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China Report

ECONOMIC AFFAIRS

(FOUO 2/81)

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NATIONAL POLICY AND ISSUES

RESURGENCE OF CHEN YUN SCHOOL OF ECONOMICS DISCUSSED

Tokyo NIHON KEIZAI SHIMBUN in Japanese 16 Mar 81 p 2

[Article by Peking correspondent Inada]

[Text] The basic concept of the construction of the Chinese economy has gone back a quarter century through a time tunnel. The economic philosophy of (party vice chairman) Chen Yun advocating an "abundant society" beneficial to the people has returned. The party Central Committee and the government are now persuading the people that this is the basis of progress and not retrogression. Since the expulsion of the "gang of four," the most dramatic change in Chinese society has been a diversification of values. The people have gradually begun to speak their minds. The responses to the Chen Yun economics from the many factions on the right, left, and the middle have varied from support to differences of opinion, criticism, and attack. It will take some time yet before it is firmly entrenched. But why has the Chen Yun school of economics reappeared in the China of the eighties?

Theory Provided for Readjustment Policy; Drastic Change in Environment, Solution Unknown

Recently, the "qualitative change" in China was vividly demonstrated by editorials in Chinese newspapers about the movement for learning from Lei Feng, the late PLA soldier who became a national hero. The editorial focused on replying to criticisms such as "Lei Feng was old-fashioned," and "he suppressed his individuality." There is a qualitative difference in the society compared with that of 1963, when the movement for learning from Lei Feng took the country by storm under the orders of Chairman Mao. A typical example of this was shown in the answers to the question, "Is a socialist system superior?", in a poll taken by the PEOPLE'S DAILY. Those disagreeing completely or partially made up about 30 percent of the total. These doubts about the socialist system and loss of party prestige are the biggest problems besetting the government.

Similar phenomena are appearing in the field of economics as well. People are asking a basic question in reply to establishment propaganda boasting the superiority of a socialist economy: why is China still so poor 30 years after liberation? The intelligentsia with some knowledge of economics sigh: "If it had not been for the Great Leap Forward (1958) and the Cultural Revolution

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(1966-76)...." However, the average person will not take this "if" for an answer. The failure is a problem of party leadership and the yardstick used for judgment by the people of China is the question: "Can one get enough to eat?"

According to figures used by economic experts, a picture of failure emerges for the radical left economic line. Since the time of the Great Leap Forward, which is now continually criticized by the present regime, there has been rigid adherence to idealistic theory.

During the 10 years of the cultural revolution, the rate of growth was about 7 percent a year in agricultural and industrial production. However, the average wages of urban workers actually went down. Due to tremendous waste of raw materials, fuel, and labor, the profit produced per 100 yuan of fixed assets in state-controlled industries dropped 51.2 percent, from 23.6 yuan in 1957 to 12.1 yuan in 1967. Also, the profit including taxes per 100 yuan of investment fell 55 percent in the same period, from 34.7 yuan to 19.3 yuan. Because of haphazard production which ignored consumer demand, about half of the machinery and heavy electrical equipment produced was, in a real sense, wasted. Of the total, 5 to 10 percent was a completely useless backlog and 40 percent was just barely usable and had to be greatly reduced in price to sell.

The 5-year plans for the economy deteriorated after a short time. The fixed assets formation rate of the state-controlled industries was 83.7 percent under the first 5-year plan (1953-57), 71.4 percent under the second 5-year plan (1958-62), and 59.5 percent under the third 5-year plan which followed a 3-year period of economic readjustment. It made a slight comeback to 61.4 percent under the fourth 5-year plan (1971-75). Furthermore, the investment necessary to increase the national income by one yuan rose from 1.68 yuan in the first 5-year plan to 3.76 in the fourth 5-year plan. According to the calculations of the economic intellectuals as reported by the paper, if the pace of the first 5-year plan had been maintained, "the fixed assets of the state-controlled industries would have grown to 100 billion yuan in the period from 1958 to 1978 and the national income would have grown to at least 300 billion yuan."

They conclude that "the first 5-year plan was all right," and "the future economic policy presented by Chen Yun at the Eighth Party Congress in 1958 was correct." Chen Yun presented an economic policy report at this congress entitled, "New Problems After the Fundamental Achievement of Socialist Economic Construction." The present regime decided that this report was "exactly suited to the present Chinese economy." The economic intellectuals, led by those in the Social Science Institute, were entirely won over to the new trend, and the return to the Chen Yun school of economics was made certain.

The basic concept of the Chen Yun school of economics is very clear. It sets forth the purpose of socialist production as "the establishment of a socialist economy which is beneficial to the people." "Beneficial to the people" means the existence of abundant consumer goods. The plan for realization of this kind of economy includes three supplements to the planning system of the previous administration: individual management as opposed to state-controlled or group management, free production as opposed to planned production, and a free market as

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opposed to a state-controlled market. And in order to operate this economic plan, an overall balance is necessary. It is necessary to begin with the production capacity of the present and with objective production conditions. The Chinese economic policy for the immediate future is leaning heavily toward light industry. The nature of the readjustment is tending toward a retrenchment equilibrium rather than a expansion equilibrium. This is because it is based on the Chen Yun school of economics.

The Chen Yun approach to economics, in brief, is "the building of an abundant economic society." It was the basic concept pervading the party Central Committee Work Conference in January last year. Party Vice Chairman Chen Yun is the leader in economic theory in the relations between the party Central Committee and the government. On the side of the government, Premier Zhao Ziyang will become head of the Central Committee Finance and Economy Guidance Group, a working group newly established in the State Council. The party and the government are to work together for thorough economic readjustment.

The Chen Yun economics has reemerged from the other side of a "time tunnel." Can it pick up the Chinese economy and take off? Mr Okita, a [Japanese] government representative (in charge of foreign economic matters), visited China in the middle of February over the problem of the rejected plant contracts. He pointed out the differences between the present situation of the Chinese economy and the first economic readjustment period (1963-65) and raised a number of doubts from an economist's point of view.

The greatest problems are connected with the change, although insufficient, from an isolationist to an open economy. There is more exchange of people, goods, and money with other countries and the roads these goods pass over are becoming more complex. With respect to funds, for instance, China is entering an era of using the IMF and the World Bank. The world is moving at such a rate that there is no telling what the most advanced technology will be 10 years from now. In this situation, what effect can the Chen Yun school of economics have on the state of the Chinese economy and what reactions will it stir up? In a China where values are diversifying, it is impossible to find an answer right now.

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ECONOMIC PLANNING

ECONOMIC TIES WITH JAPAN REPORTED STRAINED

Tokyo THE JAPAN ECONOMIC JOURNAL No 941, 10 Feb 31 pp 1, 5

[Article by Masahiko Ishizuka]

[Text]

China's unilateral cancellation of contracts for Japanese steelmaking facilities and 15 petrochemical plants not only is dismaying and shocking industry men but it also seems to be endangering the two countries' entire economic relations, including those on an official level.

Toward the end of January through early February, China's National Technical Import Corporation notified Japanese plant makers of decisions to cancel contracts, or suspend projects, involving over ¥300 billion worth of industrial plants ordered from them.

They include a hot rolling mill (worth ¥85 billion) ordered from Mitsubishi Heavy Industries, Mitsubishi Electric, and a cold rolling mill (¥13 billion) ordered from Nippon Steel, both for the Baoshan steel complex; six plants for Nanjing petrochemical complex (¥106.3 billion) ordered from Mitsui Petrochemical, Mitsui Engineering & Shipbuilding, C. Itoh & Co., Mitsui & Co. and others; seven plants for the Shengli petrochemical complex (¥114 billion) ordered from Mitsui Toatsu Chemicals, Shin-Etsu Chemical, Mitsui & Co., Mitsubishi Corp. and others; two

plants for the Beijing petrochemical complexes (¥12.3 billion) ordered from Mitsubishi Heavy Industries and others.

Most of these contracts were signed in 1979 and 1980 and companies are irrevocably committed to the orders. In many cases, nearly 50 per cent of products have been completed and shipped, while others are waiting for loading at port.

Even if work is yet to be started, cancellation of contracts is certain to prove a serious blow to manufacturers as they suddenly find their capacities idled. There even is mentioned the possibility that some of the hundreds of smaller firms involved as subcontractors may go bankrupt because of the lost job.

But China has not yet clarified whether it is ready to pay compensation for damages caused by contract cancellations, while a high official of the technology import corporation is scheduled to arrive in Japan soon to work things out.

As reasons for the cancellation, the Chinese Government cited huge fiscal deficits and foreign currency shortages in the midst of the "economic adjustment" under way.

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Japanese businessmen are generally pessimistic about China's ability to pay compensation or price for the portion of orders already completed. "They stopped projects simply because they don't have money. How can we expect them to pay anyway?" some say.

Major trading companies are not trying to hide their anger. "Cancellation of these international deals has been made entirely on account of China's domestic problems and this hardly is acceptable from the viewpoint of international faith," an official of a trading company said.

In view of the deterioration of China's economic situations since last summer, Japanese companies say, they repeatedly asked the Chinese if they might safely go ahead with work on the orders and every time they were given reassurance.

Under the circumstances, the Japanese Government, which had been taking a hand-off policy on this matter, is beginning to get worried.

The Ministry of International Trade & Industry last week asked China to reconsider cancellation of the contracts or at least pay adequate compensations to Japanese companies. If China ignores the warning, MITI officials say, Japanese manufacturers and exporters will claim payment from the government-run export insurance and should that happen, China will be classed as a "bankrupt country," which makes it impossible to apply the export insurance to future deals with it. This is bound to seriously hamper export and credit to the country.

"It seems that the Chinese are not aware of the seriousness of the situations they are creating in this all. Their sheer ignorance of international business practices and rules is amazing," both businessmen and government officials say.

The prospect that China is abandoning all major projects that need big industrial plants poses grave concern over the future of the bilateral long-term trade agreement which essentially consists of barter deals of China's crude oil for Japan's industrial plants.

The agreement signed between the two governments in 1978 calls for trade aggregating \$20 billion-30 billion each way during 13 years through 1990. One major assumption for the trade arrangement has already been seriously jeopardized as China's capacity to export crude oil to Japan has proved drastically smaller than initial commitment. "If China does not have much oil to sell, they don't have money to buy plants from Japan either," observers point out.

Implications of the massive contract cancellations do not seem to be limited to deals on private basis. Some officials express concern that credits on concessionary terms which the Japanese Government agreed to provide to China could stay up in the air if China remains so negative about big projects.

Already ¥106 billion in such credit has been committed to help China with several basic projects such as hydropower plants, railroads, and ports and harbors.

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FOREIGN TRADE

ANTI-JAPANESE SENTIMENT SAID SPROUTING IN CHINA

Tokyo MAINICHI SHIMBUN in Japanese 6 Mar 81 p 8

[Article by special correspondent Imada, Beijing]

[Text] Anti-Japanese sentiment is sprouting in part of China. The direct cause for the rekindling of this sentiment was related to the question of who was responsible for the second economic reorganization centered around the stoppage of Baoshan Steel Company construction. However, in view of the historic anti-Japanese sentiment and the leaders' embarrassment surrounding the modernization, its future development should be of no small concern.

Although the Chinese Government has officially stated that "the responsibility" for cancellation of the plant importation "rests entirely with China," it has not sufficiently explained the actual situation to its people. As a result, one leftist-controlled Hong Kong newspaper accused Japan of "immoral commercial practices." And among the Japanese tourists are some "ugly Japanese" who go out souvenir hunting spending money like water, or who make fun of women and thus hurt the feelings of the Chinese people.

Baoshan was made victim during the third meeting of the fifth National People's Congress. During the meeting, although many representatives pointed out the unfavorable location, excessive investment, insufficient preparation by the government authorities, and the wastefulness as the causes for failure, there were some who held that "Japan played a trick on China with Baoshan by not making any reparation" and "Japanese design was unreliable."

About this matter, the (then) Deputy Prime Minister Li Xiannian spoke to the Japanese delegate: "We who made a too hasty decision are to blame for the Baoshan problem." However, when a similar question was raised by either people's representative or the reporter, the domestic newspaper printed only the question without explanation.

When the decision was made to discontinue the second stage construction project at Baoshan, the commercial firms and maker circles in Beijing were led to believe that "Japanese sold an unnecessarily large unit just to make money" and "Baoshan was chosen as the site in spite of its unfavorable location because it was advantageous to Japan." Those engineers who were drafted from various parts

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of China to Baoshan to work on the project and were now discharged because of a reduction in the scale of the project also tended to blame Japan for their dissatisfaction.

And it was the foreign press and newspapers which set the fire for this mood. When Okita, representing the Japanese Government, was visiting China, the western press reported Okita as saying "China was pampered" in Beijing. Upon hearing this, some of the cadres not only lost confidence in Japan but began to harbor anti-Japanese sentiments, which led to the criticism of Japan by a Hong Kong newspaper. The Japanese press association has never heard this kind of speech by Okita at any one of the public appearances made by him.

The problem was further complicated by the entanglement between the awakening of anti-Japanese sentiment and China's current domestic political situation. Dissatisfaction toward the leadership, resistance toward the modernization policy, and denunciation of its failure may have emerged in the form of anti-Japanese sentiment. This possibility should not be overlooked.

According to a western analysis, the domestic inflation under the new economic policy has risen 2-3 times and the lives of the masses are threatened. The term "Japanese devil" which was used during the period of anti-Japanese struggle is said to have cropped up again in the underground publication of the anti-system group. Japan is denounced for "playing a trick on China to waste Baoshan while the masses suffer from inflation as a result." Moreover, the loan made by the Japanese Government to the Chinese Government has been painted as "an aid to be used as a lever against the present system, an aid with plenty of strings attached, an excuse to take away oil and coal from China."

Ill-mannered Japanese Tourists Are to Blame

The situation in Japan has been more frequently introduced to China in recent years through t.v. and various publications. To those who view these, apart from pure concern and admiration toward Japan, the anti-Japanese sentiment is made even more complex by a great display of Japan's showy material life and the memory of past Sino-Japanese relations is revived. Some young people criticize Japanese prosperity as "a comfortable life earned by an economic animal at the expense of other nations."

To be sure, the greater majority of the Chinese people express genuine friendship toward Japan. However, among the recent Japanese tourists were some who, no sooner than setting foot on Shanghai, asked the Chinese guide to make arrangements for female companionship, saying "you should have some around here," and were thus frowned upon by the Chinese.

The anti-Japanese criticism centered around Japanese imperialism once carried out vehemently during the period of the Cultural Revolution has been hushed since 1972 when the two nations normalized diplomatic relations. Especially after the fall of the "gang of four" and today under the open door policy, we may say that we are enjoying a Sino-Japanese "honeymoon" period. However, if we take this "honeymoon" mood in too much of an easygoing manner, we may come to be surprised by a terrible retaliation.

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