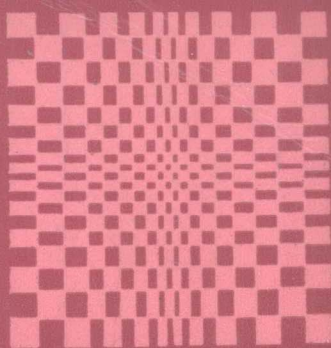


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Rationalization of Shanghai's Economic Functions

Drafted by Yao Xitang et al.

Vowed Systematically, a city's economic function is that the city's economy plays in influencing the regions surrounding the city. With its particular geographical location, historical conditions as well as its unique position and role in the national economy, a city may form a uni-functional type of economy, contributing to one aspect of development and hence it may grow to be a city of an industrial nature, or of a port nature, or of a trade nature, or of a tourist nature, let us say; a city may also develop a multi-functional type of economy, acting as an all-round economic center which allows a city to be an industrial base as well as a trade, financial and transportation center. This research on how to rationalize Shanghai's economic functions is focused on how to promote, by all possible means, the city's economy as a whole to a more sophisticated level, so that a comprehensive economic influence over the neighboring regions can be achieved. Realizing that this is a new phase when the reform drive is being more intensively pushed forward and the open-to-the-world policy further implemented and when an appropriate strategy to advance Shanghai's economy is being mapped out for practice, we seek to base our research on the rationalization of Shanghai's economic functions upon the characteristics this new developing stage displays and all the conditions and possibilities the new stage can offer so as to work out our suggestions involving a proper readjustment of and

decision on the orientation, the focus and the policies of the city's future economic development, in the hope that Shanghai's economy can adapt to the new situation, play a greater part in its influence upon the Shanghai economic zone, the whole nation, the Asian and Pacific regions as well as the whole world and contribute more to the modernization of socialist China.

Shanghai's Economic Functions At a Crucial Strategic Transition

Historically, Shanghai was once the most advanced trade and financial center in the nation and the far-eastern regions. After the founding of the People's Republic, Shanghai gradually grew to be the largest comprehensive industrial base in China. However, for a long period of time, a rigid economic management system, characterized by high centralization, resulted in a standstill in the city's horizontal economic relations with the world and other parts across the country. In addition, while its industry was making progress, its position as a trade and financial center was gradually weakened and even lost. During this lengthy process, Shanghai remained a mere manufacturing base until the 80's, when a change has occurred, resulting from the reform drive and the open-to-the-world policy. Once again, Shanghai is in a position to make a strategic decision to transform its economic role from a uni-functional industry-based type into a multi-functional type that will eventually enable Shanghai to become a comprehensive economic center. This transformation is becoming more and more evident mainly in the following:

(1) Industrial structure being readjusted to enhance a multi-functional economy:

Any of the municipal economic functions must have one or more corresponding industries as its material basis. Therefore a rationalized industrial structure is vital to a city that expects its economy to be a multi-functional one. A major indication that

Shanghai's economic functions have started to experience a transformation since the 80's is that the city's industrial structure has begun to be so readjusted as to ensure that such an economy comes into being.

a. A change has occurred in the structure of the total social output value, which is contributed to by the five major productive industries. During the Sixth Five Year Plan period (1981-1985), the agricultural industry, the commercial industry, the construction industry and the communication and transportation industry, with the manufacturing industry maintaining a steady advancement (a five-year total increase of 43.5%; an annual increase by 7%), showed a good sign of a supra-fast development. Among these industries, the increase rate of the commercial industry (by 85%), the construction industry (by 136%) and the communication and transportation industry (by 90%) which was double or more that of the manufacturing industry.

b. This upward trend can also be observed from the transformation in the inner structure of the gross national product value in relation to the net national product value. The increase rate of the tertiary industries is 1.25 times greater than that of the secondary industries and the contribution by the tertiary industries went up to a certain extent (from 21% to 26%). Meanwhile, the contribution by the secondary industries went down from 75.7% to 69.8%, and the proportion of manufacturing industry has dropped by nearly 7% (from 74% to 66.7%).

c. More encouraging is that while the tertiary industries are enjoying a supra-increase, the chimney-free businesses like financial services, consulting services and other non-material productive sectors, which demand lower investment and resources, have been developing at an even faster pace. In 1985, the financial community contributed 1.8 billion yuan to the GNP while 0.7 billion yuan in 1980, a 1.1 billion yuan net growth and an increase by 1.6 times in five years with an average rise of 20.7% annually. Consulting services, technology-transfer business and various kinds of professional training courses, like bamboo

shoots after the spring rains, have been further boosted along with the deepening of the reform drive.

(2) Industrial development being directed from the extensive toward the intensive:

New factors have appeared in Shanghai's industry itself, and a new surge of the renewal of industrial equipment is approaching; the development trend of the city's industry from the extensive to the intensive is gradually becoming self-evident. These can be found in the following:

a. The investment in technological renovation has increased by several times. In 1980, the total investment in the city's industrial technological renovation was only 1.13 billion yuan, while in 1985, the total amount reached 3.43 billion which was three times greater than that in 1980. The ratio of investment of technical renovation over the net worth of the fixed assets rose in the year from 8.7% to 21.1%. Especially in recent years, more and more advanced technological items have been introduced from abroad. From 1983 thru 1985, the items introduced reached 858 with a total transaction worth of us. \$0.89 billion. The long-standing backward status of the city's industrial technology is beginning to change, a new surge of equipment renewal in the industrial enterprises is realizing.

b. The wastage per each production unit has annually been decreasing. In 1985, the over-all wastage in energy per tenthousand yuan worth of production, as compared with that in 1980, dropped by 21.6% with an average annual decrease rate of 4%. During the Sixth Five Year Plan, the index of elasticity of the industrial energy consumption averaged 0.304 that is, only 30.4 % of the increase of the industrial output value during that period resulted from the expansion of the energy supplies, and 69.6% from the progress in technology and conservation of energy. This was quite unprecedented in the history of Shanghai since the founding of new China. It is a significant step forward considering that from 1949 to 1980, the index of elasticity of energy consumption was about 0.9, namely, 90% of the

industrial output value increase had to depend on the increase of energy supplies. Shanghai's industrial growth has made a significant strides forward from the extensive type of development, characteristic of relying solely on energy supplies, toward the intensive type of progress.

(3) Notable changes and achievements in the development of science and technology:

According to our recent survey, the factor of the technological advancement in promoting the city's economic growth during the decade of 1970-1979 is estimated to have taken up 13% while the figure rose up to 24.9% in the years of 1978-1984. The development of the commodity economy caused the utilization ratio of scientific and technological inventions to rise from around 20% in the early years of the Sixth Five Year Plan to 57% in 1985.

(4) Basic urban facilities being improved:

The long-neglected improvement of the basic facilities has for the first time become a key consideration in the city's reconstruction. This may provide a better situation for the transition of the urban economic functions. The investment in the basic facilities amounts to 57.8 billion yuan over the Sixth Five Year Plan period versus 25.9 billion over the Fifth Five Year Plan period.

(5) Major shifts in the operational mechanism and developmental pattern of the city's economy:

a. The operational mechanism of the city's economy is being converted from one of an exclusively centralized, planned economy toward a combination of a planned economy and market readjustment. Markets of various types have been successively established. In 1980 appeared the first production means market in Shanghai. By 1985, 72 trade centers and wholesale markets of different kinds were set up. Both technology markets and "personnel banks" are beginning to take shape. The amount of business transactions reached in the city's technology markets in 1985 was 0.57 billion yuan. Short-term

asset markets were also formed. Besides, the establishment of stock market and labor resource markets is now being considered and explored.

b. The pattern for developing the urban economy, formerly closed is now becoming open. Domestically the city has established horizontal links with other cities and provinces across the nation. This new economic pattern is characterized by its links with diverse channels, different levels and manifold forms of economic bodies, putting an end to the old pattern of vertical links. From 1981-1985, Shanghai had over 2,000 business relations with more than 20 provinces and cities in the form of joint management, joint venture, compensation trade and various business partners. The total investment worth attained 2 billion yuan. Over 6,500 scientific and technological items were transferred and more than 10,000 scientific and technological consulting services conducted over the period. In addition, other provinces and cities invested a total of 91 million yuan to set up businesses in Shanghai. Internationally, up to the year 1985, the contracted foreign investments (including Hong Kong investments) were worth U.S.\$1.27 billion yuan, most of which were invested exclusively in 1985. There are in the city over 180 enterprises run in the form of joint investment, Sino-foreign management or foreign management. The change in the pattern for developing the city's economy has unfolded a very bright prospect for the further growth of Shanghai.

All these have demonstrated that Shanghai is now undergoing a significant strategic transition in its urban economic functions. The urban economy is advancing toward an open, multi-functional type of economy with the city's industrial structure more rationalized and science and technology more advanced.

However, this important transformation is in no sense accidental. It is an inevitable product of the city's initial potential and its unique advantages after the implementation of the reform and the open-to-the-world policy. Shanghai's economic develop-

ment has entered a new historical phase and its position as a commercial, financial, information and science and technology center is gradually being established aside from its continuing role as an industrial base.

Measures and Conditions to Coordinate Transformation into a Multi-functional Economy

Shanghai has made a good start in the transformation of its economic functions. However, while a factual evaluation of the significance of such a conversion is expected, it should not be forgotten that the present change is but an initial step forward. Compared with the cities in more developed countries the world over, Shanghai has yet a long way to cover before its all-round economic functions and its role as a worldwide metropolitan city can be fully displayed. Besides, the industrial structure, the industrial level, the science and technology advancement and the basic facilities in Shanghai are still far from being in harmony with the role Shanghai is supposed to play.

Therefore, it is necessary to investigate all the possible problems that exist in the furthering of the rationalization of the city's economic functions, and find out solutions to these problems:

1. Major problems in the rationalization of Shanghai's economic functions:

An analysis of the city's economic development during the Sixth Five Year Plan shows that the tertiary industries experienced a supra increase, especially in the commercial industry, the financial interests and knowledge-requiring sectors. This advance resulted from the introduction of the market system and the initial development of the commodity economy in both the urban and the rural areas. That is to say, the fast expansion in the

tertiary industries during those five years was chiefly the result of the adoption of correct policies. However, no notable improvement was observed in the conditions for a speedy development. It can thus be expected that the present investment distribution, employment structure, industrial layout and, in particular, the long-standing backward infra-structure facilities are bound to present big problems to the further development of the city's tertiary industries as well as to the further promotion of the city's economic functions during the Seventh Five Year Plan (1986-1990). Some of the main problems may be found in:

a. Imbalance between the supply of and the demand for assets:

A total fixed asset value of 52 billion yuan is required during the Seventh Five Year Plan. Because of the heavy task in restructuring the city's infra-structure facilities such as those for communication and transportation etc., the fixed asset needed by the tertiary industries is 27.5 billion yuan--about 53% of the total. But, during the Sixth Five Year Plan, the figure was only 25% of the total fixed asset value. If the proportion of the fixed assets held by the tertiary industries is raised up to 35%, then the total amount the tertiary industries may share will be only 18.2 billion yuan, leaving a 9.3 billion yuan gap between supply and demand. Should the distribution rate remain the same as that during the Sixth Five Year Plan, the gap would reach 14.5 billion yuan.

b. Imbalance between the supply of and the demand for labour resources:

According to the forecast by the department concerned, there will occur a shortage in labour resources in Shanghai. From 1985 to 1990 the annual increase in available manpower will average only 0.4%. In 1990, the labour force is estimated to increase by only about 165.7 thousand people. But according to the GNP increase, the actual additional labour power required will be 336.9 thousand people and correspondingly there will be a shortage of 171.2 thousand people. In comparison with the

primary and the secondary industries, the tertiary industries are in the most urgent need of labour power, demanding an additional labour force of as many as 542.6 thousand people during the Seventh Five Year Plan.

c. Imbalance between the supply of and the demand for construction space:

Take the commercial enterprises and the catering businesses for example, from 1980 thru 1984, the actual floor space that was used by these businesses for construction was 886.1 thousand square meters. This figure shows a yearly increase of only 177.2 thousand square meters of construction space available. However, the planned construction space for these businesses in the Seventh Five Year Plan will come up to another 2843.3 thousand square meters. That means that the construction to be completed each year will take up a floor space of 568.7 thousand square meters, which is 2.21 times greater than that in each of the Sixth Five Year Plan years. According to the present construction capacity in Shanghai, this task is extremely difficult to fulfil.

d. To improve the municipal infra-structure facilities in other areas like transportation, modern communication, gas, running water and electrical power will surely bring about problems in the supply and the demand, and these problems are likely to constitute a noticeable bottleneck for the future development of the tertiary industries in Shanghai.

2. Solutions suggested for the present period:

To ensure a further transformation of the urban economy into a multi-functional economy, immediate decisions, based upon the present situation the city must be made regarding the fixed assets, labour resources and construction space, etc.

a. Capital Investment

Investment structure should be readjusted first. For a relatively long period in future, state or local investments should mainly go to the tertiary industries. Meanwhile, horizontal investments among the three major industries must be en-

couraged, especially the investments in the tertiary industries by the secondary industries. Besides, the idle fund in the society could be collected by issuing shares and local bonds to promote the development of the tertiary industries. Effective measures should also be taken so as to attract foreign investments and investments from other provinces.

b. Labour resource:

The success in filling the city's labour resource gap in the tertiary industries during the Seventh Five Year Plan depends mainly on the transferring the surplus manpower in both the primary and the secondary industries to the tertiary industries. According to a forecast, in 1986-1990, with the intensification of agricultural production management and the steady growth of labour productivity in the suburbs, over 500 thousand farm hands in the primary industries have been spared for the secondary industries (chiefly township industry) and the tertiary industries respectively. So corresponding policies must be formulated so that these farm hands can form an important source of man power for the tertiary industries during these five years.

c. Construction space:

At the present stage, no effort should be spared to search for and make use of the space available. For instance, the stores and residents along the streets in the commercial areas should be advised to form commercial and catering business networks; the stores along some of the busy streets should be properly scheduled to start morning and evening services. At present, all the frontages that can be utilized to develop the tertiary industries should, in principle, be employed to make way for the tertiary industries.

d. Traffic:

To improve the traffic congestion in the city proper, Shanghai must try harder, during the Seventh Five Year Plan period, to widen some busy narrow streets. It is particularly important to connect the main streets, which may join the