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China's Seventh Five-Year Plan

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A Research Paper

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*EA 87-10006
March 1987*

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China's Seventh Five-Year Plan

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A Research Paper

This paper was written by Office of
East Asian Analysis. Comments and queries are
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**China's Seventh
Five-Year Plan**

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Scope Note

This paper describes and analyzes China's Seventh Five-Year Plan to determine what it tells about trends in Beijing's economic priorities. The study, like our 1983 assessment of the Sixth Five-Year Plan, will establish a framework from which to analyze growth rates, policy changes, and trade patterns.

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Further studies on actual economic performance, as well as assessments of the impact of recent leadership changes on economic reform, are under way.

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**China's Seventh
Five-Year Plan**

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Summary*Information available
as of 1 March 1987
was used in this report.*

We believe current leadership changes in Beijing will lead to a slowdown in the economic reform program and a postponement of some of the more controversial and innovative proposals. Statements by Chinese leaders, however, suggest that the basic economic goals in the Seventh Five-Year Plan (1986-90) remain unchanged and that the Chinese will pursue the Plan's three major goals:

- Invigorating state-owned enterprises by making them independent economic entities responsible for their own production, profits, and losses.
- Expanding the role of markets.
- Reducing the use of direct administrative regulation to control the economy and increasing the role of indirect macroeconomic levers (such as taxes and interest rates).

Progress in reaching these goals will be hampered by the need to back off temporarily on some supporting reforms, including labor and price reform, which were planned for 1987. Because of the unsettled political situation, it is difficult to forecast how long reform will be affected, but these supporting reforms would increase consumer prices and cut housing and food subsidies—moves currently viewed by the Chinese leadership as potentially destabilizing.

The evolution of the plan document suggested an unusual openness in China's political process, blending the opinions of a wide circle of government, party, and technical experts during the three-year drafting period. Both proponents and opponents of reform, within limits, criticized current policies and broached still very controversial topics. We expect this openness to characterize future planning.

In general, the Plan's economic production targets appear well thought out and attainable—higher than the targets for the past five years, but below growth rates achieved during that time. The gross value of industrial and agricultural output is planned to increase at 6.7 percent annually. Although this rate will probably be met as an annual average, the implementation of reform during the period is likely to cause overall economic growth, as well as the production of individual sectors, to be uneven. The increased attention and funding allocated to energy and transportation highlight Beijing's concern that these sectors are severe constraints to economic growth, but in neither case do we expect planned improvements to ease significantly these constraints. We cannot evaluate more minor goals of the plan because only highlights of the document have been released.

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The plan's targets for regional development illustrate Beijing's growing acceptance of the ideological propriety—or at least the economic inevitability—of income disparities. Economic growth between and within the various regions is expected to proceed at different rates, causing unavoidable differences in income.

A decreasing share of state investment is scheduled to go to military expenditures over the period, and the giant Three Gorges Dam hydroelectric project is not included in the plan. Initial work for a mammoth south-to-north water diversion project is included, however, and Beijing may be reserving funds in case the Three Gorges Project is approved before 1990. Over 900 other major projects call for state capital construction expenditures of 500 billion yuan (US \$135 billion), a jump of almost 50 percent above the last plan.

The impact of the Plan on US economic interests will be mixed. Some US industries will benefit from the type of goods that China hopes to purchase; the plan calls for imports of computer software, advanced technologies—including telecommunications and electronics—and transport- and energy-related equipment. Sales opportunities may improve later in the plan period because Beijing has pledged to strictly limit spending during the first two years. However, a shortage of foreign exchange, fueled by declining revenues from oil exports and by China's hesitancy to borrow, will make a bonanza unlikely for these US firms even during the later years of the plan.

Other US industries may be hurt by Beijing's plan to expand its exports by 8 percent annually. Increased competition will probably come in expanded exports of Chinese textiles, grain, coal, and light manufactured goods. Many of the manufactured goods China hopes to export also will compete with those of US allies in East Asia, which are already experiencing a slowdown in their export growth.

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China's Seventh Five-Year Plan [redacted]

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The Political Climate and the Plan

The dismissal in January of Hu Yaobang as General Secretary of the Chinese Communist Party has chilled the intellectual atmosphere that allowed China's economists to explore Western economic concepts and propose unorthodox approaches to China's development problems. Because of the unsettled political situation, it is difficult to forecast how seriously and for how long economic reform will be affected; nonetheless, official media have highlighted conservative themes not seen in many years. An economic newspaper praised Chinese self-reliance, a term associated with Maoist economic policies, and other press reports criticized Western-style consumerism. A slowdown in some areas of reform was looming even before Hu's dismissal, as Beijing coped with the social side effects of reform. For now at least, planned initiatives that would have the greatest impact on workers—price reform, reductions in food and housing subsidies, and full-scale bankruptcy laws—have been put on hold. [redacted]

Although the more radical and potentially destabilizing reforms appear dead for the moment, press reports and statements by Chinese leaders indicate that Deng Xiaoping remains committed to basic economic reform. The official announcement of Hu's removal stressed that personnel changes would not affect China's opening to the West and that economic reform would continue. The appointment of Zhao Ziyang, a highly respected advocate of economic reform, as acting Party General Secretary was intended to send a similar, reassuring signal. Press reports and diplomatic reporting suggest that even those officials who are critical of market-oriented reforms believe that some market mechanisms are necessary to prod the planned economy, and favor continued exchanges with the West, albeit on a smaller scale than reform leaders have advocated. [redacted]

As a result, we look for the Chinese to adhere to the major points of their Seventh Five-Year Plan, unveiled at the Fourth Session of the Sixth National People's Congress in March 1986. The document, which covers the 1986-90 period, includes more than the production targets of previous plans, and contains sections on politics, science, and education, as well as on ideology and foreign affairs. According to the Chinese press, the primary task during the next five years is to create a sound overall setting in which economic reform can progress smoothly. In pursuit of this goal, the plan calls for:

- Increasing the productivity of medium and large state-owned enterprises by making them more responsible for their profits and losses.
- Gradually expanding the role of markets.
- Placing greater emphasis on macroeconomic controls—such as interest rates and taxes—to guide the economy. [redacted]

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A Key Five-Year Period

In our judgment, the 1986-90 period shaped up to be a critical one for the reform movement and its leadership even before the recent events in Beijing. The period is likely to see the death or incapacitation of Deng Xiaoping (83 this year), whose vision and leadership are largely responsible for the program's progress. Popular concern about the permanence of the reform policies and the succession will be great, as will concern about the ability of Deng's successors to manage the reform program. [redacted]

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The 1986-90 period will probably be a difficult economic one, too. Western economists agree that the easiest gains in economic productivity from reform have already been achieved. Much of the increase in agricultural productivity, for example, was achieved by removing state interference from small work units,

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Economic Plans in China and the Soviet Union

In the late 1920s, the Soviets began constructing five-year plans as guidelines for economic planning and to motivate production units. China, borrowing from the Soviet Union, established its first five-year plan for the years 1953 through 1957. [redacted]

In both China and the USSR, five-year plans are intended to set policy direction and broad goals, and often bear little resemblance to the five annual plans—the operative directives for enterprises. The text of the five-year plan is often not agreed on until sometime after the planning period has begun, and leaves errors, omissions, and changes to be addressed in the annual plans. In recent years, both countries have invested significant resources in upgrading economic forecasting capabilities to improve their long-term planning. [redacted]

The targets in China's plan are less ambitious than those in the Soviets' 12th Five-Year Plan. And, when the plans end in 1990, the results are likely to mirror those of the most recent plans—China will surpass the majority of its targets, and the Soviet Union will fall short. The two countries also differ in the number of organizations participating in the planning process. Numerous administrative bodies and industrial ministries play an active role in constructing Soviet plans, whereas Chinese plans—at least until this most recent one—were drawn up by a relatively small number of central officials. [redacted]

and simply allowing peasants to farm the way they wanted. But, in reforming other sectors of the economy, it will be more difficult to link personal income closely to productivity. The more complicated reforms that lie ahead also risk greater social and economic disruptions than have occurred to date. [redacted]

A New Openness in Planning

The drafting of the Seventh Five-Year Plan was characterized by a new openness in policy formulation, a process we expect to continue unless Zhao and

the reformers lose control over economic policy. The three-and-a-half-year drafting period saw a clear expansion of what could be debated and who could participate in that debate. This was in stark contrast to the drafting of previous Chinese plans which, according to the Chinese press, involved far fewer government and party officials and no scholars, scientists, or businessmen. Moreover, the debate allowed discussion of alternative approaches to China's development problems.¹ [redacted]

The Plan is also noteworthy as the first ever to be discussed or adopted by the National People's Congress (NPC) before being distributed for implementation, and only the third plan ever to be made public. Of these, the First Five-Year Plan (1953-57) was not published until July 1955, and the Sixth Plan (1981-85) was not released until December 1982. The Chinese press publicized the differing opinions of the NPC delegates, tabulating their criticisms and dissenting votes—almost as if to prove that the new leadership was open minded. Indeed, a comparison with the initial text indicates that 31 changes were made to Zhao Ziyang's proposal. [redacted]

Details of the Plan

Beijing has not released the entire 100,000-word text. However, excerpts in the Chinese press give the highlights of each of the 56 chapters, and include the major points covered in the proposal for the plan published at the National Party Conference in September 1985 (see appendix). [redacted]

Without the text of the entire plan, it is difficult to judge how comprehensively economic targets were drawn up for the period compared with those for

¹ The debate was confined within limits, of course. Marxism could not be rejected, although the form it should take to be suitable to modern China could be discussed. A senior party theoretician stated in late 1986 that virtually all topics were open to discussion—except the party's leadership and state ownership of the means of production. [redacted]

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***Chronology of the Seventh Five-Year Plan
Proposal as Described in the Chinese Press***

Early 1983

The State Council ordered "relevant departments" to begin research on the major economic and social issues likely to face the nation from 1986 through 1990. Government leaders in charge of various departments, administrative regions, and enterprises met with scholars from natural and social sciences institutes.

Early 1984

The Central Committee Secretariat and the State Council began deliberation on the material being gathered.

April 1985

Drafting began, under the direction of the Secretariat and the State Council, on a "proposal" laying down the major tasks, principles, and policies for the Plan.

July 1985

The Secretariat, having approved in principle the fourth draft of the proposal, submitted the fifth draft to a group of 200 individuals for 10 days in mid-July. The group included national leaders in the party, government, and the military; economists; natural scientists; officials from selected large state-owned enterprises; and leaders from 10 provinces, municipalities, and autonomous regions. Draft copies were also submitted to all members of the Central Committee, the Central Advisory Commission, and the Central Discipline Inspection Commission asking for suggestions.

August 1985

The input from the more than 1,000 people reviewing the document was drawn together into the sixth draft. The Politburo revised the document, and the seventh draft was distributed to all delegates to the coming party conference with directions to hold discussions on the document.

Concurrently, the Central Committee called a symposium of "party and nonparty democratic personages," whose opinions were incorporated into the eighth draft.

September 1985

The eighth draft was presented at the Fourth Plenary Session of the Central Committee and at the National Conference of Party Delegates, where the proposal was made public for the first time. Further revisions were made, and the ninth draft was approved by the party conference.

March 1986

The National People's Congress revised and approved Zhao Ziyang's report and a resolution supporting the guidelines and policies of the Plan. Excerpts were approved and published, and the entire Plan was approved in principle.

[Redacted]

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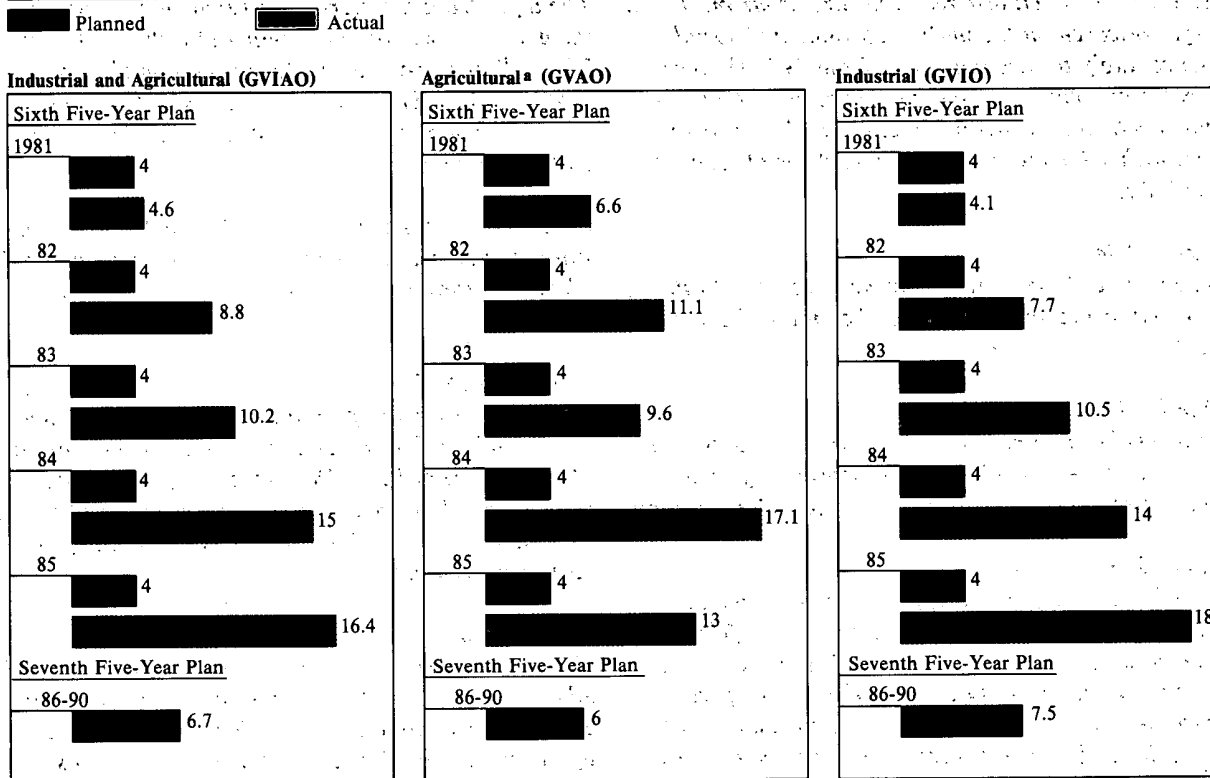
previous plans. The new Plan targets tend to be slightly conservative, falling between past overly conservative plans and much higher, actual production levels (see figure 1). The priority areas for economic development remain much the same as in the Sixth Plan—energy, transportation, and technology—but the issues have changed dramatically. For the Sixth Plan, national leaders debated purely economic issues

such as the rate of investment, consumer needs, and the relative growth of heavy and light industry. For the Seventh Plan, debate over such economic targets appears to have been relegated to lower level officials, leaving the top leadership free to discuss the broader political and ideological issues. [Redacted]

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Figure 1
China: Gross Value of Industrial and Agricultural Output,
Planned Versus Actual, 1981-90



^a Includes the value of village industrial production, which has historically been included in agricultural output but, according to some Chinese statements, will be shifted to GVIO. The plan target for GVAO without the value of village industries is 4-percent annual growth.

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Timetable for Reform

In addition to setting the customary production priorities and targets, the plan lays out a general timetable for reform during the period, and gives officials and enterprise managers 11 general principles to guide their decisionmaking (see inset).

According to the Plan, reform will be carried out in three stages. The first will take one or two years and will concentrate on "invigorating large and medium-size state enterprises," which means enterprises will become economic entities responsible for their own production, profits, and losses. Productivity is to

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Guidelines for Decisionmaking, as Outlined in the Seventh Five-Year Plan

- 1) Give priority to reform and make sure that reform and development are adapted to and promote each other.
- 2) Keep a basic balance between demand and supply, and try to balance state budgets and foreign exchange.
- 3) Give top priority to improving productivity and especially product quality, and correctly handle the relations between productivity and growth rates and between quality and quantity.
- 4) Further rationalize the industrial structure to keep pace with the people's changing demand patterns and with the modernization of the economy.
- 5) Keep total investment in fixed assets within proper limits; rationalize investment patterns; and accelerate the development of the energy, transport, telecommunications, and raw and semifinished materials industries.
- 6) Shift the emphasis of development to the technological transformation, renovation, and expansion of existing enterprises, and have them expand chiefly by increasing productivity.
- 7) Attach strategic importance to the advance of science and education, promote scientific and technological progress, and accelerate the development of intellectual resources.
- 8) Open wider to the outside world and better link the development of the domestic economy to expanded economic and technological exchange with other countries.
- 9) Further improve the material and cultural lives of both urban and rural residents on the basis of increased production and higher productivity.
- 10) Promote the cultural and ideological advance of socialist society while furthering its material progress.
- 11) In all efforts to build the country, maintain the Chinese tradition of hard work and thrift.

[Redacted]

increase by creating more economic competition among enterprises and by encouraging them to form lateral relationships—such as subcontracting—with other enterprises. Beijing is allowing enterprises to carry out experiments with bonuses and other incentives for individual workers, including issuing workers stock in their enterprise. Excerpts from the Plan indicate that Beijing will proceed without experimentation on some measures, including the devolution of state-owned enterprises. With the exception of a few strategic government departments and industries—such as defense and energy—all ministries, provinces, and autonomous regions must turn their enterprises over to departments and municipalities. Vice Premier Li Peng told a June 1986 national conference on the machine-building industry that, after the national ministry had divested itself of its enterprises, municipalities and departments would devolve the ones they currently operate to lower level administrative units. It is not clear, however, how much of this devolution is scheduled during the first stage of the Plan. [Redacted]

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Parallel to the reform of enterprises in the first stage—and essential to the success of this reform—the plan calls for further development of macroeconomic “levers” with which to control the economy. Some levers are currently being improved, such as bankruptcy laws and central banking reforms, and more are to be undertaken during the plan’s final two stages of reform. [Redacted]

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The Plan states that in the second stage of reform, originally scheduled to begin this year or in 1988, the role of state mandatory planning will be further reduced, with state quotas and regulations dropped wherever possible. Macroeconomic levers are to be improved in the tax, financial, and monetary systems, and the first stages of price reform are to be undertaken. Prices are also to be used as a “lever” to encourage production in all but a limited number of “strategic commodities.” [Redacted]

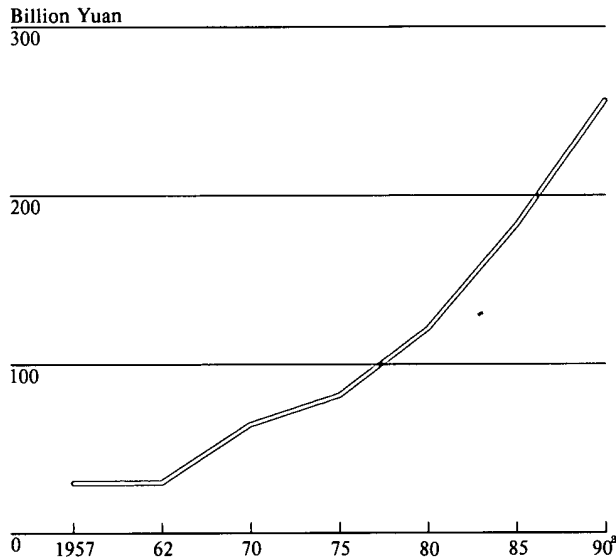
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Figure 2
China: State Expenditures in the Last
Year of the Five-Year Plans



^a Projected.

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During the third and final stage of reform, as outlined only vaguely in the Plan, Beijing will concentrate on placing enterprises under the proper authorities (presumably downward divestitures), removing barriers between departments and regions, and separating the functions of government and enterprises.

Major Projects

The excerpts from the Plan call for 925 major capital construction projects.² The number is somewhat misleading, however, as at least 60 percent are continuations of long-term projects, and only 450 of the projects are to be completed during the plan period (see figure 2).

² Includes large and medium-size projects as defined by Chinese standards based on production capacity or cost of the project.

Following an uncontrolled 40-percent jump in capital construction expenditures in 1985, the Plan sets the goal of limiting expenditures to 500 billion yuan (US \$135 billion), still almost 50 percent more than capital construction during the previous plan. Beijing is committed to using the first two years to slow capital construction expenditures and to improve the allocation of funds to the key sectors of the economy. Energy, transportation, and telecommunications remain priority areas for funding, and show the biggest increase over the Sixth Plan, rising from 34 to 37 percent of total capital construction expenditures (see figure 3).

Noticeably absent from the Plan is the giant Three Gorges Dam hydroelectric project, which many foreign observers expected to be included. The Chinese-owned Hong Kong paper *Ta Kung Pao* has reported that "preparatory work" for the project will be completed during the Plan, but other reporting suggests that the final decision on the project and its timing has yet to be made.

Chinese budget planners have held a substantial sum in reserve in case a major project—presumably the Three Gorges Dam—is approved before 1990.

The Plan includes initiating the first phase of a massive project to divert water from the Chang Jiang (Yangtze River) to the North China Plain. Although the project has been under consideration for over 30 years and an eastern route along the Grand Canal was officially approved three years ago, it has received little attention in the Chinese press. In recent discussions with Chinese officials, US researchers learned that a western route for the project, which had earlier been discarded because it requires that water be elevated by the Three Gorges Dam, is again under consideration. All-out construction on the eastern route may be awaiting the decision on the Three Gorges project. Completing even the eastern route along the Grand Canal—without a dam—would require pumping water up 40 meters over a 1,150-kilometer route and crossing the Yellow River, greatly straining China's budget and engineering skills.

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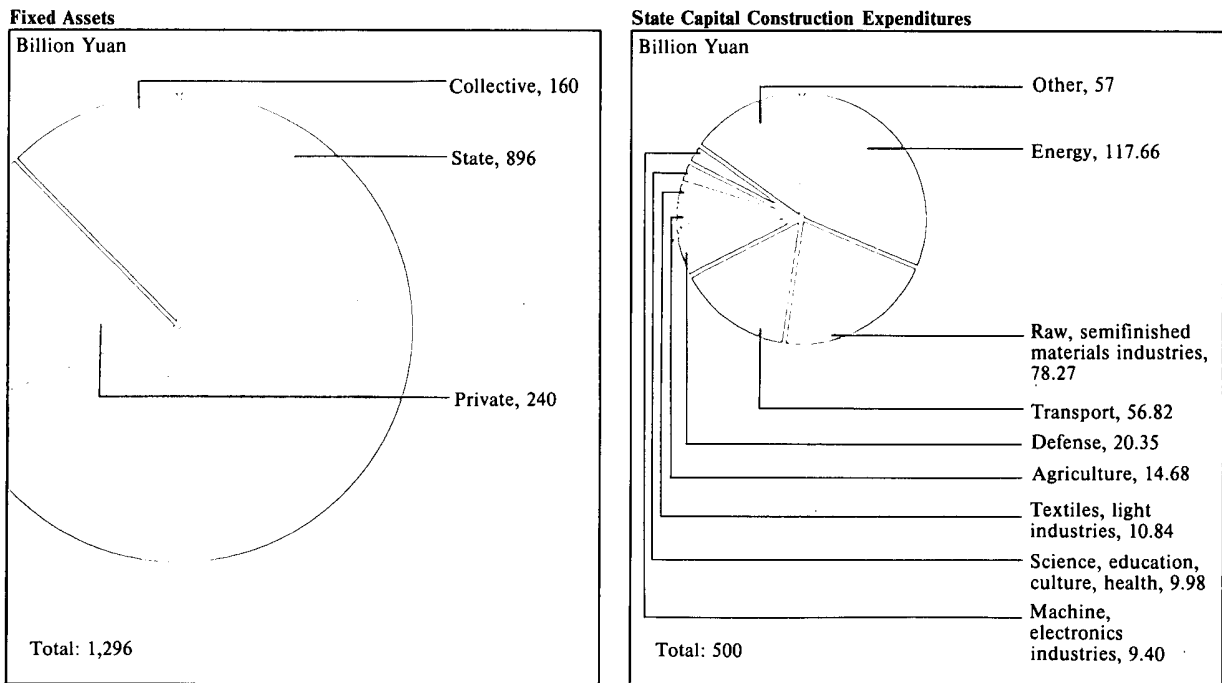
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Figure 3
China: Composition of Investment in Fixed Assets, 1986-90



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Regional Targets

The Plan divides the country into three economic regions, with only slight boundary changes from those outlined in the Sixth Plan, and places more emphasis on economic cooperation within each region (see figure 4). By encouraging regions to produce different goods, China is further retreating from the Maoist concept of regional self-sufficiency. [redacted]

Because resources are generally allocated by province, past regional projects have usually met with redtape, mismanagement, and a lack of coordination. These roadblocks may well remain; although the major targets of each region have been announced, the mechanism to improve intraregional cooperation is noticeably missing from the highlights of the plan. [redacted]

Military

Defense spending during the Plan is forecast to reach 102 billion yuan (US \$28 billion), including 20 billion yuan for capital construction, research, and engineering. This annual increase of roughly 3 percent in defense spending stands in sharp contrast to total government expenditures, which are projected to rise four times as fast over the period, and continues the trend devoting a declining portion of state budgetary resources to the armed forces.³ Some savings for the

³ China's announced budget reflects the overall trends but not the full extent of its defense spending. We estimate actual annual military expenditures are approximately twice as large as the announced figures. [redacted]

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Figure 4
Regional Targets for the Seventh Five-Year Plan



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military are possible, however, from the current reorganization of the PLA, which calls for retiring older ships, aircraft, and officers, as well as reducing forces and streamlining administration. Defense industries may also obtain some financial help from self-generated funds, both through international arms exports and domestic sales of consumer goods. Defense industries are currently undergoing reforms that encourage the production of civilian goods with the goal of being profitable. Savings and profits from all of these activities will probably be plowed back into new equipment and operating expenses. []

Quality of Life

The text states bluntly that economic growth between and within economic regions will proceed at different rates, causing disparities in income. Under the goal of increasing the prosperity of all the people, Beijing is encouraging a more direct link between income and productivity, accepting widening gaps in income, and at the same time adopting progressive income taxes and other measures to ensure that the gaps do not become too wide. []

Chinese newspaper and journal articles are increasingly referring to the need to improve living standards to create the proper environment for carrying out reform, and the plan shows ambitious goals for improving the quality of life. In addition to the goals for wages and consumption and the production targets (see appendix and table 1), the plan calls for improvements in drinking water supplies, construction of 650 million square meters of urban housing, and rapid increases in residential central heating systems and the use of gas for cooking. []

Outlook for the Plan Period

We believe the target for 6.7-percent average annual growth in the gross value of industrial and agricultural output (GVIAO) is feasible and will allow the Chinese to reach the overall modernization goal—set at the 12th Party Congress in 1982—of doubling 1980 output by 1990. The goal of increasing the gross national product by 7.5 percent annually should be

Table 1
Goals for the Production of Consumer Goods and Food Products

Product	1990 Goal	Increase Over 1985 (percent)
Consumer goods		
Soft drinks	3 million tons	400
Refrigerators	6.5-7.5 million	370 to 440
Beer	6.5 million tons	210
Garments	2.8 billion pieces	65
Chemical fibers	1.45 million tons	53
Detergent	1.4 million tons	41
Washing machines	12 million	36
Color televisions	5 million	22
Paper, cardboard	10 million tons	21
Cigarettes	26 million cartons	11
Food products		
Milk	6.25 million tons	310
Eggs	8.75 million tons	65
Aquatic products	9 million tons	29
Sugar	5.5-6.0 million tons	24 to 35
Meat	22.75 million tons	30
Oil crops	18.25 million tons	16
Grain	425-450 million tons	12 to 19

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viewed with caution, however, because China's methodology for calculating the figure results in a measure bearing little resemblance to the Western concept of GNP. []

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Although the overall *average* growth rates will probably be reached, we believe it unlikely that economic growth during the period will be steady, as called for in the plan document. As with the implementation of past reforms, those outlined in the current plan will probably cause swings in production as officials seek the right mix of incentives and regulations. []

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Industrial Production Goals

	1990 Goal	Increase Over 1985 (percent)
Ethylene	1.2-1.4 million tons	84 to 115
Soda ash	3.5 million tons	75
Building industry	229 billion yuan	40
Fertilizers	16.3 million tons	22
Rolled steel	44-46.5 million tons	20 to 26
Cement	180 million tons	26
Steel	55-58 million tons	18 to 24
Timber	68-72 million cubic meters	8 to 14

Furthermore, we believe some targets will be difficult to reach. Industry's target of 7.5-percent annual growth is, in our opinion, more likely to be surpassed by light than heavy industry (see table 2). The urban reform program promulgated in late 1984 has made little progress in reforming heavy industry, and we view its problems as long term and difficult to resolve:

- Poorly trained and uneducated managers.
- Inefficient allocation of resources because of irrational prices.
- Low labor mobility.
- Lack of a nationwide social security system to provide for displaced workers.
- Few penalties for inefficient production, such as through bankruptcy laws and bank regulations on lending.

Because many of the one-time gains in agricultural productivity from adopting the peasant responsibility system have probably occurred, we expect the growth in agricultural output, which fueled overall economic growth during the early 1980s, to slow and pull down overall growth rates. The most rapidly growing sector of the agricultural economy will continue to be the rural industrial sector; total agricultural production is targeted at 6-percent annual growth, but the goal for agricultural growth without village industries is only 4 percent.

Table 3
Energy Goals

	1990 Goal	Increase Over 1985 (percent)	Annual Increase (percent)
Total energy	991 million tons of standard coal	18	3
Coal	1 billion tons	18	3
Oil	3 million barrels/day	20	4
Gas	15 billion cu meters	17	3
Electricity	550 billion kW hours	35	6

We believe that the goal of providing 145 million jobs for new workers and peasants leaving agriculture is unlikely to be fulfilled. Even if Beijing could provide jobs in the industrial and service sectors to gainfully employ that number, it is unlikely that it will have to; a study by the US Bureau of the Census, based on Chinese population data, indicates that at most only 85 million new jobs will be required. This apparent inconsistency between Chinese planning for labor and population may result in better conditions than Beijing is expecting in a number of areas:

- Lower unemployment figures.
- Fewer problems resettling peasants outside large urban areas.
- Fewer jobs that have to be created in the service and industrial sectors.

The Plan's energy production targets are low in anticipation of the slower growth in production that has occurred in the last year (see table 3). The planned average annual growth in energy production during the period falls short of the planned 6.7-percent growth in the overall economy, and is well below the 1985 energy growth rate. And although some increased efficiency in the use of energy is likely, the supply of energy will remain well below demand throughout the plan period.

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Table 4
Transportation Goals

	1990 Goal	Increase Over 1985 (percent)
Total freight carried	9.4 billion tons	45
Passenger volume	8.5-9.0 billion persons	60
Capacity at major ports	500 million tons	52
Highway freight	900 million tons	38
Rail passengers	1.4 billion	36
Freight carried by state transport departments	3.7 billion tons	35
Rail freight	1.6 billion tons	26
Water freight	600 million tons	23
Water passengers	229 million	12

We also expect transportation to remain a major constraint on economic growth through the plan period (see table 4). Transportation goals call for total freight tonnage carried to increase 8 percent annually and thus outpace overall economic growth. This goal of tonnage transported is more impressive than it appears because as the economy develops the type of goods handled will increase in volume faster than weight. In any case, China's transportation sector will be, in our judgment, unable to meet demand even if it reaches the Plan goal. [redacted]

US-Chinese Trade

We believe the general thrust of the Plan bodes well for US-Chinese economic relations, although some increase in trade frictions is likely. In order to reach Plan goals of an 8-percent-per-year increase in exports and for a 6-percent increase annually in imports, for example, China will try to expand exports of textiles, coal, and grain. Chinese sales of coal and grain will be in direct competition with US sales, and textiles will continue to cause trade frictions as China attempts to expand its sales to the United States. We believe Beijing will also try to diversify its exports into light manufactured goods, many of which will compete with products from US firms, as well as with

those of US allies in East Asia, which are already experiencing a slowdown in their export growth. We believe that the proposal to use prices and customs duties to encourage the production of export goods illustrates that Beijing plans to press exports to the West. The number of trade complaints filed by China's trading partners is therefore likely to increase over the period. At the same time, we believe Chinese purchases of consumer goods will be constrained by Beijing's efforts to conserve foreign exchange and protect domestic industries. [redacted]

US firms selling advanced technologies and equipment, however, will benefit from the Plan. China generally views US technology as the world's best, and we believe that particularly good opportunities exist for sales of US equipment and technology in a number of areas:

- Electronics, especially computers and integrated circuits.
- Telecommunications.
- Energy-related equipment.
- Food processing.
- Transportation.
- Water conservancy projects. [redacted]

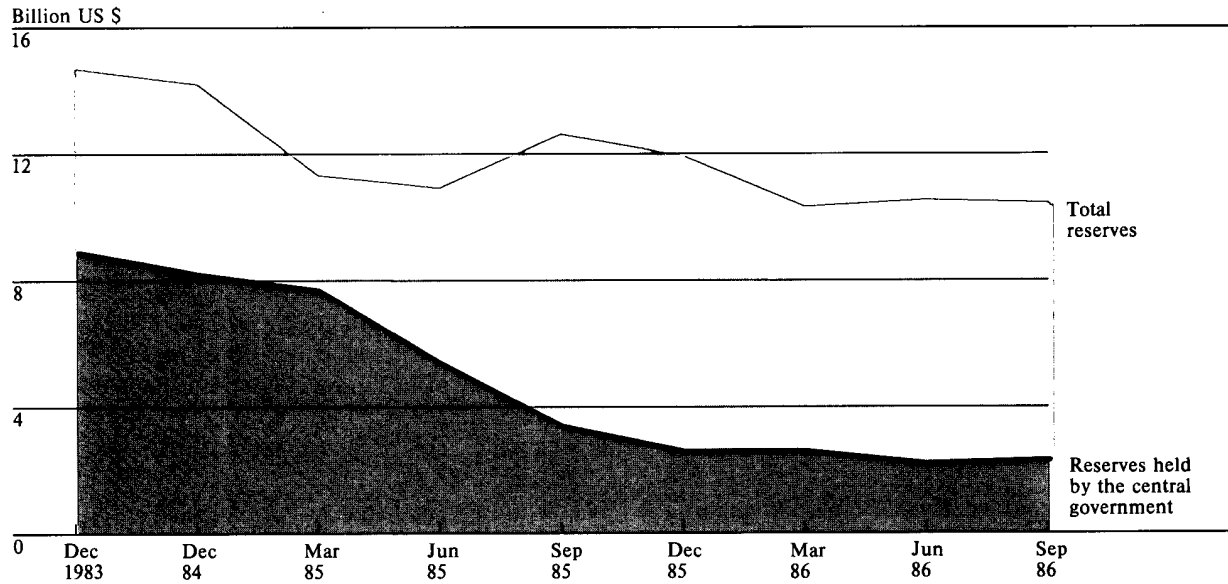
We expect that US sales opportunities will be slow in coming, however, particularly through the end of this year, while Beijing is concentrating on controlling expenditures and while leadership issues remain unsettled. China's foreign exchange reserves dropped sharply in 1985 as the plan was being prepared (see figure 5).⁴ Moreover, the decline in oil prices and the growing Western concern about limiting imports of Chinese textiles are undoubtedly causing the characteristically conservative Chinese to be even more concerned about bringing foreign exchange reserves under control. [redacted]

⁴ This drop led to a recalculation of foreign exchange reserves in mid-1985 to include holdings of foreign government securities, boosting holdings by approximately \$2.5 billion. [redacted]

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Figure 5
China: Foreign Exchange Reserves, 1983-86



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Appendix A

Major Goals of the Seventh Five-Year Plan (1986-90)

Agriculture. The gross value of agricultural output to reach 353 billion yuan (in 1980 prices), an annual average growth of 4 percent (or 6 percent if the output value of village industries is included). State investment to increase, with emphasis on infrastructural facilities, including weather forecasting. New forests to cover 27.7 million hectares, increasing China's total afforested area to 14 percent. See table 1 for food production goals.

Banking. Total state credit available to increase by 474.5 billion yuan over the five years. Credit mainly to be used for the operating expenses of industrial and commercial enterprises, agriculture, and investment in fixed assets.

Budget. A balanced state budget of 256.7 billion yuan of state revenues and expenditures in 1990, or a total of 1,119.4 billion yuan of each over the entire plan. An average annual increase of 8 percent for education, science, culture, public health, and sports. "Proper limits" will be put on the growth of expenditures for capital construction, national defense, and administration. See also figure 2.

Consumption. Total consumption funds for the five years set at 3,007 billion yuan. Per capita annual consumption of 517 yuan (\$140 at current exchange rates) by 1990, an average annual increase of 5 percent (4.2 percent for urban residents and 5.1 for rural residents). Output of consumer goods to increase 40 percent, with major output targets as listed in table 1. Sales of consumer goods to increase 8.7 percent annually to reach 574 billion yuan in 1990. The number of retail stores, restaurants, and service shops is to double to 25 million.

Culture. Literature and art to support the current economic reforms and the drive for modernization. Film, radio, and TV industries to improve quality before increasing quantity—radiobroadcasting to reach 80 percent of population, TV to reach 75 percent. Publications to increase roughly 50 percent by 1990. A total of about 700 major cultural and historical sites under state protection by 1990.

Economic Efficiency. International standards are to be adopted for major products. The energy required to produce 10,000 yuan of national income should be 11.4 metric tons of standard coal, down from the 1985 figure of 12.9 tons. Labor productivity to rise by an average of 3.8 percent annually.

Economic Zones. Three regions for economic development are created. (See figure 4.) Development planning is to occur at three levels—between provinces, intraprovincial, and city.

Education. Nine-year compulsory education system to be introduced gradually. By 1990, students in vocational and technical schools to increase by 65 percent, undergraduate students to increase by 21 percent, and postgraduate students by 17 percent. Full-time adult education and part-time training for cadres, workers, and peasants to expand.

Energy. See table 3.

Foreign Exchange. More to be earned through export, an increased proportion to be earned from sources other than trade, adequate reserves to be maintained, and central control over foreign exchange and foreign loans to be tightened.

Foreign Trade. Exports to grow 8.1 percent annually, imports at 6.1 percent annually. Total annual value of trade to reach US \$83 billion by 1990.

Gross National Product. 1,117 billion yuan in 1990 (1985 prices), an annual increase of 7.5 percent, with a total increase of 44.6 percent over 1985. Output of primary industry is to reach 306 billion yuan in 1990, growing at 4.2 percent per year; secondary industry to reach 530 billion yuan, up 7.7 percent per year; and tertiary industry to reach 281 billion yuan, or an increase of 11.4 percent per year.

Gross Value of Industrial and Agricultural Output (GVIAO). In 1980 prices, 1990 GVIAO is to reach 1,677 billion yuan, up 38 percent from 1985, or 6.7 percent annually. This consists of industrial output reaching 1,324 billion yuan or an annual increase of 7.5 percent, and agriculture reaching 353 billion yuan for an annual increase of 4 percent each year over the entire plan.

Health. Safe drinking water for 80 percent of the rural population, over 85 percent of the total population to receive inoculations. Add 400,000 beds in hospitals above the county level, build 16 general hospitals, and increase the number of health workers in both traditional and Western medicine.

Housing. Urban housing to increase by 650 million square meters, rural housing by 3 billion square meters.

Industry. Gross value of output to reach 1,324 billion yuan (1980 prices), up 43.4 percent for an annual average increase of 7.5 percent (or 7 percent if the output value of village industries is excluded). Output of heavy industry to reach 663 billion yuan, light industry to total 661 billion yuan, both growing at 7.5 percent annually. See table 2.

Investment. Controlling investment is a major priority for the first two years of the plan. Investment during the final three years is to balance supply and demand. Total investment in fixed assets of 1,296 billion yuan, of which 896 billion in state enterprises and institutions, 160 billion in collective enterprises, and 240 billion in private enterprises. Capital construction of 500 billion yuan, of which 375 billion yuan will be allocated by the central government. Funds for updating equipment and new technology to total 276 billion. Fixed assets of state enterprises to grow by more than 600 billion. See also figures 2 and 3.

Labor and Social Security. Gradually establish a social security system and social insurance system. Provide 29 million new jobs in cities and towns. Peasants encouraged to leave the land but not the village.

Legal System. Socialist democracy institutionalized and written into law. Statutes drawn up for state administration, economic construction, and other undertakings. The concept of legality and basic knowledge of laws disseminated among all citizens. Public security and judiciary to strengthen work.

Money Supply. To be increased based on the growth of savings deposits.

National Income. 935 billion yuan, an increase of 38 percent, or 6.7 percent per year.

Pollution. 50 to 70 percent of major industrial pollutants to be reduced to state-mandated emission levels.

Population. Average annual growth rate of 1.2 percent, total population not to exceed 1.113 billion.

Regional Development. See figure 4.

Science and Technology. Concentration on 76 major research projects and 200 projects designed to develop technology and spread research achievements. Quality of about 40 percent of major industrial products to reach the level of advanced countries in the late 1970s or early 1980s. A "Spark Plan" will demonstrate technology improvements for township industries.

Special Economic Zones. Fourteen coastal cities, Hainan Island, four special economic zones, and other selected areas should continue their expansion and develop export-oriented economies.

Technical Transformation. Investment to increase 87 percent to total 276 billion yuan; 600 major projects will be launched, starting in the machine-building and electronics industries.

Tourism. To receive 5 million foreign tourists in 1990.

Transportation. See table 4.

Urbanization. Small and selected medium-size cities to be developed to prevent overpopulation of larger cities. By 1990 there will be, by Chinese population standards, at least 400 cities and 10,000 towns.⁵

Wages. Total wages of workers and other employees to reach 190 billion yuan by 1990, up 4 percent per year. Peasant income to increase 7 percent annually to reach 560 yuan per capita. Wages to be paid according to work done, while guarding against income disparities.

Water Conservancy. Strengthen flood control measures on major rivers, begin project to divert water from southern to northern China, undertake surveys of land and water resources.

⁵ Cities are areas where the state has approved a city administration. Towns are the site of a township government, and (a) if the area is inhabited by fewer than 20,000 residents, 2,000 or more must be nonagricultural, or (b) if inhabited by more than 20,000 residents, at least 10 percent of the residents must be non-agricultural.

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