mid 21st century. (Message to the 15th National Congress of the CCP in 1997).

On the other hand, the Chinese leaders need to be aware of a contrary trend, as signalled by some, that China might become a 'threat' to other countries because of its economic strength. To realise the expected economic results in the near future, China needs to ensure that the country uses its economic development to improve peace and stability, both domestically, regionally and internationally.

### **8.3.8. Challenges and Opportunities**

China faces both challenges and opportunities as the country is approaching the end of the century. The challenge of entering into world trade with the developed countries, such as trade between the U.S.A. and China. The opportunities lie in the economic growth as sustained in 1995 and 1996, as can be seen in Table 20 below.



Table 20 Share of total Trade and Economic growth		
	Share of total trade 1996	Economic growth 1995
United States	13.6 %	2.5 %
Germany	9.2 %	2.8 %
Japan	7.2 %	1.9 %
France	5.3 %	3.0 %
United Kingdom	5.1 %	3.0 %
<b>CHINA</b>	<b>2.7 %</b>	<b>10.0 %</b>

The share of total trade in 1996 indicates that the gap between China and the United States was large. On the other hand, the opportunities provided by China's economic development are inspiring. Relevant figures on the world economic development are presented in figures 14 and 15 (see pages 244 and 245).

## 8.4 Conclusion

Despite some incidents that happened during the period of the Four Modernisations (1978-1995) in both the political and economic field, one may certainly conclude that the main programme of the Chinese economic development has succeeded. This success is mainly due to the way of thinking and the working methods of the Chinese people. Proceeding from an analysis of the concrete situation, they have undertaken action, combining the overall planning, and the priority system. Moreover, we have seen the continuous economic and social development, especially in rural areas, as much attention was paid to agricultural reform and the development of non-agriculture (rural industry), the Village-Township Enterprises (VTEs).

### Chinese agricultural policy

This policy has been developed since the maturity of the People's Communes. Indeed the power was concentrated in the hands of the People's Communes. When the domestic political and ideological disputes had ended, and when also the international situation had changed for the better, the time was ripe to reform the People's Communes into a more democratic economic system in rural areas. The combination of a system of collective

economy and individual responsibility was introduced. On the other hand, management of the agricultural sector was separated from management of the non-agricultural sector. This meant more freedom to increase the production output. Since then, the reform and opening up have become the Chinese policy to achieve economic development.

The agricultural sector has developed with more freedom to take action, e.g. to intensify and extend the development method. The primary task of agriculture has been to solve the lack of arable land and to ensure the growth of sufficient grain to feed the Chinese. Other actions taken include diversification of food resources for better nutrition. However, a better cultural life and social conditions are also needed so that the grain production output will continue to exceed the population growth.

### Village Township Enterprises

Village Township Enterprises, the second economic pillar of Chinese rural society, have developed tremendously. In 1995, there were 23 million VTEs besides large enterprises in urban areas. They employed a work force of 125 million from the agricultural labour force surplus and from those made redundant in urban areas because of the reform. In 1993, the proportion of production value in the national economy was 53 %.

The exploitation of local resources from the various corners of China (east, central and west) has accelerated the development of the VTEs. In addition, the structural reforming of the VTEs from the grassroots, the counties to the big cities, organising agriculture, industry and commerce in the form of corporations, has increased the role of the VTEs and enlarged their international economic relations. Foreign trade value has increased drastically, from 135 billion US\$ in 1991 to 300 billion US\$ in 1996. The import of advanced technology has been improved, so that more and better-quality commodities for the foreign market can be produced, strengthening China's position for economic competition.

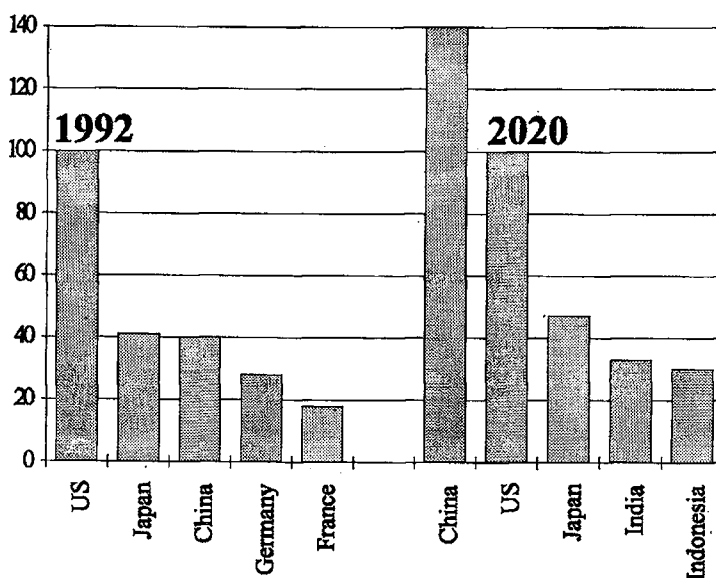
The expected success of the thousands of large and medium-sized enterprises, which are still under construction, and the growing millions of VTEs in the year 2000 will make China an imposing economic power, with better economic relations and trade. In addition, when China has entered the WTO, both the outside world and China will have ample opportunity for mutual support and mutual benefit and mutual learning to increase international economic relationships (see appendix 1).

In order to make sure that these expectations come true, China has given priority to the development of agriculture for a continued stability, the implementation of environment control and to an increase of the use of science and technology. This will create a positive environment for the Chinese economic development and increase the quantity and quality of production. An improvement in people's living standards and cultural life should also contribute to better economic cycle, stability, and unity.

The relative position of China's economy can be seen in the following figure(fig.16).

fig. 16

China's relative position in World Economy



Source: World Bank

<sup>1</sup> National Congress of CCP 1982

<sup>2</sup> National Congress of CCP 1982

<sup>3</sup> Beijing Review, 19-25 August 1996

<sup>4</sup> Beijing Review, 21-27 October 1996

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<sup>5</sup> Beijing Review, 16-22 August 1996

<sup>6</sup> Mahong, 1990

<sup>8</sup>. Wu Yi, Mofert, Beijing Review, 5-11 June 1995



## SUMMARY

1. Thanks to hard work, and their own specific thinking and working method, the Chinese economic reform and opening-up has demonstrated great achievements in many fields in the economic sector, especially in the Chinese rural economic development.
2. The thinking method is based on seeking truth from facts, and in this way, proceeding from the Chinese concrete condition, a socialist economic system has been developed with Chinese characteristics, avoiding just blindly copying other economic systems. The Chinese system combines planning and market mechanisms.
3. The improved international situation since the 1970's has given China more opportunities to open its market for international investors and to import advanced technology from foreign countries, based on the principle of mutual benefit.
4. China has thus more opportunities to exploit its natural resources, and international funds and forces, to increase its national economic growth optimally, and increase the people's incomes and enhance their cultural life, especially in rural areas, where 90 percent of the 1.3 billion population are living.
5. The priority given to economic reform has yielded many results, such as the mass political consciousness education on Chinese economic difficulties and on the responsibility of the common people to help solve these problems.
6. Combining the role of the collective with individual enthusiasm has increased the agricultural production, providing sufficient food and clothing for all. The area of cultivated land has greatly increased and non-agricultural production has been created.
7. The emergence of Village Township Enterprises (VTE's) has accelerated the economic development and has created new resources from land, forest and water which improved not only the food situation but also inland and foreign trade.

8. The improvement of science and technology increased production in both quantity and quality, providing a better starting point for competition in the international market.
9. The improved infrastructural capacity, especially transportation and communication, energy and water conservancy, has contributed to making China's economic growth the highest in the world, and has boosted China to a new, higher level among the world economic growing countries.
10. The increased national economic potential of China is generally appreciated by other countries. There are also some countries that regard China's economic development as a threat; this should be investigated more deeply. In the Four Modernizations the Chinese defence system has also been improved, but there are some that worry publicly that this development is 'negative' to regional political stability, and this causes social unrest in China.
11. After fifty years of Liberation and twenty years since the opening-up, China has accumulated sufficient experience to solve the problems that emerge. The international political changes directed towards China should not be neglected. The Chinese Communist Party and the Chinese government has been prepared to protect China against outside interference, but also within China itself.
12. The development of the socialist market economy continues, and the stable basis of the Chinese economic development, combined with the political consciousness of the Chinese people, has made China strong enough to solve the problems to the end.

## SAMENVATTING

1. Dankzij hard werk, en hun eigen, specifieke werk- en denkmethode, heeft de Chinese economische hervorming en open deur politiek grote prestaties laten zien op vele vlakken van de economische sector, in het bijzonder in de economische ontwikkeling van het Chinese platteland.
2. Deze denkmethode is gebaseerd op 'leer de waarheid uit de feiten', en dus, uitgaande van de specifieke Chinese omstandigheden, is een socialistisch economisch systeem ontwikkeld met Chinese karakteristieken, daarbij het blindelings kopiëren van ander economische systemen vermijdend. Het Chinese systeem combineert een geleide economie met markt- mechanismen.
3. De verbeterde internationale situatie sinds de zeventiger jaren heeft China meer kansen geboden om haar markt te openen voor internationale investeringen en om geavanceerde technologieën te importeren, gebaseerd op het principe van wederzijds voordeel.
4. Zodoende heeft China meer kansen om haar bodemschatten te exploiteren, en met internationale fondsen en krachten, om haar nationale economische groei optimaal te verhogen. Daardoor kan zij het inkomen van haar bevolking doen toenemen en het cultureel leven verbeteren, in het bijzonder in de plattelandsgebieden, waar zo'n 90 percent van de 1.3 miljard koppen tellende bevolking leeft.
5. De prioriteit die aan economische hervorming is toegekend heeft tot veel resultaat geleid, zo- als de massa scholing in politiek bewustzijn over Chinese economische problemen en de verantwoordelijkheid van de gewone mens om te helpen deze problemen op te lossen.
6. Door de rol van het collectief te combineren met individueel enthousiasme is de landbouw- productie verhoogd, waardoor voldoende voedsel en kleding voor allen beschikbaar is. Het beschikbare landbouwareaal is aanzienlijk uitgebreid, en op het platteland is er ook een tak van niet-agrarische productie ontstaan.



7. De opkomst van Village Township Enterprises (VTEs) heeft de economische ontwikkeling versneld en heeft nieuwe inkomstenbronnen geopend uit land, bos en water die niet alleen de voedsel situatie verbeterde, maar ook de binnen- en buitenlandse handel deed toenemen.
8. De verbetering in wetenschap en technologie verhoogt de productie in zowel kwantiteit als kwaliteit, waardoor een beter uitgangspunt voor de concurrentie op de internationale markt verkegen is.
9. De verbeterde infrastructuur, in het bijzonder betreffende transport en communicatie, en energie and water voorziening en behoud, heeft ertoe bij gedragen dat China's economische groei de hoogste in de wereld is, en heeft China naar een nieuw, hoger niveau getild waar het zich kan meten met andere landen die een snelle economische groei vertonen.
10. In het algemeen wordt het verhoogde nationale vermogen van China door ander landen gewaardeerd. Maar er zijn ook landen die China's economische ontwikkeling als een bedreiging zien. Dit moet nog nader onderzocht worden. Ten tijde van de 'Four Modernisations' werd ook het Chinese defensie systeem verbeterd, maar sommigen vrezen openlijk dat dit een negatieve ontwikkeling is voor de politieke stabiliteit in de regio, en dit veroorzaakt maatschappelijke spanningen in China.
11. Vijftig jaar na de 'Liberation' en twintig jaar sinds het begin van de open deur politiek, heeft China voldoende ervaring opgedaan om de problemen die zich voordoen op te lossen.. De veranderingen in de internationale politiek tegenover China dienen niet genegeerd te worden. The Chinese Communistische Partij and de Chinese regering zijn bereid China te beschermen tegen inmenging van buitenaf, maar ook van binnenuit.
12. De ontwikkeling van de socialistische markteconomie gaat voort. De stabiele basis van de Chinese economische ontwikkeling, gecombineerd met het politiek bewustzijn van de Chinese bevolking, heeft China sterk genoeg gemaakt om tot het einde toe de problemen op te lossen.

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# Appendix 1

## Major agricultural and industrial products, 1998

Product	Production	Increase over 1997 (%)
<i>Agricultural products</i>		
Grain	490,000,000 tons	0.0
Oil crops	22,920,000 tons	6.3
Peanuts	11,700,000 tons	21.3
Rapeseed	8,270,000 tons	-13.6
Cotton	4,400,000 tons	-4.3
Jute and ambary hemp	260,000 tons	-39.8
Sugar cane	83,630,000 tons	6.0
Beet root	14,020,000 tons	-6.3
Cured tobacco	2,100,000 tons	-46.0
Tea	670,000 tons	8.5
Fruits	54,900,000 tons	7.9
Pork, beef and mutton	43,550,000 tons	6.5
Silkworm cocoon	548,000 tons	16.8
Aquatic products	38,540,000 tons	7.0
Fresh water	15,420,000 tons	8.2
Marine water	23,120,000 tons	6.2
<i>Industrial products</i>		
Yarn	5,420,000 tons	-3.2
Cloth	24,100,000,000 metres	-3.1
Chemical fibres	5,100,000 tons	8.1
Sugar	8,260,000 tons	17.6
Cigarettes	33,740,000 cases	-0.1
Colour TV sets	34,970,000	29.0
Household refrigerators	10,600,000	1.5
Total energy production*	1,240,000,000 tons	-6.1
Coal	1,250,000,000 tons	-8.9
Crude oil	161,000,000 tons	0.0
Electricity	1,167,000,000,000 kilowatt-hours	2.8
Steel	115,590,000 tons	6.1
Rolled steel	105,180,000 tons	5.4
Ten kinds of nonferrous metals	6,150,000 tons	6.3
Cement	536,000,000 tons	4.7
Timber	56,800,000 m <sup>3</sup>	-11.2
Sulfuric acid	21,710,000 tons	6.6
Soda ash	7,440,000 tons	2.5
Ethylene	3,387,000 tons	5.6
Chemical fertilizers **	30,100,000 tons	6.7
Chemical insecticides **	559,000 tons	6.2
Power generating equipment	16,080,000 kilowatts	-4.7
Motor vehicles	1,630,000	3.0
Cars	507,100	4.3
Tractors	67,800	-17.8
Integrated circuits	701,000,000 pieces	5.7
Program-controlled switchboards	42,199,000 lines	51.4
Mobile telecommunication facilities	22,152,000	53.7
Microcomputers	2,914,000	41.1

\* Standard fuel equivalent

\*\* 100 per cent effective content

Source: World Economy and China, No 5-6, 1999

## State Council

<b>Premier</b>	Zhu Rongji
<b>Vice-Premiers</b>	Li Lanqing, Qian Qichen, Wu Bangguo and Wen Jiabao
<b>State Councillors</b>	Chi Haotian, Luo Gan, Wu Yi (female), Ismail Amat (Uyгур) and Wang Zhongyu
<b>Secretary-General</b>	Wang Zhongyu (concurrently)

## Departments under the State Council

### Ministries (Commissions)

Ministry of Foreign Affairs  
 Ministry of National Defense  
 State Development Planning Commission  
 State Economic and Trade Commission  
 Ministry of Education  
 Ministry of Science and Technology  
 Commission of Science, Technology and Industry for National Defense  
 State Ethnic Affairs Commission  
 Ministry of Public Security  
 Ministry of State Security  
 Ministry of Supervision  
 Ministry of Civil Affairs  
 Ministry of Justice  
 Ministry of Finance  
 Ministry of Personnel  
 Ministry of Labor and Social Security  
 Ministry of Land and Resources  
 Ministry of Construction  
 Ministry of Railways  
 Ministry of Communications  
 Ministry of Information Industry  
 Ministry of Water Resources  
 Ministry of Agriculture  
 Ministry of Foreign Trade and Economic Cooperation  
 Ministry of Culture  
 Ministry of Public Health  
 State Family Planning Commission  
 People's Bank of China  
 National Audit Office

### Ministers

Tang Jiaxuan  
 Chi Haotian  
 Zeng Peiyan  
 Sheng Huaren  
 Chen Zhili (female)  
 Zhu Lilan (female)  
 Liu Jibin  
 Li Dezhu (Korean)  
 Jia Chunwang  
 Xu Yongyue  
 He Yong  
 Doje Cering (Tibetan)  
 Gao Changli  
 Xiang Huaicheng  
 Song Defu  
 Zhang Zuoji  
 Zhou Yongkang  
 Yu Zhengsheng  
 Fu Zhihuan  
 Huang Zhendong  
 Wu Jichuan  
 Niu Maosheng (Manchu)  
 Chen Yaobang  
 Shi Guangsheng  
 Sun Jiazheng  
 Zhang Wenkang  
 Zhang Weiqing  
 Di Xianglong  
 Li Jinhua

### Appendix 3

## Newly Elected State Leaders

New state leaders were elected at the First Session of the Ninth National People's Conference ending on March 19 and the First Session of the National Committee of the Ninth Chinese People's Political Consultative Conference that closed on March 13. Nominated by the state president and chairman of the Central Military Commission (CMC), candidates for the premier and members of the CMC were approved by the NPC session. The session also decided upon the choice of members of the State Council according to the appointment of the newly-elected premier.

**President of the People's Republic of China (PRC):** Jiang Zemin

**PRC Vice-President:** Hu Jintao

**Standing Committee of the Ninth NPC**

**Chairman:** Li Peng

**Vice Chairpersons:** Tian Jiyun, Xie Fei, Jiang Chunyun, Zou Jiahua, Pagbalha Geleg Namgyai (Tibetan), Wang Guangying, Cheng Siyuan, Buhe (Mongolian), Tomur Dawamat (Uygur), Wu Jieping, Peng Peiyun (female), He Luli (female), Zhou Guangzhao, Cheng Kejie (Zhuang), Cao Zhi, Ding Shisun, Cheng Siwei, Xu Jialu and Jiang Zhenghua

**Secretary-General:** He Chunlin

Names of the 134 members omitted here.

**Central Military Commission of the PRC**

**Chairman:** Jiang Zemin

**Vice-Chairmen:** Zhang Wannian and Chi Haotian

**Members:** Fu Quanyou, Yu Yongbo (Manchu), Wang Ke and Wang Ruilin

**President of the Supreme People's Court:** Xiao Yang

**Procurator-General of the Supreme People's Procuratorate:** Han Zhubin

**National Committee of the Ninth CPPCC**

**Chairman:** Li Ruihuan

**Vice-Chairpersons:** Ye Xuanping, Yang Rudai, Wang Zhaoguo, Ngapoi Ngawang, Jigmei (Tibetan), Zhao Puchu, Ba Jin, Qian Weichang, Lu Jiaxi, Ren Jianxin, Song Jian, Li Guixian, Chen Junsheng, Zhang Siqing, Qian Zhengying (female), Ding Guangxun, Sun Fuling, Ann Tse-kai, Fok Ying-tung, Ma Man-kei, Zhu Guangya, Wan Guoquan, Hu Qili, Chen Jinhua, Zhao Nanqi (Korean), Mao Zhiyong, Bai Lichen (Hui), Jing Shuping, Luo Haocai, Zhang Kehui, Zhou Tienong nad Wang Wenyuan

**Secretary-general:** Zheng Wantong

Names of the 290 members omitted here.

# APPENDIX 4

## *The Chinese Dynasties*

Hsia	B.C.	2205	1766
Shang	B.C.	1776	1122
Chow	B.C.	1122	770
Spring and Autumn Annals	B.C.	770	476
Warring States	B.C.	476	221
Chin	B.C.	221	206
Han	B.C.-A.D.	206	220
Three Kingdoms	A.D.	220	265
Tsin	A.D.	265	420
Southern & Northern	A.D.	420	589
Sui	A.D.	589	618
Tang	A.D.	618	907
Five Dynasties and Ten Kingdoms			
	A.D.	907	960
Sung	A.D.	960	1280
Yuan	A.D.	1280	1368

<b>Ming Dynasty</b>	<b>A.D.</b>	<b>1368</b>	<b>1644</b>
-Hung Wu	A.D.	1368	1399
-Chien Wen	A.D.	1399	1403
-Yung Lo	A.D.	1403	1425
-Hung Hsi	A.D.	1425	1426
-Hsuan Teh	A.D.	1426	1436
-Cheng Tung	A.D.	1436	1450
-Ching Tai	A.D.	1450	1457
-Tien Shun	A.D.	1457	1465
-Cheng Hua	A.D.	1465	1488
-Hung Chi	A.D.	1488	1506
-Cheng Teh	A.D.	1506	1522
-Chia Ching	A.D.	1522	1567
-Lung Ching	A.D.	1567	1573
-Wan Li	A.D.	1573	1620
-Tai Chang	A.D.	1620	1621
-Tien Chi	A.D.	1621	1628
-Chung Cheng	A.D.	1628	1644

<b>Ching Dynasty</b>	<b>A.D.</b>	<b>1644</b>	<b>1911</b>
-Shun Chih	A.D.	1644	1662
-Kang Hsi	A.D.	1662	1723
-Yung Cheng	A.D.	1723	1736
-Chien Lung	A.D.	1736	1796
-Chia Ching	A.D.	1796	1821
-Tao Kuang	A.D.	1821	1851
-Hsien Feng	A.D.	1851	1862
-Tung Chih	A.D.	1862	1875
-Kuang Hsu	A.D.	1875	1908
-Hsuan Tung	A.D.	1908	1911

# APPENDIX 5

	Total population (10.000)	Urban population (10.000)	Total output value of industry 1983 (100 million yuan)
Total for 14 cities	7 875.32	2 2255.53	1424.8
Dalian	476.80	151.50	8.4.3
Qinhuagdao	223.00	41.17	8.9
Tianjin	785.28	519.31.	229.2
Yantai	810.91	68.45	46.6
Qingdao	620.40	120.60	77.6
Lianyungang	292.45	43.29	13.5
Nantong	741.31	39.72	60.1
Shanghai	1 194.01	639.07	678.0
Ningbo	481.46	47.18	52.2
Wenzhou	611.46	51.02	18.1
Fuzhou	474.91	114.2	26.0
Guangzhou	683.94	315.51	118.7
Zhanjiang	462.72	87.84	10.2
Beihai	16.67	16.67	1.4

The population of these 14 cities account for 7.7 percent of the country's total and their total output value of industry for about a quarter of the national total.

	Volume of Rail freight (10.000tons)	Volume of Road Haulage (10.000 tons)	Volume of River Cargo (10.000 tons)	Volume of Freight handled in coastal harbour (10.000 tons)
Total for 14 cities	11.798	24.666	10.448	25.583
Dalian	2.869	0.999	0.045	3.520
Qinhuagdao	1.167	0.624	-	3.057
Tianjin	1.910	7.574	0.650	1.506
Yantai	0.206	2.398	0.087	1.227
Qingdao	2.591	1.804	0.452	2.268
Lianyungang	0.458	0.547	0.162	0.858
Nantong	-	0.254	0.910	-
Shanghai	1.287	8.344	3.116	9.190
Ningbo	0.217	0.810	0.614	0.483
Wenzhou	-	0.187	0.250	0.307
Fuzhou	0.132	0.381	0.259	0.353
Guangzhou	0.600	0.587	3.775	1.601
Zhanjiang	0.361	0.121	0.086	1.140
Beihai	-	0.036	0.042	0.073

The volume of water and land freight accounts for 20 percent of the country's total and the volume of freight handled in coastal harbour for 97 percent.

## CURRICULUM VITAE

**Trjjanus Mulia Siregar** was born in Papande Muara Dan au Toba (north Sumatra, Indonesia) on 15 August, 1922.

### **Studies and Academic Experience**

- |           |   |
|-----------|---|
| 1953      | the Academy of Journalism in Jakarta  |
| 1961/62   | the Faculty of Law, at the University of Indonesia, specializing in Publications  |
| 1964-1967 | the Hochschule für Ökonomie in Berlin (GDR), where he gained the degree of Bachelor of Science in Economic Development of Developing Countries. |
| 1968-1981 | Individual researcher in China. Subject: Social-economic development.   |
| 1986      | Masters degree at University of Amsterdam, Economics department<br>Thesis: China's Economic Reform.   |
| 1986-1987 | Up to retirement age worked as a scientific researcher at University of Amsterdam.  |

### **Work Experience**

In Indonesia I have worked as a civil servant in Central government ministries in Jakarta. At first at the Ministry of Information, working in Public Relations and Observation. Next at the Ministry of Interregional Affairs as secretary to the Minister, and finally at the Ministry of Transmigration, Co-operative and Rural Society development as Head of Public Relations (Transkopemada), until my departure abroad for a study assignment under Instruction of the Vice Prime Minister in April 1964.

## **Social Activities**

Since 1945 active in Youth Movement Organisation.

Also active in the Indonesian Independence Struggle from the period of the Proclamation until the Transfer of Sovereignty in North Sumatra - Tapanuli, as head of the Badan Kongres Pemuda Republic Tapanuli -Sumatera Timur (now a province of North Sumatra).

In 1951 I moved from Sumatra to Jakarta, Ministry of Information.

Awarded Veteran Group A.

From 1953 I lead a Student Organisation and Civil Servants Organisation.

Published on issues such as social politics and Information in various public, specialist, and scientific magazines, such as in Majallah Merdeka on parliamentary issues in Indonesia, on education issues in Pewarta PPK, on Public Opinion and the Press in Mimbar Penerangan, and on Transmigration issues in MTI Magazine.

Prior to the first public elections in Indonesia I published a book, On Democracy in Theory and Practice, which was spread by the Ministry of Information as source material for Information officers in Kecamatan-kecamatan (districts).

These publications were written in addition to my regular work and other positions such as Parliament Liaison Officer of the Department of Transkopmeda, as Editor in Chief of Transkopmeda Magazine and as Head of the Information Team of several ministries on Co-operative Movements in Indonesia to promote better relationships with other countries, especially in Europe.



