

## **Chapter IV Summary: Situation Analysis**

The Country Study Group for Development Assistance to the People's Republic of China (especially the task force working under its direction) collected information on the present state of major sectors of the Chinese economy in preparation for its study and discussions of Japanese economic cooperation with China. This chapter contains a summary of those materials.

### **1. Macroeconomic status and development programs**

At the third plenary session of the 11th Central Committee of the Chinese Communist Party in December 1978, China shifted its focus from class struggle to building the economy; it announced plans to activate the domestic economy by economic reform and open up its economy to the outside world to introduce new capital and technology. The reforms began with rural villages, and by the mid-eighties had been able to produce significant results in expanding agricultural production. But in the latter half of the decade, food production was stagnant in comparison to the development seen for cash crops and rural industry (town and village enterprises), and the need for further reforms became apparent. Meanwhile, reforms in urban areas accelerated industrial production, though overinvestment and excessive consumption caused the economy to overheat and ignited double-digit inflation. The Chinese government was forced by these events to begin an economic adjustment in September 1988 (at the third plenary session of the 13th Central Committee of the Chinese Communist Party). This correction deepened in the wake of the June 1989 Tien-an-men Square incident, and adjustment policies reduced purchasing power, which in turn caused stockpiles and inventories to burgeon and softened the market. Selective financing began again in the latter half of 1990, though monetary policies remained tight. The result has been a gentle economic recovery since early 1991. In March 1991, the National People's Congress adopted the proposed national economic and social development ten-year plan and the eighth five-year plan, which focus on the bottlenecks (raw materials, energy, transportation, and other infrastructure) in the Chinese economy and target a quadrupling of the GNP of 1980 by the year 2000. Japan supports greater reform and openness in China, and should therefore provide active cooperation with China's development plans.

## **2. International climate**

The world is again dealing with China, and China is beginning to come out of the international isolation imposed on it in the wake of the Tien-an-men Square incident. Among the G-7 countries that imposed sanctions, Japan, the UK, and France have already re-normalized relations. The World Bank and the Asian Development Bank have also reopened their lending windows to China, and foreign private-sector investments in the country are picking up. Though China feels threatened by the American-led New World Order of the post-Gulf War world, it is also aware of the necessity of U.S. cooperation for its modernization efforts. The United States, meanwhile, is very wary of letting the gigantic Chinese market fall under the sway of Japan and other countries; this point must be taken fully into account when considering cooperation for China. China also regards its neighbors such as the ASEAN states and NIEs as important partners. In April of this year, Taiwan announced it was lifting its declaration of "state of rebellion" on the continent. The question is now how political ties will develop between Taiwan and mainland China, and what will come of China's official "one country, two systems" policy. China shares many interests with the Soviet Union, including the need for a stable, peaceful international environment in which to pursue the common goal of modernization and economic reform. The visit of General Secretary Jiang Zemin to the Soviet Union brought an end to the thirty-year rift between the two countries. At the present time, China's most pressing goals are economic revitalization and modernization, and therefore more than anything else, it needs a favorable international climate in which to develop. Growing discussion of forming an economic bloc in southern China or the Japan Sea rim and economic activities within these regions will also be indispensable to the establishment of a structure of peace and interdependence transcending the policy level.

## **3. Agriculture, livestock, and fisheries**

### **Agriculture:**

The past decade of reforms in the agricultural and rural economic systems has achieved significant results and great strides in gross production volumes for rural communities and income for farmers. But much of the economic development in rural areas owes itself to the development of industries other than agriculture. At present, Chinese agricultural production moves very sensitively in response to the political, economic, and social currents in the country as a whole. When the economy overheats

and attention focuses on industries other than agriculture, less attention is paid to agriculture and production stagnates. When the economy gets back on course, however, rural communities put their energy into farm production, and volumes rise. The demand for food continues to grow sharply every year due to population increases and changes in the Chinese diet. Domestic food production, however, has been stagnant since it peaked in 1984. Though 1989 and 1990 did post record-high levels, annual per capita food stocks have continued to decline, remaining below the 1984 peak due to sluggish production and increasing population. In 1987, China became a net importer of food, as both the volumes and monetary values of its food imports surpassed exports.

#### **Livestock:**

The demand for meat is growing as the Chinese diet changes; livestock industry deregulation as part of rural economic reforms has led to great progress in meeting this demand. Livestock's share of total agricultural production volumes is increasing, and the industry is making significant contributions to the reform of the agricultural structure, which has heretofore been centered on farming.

#### **Fisheries:**

Fish production in China has increased by an average of a million tons a year for the past five years, reaching 12.37 million tons in 1990. It should be noted that fish farming accounts for a very high percentage — over half — of Chinese fish production.

### **4. Forestry**

China has a total of 124.65 million hectares of forested land and 9,141 million cubic meters of logging resources on them. With 13% of its land forested, China has only 0.1 hectares of forest and 8 cubic meters of forest resources per capita. Most of these resources are clustered in the northeast and southwest, and soil erosion, desertification, and other problems of national land conservation make it difficult to maintain them. Demand for lumber, however, is increasing sharply because of population growth, economic expansion, and the rising standard of living of the Chinese people. Supplies were once limited to domestic lumber, but now imports are on the increase. China is dealing with these problems by promoting reforestation and afforestation projects and more efficient use of wood resources.

## **5. Mining, manufacturing, and energy**

### **Mining and energy:**

China has vast mining resources and is one of the top countries in the world both in terms of production and reserves. But although production is expanding, it is not fully meeting the rapidly growing demand from the manufacturing and energy sectors. Reasons for this include the concentration of mining resources in certain areas of the country, problems with the transportation system, and irrational pricing. From the standpoint of future economic development, China will need to do better both at prospecting for resources and at utilizing them effectively. China's coal reserves are particularly plentiful, and although the demand for coal is extremely high its reserves are unlikely to be depleted in the near future. Coal accounts for about 70% of China's energy production. Petroleum accounts for a bit more than 20%, though its production has not grown as fast over the last few years as coal's. Energy, many say, is the bottleneck of the Chinese economy, and unstable electricity supplies take their toll on both homes and industry. This is one factor dampening the private sector's enthusiasm for investments in China and is also perceived as a major problem by the Chinese government. Unfortunately, the situation has failed to improve even after adopting a priority production system.

### **Manufacturing:**

The Chinese economic reforms that began in rural areas shifted its focus to the urban areas after 1984, resulting in a growth surge in industry. Most of this, however, has been led by light industry, including manufacturing located in rural areas. Heavy industrial production has been slow to pick up; expanded imports of raw materials have caused China's trade balance to deteriorate, and the country's lack of infrastructure is becoming a serious bottleneck. In 1989, Chinese industrial production was worth 2,201.7 billion Rmb, which far outdoes the 7th five-year plan's goal for fiscal 1990 of 1,324.0 billion Rmb. The percentage of industrial production owned by national corporations is declining sharply, and the Chinese government is strengthening its policy support for larger national corporations as a result. Most major industrial sectors are sluggish, though the largest, industrial machinery, has shown significant growth, which has led to major gains for industry as a whole. Foreign direct investments in China have bounced back from the temporary decline in 1989 and are now growing at an extremely high pace.

## **6. Transportation and telecommunications**

### **Transportation:**

The demand for transportation in China far exceeds the supply, becoming a serious problem preventing economic development. Until the late seventies, China had spent almost two decades operating under a policy of regional self-sufficiency, so when economic modernization policies led to rapid industrial development, it increased demand for domestic and international transportation in a way that highlighted the backwardness of the country's transportation systems. The Chinese government is giving transportation the same investment priority as energy, though it looks like it will take a long time before the problems are solved. China's transportation system is rail-based: railways carry two-thirds of China's freight, 40% of which is coal; railways also account for about 60% of passenger transit. Still, even rail transport capacity suffers from chronic shortfalls in absolute terms. Demand has also been increasing in recent years for seaport, road, and airport access, and here again, the absolute lack of facilities makes it impossible to meet the demand.

### **Telecommunications:**

China's policy to open up its economy places telecommunications on a par with other areas of the infrastructure. The network has seen marked expansion, but given the size of the country and its population pressures, it has not been able to keep up with the even faster growth in demand. One of China's long-term policy goals is to manufacture and supply its own telecommunications equipment, and its research and development in this field (e.g. optical fibers) is rapidly approaching world levels. Unfortunately, the country lacks enough foreign exchange to be able to purchase raw materials or build the modern manufacturing facilities necessary to widely apply its research and development results.

## **7. Distribution**

China nationalized its commercial sector during the course of its socialist reconstruction in the belief that commerce is the sector that is most obviously aligned with free-market thinking. As it did this, it created separate distribution systems for urban and rural areas, and then built independent, bureaucratically-controlled channels for everything from manufactured goods and agricultural produce to raw materials and fuel.

Meanwhile, its outmoded production facilities and burgeoning population made it impossible for supply to meet demand and created a chronic seller's market in which most products were distributed under government control. When China began to open up and democratize its economy, however, its consumers began to demand better living conditions, which resulted in greater and more diversified needs. The country's rigid distribution system, unfortunately, has been unable to meet this demand in terms of either quality or quantity. Beginning around 1980 China began to reform its national stores and privatize its supply and marketing cooperatives, both of which had been the main pillars of its distribution system. It also started to revive collective and individual commerce. The Chinese commercial sector is being reformed to diversify and liberalize distribution, give more autonomy to individual corporations, rationalize governmental commercial agencies, and transfer the wholesale system to a lower administrative level. The country is decreasing the number of government-controlled products and increasing the number that can be bought and sold freely. The goal in all this has been to meet the wants of the Chinese people and revitalize the commercial sector. Even disregarding the problem of dual pricing systems for the same products, China's commercial sector still has much to overcome. It suffers from wide swings in business conditions, and because of this and the fact that commerce itself is not used to competition, free distribution is often hindered in the name of regional benefit. There is also a marked tendency towards speculation. These problems will only be solved by gaining more experience at market economics, though even if these questions are not addressed as such, there is much to rationalize in the distribution system in terms both of physical facilities and of systems (including government regulations).

## **8. Urban situation**

The new China was built by a peasant-led revolution, and has regarded cities as manufacturing centers only, ignoring their functions as centers of distribution, information, and finance. The economic reforms kicked off by the third plenary session of the 11th Central Committee of the Chinese Communist Party in 1978 began in the rural villages and have since moved to urban areas. Their emphasis, likewise, has shifted from primary production to the other services mentioned above (distribution, information, finance, etc.) and the urban living environment. Since the revolution, China has strictly regulated migration from rural to urban areas, a policy it continues to enforce. Given China's huge population, this has played a major role in preventing its cities from turning into slums

and has been instrumental in boosting agricultural production and allied infrastructure. The emergence of a mobile population in recent years is, however, substantially undermining these policies. In light of this, the government, in its seventh five-year plan, formulated an urban policy of "not expanding the largest cities, appropriately expanding the medium-sized cities, and vastly expanding the smaller cities." The policy is thus to prevent an influx of people to the major urban centers, rectifying regional disparities in development and providing for comparatively even growth around the country. This policy has been carried forward to the eighth five-year plan as well.

## **9. Health and medical care**

The Chinese government's post-1949 efforts to achieve its goals of alleviating poverty, improving nutrition, supplying drinking water, and improving sanitation have resulted in a marked rise in life expectancy and the elimination of many diseases. Improvements in health and medical services, however, have not been uniform: there are marked gaps between urban and rural areas and between different regions of the country. The poor zones of the interior still require major improvements in the level of available care, and the first improvements must be made in primary health care. The major diseases in China are shifting from the communicable diseases generally found in developing nations to more chronic, non-communicable diseases. This period of transition in medical requirements and the change in economic structure has led to new health and medical problems which the present system is not fully able to deal with. In general terms, the country's medical system suffers from a shortage of medical personnel, poor skill levels, insufficient medical facilities, aging facilities and equipment, and a delay in the improvement of preventive medicine, medical treatment, and research systems. Many medical institutions and personnel concentrate on providing clinical treatment, but these treatments are not necessarily suited to chronic diseases. Meanwhile, budget allocations favor investments in advanced medical facilities and equipment, and hold down spending on programs for health-maintenance and preventive medicine. Another pressing need is for an effective family planning program to check China's population growth.

## **10. Human resources**

As of October 1990, China had a population of 1,133,680,000. It is expected to grow by 15-17 million a year, reaching 1.25-1.28 billion in 2000. This is leading to an increase in the working-age population, and the need to create another 10 million jobs a year, even after allowing for the replacement of retirees by younger workers. However, recent policies to limit births (the one-child per family policy) will eventually begin to make themselves felt and the number of new arrivals in the labor force will start to decline around 2010. This will be accompanied by an increase in the retirement-age population and an aging of the labor force in general that will probably affect the social security benefits available to retirees. Furthermore, as the gaps between regions widen, the population is shifting in what has been called a "blind current" from the interior to the coast and from rural communities to the cities. China is keenly aware of the importance of education and is increasing its budget despite its fiscal difficulties. Expanding investments in education have produced extremely high attendance rates for primary and secondary schools. Nonetheless, the country will have to make greater efforts to improve its educational system in the future. China now has about 10 million teachers and 228 million students, but the education sector's expenditure corresponds to only 3.7% of the GNP, markedly lower than the 4% to 5% seen in most developing countries. Social changes are also producing a decline in attendance rates for basic education and an increase in dropouts.

## **11. Environmental protection**

In the twelve years since China began to reform and open up its economy, it has made considerable efforts to protect its environment and has expanded investments in this area. Still, its environmental situation is none too good. The contributing factors include the rapid pace of industrialization; the high numbers of outmoded, resource and energy-inefficient manufacturing facilities; low resource and energy efficiency in the town and village enterprises developing in the rural areas; insufficient funds for environmental protection investments; the inability of urban infrastructure development to keep up with fast-paced urbanization; and exploitive agricultural methods in poor rural areas. The country will need to make greater efforts to protect the environment if it is to assure itself of adequate living conditions and provide a base for further industrial and agricultural development. China is counting heavily here on Japan and its advanced



conservation technology, and it is in Japan's interest also to make this a priority area in cooperation programs, since what happens in the Chinese environment (acid rain etc.) has the potential to impact Japan and the rest of the Asia-Pacific region.

## **12. Development in poor zones**

Since 1949, China has made major efforts to help its poorer regions. This has resulted in many improvements, though in 1985 there were still 110 million people in the country with annual incomes below the poverty line of 200 Rmb. The third plenary session of the 11th Central Committee of the Chinese Communist Party resulted in reforms to the agricultural economy beginning in 1978 that dismantled the people's communes. Individual farming replaced collective farming and became the main form of domestic agriculture. At this time, the issue of development in poor zones also came to the fore. In 1982, China abandoned "emergency aid" in favor of "productivity assistance," and it further reinforced this policy in 1984 just before the adoption of the seventh five-year plan. This resulted in a decrease in the poor population (annual income of less than 200 Rmb) to 40 million during the course of the plan. Likewise, per capita GNP in poor districts given priority by the government rose from 402.3 Rmb to 663.6 Rmb. The seventh five-year plan thus represents a high-point in post-revolution China's fight against poverty. However, more efforts are needed to improve the lot of the 40 million who have been left in poverty. These people generally live in areas where natural conditions are severe, access to such infrastructure as roads and electricity is lacking, endemic disease is common, illiteracy prevalent, and the population increasing. Furthermore, those who have only recently been freed from poverty still have incomes far below the national average and will require more attention in the future.

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