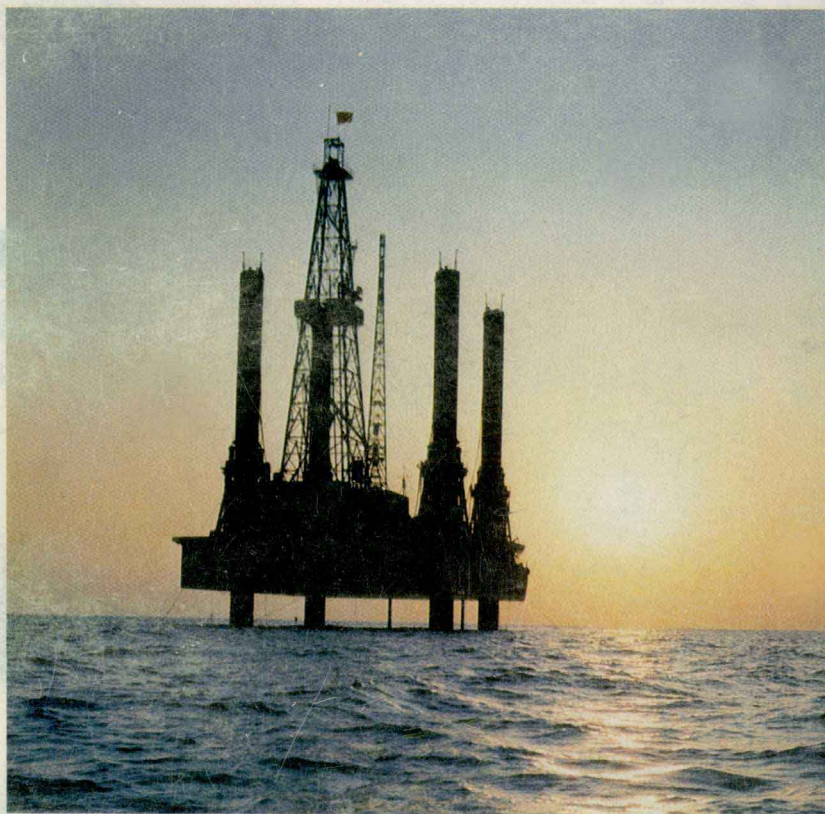


China Handbook Series

ECONOMY



FOREIGN LANGUAGES PRESS BEIJING



CHINA HANDBOOK SERIES

ECONOMY

Compiled by
the *China Handbook* Editorial Committee

Translated by
Hu Gengkang, Zhang Tingquan and Liu Bingwen

FOREIGN LANGUAGES PRESS BEIJING

First Edition 1984

ISBN 0-8351-0987-9

**Published by Foreign Languages Press
24 Baiwanzhuang Road, Beijing, China**

**Printed by Foreign Languages Printing House
19 West Chegongzhuang Road, Beijing, China**

**Distributed by China Publications Centre (Guoji Shudian)
P.O. Box 399, Beijing, China**

Printed in the People's Republic of China

EDITOR'S NOTE

More than 30 years have elapsed since the birth of the People's Republic of China on October 1, 1949. "What is China really like today?" many people abroad wish to know. To answer this question, we plan to compile and publish a voluminous *China Handbook*, in which we intend to introduce the New China in every field of its activities. Emphasis will be on the process of development during the past three decades, the accomplishments and the problems that still remain. The book will contain accurate statistics and related materials, all of which will be ready references for an interested reader.

To enhance the usefulness of the forthcoming volume, we plan to publish 10 major sections separately at first, so that we shall have an opportunity to take into consideration the opinions of our readers before all the composite parts are put together, revised and published as one volume. These separate sections are:

- Geography
- History
- Politics
- Economy
- Education and Science
- Literature and the Arts
- Sports and Public Health
- Culture
- Life and Lifestyles
- Tourism

Here, we wish particularly to point out the following:

First, the statistics listed in each separate book exclude those of Taiwan, unless otherwise indicated.

Second, the statistics are those compiled up to the end of 1980.

The *China Handbook* Editorial Committee

CONTENTS

Chapter One

AN OVERVIEW	1
1. Economic Rehabilitation	1
2. Socialist Transformation	12
3. Socialist Construction	34
4. Economic Readjustment	46
5. Reform of the System of Economic Management	58

Chapter Two

MINERAL RESOURCES	70
1. A General Picture	70
2. Fuel-Bearing Deposits	72
3. Metals	79
4. Nonmetallic Minerals	95

Chapter Three

INDUSTRY	108
1. Coal Industry	109
2. Oil Industry	115
3. Power Industry	124
4. Metallurgical Industry	136
5. Machine-Building Industry	142
6. Electronics Industry	151
7. Chemical Industry	156
8. Building Materials Industry	162

9. Textile Industry	169
10. Light Industry	180

Chapter Four

AGRICULTURE	196
1. History	196
2. Basic Features	201
3. Development of Agricultural Production	221
4. Current Rural Economic Policies	254

Chapter Five

TRANSPORT AND COMMUNICATIONS	262
1. Railways	267
2. Highways	287
3. Water Transport	292
4. Civil Aviation	298
5. Pipeline Transport	301
6. Post and Telecommunications	303

Chapter Six

DOMESTIC COMMERCE	307
1. Development of a Commerce Network	307
2. Economic Sectors of Domestic Commerce	314
3. Increased Supply of Commodities	319
4. Basic Stability of Market Prices	326
5. Reform of the Commercial System	330

Chapter Seven

PUBLIC FINANCE, MONEY AND BANKING	338
1. Public Finance	338
2. State Budget and Final Accounts	345

3.	Taxation	349
4.	Reform of Financial Administration	354
5.	The Banking System	357
6.	Bank Credit	371
7.	The Renminbi	379
8.	Banking Reform	381

Chapter Eight

FOREIGN ECONOMIC RELATIONS	387
1. Development of New China's Foreign Trade	387
2. Latest Development of Foreign Trade	402
3. Managerial System for China's Foreign Trade	408
4. Foreign Trade Organizations	412
5. Commodity Inspection	418
6. The Customs	420

Chapter One

AN OVERVIEW

1. ECONOMIC REHABILITATION

Old China's backward economy worsened through long years of war. The People's Republic of China, founded on October 1, 1949, inherited a bankrupt economy left over by imperialism, feudalism and bureaucrat-capitalism.*

In agriculture, the 1949 production of major crops fell far below the pre-Liberation peaks (see Table 1.1). By 1949, draught animals had decreased by 16%, and farm implements by 30%. The per hectare yield was low, with grain averaging 1.065 tons and cotton 0.165 tons.

Modern industry accounted for just about 10% of gross industrial-agricultural output. The 1949 industrial production was only half the amount before the War of

* China's bureaucrat-capitalism, represented by the four big families of Chiang Kai-shek, T. V. Soong, H. H. Kung and Chen Li-fu, reached the peak of its development during the War of Resistance and after Japanese surrender. The four big families amassed fortunes valued at 10-20 billion U.S. dollars and monopolized the economic lifelines of the country. Also known as the bureaucrat-comprador bourgeoisie because of its close links with foreign imperialism, the bureaucrat-capitalist class was the big bourgeoisie or monopoly bourgeoisie in China, and a target of the new-democratic revolution. (Cf. Mao Zedong, *Selected Works*, Foreign Languages Press, Beijing, 1977, Vol. IV, p. 167.) — *Translator.*

Table 1.1
1949 Farm Output

	Output (in 1,000 tons)	Compared with pre-Liberation peak
Grain	113,200	-25%
Cotton	445	-48%
Cured tobacco	43	-76%
Peanuts	1,268	-60%

Resistance Against Japan (1937-45). Production had dropped by 30% in light industry and 70% in heavy industry. Compared with the highest figures in pre-Liberation history, the 1949 statistics showed a decrease of 86% in pig iron, of 83% in steel, of 48% in coal, of 28% in electricity, and of 32% in both cotton cloth and cigarettes. The main industrial output in the year was extremely low for a big country like China, accounting for an insignificant percentage in the world's total (see Table 1.2). The machine-building shops, mostly with fewer than 15 workers, could do little more than repairs. The country turned out only 1,600 metal-cutting lathes a year. The low degree of industrialization was also clear from the fact that industrial workers, numbering some 3 million, were only 0.6% of the national population.

In transport and communications, the railways in old China totalled 22,000 kilometres, but only 11,000 kilometres were open to traffic because of war damages. The motor roads in service totalled only 80,000 kilometres.

Table 1.2

Some Items of 1949 Industrial Output

	Output	Percentage in world's total
Steel	158,000 tons	Less than 0.1%
Electricity	4,300,000,000 kwh*	0.5%
Coal	32,000,000 tons	1.9%

The country could make neither locomotives nor motor vehicles, and had to depend on imports for spare parts during repairs. Though crisscrossed with inland waterways, China had opened only 73,000 kilometres of them to navigation. The combined freight volume carried by trucks, trains, steamships, barges and other modern vehicles amounted to no more than 67,130,000 tons in 1949.

Older people today have a fresh memory of the runaway inflation under the Kuomintang. In the eleven years between June 1937 and August 1948, the KMT government's revenue was only 40.54% of expenditure in its best fiscal year and 12.19% in its worst. The result was a wanton issuance of paper money. During the aforementioned period, the amount of paper money in circulation grew 3.75 million times, and prices went up 6 million times. In August 1948, the KMT government issued the "Gold Yuan Money", which became practically worthless in less than a year. From June 1937, the eve of the War of Resistance Against Japan, to May 1949, the time of the

* Kilowatt-hours. — *Tr.*

KMT's collapse, the amount of money in circulation grew 176.8 billion times, and prices rose 250 billion times. The inflation upset the market and gave rise to wild speculation. The working people suffered, while few businesses could carry on.

The People's Republic had to spend its first three years (1949-52) rehabilitating the economy before it could undertake any significant socialist transformation or construction. What it did was to confiscate bureaucrat-capital, carry out a land-to-the-tiller reform in the countryside, streamline economic administration, and revitalize production.

(1) CONFISCATION OF BUREAUCRAT-CAPITAL

The capitalist firms in China were owned either by national capitalists or by KMT bureaucrats. The people's government allowed the national capitalists to carry on lines of production that were useful to the economy and the people's life, with a policy which took into consideration the interests of both the state and the capitalists, of both capital and labour. At the same time, it took over bureaucrat-capitalist firms which accounted for two-thirds of all industrial capital and four-fifths of the fixed assets in industry, transport and communications. On the eve of Liberation, the KMT National Resources Commission controlled 90% of the nation's iron and steel, 33% of the coal, 67% of the power supply, 45% of the cement, and all crude oil and non-ferrous metals. Bureaucrat-capital also controlled the larger banks, all railways, motor roads and airlines, 45% of the shipping tonnage, 38% of the spindles

and 60% of the mechanized looms in the textile industry, and a dozen monopoly trade companies. This whole structure of state monopoly capitalist economy, at once feudal and comprador in nature, was a target of China's democratic revolution. As the People's Liberation Army carried the revolutionary war across the country, it took over the factories, mines, railways, ships, postal service, banks, shops and other enterprises owned by the KMT government or its high officials, turning them into socialist enterprises owned by the people's state. In 1949, 2,858 industrial enterprises employing a total of 750,000 workers were taken over from bureaucrat-capital. They formed the initial basis of China's socialist industry, and created during the year 41.3% of all the output value from modern industry, including 58% of the nation's power supply, 68% of the coal, 92% of the pig iron, 97% of the steel, 68% of the cement and 53% of the cotton yarn. The socialist sector of the economy also covered all the railways and most of the other modern means of transportation, the major banks and the bulk of domestic and foreign trade.

Meanwhile, the people's government abolished all imperialist privileges in China, reestablished authority over the customs which had been under imperialist control for decades, instituted a monopoly over foreign exchange and foreign trade, and deprived the imperialists of their power over enterprises in China.

Thus the People's Republic gained control over the lifelines of the economy. Economic independence, for which the Chinese people had fought for more than a century, finally became a reality — the No. 1 prerequisite for economic rehabilitation and growth.

(2) LAND REFORM

In old China the landlords and rich peasants, comprising less than 10% of the rural population, owned upwards of 70% of the cultivated land, by means of which they ruthlessly exploited the peasants, while the farm hands, the poor peasants and the middle peasants* accounting for 90% of the rural population owned less than 30% of the cultivated land. The land rent ranged anywhere from 50% to 80% of the crop. The impoverished peasants toiled the year round, but had to suffer hunger and cold. The reform of the system of landownership, which would destroy feudalism in rural China and return land to the tiller, was a major programme of China's democratic revolution. While the People's Liberation War was raging, land reform was already being carried out in the various Liberated Areas. It had been completed among a population of 140 million on the eve of the founding of the People's Republic. The reform was launched nationwide after the birth of New China and was basically accomplished by the end of 1952.

The Agrarian Reform Law of the PRC promulgated in June 1950, stated that "the landownership system of feudal exploitation by the landlord class shall be abolished, and the system of peasants' landownership shall be introduced in order to set free the rural productive forces, develop agricultural production and thus pave the way for

* A poor peasant owned little or no land and so had to rent his land and hire himself out to some extent. A middle peasant might own all his land, or own part of it and rent the rest, or rent all of it; but he was better off than the poor peasant and generally did not have to sell his labour power. — *Tr.*

New China's industrialization."* To achieve this purpose, the Communist Party and the people's government organized the peasants for struggle instead of granting land to them as a favour. The poor peasants and farm hands, 70% of the rural population, had little or no land and were subjected to the worst exploitation. They were the staunch supporters of land reform. The middle peasants, 20% of the rural population, were also part of the labouring people and generally practised no exploitation. Their interests were protected in the reform process. Nobody was allowed to encroach upon their land and other property rights. They were given land if their per capita possessions were below the reform quotas. Under these policies, the middle peasants sided with the poor peasants. An anti-feudal united front embracing over 90% of the rural population was formed to make land reform a success.

The economy of the rich peasants was preserved during the reform. The rich peasants received protection for that part of their land which was cultivated either by themselves or by farm hands in their employment, but they had to hand over the land which they had rented out for feudal exploitation. This was because land reform was directed against feudalism, not capitalism. This policy, which also protected other types of property owned by the rich peasants, neutralized their position and further isolated the landlords, contributing to victory in land reform.

Although land reform aimed at the elimination of the landlord class, it was not an attempt to wipe out the land-

* Cf. *The Agrarian Reform Law of the People's Republic of China*, Foreign Languages Press, Beijing, fourth edition, 1953, p. 1. — Tr.

lords as individuals. According to the Agrarian Reform Law, the landlords were each given an equal share of land as a peasant's so that they might earn a living by their own labour and remould themselves in the process.

Thanks to land reform, China's 300 million peasants owning little or no land received more than 46 million hectares of cultivated land, plus draught animals, farm implements, houses and other types of property. They were freed from an exorbitant annual rent of 35 million tons of grain. After land reform, the poor and middle peasants owned over 90% of the farmland, while the former landlords and rich peasants owned about 8%. This marked the end of feudal land ownership in China, the basis of feudal exploitation for 2,000 years and the root cause of the country's poverty and backwardness. This was a revolution which freed Chinese peasants from the feudal yoke and created an essential condition for China's prosperity.

(3) STREAMLINING ECONOMIC ADMINISTRATION

Before the founding of the People's Republic, economic work in the various Liberated Areas was administered independently by local governments all through the War of Resistance Against Japan and the Liberation War (1945-49). All these governments followed the policies of the Communist Party, but each issued its own currency and had its own budget. This was inevitable in a situation where the Liberated Areas were cut off from one another by the enemy. The rural economy in each area, an economy of individual peasants and handicraftsmen, could survive by its self-sufficiency and made independent ad-

ministration possible. The system played an important role in winning the revolutionary wars.

The founding of the People's Republic changed the picture. The Chinese mainland, except Tibet, had become unified, and the people's government was confronted with an integral economy and a single national market. Meanwhile, a struggle was going on between the capitalist and socialist sectors of the economy. Continuation of independent administration in each area would mean financial and material losses and weaken the economic strength of the state, which would not be able to direct the market and the entire economy by a planned and flexible use of cash and material resources. That would affect economic rehabilitation. Beginning in March 1950, the people's government assumed unified leadership over the country's economy and finances in the following ways:

(a) *Unified control of government revenue and expenditure throughout China.* Major items of state revenue, including agricultural and other taxes, government inventories, and profits and part of the depreciation funds of state enterprises went to the state treasure. Coupled with an austerity drive, this made possible an effective use of revenue for logistic support of the Liberation War and the restoration of industrial and transport facilities vital to economic life.

(b) *State allocation of supplies.* The state took into its hands the distribution of such important supplies as grain, cotton cloth and industrial equipment. Every major city acquired an ample storage of grain, cotton cloth and other daily necessities. It was thus able to ensure market supplies, stabilize prices, and fight speculation and profiteering.

(c) *A vigorous restriction of cash payment.* The