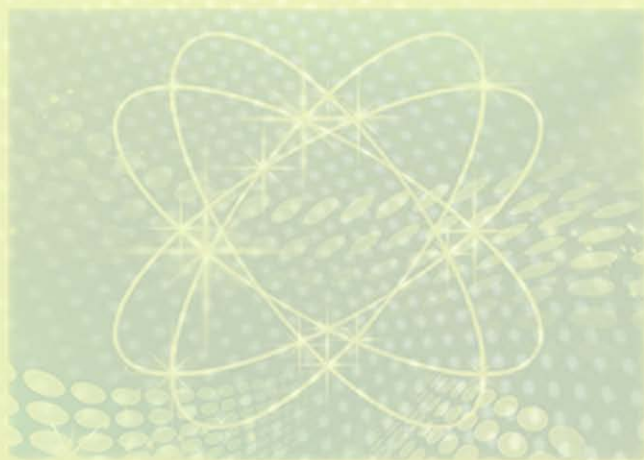


中国模式：解读人民共和国的60年 (英文版)



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CHINA'S ROAD OF ECONOMIC DEVELOPMENT AND CHANGES IN ITS ECONOMIC SYSTEM

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The sixty years of the People's Republic of China has been a glorious period of history during which the Chinese nation has bid farewell to a century of weakness and continued marching towards rejuvenation. After six decades of extraordinarily difficult work, the Chinese people have set China—once a backward and poor agricultural nation—onto the fast track of modernization. Indeed, China's rise has reshaped the geopolitical landscape of the world powers.

China's sixty years of economic achievements have been made through constant trial and error. China pursues self-reliance and independent development and works for national prosperity and strength and the people's happiness; this is the essence of socialism with Chinese characteristics and likewise, the country's ontological foundation.

I. 1949-1979: The Start of the Modernization Drive

1. 1949-1952: The period of laying down the foundations for the new state power and rehabilitating the economy

The People's Republic of China (PRC) was founded in 1949. This marked the success of the Chinese people's efforts to throw off imperialist operation and control and achieve basic unification under the leadership of the Communist Party of China (CPC).

At that time the per capita income in China was only US \$27, 60% of the average for Asia and less than half of the average for India. The country's level of industrial and agricultural production was around half of its level on the eve of the Japanese invasion. In the first three years after New China was

founded, the Chinese government under the leadership of the CPC completed major tasks very efficiently. It stabilized social order, curbed hyperinflation, rehabilitated the economy, carried out land and social reforms and aided Korea while fighting the war to resist US aggression. It drove away the forces of foreign capital, confiscated bureaucratic capital and made the public sector the core and lifeline of the national economy. It carried out major land reform, smashed the thousand-year feudalist relations of production in one stroke, realized the democratic revolutionary program that “tillers of the soil have fields to plant”, stimulated agricultural production, and laid down a social base for consolidating the state’s new political power. The war to resist US aggression and aid Korea repelled imperialist invasion and won dignity for the country and a peaceful environment for its development. By 1952, industrial and agricultural production was restored and exceeded the level of 1936, and the fiscal and economic situations witnessed a basic improvement.

In the movement against the three evils of corruption, waste and bureaucracy, the Party encouraged the masses to expose and criticize emerging corruption among government officials. In the first 30 years of New China, the central leadership attached great importance to containing corruption. This allowed government officials to remain basically incorrupt and guaranteed government efficacy and prestige under the planned economy.

2. Economic development and institutional exploration under the planned economy

1953-1957: The first five-year plan and the socialist transformation

The first five-year plan was the starting point for large-scale industrial development nationwide and also a period in which great success was achieved in changing the economic system. Between 1955 and 1957, the campaign to set up rural cooperatives was fully underway and the policy for the state to monopolize the purchase and sale of grain was implemented. Also by 1957, given socialist transformation of private industry and commerce, state-controlled industry already accounted for 68% of the total industrial output, and the remaining 32% was produced by joint state-private enterprises. Meanwhile, the service sector retained a small private component, involving the distribution of various goods and materials. The transformation

from new democracy to socialism, which had been originally planned to complete in three five-year plan periods, was instead finished in the first five-year period. The establishment of socialist public ownership paved the way for the country's large-scale industrial development.

The first five-year was well-recognized as the period with the steadiest development and the best return on investment in the first 30 years of New China. During the first five years, as many as 921 large and mid-sized industrial projects were put into construction, including 150 major ones aided or designed by the Soviet Union. Industrial output value was doubled. A modern industrial system was developed from scratch and began to take shape, including the production of aircraft, automobiles, heavy and precise machinery, as well as equipment for generating electricity, for metallurgy and mining. The production of high-grade ferrous alloy steel, nonferrous metals, and an electronics industry, among others, were initiated. A number of transportation hubs and trunk highways were completed and opened to traffic.

The principal of departmental management was practiced during the first five-year plan period under a system of centralized state control and planning. Given the shortage of funds and industrial personnel at that time, this type of management paradigm was reasonable. Mao Zedong, in his work *On the Ten Major Relationships* (1956), was the first to point out that the conditions in China were so complex and the disparity among regions was so large that it was far better to have the initiative come from both the central and the local authorities than from one source alone. In fact, the contradiction between departmental management and local management was present throughout the whole period of the planned economy.

1958-1965: Setbacks and adjustments in the economic system and the principle for economic development

The leftist tendency to seek quick results through rash advances inflicted heavy losses on economic development in 1958. In the industrial sector departments and localities sought high targets disregarding their actual material conditions, which in turn disrupted the otherwise reasonable policies envisioned for the second five-year plan. The investment ratio was too high and the frontline of capital construction was too long, greatly lowering investment efficiency. Iron-smelting and steel-making by the whole

population produced tremendous waste. The reform to delegate more power to the local authority was a meaningful reform. Unfortunately, it was carried out all at once in the country without doing sufficient feasibility studies. As a result, it disrupted the internal collaboration and coordination of the industrial system and encouraged local egoism.

The vast rural areas were quickly transformed into people's communes in 1958, although agricultural producers' cooperatives had just been set up there. The people's communes merged government administration with commune management, made communes the basic accounting unit, and established public canteens. All these practices greatly dampened people's enthusiasm for production and caused a sharp decline in agricultural production, resulting in an enormous food shortages in the cities and even massive famine in certain areas of the country. The system of the people's communes exposed serious problems associated with government bureaucracy and greatly damaged the prestige of the Party and government.

Agricultural declines further undercut the already too rapid expansion of industrial and capital construction, thereby forcing a number of economic readjustments by 1960. Accordingly, industrial investment was cut back significantly, and approximately 30 million newly recruited workers were returned to their home villages, teaching the people a bitter lesson. The "communist winds", which were characterized by a requisition of properties of collective economic units without compensation, were resolutely stopped. In 1962, the Party Central Committee issued the Sixty Articles on Agriculture, confirming that the system of the peoples' communes had three levels of organization, with production brigades as their basis; in other words, the final accounting power was given back to the lower-level of the producers' cooperatives. This system continued for 20 years and played a positive role in stabilizing social management, developing production, and guaranteeing the supply of commercial grain, and therefore, supported the development of education, health care, culture and rural infrastructure. By 1978, grain production was roughly double that of 1952.

In the industrial sector, targets were lowered and enterprises that were not suitable for delegation to lower-level management were returned to departmental management; industries were reorganized according to the principle of specialization, and "industrial trusts" (enterprise groups) were created on a trial basis; the supply of goods and materials were organized on

the basis of economic zones, and the relationships between departments and localities were adjusted. The Seventy Articles on Industry were promulgated, defining the relationships of powers and responsibilities between the state and enterprises and strengthening enterprise management. Between 1964 and 1965, the index of national industrial efficiency hit a record high.

China encountered its worst economic difficulties from 1959 to 1962. However, the CPC still retained its revolutionary tradition of maintaining close ties with the people and working hard. The Soviet Union withdrew its experts from China and suspended its economic and technical aid, which in turn stimulated the Chinese people's will to work harder for the prosperity of their country. After three years of readjustment, the economy started to recover in all areas in 1964. A great number of projects launched under the second five-year plan were basically finished that year. The percentage of mechanical equipment made by China itself had already surpassed 90%. All the provinces, autonomous regions and municipalities directly under the central government except Tibet had railways. The country's independent industrial and technological systems began operations. In fact, a large part of the material and technological base now underpinning China's current modernizations efforts was built during this period; and many of the nation's top talent in economic and cultural development accumulated vital experiences during this period.

1966-1978: The turmoil of the Cultural Revolution accompanied by a slow and steady economic growth

The Chinese economy, which had already been put on the track to normalcy, sustained serious losses during the Cultural Revolution, experiencing negative growth in 1967 and 1968. The third-line construction projects arranged in the western region lasted for two five-year plan periods. During this time, more than 30% of industrial investment went to the West as well as to military projects in the greater administrative areas. These investment projects were dispersed in remote areas, had lower economic returns and higher operation costs, and required a huge amount of follow-up investment for many years to come. The positive consequence of the third-line projects was that they improved the geographical layout of national industrial distribution and laid the foundation for the future economic development of the western region.

In the 1970s, the national industrial system began to take effect. A number of hub projects were completed. The size of the economy and its industrial output both doubled in this decade. Sino-American relations enjoyed a thaw in 1972, and China's economic exchanges with other countries became increasingly active. After 1973, the state purchased large numbers of complete sets of chemical industrial, meteorological and electrical equipment from abroad, and the pace to technically upgrade industrial equipment accelerated. Local industries of iron and steel, machinery, chemical fertilizer, coal mining and cement developed rapidly. Agriculture grew steadily, and the cultivation of a hybrid form of rice developed by China's experts in agricultural engineering, led by Yuan Longping, started to spread in 1975.

The decade-long Cultural Revolution launched political movements one after another, producing a substantial drag on economic growth and prevented the people's incomes from growing at all. Although prices were basically stable given price controls, consumer goods were scarce. The fiscal and financial situation was basically stable. During this period, the economy experienced stagnant growth but was not "on the brink of collapse", as some have otherwise suggested.

3. The historical positives and negatives associated with China's planned economy

From 1952 through 1978, by relying mainly on the accumulative labor of its own people, China achieved rapid economic growth relative to its starting point of absolute poverty. National income grew by an annual average of 6.5% and industrial net income grew by 11.2% after accounting for depreciation, rates that exceeded all other countries except Japan. China's industrial value accounted for 2.39% of the world's total, making it the tenth largest industrial country in the world after the United States, Japan, Germany, the Soviet Union, France, Great Britain, Italy, Canada and Brazil. A complete industrial and technological system was formed and a modern transportation and communication network took shape.

Amid old China's extreme poverty, its grotesque disparity between rich and poor, and its incomplete sovereignty, there was no system for extensively mobilizing people and committing resources to accelerate industrialization. The ratio of investment in old China was never more than 6%. By emulating

the Soviet model of “a planned economy plus prioritizing the development of heavy industry”, and on the prerequisite of ensuing basically equal income distribution and meeting the essential needs of the people, China achieved a 25% ratio of capital accumulation, completely changed its state of backwardness and poverty in no more than 30 years, and thus took its place among the world’s major industrial powers. Despite its low incomes, China made vigorous efforts to make basic education universal; developed education, science, culture, sports and other undertakings; established a healthcare and social welfare system that covered many of its people; and developed infrastructure on a large scale. All this completely changed the look of Chinese society and laid a solid foundation for future economic reform and success.

As the industrial scale expanded, the shortcomings of the overly centralized planned economy, which did not adapt itself to complex economic performance and suppressed microeconomic activities, became evident. Constant political movements culminated in the “ultra-leftism” of the Cultural Revolution and brought terrible injustices to a large number of outstanding cadres and intellectuals. Long-term foreign blockades led to the sluggish advances in science and technology and contributed to China’s inability to keep pace with advances in science, technology and industry that were happening elsewhere in the world. As a result, the level of economic management dropped, unhealthy practices grew, and the government’s prestige suffered.

The 30-year industrial policy for prioritizing heavy industry development brought about an imbalanced economic structure and made a transformation of the pattern of economic development a necessity.

China accounted for 22% of the world’s population but held merely 7% of the world’s arable land. China’s starting point for a planned economy was much lower than that of the Soviet Union. Raising the ratio of capital accumulation on the basis of a small-peasant subsistence economy would necessarily reduce the standards of living for the whole population. State monopolies of grain purchases and sales, a limited supply of food grain, disproportionably low grain prices, and the policy to restrict rural workers from migrating to cities amounted to a low-level rural equalitarianism which was supporting a slightly high-level industrial equalitarianism. In effect, urban and rural consumption was depressed to support the high ratio of

capital accumulation. This was, of course, unsustainable.

Bold objectives pursued from a poor starting point left limited space for industrial policies to maneuver and placed incredible demands on the management abilities and options available to government planners. Preparation did little to alleviate such problems. Although calls were heard as early as 1956 for adjusting the ratio between light and heavy industries, the country was then exposed to possible enemy attacks on all sides, and the need for military preparedness compelled intensive resource allocation favoring heavy industrial development.

As a result, a number of structural imbalances emerged, with light industry, agriculture, energy and transportation lagging behind, as well as unequal distribution of national income. The expansion of heavy industry failed to effectively support light industry; employment increased, but salaries were frozen from 1962 through 1977; housing supply fell far short of meeting demand; agricultural and light industrial products were in shortage partly due to an rapidly growing population; all sorts of services were also left far behind; meanwhile, employment prospects were grim. All these represented the economic reasons for economic restructuring and development policy readjustment.

The Third Plenary Session of the Eleventh CPC Central Committee held in 1978 formally put an end to the “ultra-left” line and shifted the focus of work to economic development. It called for reform of the excessively centralized system of economic management and allowed some regions and individuals to prosper ahead of others. These decisions won great support from the people and represented the advent of reform and opening up.

II. Economic Development and the Transition since 1979

Since 1979, China has undergone systematic economic restructuring, including the basic goals of streamlining administration, delegating more decision-making power to the local level and developing the market. Taking the year 1992 as a dividing line, the 30-year reform can be viewed as manifesting two stages. In the first period, China was laying the basis for its transition from a planned to a market economy while also providing a run-up for the acceleration and taking off of China's economic development that

would in turn characterize the second period.

1. 1979-1992: Explorations for the goal, model and route of economic reform

Setting farm output quotas on a household basis and the emergence of rural enterprises

China's reform started in rural areas with the implementation of the household contract responsibility system with remuneration linked to output, which took place under a two-tiered operational system that integrated unified with independent management. Over 99% of the rural areas had adopted the household contract responsibility system by the end of 1984. In addition to this system, the state significantly raised the purchase prices of agricultural products and lifted controls over the distribution of goods between rural and urban areas. As a result, agriculture was able to rehabilitate and grow faster, rural incomes increased by an average of 15.1% annually, and agricultural modernization accelerated.

Rural enterprises had been started in 1958 and developed rapidly in the 1980s. By 1988, valued added by rural industry already made up 29% of national industry. Particularly in the eastern China, rural manufacturing became a major force driving coastal industry, and it undertook the tasks of transferring rural labor to non-farm work, supporting agriculture, and financing social programs, among others. Rural enterprises characterized China's process of industrialization, made industrial competition more specific, and at the same time took full advantage of local resources and opportunities, thus making great contributions to invigorating urban and rural economies and promoting reform of the state sector of the economy.

Reform of the urban economy began

Reform of state-owned enterprises (SOEs) presented perhaps the most important goal of economic restructuring. The planned economy had been, relatively speaking, a logically complete system, one that included a whole framework of administrative economic management and a corresponding system of rules. If you pull a single hair of it, the whole body of it would be affected. From 1979 onward, the state cut back investment plans for heavy industry, alleviated restrictions on economic development associated with

transportation and energy issues, encouraged the development of light industry, and pushed enterprises to face market competition in lieu of state planning. On the other hand, the state started to experiment with delegating decision-making to SOEs by reducing the mandatory aspects of state plans and by gradually instituting supportive policies with respect to bank loans and credit, as well as fiscal support, while also reforming the relationship between the government and enterprises and internal management of enterprises. Structural adjustments and reforms reinforced each other and empowered the country's industrial and technological capacities, which had accumulated for many years.

New economic entities including Chinese-foreign joint ventures, rural enterprises and private enterprises injected new vitality into economic development. The open coastal areas became experimental labs for studying and observing market economic relations.

Economic development accelerated and reform and macroeconomic regulations launched nationwide

In the 1980s, the growth rate of China's economy rapidly reached approximately 9%. As the market played a bigger role, macro balance and its relation to economic restructuring became a focal point for numerous contradictions.

Delegated with more power, local authorities blindly pressed ahead and recklessly expanded production capacity so much so that they misappropriated government funds and arbitrarily collected fees from enterprises under the central government. This placed sustained pressure on credit and foreign exchange reserves as well as on energy and transportation. That enterprises had more power to make their own decisions caused upward spirals in prices and salaries. Excessively rapid pay raises affected the balance of government finances, as state and collectively-owned industry still provided the nation with more than 80% of its revenues. Furthermore, urban workers, who had low incomes but who had long enjoyed stable prices, found themselves in a climate where excessive money supply led to inflation and caused potential social instability.

Under the planned economy, price and profit distortions existed between the manufacturing sector, where they were too high, and the food and industrial raw materials sectors, where they were too low. This made it

extremely difficult to carry out price reform as an prerequisite for enterprise reform and at the same time keep the price level basically stable over the course of economic development. If control over prices was lifted too rapidly, it would cause inflation or social disruptions; if administrative means were employed to adjust the price system, it would be hard to achieve the desired results. Proceeding from the reality that there were two kinds of distribution of goods and two kinds of pricing methods inside and outside the planned economy, the state adopted the double-track price system to combine relaxed control with readjustment and allowed the two kinds of prices to draw incrementally closer to the market price over a reasonable period of time. The double-track price system was an effective tool for reform, allowing a smooth readjustment of the price system while also allowing enterprises to gradually adapt to competition. Its weakness, however, was that it was hard to prevent enterprises from withdrawing profits that should be turned over to the state. The state, therefore, had to practice a profit contract system with SOEs after 1987. Additionally, the double-track system also created conditions of corruption, including official speculation. Given the conditions at that time, however, the double-track system as a gradual approach fit with China's reality.

In order to promote extensive growth, economic reform played a crucial role in arousing the enthusiasm of enterprises and individuals to produce and make full use of otherwise idle factors of production that had existed under the planned economy. Rapid growth in non-state economic entities also contributed to accelerating economic growth and further stimulated SOEs to carry out their own reforms, however incremental.

Macroeconomic regulation must give due consideration to three goals, including price stability, economic growth and reform progress. The difficulty of macroeconomic regulation was found in dealing with the pressures associated with demanding more investment and consumption from all sides, e.g., the pressure to increase local investment, enterprise profit withholdings, and people's income. Strong demand was both a driver for economic growth and also a factor of inflation; it also created a barrier for economic reform in associated areas. Facing a strong thirst for investment and consumption, "all we could do was to carry out reform when the thirst was not so strong and ease the thirst through reform," according to Zhao Ziyang.

The so-called gradual reform was to take into account China's conditions,

recognize the limit of society's ability to bear reforms, adopt an orderly and gradual approach, and use the newly-added economy under the market system to help transform the economy under the planning system. Striking a proper balance between development, reform and stability was a concentrated expression of the positive and negative lessons we had learned during 30 years of reform. Reform was a process of trial-and-error, one in which the whole society participated. Any external theory and experience must be integrated with the Chinese conditions before they were adopted; blind imitation just did not work.

2. A complete transformation of the economic system

Acceleration of economic reform and changes in the development pattern

After 1992, China's economic reform entered the stage of complete transformation from the old system to a new one. Driven by the need to develop the market and an export-oriented economy, China took the road of rapid industrialization and urbanization.

The double-track price system came to an end and prices started to be determined by market forces, except for a small number of basic goods. The capital market and the land market took shape. The non-public sector of the economy thrived, and the state sector no longer dominated the economy. Foreign currency reform, Renminbi depreciation, abolishment of management through quotas, and adoption of uniform foreign currency settlements—all of these fundamentally changed the status of the Renminbi. Foreign direct investment suddenly accelerated and caused the export processing industry in the coastal areas to grow rapidly and employ a large number of rural migrant workers.

Fiscal and taxation reform was carried out in 1994, to separate the management of central government tax revenues from those managed at the local level. This reform partly solved the problem of barriers between government departments and localities, and it also improved the financial position of the central government.

Expansion of the markets for computers and electronic communication services, cars and housing caused a sharp rise in the demand of investment products and attracted big businessmen overseas to invest in China on a large scale. Increasing foreign investment made some sectors of China's industry

increasingly part of the international industrial chain and also stimulated the development of related Chinese industries.

The afore mentioned factors allowed China to maintain a rapid rate of economic growth in the 1990s and at the same time experience drastic structural changes. The state sector declined while the non-state sector thrived. In the non-state sector, foreign-funded enterprises were subjected to almost no macroeconomic regulation. Amidst such drastic structural changes, the reform of SOEs' ownership was completed.

A comprehensive reform of SOEs and the decisive changes in the status of the state sector

After 1992, as the external environment changed in with respect to the pricing system, the wage and social security system, the pattern of rural migrant workers competing for urban jobs and the reform of the tax system, a comprehensive reform of the SOEs was put on the agenda. The resolutions of the Third Plenary Session of the Fourteenth CPC Central Committee confirmed that a modern corporate system dominated by public ownership was the foundation of the socialist market economy. At that time the economy happened to contract, the performance of SOEs experienced a significant drop faced with competition from private and foreign enterprises, and reform of SOEs ownership was fully launched. By 2005, half of the original SOEs had been sold off at auction, and 26% were merged or went bankrupt. From 1995 through 2005, the number of SOEs employees dropped sharply from 110 million to 42.88 million. The original government agency in charge of SOEs was transformed from an administrative agency to one handling asset management after many rounds of reforms and streamlining.

During this decade, a large number of SOEs either collapsed or became private. Corruption arising from SOE transformation emerged as public or semi-public practices. Consequently, the gap between the rich and poor grew sharply, and as many as 40 million SOE employees were laid off. All this seriously damaged the reputation of the reform and the prestige of the government and posed challenges to the bottom line of social morality and justice. Despite all this, even now, a number of shameless people of letters are still advocating such practices.

Competition among economic entities under different forms of ownership is already taking place in China, and the state sector does not dominate the

economy anymore. In the industrial sector, the ratios of value added by the state, private and Chinese-foreign joint sectors were roughly 38:34:28, and the ratios of their assets are about 48:26:26, according to data from 2005.

II. Major Problems Facing China's Current Economic Development

During the 30-plus years of reform and opening up, market-oriented reform invigorated the country's microeconomic activities while policies connected with opening up created channels to international markets and resources. Through sustained and rapid economic growth, China has become the third largest industrialized nation in the world only after the United States and Japan, with per capita average income rising from US \$200 in 1978 to US \$3000 in 2008, and the urbanization rate rising from 29% in 1995 to 45% in 2007.

In the meantime, we must face head on the many problems associated with China's economic and social development.

1. A development pattern relying too much on foreign trade, capital and investment for growth

This development pattern has contributed significantly to the major problem associated with China's industrial structure overall as well as to the serious imbalances found in the country's income distribution patterns. China's current dependence on foreign trade has reached 60-70%, which is very rare in large countries with a population exceeding 100 million people. Over 30% of China's manufacturing output value has been exported; 60% of its export value has been created by foreign-funded enterprises, and in 2007, trade in the processing of products has made up more than 50% of the total volume of exports. China's textile and electronic assembling industries have basically become the manufacturing base for transnational companies.

When the reform and opening up policy was first instituted, the coastal areas attracted large amounts of foreign capital and used low wages to engage in export production. This helped put the country on the track of economic success and also demonstrate an exemplary role of reform. However, China's per capita income has already reached \$3,000 and it is now time for us to rely on advances in science and technology to support industrial upgrading. If

we don't transform our pattern of development and instead remain willing to be the cheap labor source for the rest of the world, the results will include negative impacts on the real income of our people, a worsening gap between the rich and poor, and a further hindering of indigenous technological development.

2. Inefficient industrial growth and insufficient innovative capability

The overall size of China's industry is large, but Chinese industrial enterprises are nevertheless individually small and less organized. Most of them have a low level of technology, lack sufficient R&D capability, and are limited to low-cost competition. Too much encouragement of foreign investment and disorderly competition between localities vying for projects and foreign capital has caused compartmentalization, low-level redundancy and losses of national interests. Too much emphasis on domestic competition to the neglect of corporate collaboration and industrial integration led to the disintegration of our industrial organizations.

Although almost 30 years of importing capital and technology has enabled China's level of industrial equipment and technology to rise rapidly, it has also led the country into an overdependence on foreign technology, created new barriers with respect to creating indigenous technology, placed too much emphasis on the import of technology to the neglect of technology assimilation, and placed too much emphasis on production to the neglect of R&D, thereby resulting in its inability to sufficiently support industrial upgrading. When faced with technology-intensive competition from Western industries, Chinese companies, being less organized, find themselves seriously disadvantaged, have their overall market greatly reduced relative to and by their foreign counterparts, have difficulties applying research results to production, and even find it hard to stand on their feet in the domestic market. In addition, after China's admission to the WTO, transnational companies entered China in large numbers to compete with Chinese industries and even acquire them. Consequently, the completeness of China's industrial system is being eroded by transnational forces. Meanwhile, the ability of our leading and strategically important industries to innovate and develop independently is being weakened, and our national security strategy is adversely affected.