

**ECONOMY**

**AND**

**INFORMATION**

—SELECTED WORKS OF WU JIAPEI



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# **Economy and Information**

——Selected Works of Wu Jiapei

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## Preface

In this book, I selected twenty-three papers written from 1988 to 1993 (except one in 1986). Among them twelve were submitted to various international meetings which I attended, eight were published in Hong Kong or abroad and three have not been published as yet.

Here, I have divided the selected works into four parts.

Part I deals with common economic problems including China's economic reform and development, macro control, inflation and economic cooperation among the Asian and Pacific Countries.

Part II is related to economic outlooks, including forecasts about China's economy within the next 2 to 3 years since 1989 up to 1993. Some of these papers were presented to the PEO (Pacific Economic Outlook) of the PECC (Pacific Economic Cooperation Conference).

Part III is about information and informatization, including China's information market, information service industry, informatization of China's national economy and problems concerning the theory of information. Some of the papers in this part were submitted to international conferences sponsored by the TIDE (Telecommunication, Information and Inter-Dependent Economies) 2000 Club and to the 1988 International Conference of the PACIT (Pacific Cooperation and Information Technology) held in Vancouver. Also selected here is a translation of part of the paper that I submitted to the 1991 annual meeting of the China's Information Industry Association, entitled "Information, Its Industrialization and Commercialization Are Important and Decisive Factors in the Development of Productive Force", because it was for the first time that I put forward and proved the idea that "information is the most important soft element in productive force". Another one is an abstract of my report to the Ford Foundation after my visit to the USA in April-May, 1992, with the Chinese Information Economists' Delegation. In this report, I advanced the new viewpoint that the increase of information efficiency is an important factor in technological progress and economic development.

Part IV is two articles dealing with other problems. One introduces the application of economic models in China's economic managerial work, the other sings the praises of Professor L. R. Klein for his contribution to the development of econometric modelling in China.

All theses are presented here in sequence of date being written or published, so

that readers can better understand the development of my academic thinking. Some contents may look out-of-date now. However, to keep the original records, I leave them as they were without making any changes. I would also like to take this opportunity to extend my sincere thanks to Mr. Li Laya and some other young people who are my assistants in the State Information Centre of China for their kind help when I was writing some of these papers.

Time flies but history remains forever. No matter what effects this book might have, great or little, good or bad, let things that partly reflect history be kept in record. This is my original intention of compiling this book.

Wu Jiapei

*March 5th, 1994. Beijing.*

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# **PART I COMMON ECONOMIC PROBLEMS**



## **CHINA'S ECONOMIC DEVELOPMENT AND REFORMS, 1987—1988**

### **I. In 1987, Fairly Good Results Were Achieved in Economic Development, and Progress Made in Economic Reforms**

In 1987, China's economic development moved towards the direction described as "paying due attention to proficiency, improving product quality and better coordinating the development of different economic sectors while striving to achieve a stable growth of production." The situation was marked by the following salient features:

1. A significant improvement in the proportionate relations between major aspects of the national economy.

The rate of increase for the total supply outstripped that for the total demand by about 2%, meaning that the differences between supply and demand were narrowed. Also in terms of growth rate, the state revenue exceeded the state expenditures, resulting in a decrease in financial deficits from that of 1986. The country's exports shot up 27.8% with the total volume reaching alltime high, while imports were only slightly higher than in 1986, reducing China's trade deficits to a very small amount. The year-end balance of foreign exchange reserves doubled that at the beginning of 1987, enabling China to improve its international receipts and payment substantially. The total volume of money supply for the whole year was one fifth less than planned and, this, too, yielded good results to the country's economic development.

2. A further rationalization of the speed for the development of production and of the production pattern.

China's GNP reached RMB¥ 1,092 billion, up 9.4% over 1986. Production of

different industrial sectors proceeded in a stable and better coordinated manner and, thanks to this, the total value of industrial output registered a 16.5% growth despite reduced imports of raw and processed materials and loans for circulating capital.

Agricultural production with a good harvest rose by 4.7%, and township-run industries across the nation yielded RMB¥ 450 billion in output value, 28.6% over the 1986 figure. In addition, rural industries, construction, commerce and transport were the first time able to yield a combined output value greater than that of agriculture. The country's total volume of retail sales chalked a 9.6% increase with factors resulting from price hikes deducted, State-owned industrial enterprises turned over to state 9.9% more in profits and taxes, and achieved an average increase of 7.6% in per capita productivity of labour—far exceeding the corresponding figure of 2.6% for 1986.

### 3. Excess rise of prices.

The index of retail sales prices rose by 7.3%—compared with 6% in 1986—which was 6.3% for the countryside and 9.1% for the urban areas. This was attributed mainly to the hikes of food prices, which were responsible for about 60% of the overall increase in the index of retail sales prices. Of all foodstuffs the prices of vegetables had the biggest increase, which was recorded in two's place in a few major cities. With factors resulting from price hikes deducted, the net income for peasants rose by 5.3% per capita, while the figure was 1.7% for urban residents.

The above mentioned achievements made by China were the results of the reforms, in the cause of which there nonetheless emerged problems. For solution of these problems, China again needs to depend on the reforms.

The year 1987 also witnessed efforts to combine the economic reforms with the economic development, with the reforms continuing to focus on instituting and improving the system of contract responsibility for management in enterprises. By the end of 1987, the system had spread to 82% of the large-and medium-sized state-owned industrial enterprises throughout the country, and this proved to be effective in tapping the potential of enterprises and improving their economic proficiency. As regards the reforms, these were marked by the following salient features:

1. A transition from the traditional structure to a new one, which consequently created a situation in which there co-exist two economic systems (the existing economic system and the newly-emerging economic system), two types of economic mechanisms (mechanisms through planning and marked mechanisms) and two kinds

of management methods (traditional and modern).

2. A Shift from initial steps to delegate power to enterprises and let them have a bigger share of their profits to steps in depth designed to streamline the relations between the basic aspects of the national economy and readjust the economic interests for different sectors.

3. A beginning for the economic and political system restructuring to proceed in step with each other for mutual coordination.

## **II . In 1988, Continued Efforts Have to Be Made for Stabilizing the Economy and Deepening the Reforms**

In 1988, the basic principle for China's economic work is one of further stabilizing the economy, further deepening the reforms, and dominating the overall situation by means of the reforms.

As regards the work to achieve economic stability, there is the need first of all to ensure that prices are basically stable. To achieve this purpose, work should continue to tighten the control over the expansion of investment in fixed assets, social consumption funds, credit money lending, and financial expenditures, while strengthening the administration of prices. At the same time, agricultural production needs to be improved for increased supplies of nonstaple foods. Here is one pressing problem that merits study for solution, that is, what measures of compensation deemed as appropriate are to be taken in case of new price hikes for essential foodstuffs, that is, measures able to prevent people's lives from being affected too adversely while conducive to the readjustment of the irrational prices. Besides, the purchasing power of institutions needs to be reduced to bring its expansion behind the increase of production, in order to alleviate the contradiction between market supply and demand, and to help bring about a change in the general mood of society. As a matter of fact, the State Council, China's highest governing body, has already ordered a set of restrictions on public spendings to achieve a 20% reduction from the actual amount of such spending in 1987

This year will also see steps taken to implement the strategy proposed by General Secretary Zhao Ziyang for economic development in China's coastal areas. The strategy will, as expected, promote the economic development in central and western China as well and, eventually, the development of the entire national economy.

China has decided to designate the Hainan Island as a new special economic zone, where policies designed to attract foreign investment will be even more preferential and flexible than those being practised in the existing special economic zones of Shenzhen, Zhuhai, Shantou and Xiamen. Encouragement to the coastal areas in building up a foreign-market oriented economy and in taking an active part in international exchange and competition constitutes an important step taken by China to boost its economic development.

To deepen the reforms, China plans first of all to continue spreading the system of contract responsibility for management in enterprises to eventually make it complete through efforts to develop and deepen it. That will call for reforms both within and outside enterprises. Within enterprises, positive efforts will be made to restructure the leadership and upgrade the various systems of management. At the same time, supporting reforms must be carried out in the systems of planning, investment, allocation of materials, monetary affairs, finance, taxation and foreign trade to create the exterior conditions necessary for enterprises to truly enjoy full authority over management while assuming the sole responsibility for their own losses and profits. For the reforms of the foreign trade, the guiding principle is one of letting foreign trade corporations assume the sole responsibility for their own losses and profits, giving them full authority over management and ensuing better coordination between industry and foreign trade to eventually institute a system whereby foreign trade corporations can act as agents for other enterprises in the export of their commodities.

In its endeavour to achieve economic stability, never will China resort to purely administrative methods as in the past. Instead, it will use a complete set of measures, of economic and legal methods in particular, which suit the needs for developing a commodity economy and can make market mechanisms play a role according to the law of value. By deepening the reforms, China aims to advance the changes in its micro-economic mechanisms while increasing its capability to exercise macro-economic control. In short, the reforms in 1988 will enable China to succeed in its endeavour to increase supplies, bring the expansion of demand under control, readjust the economic structure, upgrade proficiency, stabilize prices and improve the overall economic conditions so that the entire national economy will develop in a sustained, stable and better coordinated manner.

(Paper to 1988 Link Spring Meeting held in New York)

# **CHINA'S ECONOMIC DEVELOPMENT AND ITS INFLUENCE ON THE ECONOMY OF THE PACIFIC REGION**

## **I . China's Economic Development over the Past Eight Years**

The People's Republic of China has made great achievements in economic development since its founding of 38 years ago, despite the twists and turns it has experienced and the setback it has suffered. What merits still greater attention is the sustained, stable and well-coordinated economic development it has achieved since the 3rd Plenary Session of the 11th Central Committee of the Chinese Communist Party in December of 1978. This is due to the guidance of the correct line formulated at the session, which calls for adherence to the four cardinal principles and, at the same time, implementation of the general policy of reform, opening China to the world and invigorating the domestic economy. Here are the country's major achievements made over the past eight years:

1. The national economy has developed at a fairly fast speed and in a sustained, stable manner.

During the 1979—1986 period, China's gross social product increased at an annual average rate of 10.1%, the growth for the best year being 16.5% and for the worst year, 6.4%—representing a departure of 6.4% and —5.5% from the average respectively. The corresponding figure for the 1952—1978 period, however, was 7.9%, with the rate of growth shooting up to 32.7% in the best year and sliding to —33.5% in the worst year, or 24.8% above and 41.4% below the average. These statistics showed that in the most recent eight years, China's economic development was not only faster but also experienced less violent fluctuations compared to what things had been like in the previous 27 years. The 1979—1986 period also saw the country's gross national product grow at an annual average rate of 9.2%, national incomes at 8.7%, total value of agricultural output at 6.5% and total value of industrial output at 10.6%.

2. The country's economic efficiency has improved step by step.

Beginning as of the 6th Five-Year Plan period (1981—1985), China began shifting the focus of its economic work to the improvement of economic efficiency. And during that period, it registered a 5.8% annual average increase in social labor productivity, up from the 1952—1980's rate of 3.5%. Labor productivity per capita rose to 15,198 yuan RMB in 1985 from 12,080 yuan RMB in 1980 in state-owned industrial enterprises undertaking independent accounting, an increase of 25.8%. Use of every 100 Yuan RMB in accumulation was able to yield an average of 39 Yuan RMB in national income during the 6th Five-year Plan period (1981—1985), compared separately to 32 Yuan RMB for the 1st Five-year Plan period, 1 Yuan RMB for the 2nd, 26 Yuan RMB for the 3rd, 16 Yuan RMB for the 4th and 24 Yuan RMB for the 5th. The 1986 overall energy consumption coefficient was 30% below the 1978 figure, and China saved an amount of energy equivalent to 120 million tons of standard coal during the 1981—1985 period.

3. The proportionate relations between major sectors of the national economy have become better coordinated.

China has changed the situation left over from the past in which heavy industry took too great a share in the national economy, thanks to the breakthroughs made in recent years in the rural reforms and policy of giving priority to the development of light industrial production. The proportion of heavy industry to the country's total industrial and agricultural output value was brought down from 41% in 1978 to 34.4% in 1986—meaning the achievements of a fairly coordinated national economic development with the proportions of agriculture and light industry only slightly below that of heavy industry. The tertiary industry has expanded—its share in the national economy rising from 21% in 1980 to 25.7% in 1985—resulting in a corresponding reduction in the proportions of the primary and secondary industries. Efforts to reduce the scope of investment in fixed assets brought the rate of accumulation down, from 36.5% in 1978 to 33.7% in 1985. While readjusting the proportionate relations between accumulation and consumption, the Government spent 1.3 times as much money building service facilities for the people during the 6th Five-year Plan period as during the previous five years. That means an end to the long-time neglect of consumption in people's life and a success in bringing such consumption in step with the development of production and construction.

4. Market regulation has been allowed to play a still greater role, resulting in enlivened supply and demand on domestic market.



Market mechanism has begun playing a role thanks to Government efforts to reduce the scope of direct planning. By the end of 1986, the number of industrial products covered by the mandatory planning by the state had been cut from 120 to 60, and the number of varieties of materials subjected to the unified distribution by the state, from 256 to 20. Accompanying this was a rapid increase in the number of goods sold and bought at floating and market prices. To be precise, in terms of varieties such prices are now practised on 40% of the means of production, 55% of the manufactured goods and 65% of the farm and sideline products. In addition to commodity markets, there have emerged in China markets of funds, technology and labor. In a word, China, now in the process of establishing a market system, has paid an increasingly great attention to the regulatory role and application of market mechanism.

Under the principle of invigorating the domestic economy, China has diversified the channels of commodity circulation and increased the retail sales volume of trade facilities operating under all kinds of ownership. According to statistics, the retail sales handled by individually-owned facilities in 1985 came to 6,270 million yuan RMB, 42 times the 1980 figure, and that accounted for 14.6% of the nation's total retail sales volume, up from 0.7% in 1980. The Government has ensured sufficient supplies of some 70 goods which were available only to holders of purchase cards at the beginning of the 6th Five-year Plan period. Both the urban and rural markets have been stable and brisk, with supply and demand growing in step with each other. In 1986, the nation's retail sales volume reached 495,000 million yuan RMB, up 15% over 1985, or an actual increase of 8.5% with factors resulting from increases in retail sales prices counted.

5. China's trade and economic and technical exchanges with the world have constantly expanded.

The open policy has enabled China to end the history of closing itself to international intercourse. The special economic zones, together with the open coastal cities, now pioneer the implementation of this policy which will involve all parts of China eventually. Between 1979 and 1985, the total volume of China's import and export grew at an annual average rate of 24.6%, and that was 3.2 times the figure for the previous 29 years. In 1986, export furnished 12% of the national income, compared to 5.6% in 1978. And between 1979 and 1985, the country attracted US \$ 21,800 million in foreign funds and introduced nearly 10,000 items of foreign technology. In addition, it has offered labor service under construction contracts to over 50 coun-