

*Chinese Documents*

# **CHINA'S ECONOMY AND DEVELOPMENT PRINCIPLES**

A Report by Premier Zhao Ziyang

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# **CHINA'S ECONOMY AND DEVELOPMENT PRINCIPLES**

**A Report by Premier Zhao Ziyang**

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# **THE PRESENT ECONOMIC SITUATION AND THE PRINCIPLES FOR FUTURE ECONOMIC CONSTRUCTION**

Report on the Work of the Government Delivered at  
the Fourth Session of the Fifth National People's  
Congress on November 30 and December 1, 1981

**ZHAO ZIYANG**

*Premier of the State Council*

Fellow Deputies:

Fourteen months have passed since the Third Session of the Fifth National People's Congress in September last year. During this period the government has submitted six reports on its work in both domestic and foreign affairs to the Standing Committee of the National People's Congress. In accordance with the decision of the Standing Committee, the main item on the agenda of the present session is economic work. It is the central task of the State Council and governments at all levels and the question of greatest concern to the people of all our nationalities and to all our fellow deputies.

On behalf of the State Council, I now submit to the present session for discussion and approval a report on the present economic situation, the principles for future economic construction and the prospects for China's economic development.

## **I. The Present Economic Situation**

In 1981 we have made headway in economic work in the course of consolidating achievements, overcoming difficulties and progressively summing up experience and improving our understanding.

After the Third Session of the Fifth National People's Congress, the State Council made a further comprehensive analysis of the economic situation and trend and identified some major problems calling for immediate solution. From 1979 on, we substantially increased state expenditures for improving the people's living standards. On the whole, this was the right thing to do, even though the steps we took were a bit too hasty. At the same time, capital construction expenditures were not reduced as much as called for, and administrative expenses kept going up. Hence, total expenditures exceeded revenues. For two consecutive years, 1979 and 1980, there were very large financial deficits, too much currency was put into circulation, and prices rose. Without vigorous counter-measures, there would again have been a financial deficit of more than ten billion yuan in 1981. With such a deficit, the improvement in the people's living conditions in the past few years would have been forfeited and the disproportions in our national economy aggravated, there would have been serious confusion in the country's economic life, and it would have been hard to strengthen our political stability and unity.

In view of all this, the State Council convened a plenary session in October 1980, followed in November by a conference to discuss economic work attended by provincial governors, the mayors of the three municipalities directly under the central authority and the

chairmen of the autonomous regions. In December 1980 the Central Committee of the Communist Party of China held a working conference which, on the basis of a realistic nationwide appraisal, took a major policy decision for further economic readjustment and for the achievement of greater political stability.

In February 1981, on the proposal of the Central Committee of the Party, the State Council submitted a report on the further readjustment of the national economy to the 17th meeting of the Standing Committee of the National People's Congress. It proposed necessary revisions of the 1981 national economic plan and financial estimates with the aim of achieving a basic balance within 1981 between state revenues and expenditures and between credit receipts and payments and, in the main, stabilizing commodity prices. The Standing Committee of the National People's Congress examined and approved these revisions.

Since the beginning of 1981, governments at all levels have resolutely carried out with marked success a series of emergency measures for further readjusting the national economy. On the basis of our achievements in the past 11 months, I can now confidently report to this session that the 1981 national economic plan will be fulfilled and our objective of stabilizing the national economy will essentially be realized. Despite extensive economic readjustment and despite this year's serious natural calamities, the total output value of agriculture and industry in 1981 will not go down, but, on the contrary, will increase by more than 3 per cent over that of 1980. The overall economic situation is better than anticipated. Our national economy has embarked on the path of steady growth.

Economic stability is manifested, first of all, in the basic balance between state revenues and expenditures and between credit receipts and payments. Since the winter of 1980-81, through their united and concerted efforts, the State Council and governments at all levels have strengthened centralized leadership, tightened financial and price controls, rigorously curtailed capital construction and administrative expenditures, economized on other spending and explored new sources of revenue so as to ensure the implementation of the 1981 budget. The financial deficit for the year is expected to drop to 2.7 billion yuan, from 17 billion yuan in 1979 and 12.7 billion yuan in 1980. It is no easy matter for any country to eliminate large financial deficits and basically balance its budget in a short time. We have done it relatively smoothly, thanks to the hard work of all our people and the full trust they have shown in the government. This proves the complete correctness of the policy decisions of the Central Committee of the Party and the State Council and the great superiority of our socialist system. On behalf of the Central Committee of the Party and the State Council I express thanks to the people of all nationalities for their trust and support.

With the achievement of a basic balance between revenues and expenditures, commodity prices are stable in the main. The rise in the general price index in 1981 has been smaller than last year's. Prices of daily necessities have been kept stable. However, the prices of some items have risen, especially those of vegetables which went up by quite a bit in some localities. We must try to solve this problem resolutely and conscientiously by increasing production, supplying more and better commod-



ities, tightening price and market control and strictly enforcing price regulations.

The steady development of the Chinese economy depends on an overall increase in agricultural production. Although many regions have suffered serious floods and droughts in 1981, agricultural prospects in the country as a whole are bright. It is estimated that total grain output may approach the 1979 level, which would make 1981 the second peak year since the founding of the People's Republic. A new breakthrough has occurred in cotton production following the previous all-time record of 1980. Output of oil-bearing crops has risen by about 17 per cent following big successive increases in the three previous years. Output of sugar-yielding crops should register an increase of more than 10 per cent over 1980. New successes have been scored in forestry, animal husbandry and fisheries. Enterprises run by communes and production brigades and teams have continued to make progress; household sideline occupations have grown even faster. A dynamic atmosphere prevails throughout the countryside, with commune members rejoicing over their successes, and agricultural production is on the threshold of vigorous growth. Everyone who has the well-being of the 800 million peasants at heart is rejoiced over this. Our achievements would be inconceivable without the conscientious fulfilment of the principles and policies on rural work put forward by the Party and government since the Third Plenary Session of the 11th Central Committee of the Party in December 1978.

This year, many regions in China suffered from floods or droughts, which were of a gravity rarely known in our history. With unstinted help from the other regions the ensuing difficulties were overcome through the concerted

effort of the Party and government cadres, the commanders and fighters of the People's Liberation Army and the broad masses in the affected areas. Production was rapidly resumed, great care was taken of the people's livelihood, and society is in good order. The exceptionally dangerous floods on the upper reaches of the Changjiang (Yangtse River) and Huanghe (Yellow River) were finally brought under control through the heroic efforts of the armymen and people fighting along their banks. The Gezhou Dam water-control project on the Changjiang and the Longyangxia and Liujiaxia hydroelectric power stations along the Huanghe withstood extraordinary flood crests. The Chengdu-Kunming and Baoji-Chengdu Railways and the Baoji-Tianshui section of the Longhai Railway, which had been severely damaged by floods and mud-rock flow, were very quickly re-opened to traffic. All these accomplishments won the admiration of people at home and abroad who were deeply concerned about conditions in the afflicted areas. On behalf of the State Council, I wish to warmly greet and express our deep respect to the people and cadres in these areas, and to the PLA commanders and fighters, railway workers and staff who took part in the struggle against natural calamities and in the later relief work.

In light industry, production rose markedly thanks to the principle of stressing the manufacture of goods for everyday consumption and to the adoption of a series of detailed measures. It is estimated that the total output value of textile and other light industries for 1981 will show an increase of 12 per cent over 1980. The output of durable consumer goods such as wrist watches, bicycles, sewing machines, TV sets, washing machines and electric fans has increased by double-digit percentages or in some

cases several-fold. Output of such major items as cotton yarn and cloth, chemical fibres, sugar, paper and cigarettes will reach or exceed the planned targets. Light industry and textile products are now available in better designs and quality and in richer variety. The output of medium- and high-grade products has markedly increased, and articles of daily use are available in more varieties. Great changes in our markets as compared with previous years are apparent to all. Substantial increases in the output of goods for everyday consumption, continuing over several years, have played a major role in meeting the needs of people in town and country, created a thriving market, reinvigorated the economy, enabled all industry to maintain a certain rate of growth and increased financial revenues.

In heavy industry, which is now being readjusted, the year 1981 will witness a decrease of about 5 per cent in output value as compared with 1980. This has resulted from the following circumstances: A number of heavy industrial enterprises have suspended production of grossly overstocked items whose manufacture entails high energy consumption. These cutbacks are necessary and rational, for they enable us to transfer the energy thus saved to light industry. A considerable number of heavy industrial enterprises, which have long engaged mainly in serving capital construction, have found their production dropping in 1981 as a result of the much curtailed investment in capital construction and the corresponding decrease in orders for equipment and other production goods. This is inevitable in the course of readjusting the service orientation and product mix of heavy industry. Also, some heavy industrial enterprises were switched to the manufacture of other products later than they should have been, thus

causing a drop in the production of some items, which could have been avoided. This happened because some comrades were slow to act, failing fully to understand the necessity of readjusting the service orientation and product mix of heavy industry. Efforts are being made to overcome this tendency. In the latter half of 1981, much has been done in heavy industry to change the orientation of its service, to cut back on products in excess supply and to increase the output of items most needed by the people and of export items. Here, initial successes have been achieved so that heavy industrial production began to pick up in the fourth quarter. Besides, geological prospecting has yielded fairly good results in the past year. The departments of railway, water, highway and air transport and of posts and telecommunications are fulfilling their plans satisfactorily, so that the transport of various important materials and of passengers is basically ensured.

The appropriate curtailment of capital construction is an important aspect of this year's work in economic readjustment. The problem of overextension of capital construction is being resolved step by step, and utilization of investment in this field is more rational than before. Total expenditures on capital construction were cut down to 30 billion yuan in February this year when the national plan was being revised. Later, 8 billion yuan were added, of which 3.5 billion have been used in building more housing projects and the remainder in increasing capacity in the production of goods for everyday consumption, in developing the oil industry and the transport services, and in resuming a number of badly needed projects whose equipment and technology are introduced from abroad. The emphasis in capital construction this year has first of

all been on textile and other light industries which have an important bearing on the people's standard of living, and then on energy, building materials and transport and communications. The proportions going to education, science, culture, public health and urban utilities have been raised in varying degrees. The first stage of the Gezhou Dam water-control project which had started several years ago was speeded up, so that the river was open to navigation in June 1981 and the first 170,000 kilowatt generator set went into trial operation and began to generate electricity. The three big chemical fibre plants in Liaoyang, Tianjin and Sichuan have basically been completed and put into commission. Over 90 per cent of the projects scheduled to go into full operation in 1981 can be completed according to plan. This is a rate unknown for many years.

Scientific research is playing an important role, guided as it is by the correct principle of the close integration of research with economic construction. The pace has been quickened and there has been substantial progress in applying the latest results of scientific research, in popularizing new technology and in absorbing imported advanced technology in agriculture, industry, national defence and other fields. In 1980, altogether more than 2,600 major research projects were successful, and there will be still more successes in 1981. About 50 per cent of the results have been applied to production. The popularization of such improved strains as hybrid paddy rice and "Lumian" Cotton Seed No. 1 over large areas has greatly contributed to the increased output of grain and cotton. During 1981 industrial departments have trial-produced or experimented with about 10,000 new products and technologies, half of which have been

applied in regular production. Extensive use of new technologies, techniques and materials has steadily raised the technical level of industry. The successful launching of three satellites with one carrier rocket points to a new achievement in our science and technology following the launching of a carrier rocket to a prescribed area in the Pacific last year.

Domestic and foreign trade has expanded. More commodities are now supplied to the home market and consumer demand is being met fairly well. The volume of retail sales for 1981, according to estimates, should register a 9 per cent increase over 1980. To achieve a balance between the supply of commodities and social purchasing power, it was originally planned to release several billion yuan's worth of commodity inventories. But as both purchases and sales have grown considerably, instead of going down commodity inventories are expected to increase by nearly 10 billion yuan. There has been a fairly big increase both in trade handled by urban and rural collectively-owned establishments and in trade run by individuals as a supplement to state-operated and collective commerce. These forms have complemented state-owned stores, restaurants and service trades with respect to the increase in the number of stores, variety of goods, scope of services and business hours, thus providing more conveniences for the people. Further progress has been made in economic and technical exchanges with foreign countries, and the total volume of imports and exports in 1981 will have increased considerably over the previous year. More solid and perceptibly successful work has been done with regard to joint ventures involving Chinese and foreign investment, compensatory trade, the

processing of materials for foreign businessmen, and the import of advanced technology and key equipment.

The living standards of the people have continued to improve. With the overall increase in agricultural production, rural income has gone up noticeably following the fairly big rise in the two previous years. There are more and more peasant families, production teams, production brigades, communes and counties whose income has gone up by a big margin. In 1979, there were 1,622 production brigades whose members each received an average of over 300 yuan from the distribution of collective income. The number rose to 5,569 in 1980 and it will be even higher in 1981. Especially gratifying is the fact that production and the people's living standards have gone up considerably, and profound changes have taken place in areas such as western Shandong, eastern Henan, northern Jiangsu and the area north of the Huaihe River where production used to be low because of poor natural conditions. An important indicator of the improvement in peasant living conditions is the large-scale construction of housing in rural areas where, according to incomplete statistics, new houses with about 900 million square metres of floor space have been added in the past three years. In the cities and towns, 4.77 million people were assigned jobs from January to September 1981. It has been decided to raise the pay of primary and middle school teachers, of some medical personnel and of sportsmen and physical culture workers as from October this year. Despite the big reduction in capital construction expenditures, the financing of housing projects for workers and staff has remained at last year's level, and close to 80 million square metres of new residential space in cities and towns will be completed by the end of 1981. With

better planning of auxiliary projects providing water, electricity and public transport, more floor space will be commissioned than last year, resulting in improved urban housing conditions. Bank savings in the urban and rural areas increased by 9.5 billion yuan between January and October 1981, reaching 49.4 billion yuan. This is a striking indication of the improvement in the living standards of the masses of the people as well as of their confidence in the development of the economy.

The above facts amply show that the principles guiding the further readjustment of our economy are correct, our course of development is sound and our achievements are considerable. The task of readjustment is a very challenging one. We had anticipated that troubles of one sort or another might crop up. But progress has been fairly smooth, with no really big troubles at all, and the few troubles that did occur were quickly resolved. Through the current readjustment, we have essentially achieved the aim of stabilizing the overall economic situation and of further consolidating and developing a political situation characterized by stability, unity and liveliness.

The setting forth of the principle of readjusting, restructuring, consolidating and improving the national economy marked a fundamental turn in our economic work under the guidance of the correct line formulated at the Third Plenary Session of the Eleventh Central Committee of the Party.

Beginning from 1979, we set about readjusting our rural policy to ensure the production teams' power of decision. Many different forms of the system of responsibility for production have been practised in our vast rural areas in the last three years. This system represents a



new form of management and distribution for our socialist agriculture in the specific conditions of China's countryside. We have firmly grasped two important links: the establishment and perfecting of the responsibility system and the development of diversified undertakings. Meanwhile, we have made significant increase in the purchasing prices of farm and sideline products and decided to import a certain quantity of food grains every year. All this has been of great help in readjusting crop patterns, developing a diversified rural economy in accordance with actual conditions and rehabilitating the rural areas.

Readjustment in industry is somewhat different from that in agriculture. In industry, the main stress is on readjusting the proportions between its different branches, coupled with the necessary restructuring. As regards the readjustment of the ratio between light and heavy industries, measures have been taken — since the policy decision in late 1980 to further readjust the national economy — to give top priority to the development of light industry in the following spheres: the supply of raw and semi-finished materials and energy; bank loans; tapping potential, and carrying out technical innovations and transformation; capital construction; the use of foreign exchange and imported technology; and transport and communications. In 1981, beginning with key industrial cities, co-operation for specialized functions and through different forms of economic association has been organized for the mass production of certain items, with factories producing brand-name and quality products as the foundation. At the same time, arrangements have been made for such enterprises in the heavy and national defence industries as have the necessary conditions to produce durable consumer