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EBD/84/277
Correction 1

November 5, 1984

To: Members of the Executive Board
From: The Secretary
Subject: People's Republic of China - Reform of the Economic Structure

The following corrections have been made in EBD/84/277 (10/29/84):

Page 6, line 4: for "30 percent" read "80 percent"

Page 21 is being reissued to include two paragraphs which were inadvertently omitted. The remaining text appears on pages 22 and 23.

Corrected pages are attached.

Att: (4)

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different departments and regions. The critical issue of giving enterprises decision-making power was not dealt with. We therefore failed to break with outmoded conventions.

To bring about a radical change in the economic structure that hinders development of the forces of production, we must conscientiously sum up China's historical experience and study the concrete conditions and requirements for economic growth. In addition, we must draw on the world's advanced methods of management, including those of developed capitalist countries, that conform to the laws of modern, socialized production. In line with the Party's consistent principle of integrating the fundamental tenets of Marxism with China's actual conditions and the principle of adopting a correct approach toward foreign experience, the Central Committee holds that we must emancipate our minds more, follow our own road and build a socialist economic structure with Chinese characteristics that is full of vigor and vitality so as to promote the growth of the forces of production. This is the fundamental objective of our present reform.

The basic contradiction in socialist society remains that between the relations of production and the forces of production, between the superstructure and the economic base. Reform of China's economic structure means reforming, on the premise of adherence to the socialist system, a series of interrelated links and aspects of the relations of production and the superstructure that are not suited to the development of the forces of production. As a form of self-improvement and development of the socialist system, this reform is to be carried out under party and government leadership in a planned, systematic, and methodical way. It should serve to advance, and not to impair, social stability, expansion of production, improvement of the people's living standards and the growth of state revenue. The essential task of socialism is to develop the forces of production, create ever more social wealth and meet the people's growing material and cultural needs. Socialism does not mean pauperism, for it aims at the elimination of poverty. We must, with firm determination and maximum tenacity, concentrate on economic development and modernize China's industry, agriculture, national defense, and science and technology. This is the inevitable trend of history and the wish of the people. In carrying out reform, all party comrades must unflinchingly grasp the above-mentioned basic concept of Marxism and set whether the reform facilitates this task as the most important criterion for assessing the success or failure of all reforms.

III. Invigorating Enterprises is the Key to Restructuring the National Economy

The chief and direct responsibility for industrial production and construction and commodity circulation falls on urban enterprises. They constitute the main force spurring the growth of the forces of production and encouraging economic and technological progress. China

now has over 1 million urban industrial, building, transport, commercial, and service enterprises, with a total work force of more than 80 million. The taxes and profits delivered by urban industrial enterprises alone account for over 30 percent of the State's revenue. This means that the enthusiasm, initiative, and creativity of the urban enterprises for production and operation as well as their 80 million workers and staff members must be brought into full play, in other words, the urban enterprises must have great vitality. This has a vital bearing on basic improvement of the national economy as a whole and of the State's financial and economic situation and on quadrupling China's annual industrial and agricultural output value by the end of the century, a task set by the Party's Twelfth National Congress. Socialism with Chinese characteristics should, first and foremost, be able to instill vitality into the enterprises. In essence, the drawbacks of our present economic structure are precisely the lack of vitality in our enterprises. Therefore, the key to restructuring the national economy, with the focus on the urban economy, is invigoration of enterprises, particularly the large and medium-sized enterprises owned by the whole people.

With this key in mind, we must handle two types of relationships satisfactorily. That means we should extend the decision-making power of enterprises owned by the whole people by establishing a correct relationship between them and the State, and safeguard the status of the workers and staff members as masters of the enterprises by establishing correct relationships between them and their enterprises.

One of the main reasons why the State exercised excessive and rigid control over enterprises in the past was to equate the concept of their ownership by the whole people with the concept of their direct operation by the state institutions. As Marxist theory and the practice of socialism have shown, ownership can be duly separated from the power of operation. To make the economic activities of all enterprises conform to the overall requirement of economic growth, the socialist state institutions must manage, inspect, guide, and regulate the activities of the enterprises, as is necessary, through planning and by economic, administrative, and legal means; it must use taxation and other means to concentrate in its Treasury that part of enterprises' net income which should be used by the State in a unified way; it must designate, appoint, and remove the principal leading members of the enterprises or approve their employment and election; and it must decide on the establishment of enterprises, their removal to other places, their switching over to other lines of products, their merger with others, suspension of operations, or closing down. However, since social demand is very complex and in a state of constant flux, since the conditions in enterprises differ in a thousand and one ways and since the economic links between enterprises are complicated, no state institution can know the whole situation fully and cope with everything in good time. If the state institutions were to directly administer and manage various kinds of

intellectuals, to raise their cultural and technical levels quickly. Those who have made important inventions and innovations or other outstanding contribution should be amply rewarded.

Science, technology, and education are extremely important in developing our national economy. Advances in reforming the economic structure pose as a matter of increasingly urgent strategic importance the reform of our scientific, technical, and educational setups. The Central Committee will hold special discussions on these issues and take relevant decisions.

X. Strengthen Party Leadership to Ensure the Success of Reforms

Reform of China's economic structure will be carried out over a fairly broad area and in a fairly deep-going way. It will have a direct bearing on the nation's future and affect the vital interests of millions upon millions of workers, peasants, and intellectuals. All party comrades should stand in the forefront of the reform, which represents the trend of our times. This reform is an exploratory and innovative undertaking by the masses and it is very complex. We are generally now at the stage of accumulating experience in the reform of the entire economic structure which focuses on cities, and the vast number of cadres are not familiar with this work. Leading party and government functionaries at all levels have to be sober-minded and give meticulous guidance. They should emancipate their minds, seek truth from facts and proceed from reality and carry out party policies creatively by integrating them with the actual situation in each locality, department, and unit. Full consideration should be given to the particularities of the regions concerned in reforming the economic structure in minority nationality regions. All moves in the reform have to be tested in practice, through which new experience will be acquired. Errors can hardly be avoided, but we should make every effort to prevent them whenever possible. Once an error does occur, we must try to discover it promptly, resolutely correct it, draw the lessons, and continue to go ahead. We should take active but prudent steps in carrying out reforms. We should carry them out firmly where we are sure of success, make reforms one by one when the conditions are ripe, and make experiments when we are not sure of success. We must not try to accomplish the whole task at one stroke. All major reforms which affect the whole country will be arranged by the State Council under a unified plan. All localities, departments, and units should be encouraged to conduct exploratory and pilot reforms. Nevertheless, any reform involving the overall situation or one that is extensive in scope must first be approved by the State Council.

Party organizations in numerous localities and enterprises will undergo consolidation next year. Reform should be closely linked with this. Party consolidation should promote economic growth, which is an indicator of how successful it is. While carrying out

the reform, we must strengthen the leadership over Party consolidation, making sure that the consolidation will not become a mere formality. The more we enliven the economy and invigorate enterprises, the more we must pay attention to combating the corrosive influence of capitalist ideas, eliminating the decadent practice of seeking personal gain by abusing one's position and authority and preventing any action that seriously harms the interest of the State and the consumers, and the more we should strengthen the building of a fine party style and sense of discipline and maintain healthy inner-Party political life. In ideological and organizational work in the new historical period, we must firmly carry out the Party's guiding principle that such work should help fulfill the general task and reach the general goal set by the Party and be closely linked with economic construction and reform of the economic structure. We should actively support cadres and the masses who are keen on reforms. When errors or deviations appear in the course of reform, apart from those seriously violating the law and discipline which must be dealt with according to law, we should adopt a policy of persuasion, criticism, and education toward the persons concerned and must not stick political labels on them. People with different views and approaches about reforms may discuss their differences. We must not divide the cadres and masses by calling some people "reformers" and others "conservatives." We should have faith in comrades who fall behind the developing situation for a time, confident that they will understand things better in the course of reform. In the past five years of rural reform, many comrades who had doubts about it have been convinced by the facts and have changed their views. The Central Committee has adhered to the principle of patient education in guiding rural reform, thereby ensuring its smooth progress. This is a valuable experience in solving ideological problems inside the Party on the question of major policies, and we should keep to this principle in the future. By citing the facts about reform, we should provide Party members and the masses with lively education in the theory and policies of the reform. This will help them realize that socialism with Chinese characteristics should be full of vitality, different from the rigid pattern of the past and fundamentally different from the capitalist system. This will deepen their understanding of scientific socialism so that they devote themselves to making reforms.

The reform of economic structure will lead to tremendous changes not only in people's economic life, but also in their mental outlook and way of life. We should build socialist civilization with both a high material level and a high cultural and ideological level. This is our Party's unswerving principle. While trying to create a socialist economic structure full of vigor, we should work to create a cultured, healthy, and scientific way of life for the whole society that meets the requirements of expanding the modern forces of production and social progress, and eliminate backward and decadent ideas and ignorance. We should foster throughout society an active, forward-looking and enterprising attitude and overcome such forces

of habit as complacency, mental sluggishness, fear of change and conventionality. Such an approach to life and such an attitude are important aspects of a socialist civilization that has a high cultural and ideological level. They give great impetus to reform of the economic structure and the building of a socialist civilization with a high material level. Comrade Mao Zedong said, "Mankind makes constant progress and nature undergoes constant change; they never remain at the same level. Therefore, man has constantly to sum up experience and go on discovering, inventing, creating, and advancing. Ideas of stagnation, pessimism, inertia and complacency are all wrong. They are wrong because they agree neither with the historical facts of social development nor with the historical facts of nature so far known to us." (See note 2.) This statement is a graphic expression of one of the fundamental points of view of the Marxist world outlook and conception of history. The Chinese communists take the constant promoting of social development and progress as their historical mission. Our Party led the masses of the people under reactionary rule in the past in making revolution to overthrow the old order. Under the socialist system with the people as masters of the country, our Party has been leading the masses in conscientiously carrying out reforms and building China into a modern, powerful socialist country with a high level of culture and democracy.

The current situation is very favorable to reform. The people are highly creative in this endeavor. By relying on their wisdom and strength and adhering to the four cardinal principles (see note 3), we will certainly succeed in our reform and fulfill the general task and reach the general goal set by the Party's Twelfth National Congress.

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Note 1: V. I. Lenin, Collected Works, Eng. Ed., Progress Publishers, Moscow, 1966, Vol. 35, p. 475.

Note 2: Quoted in "Premier Zhou Enlai's Report on the Work of the Government to the First Session of the Third National People's Congress of the People's Republic of China" (December 21-22, 1964).

Note 3: This means keeping to the socialist road, upholding the dictatorship of the proletariat, upholding leadership by the Communist Party, and upholding Marxism-Leninism and Mao Zedong thought.