

MEMORY LANE


Compiled by Zhu Ling

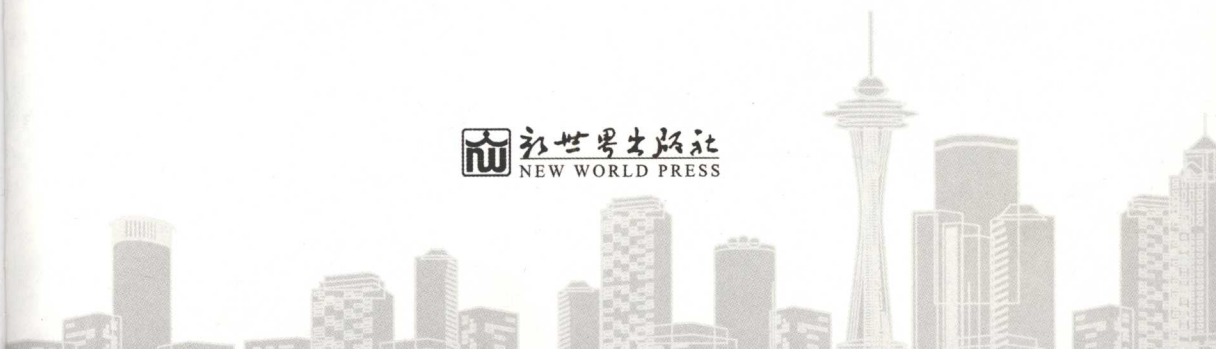
1978-2008

Retracing China's long march of
economic liberalization to those first,
life-altering steps and milestones.

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Compiled by Zhu Ling

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足 迹

主 编: 朱 灵
策 划: 李淑娟 刘伟玲
编 委: 黄 庆 王西民 曲莹璞 任 侃 刘伟玲 张晓刚 李卫涛
吴允和 丁学梅 徐大山 梁宏福
执行编辑: 李卫涛 刘伟玲
主要作者: 张 冉 刘伟玲 李卫涛 丁清芬 吴允和 胡园园 刘 洁
姜 薇 吴景枢 李方方 汪 旭 付 敬 王 星 刁 莹
张 璐 宛志弘 姜晶晶 孙晓华
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本社英文网址: <http://www.newworld-press.com>
本社电子信箱: nwpcn@public.bta.net.cn
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Preface

Even for those of us who have lived through and witnessed at close range the amazing social and economic progress in the past 30 years of reforms, it is not always easy to recapture the excitement of the process that we want to imbibe in our collective memory. We simply didn't know where to start.

That's why this book — a tribute to the 30th anniversary of economic reforms — is so useful and inspiring.

We undertake this project with the purpose of reconstructing through spirited writing based on meticulous research and stirring pictures selected from our expansive archive, the thrill of the moment of walking into the first KFC outlet in China, or attending the topping out ceremony of Jinmao Tower, which was then the tallest building in the region.

This book is dedicated to the pioneering spirit of those enterprises, domestic and foreign, which had placed their faith in China's economic reforms, which is unprecedented both in daring and scope. Everyone in the business is aware that it takes courage, vision and commitment to start something new in an untried marketplace that is in a flux of change. This was the state of the Chinese economy in the earlier stages of economic reforms. To be sure, all those first business ventures on the mainland were products of extensive research and planning. But the risk factor would still have been considerable because there was simply no established sales and marketing model to follow.

In those pioneering days, the tools to gauge consumers' preferences were rudimentary. The advertising and promotion channels were limited, and government policy on private-sector business was still evolving, creating many "firsts" in the process.

Under these circumstances, the impact of those enterprises that had the foresight to introduce a new product or a service, or build something spectacular on the mainland, was far-reaching. In doing so, they have set an example or initiated a trend that touches on the lives of millions of people.

Of course, there were those who tried and failed. But many more have built on the success of their first forays into an uncharted market and expanded their businesses at a pace matching China's economic growth in the past 30 years.

The topics in this book were chosen by a team of editors with extensive experience in covering China's economic development. Many of them were reporters on the scene at the time, witnessing those moments and sharing the experience of some of the events mentioned in the book.

Some topics were chosen because they have fundamentally changed the social and economic landscape of the nation. "Seeds of Change", which tracks the progress of agricultural reforms, falls in this category. Also included are "A Legal Leap Forward" on the evolution of China's environmental laws, and "Taking Stock", which recounts the ups and downs of the fledgling capital market.

Other topics were picked for the direct impact they have had on the daily lives of the people. "Facelift" portrays the drastic change in the concept of fashion as economic wealth began to filter down to the masses; "In the Beginning" chronicles the dawn of the cyber age in China; and "The Chinese Wave" narrates how economic prosperity has triggered an outbound tourist boom.

Some topics in the book capture the public's mood when the Chinese people were first exposed to foreign culture represented in the form of fast food chains and foreign movies.

We have taken the liberty of including a chapter on *China Daily* in this book because it was the first English-language daily newspaper in China with a mission to foster greater understanding of China and its developments by foreign readers. This book is published with the same mission in mind.

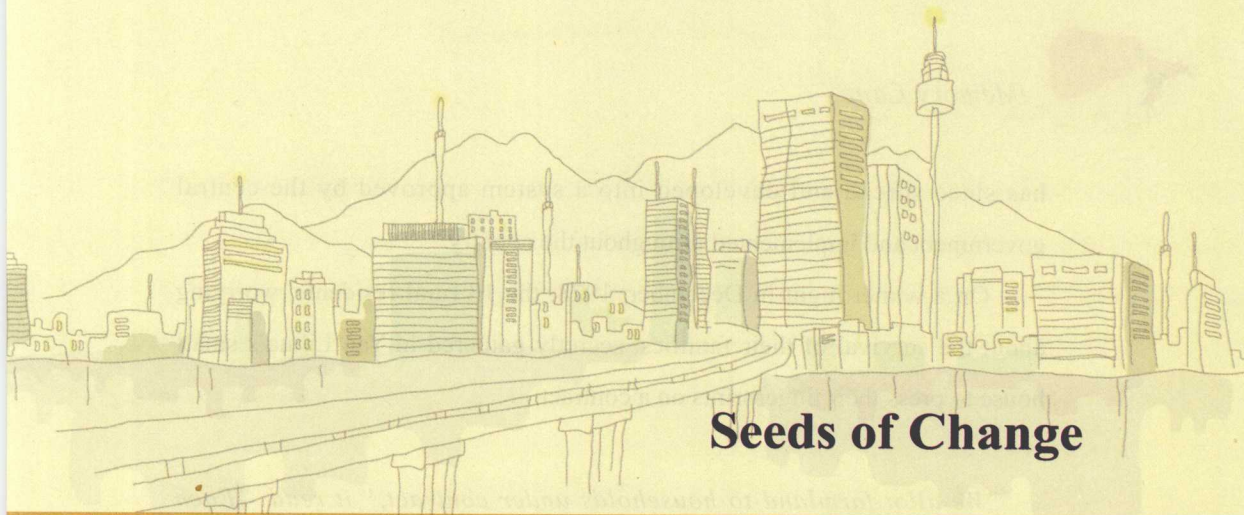
Zhu Ling
Editor-in-chief of *China Daily*
August 28, 2008

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Seeds of Change

Confucius said more than 2,500 years ago that “you do not suffer from those who do not understand you — you suffer from your misunderstanding of others”. The observation is still widely quoted today as people and companies set out on new adventures, including those who make their living from the land.

Today’s efforts on understanding include those about the plight of farmers. The late Chinese leader Deng Xiaoping said one should *shi shi qiu shi* — seek the truth from facts — and the facts show that millions of rural workers have left the soil behind to seek work in city factories. Their traditional way of life is waning in the changing climate of modernization.

Yet China’s economic reform actually began in the countryside. In the Museum of the Chinese Revolution, displays show that Xiaogang Village of Fengyang County in East China’s Anhui Province was the birthplace of reform three decades ago, when the first rural household responsibility contract came into being among 18 villagers.

Today they are noted figures, but 30 years ago they were unknown, just a small handful of the almost 1 billion people then in the nation. Their initiative



has since spread and developed into a system approved by the central government and implemented throughout the country.

On a winter night in December, 1978, the 18 rural residents, worrying about the survival of their families, secretly gathered in Yan Lihua's small house to press their fingerprints on a contract.

"We allot farmland to households under contract," it read. "Each householder must give his or her signature or fingerprint here. If he or she can, each household must ensure the fulfillment of the contracted grain to the State, and promise not to ask for assistance from the government for grain and money. If we fail, we — the village leaders — will be ready to be put in jail and other commune members pledge to take care of all our children until they are 18 years old."

The 18 peasants were Yan Hongchang, Yan Lifu, Yan Lihua, Yan Likun, Yan Jinchang, Yan Jiazhi, Yan Xuechang, Yan Lixue, Yan Junchang, Yan Meichang, Yan Fuchang, Yan Jiaqi, Yan Guopin, Guan Tingzhu, Guan Youzhang, Guan Youjiang, Guan Yousheng and Han Guoyun.

At the moment the 18 put fingerprints in red ink on the contract, they were fully aware that it was a severe violation of people's commune rules and was a risk that might ruin them. Yet they had the courage of their convictions because they trusted each other, a trust that came from family. Of the 18 farmers, 13 belonged to a big clan with the family name Yan and four of the other five had the same family name Guan.

Thirty years ago, though the vast nation was still working under a planned economy, the 18 villagers understood the importance of commercial

trust. Family trust was to play a vital role in their unprecedented efforts in 1978, a time when Anhui Province was suffering from severe drought.

In December 1979, Wan Li, former party secretary of Anhui Province, told at a meeting that the rural household agriculture production contract was a socialist production system, emphasizing that farmers involved were socialists, not capitalists, according to *Wan Li's Selected Works*.

During a conference on long-term economic development held by the Central Committee of the Communist Party of China in April 1980, Deng Xiaoping confirmed the achievements in grain production in Anhui through the household contract responsibility system and said it should be implemented in more provinces, including Gansu, Yunnan, Guizhou, and Inner Mongolia Autonomous Region.

In *Deng Xiaoping's Selected Works*, he wrote that “it seems to me that there is no need for people to worry whether the system will diminish the collective economy — the current major problem of our rural work is that our thought has not been fully liberalized”.

In 1980, when the rural household contract responsibility system faced widespread political resistance from other top policy makers, Deng gave peasants strong backing and in October 1981 the “Summary of the National Agricultural Working Conference” praised the new countryside system that began with the Third Plenum of the 11th Congress of Communist Party in December 1978.

By 1983 the rural contract system had been widely implemented across the country and at the end of the year, more than 90 percent of the Chinese rural households had joined the system.



Productivity

The approach greatly increased productivity. From 1978 to 1988 per capita agricultural output increased 65.1 percent through an average annual growth of 5.1 percent. Grain production rose 16.3 percent, some 1.5 percent annually. Improvement in rural labor productivity in that decade surpassed the total of the previous 29 years from 1949 to 1978.

After villagers earned the right for individual agricultural production, great numbers of rural workers, no longer tied to communes, went to township factories, greatly improving the development of rural industries. By 1987 production value at township enterprises had reached 450 billion yuan, or more than 20 percent of the nation's gross social production value.

In 1978, grain production made up 67.8 percent of agricultural output, forestry contributed 3 percent, animal husbandry comprised 13.2 percent, subsidiary production was 14.6 percent and fishery yielded 1.4 percent.

By 1991, grain production comprised 57.2 percent of total farm products, forestry was 4.5 percent, animal husbandry was 26.4 percent, subsidiary production was 6 percent and fishery was 5.9 percent.

The rural responsibility system prompted a change not only in the means of agricultural production, but also in lifestyle. No longer producers only for self-sufficiency, farmers became commodity producers and managers. In the end of 1980s and early 1990s, at least 20 national agricultural markets were set up, including the futures markets for the trading of farm commodities. China had also established 2,400 local markets, of which 1,800 were agricultural markets and 600 were markets for the trading of industrial

manufactured goods. There were also 7,600 free markets, helping facilitate the development of a market-oriented economy in the countryside.

By 1988, rural per capita income had reached 544.9 yuan, up 411 yuan from 1978 — 3.6 times more than the total increase from 1949 to 1978.

Change in Land-Use Rights

After the founding of the People's Republic of China, the government instituted reforms that abolished feudal land ownership. In 1952, land use was transformed entirely from individual to collective use.

The People's Commune Movement, which began in 1955, established a system in which land was owned and managed by collectivities — yet it was later found to lack flexibility and effectiveness in arousing workers' enthusiasm.

Although the contract responsibility system did not change the nature of land ownership when it began in 1978, it did change the nature of land use rights, with management improved through more balanced benefits.

Allotting land contracts and management rights to every household — a combination of rights and responsibilities — was eagerly embraced by peasants as well as other social groups.

The stable transformation to a new system, the low social costs of systemic reform and its subsequent benefits all contributed to the development of rural economy and social stability. Yet due to its history, the nation lacked mature theories and policies for individual farm production.

The household contract system focused only on modes of production and management, and did not include reform of ownership. In contrast to



Corn harvest.

are not enthusiastic about farming, preferring to travel to cities for work. Oftentimes only older women stay home to work in rural areas.

Rural problems are getting increasingly serious due to before-hidden conflicts that have emerged. Unclear division of land ownership, unstable land contract rights and defects in the system for transferring land rights have resulted in farmers with little motivation to invest into their land.

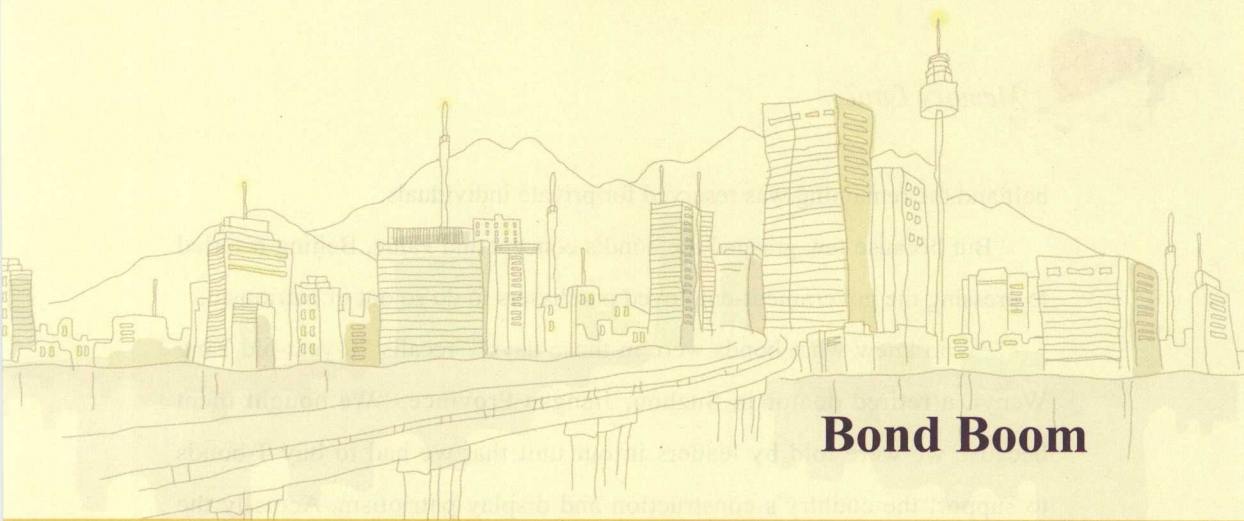
The government was expected long ago to search for improvements to overcome the vague collective land ownership system. Some experts say that the best way at present is to perfect the existing system by innovating farmers' collective organizations, strengthening land use rights and improving regulations over rural land transfers.

urban state-owned land, reform of rural land ownership was not systematic or thorough.

As the socialist market economy developed, disadvantages of the household contract system gradually emerged, severely hindering rural productivity and the balance between urban and rural economic development.

Growth in grain production has leveled off and farmers' incomes have grown slowly since 1997. Many have abandoned all or part of their land and those who remain are inefficient as they

By WU YUNHE



Bond Boom

Thirty-five years ago, late Chinese Premier Zhou Enlai announced proudly to the world that China was debt-free.

“We achieved new accomplishment in building socialism. We have neither foreign nor internal debts. The price is stable while the market is prosperous,” he told the 10th Congress of the Communist Party of China on August 24, 1973. Although this is the only recorded statement regarding China’s debt-free status, the central government had actually halted issuing treasury bonds (T-bonds) in 1958.

That explains the surprise and confusion in the country when the central government resumed issuing T-bonds 23 years later in 1981.

Although called “gilt-edged bonds” in international markets, T-bonds were a new concept for almost all Chinese. Few had heard of them while their parents had only vague memories at best of the so-called “national construction public bonds” — a kind of government bond floated in the 1950s.

The first T-bond issue amounted to 4 billion yuan, with a term of 5 to 10 years. The bonds were non-tradable. State enterprises and institutions purchased



half and the remaining was reserved for private individuals.

But because few grasped the bond's concept and value, Beijing resorted to pressing the government-employed purchasers to do so out of patriotism.

"Who knew what bonds were in those days?" recalls 70-year-old Tang Wenyi, a retired doctor in Suzhou, Jiangsu Province. "We bought them because we were told by leaders in our unit that we had to buy T-bonds to support the country's construction and display patriotism. Actually the hospital directly deducted some money — five to ten yuan — from our salary every month to buy the bonds for us. We simply took it as a kind of donation, believing that the money would never come back to our wallets."

The first issue, although in a small size, marked a significant step in China's fiscal system reform and T-bonds became a major means for the country to raise much-needed capital to speed up economic construction after the 10-year Cultural Revolution (1966-1976) that destroyed the country's economic infrastructure.

The T-bond's role was reinforced in 1987 when the State Council decided the Ministry of Finance could no longer overdraw from the Central Bank, and in 1994 the Ministry of Finance was not allowed to borrow from the Central Bank to offset its fiscal deficit, which made T-bonds the only way for State finance to cover its deficit.

T-bond issues jumped to 20 billion in 1991, 102.86 billion in 1994, 150 billion in 1995, 460 billion in 2000 and 700 billion in 2005. In 2007 alone, the country issued a total of 2.35 trillion yuan of T-bonds for the first issue of 1.55 trillion yuan of "special T-bonds".

Today, T-bonds, along with security investment funds and stocks, have become favorite investments for residents. Their low risk and relatively high



People queue up outside an Industrial and Commercial Bank of China branch in Beijing to buy treasury bonds.

returns make themselves attractive to conservative investors, in particular to retirees like Dr. Tang.

“Now I have to go to the bank hours before the opening time to line up for T-bonds,” she complains. “But even doing that can not ensure T-bonds are available when my turn comes. Usually they are sold too quickly.”

In Nanjing, capital of Jiangsu Province, 100 million yuan worth of T-bonds were sold out within 10 minutes on November 1, 2004, disappointing hundreds of people — mostly retirees or middle aged — who arrived at the banks even before 5 am. Angry investors complained the bonds were sold too quickly while some even suspected that bank employees or institutional buyers secretly snatched up much of the limited issue quota at each bank outlet.

Nowadays if you pass a bank outlet with a long line in front of it