

### III. OVERVIEW OF THE PRC MARKET

#### 1. CHARACTERISTICS OF THE PRC MARKET

China is the world's third-largest country in area (3.7 million square miles) and by far its most populous with more than one billion people. Its national language is Mandarin (or Putonghua) but other Chinese dialects are spoken widely in the south and south-east. There are more than 50 minority nationalities (e.g., Zhuangs, Tibetans, Mongols, Uighur Turks) who in varying degrees retain their own languages and customs. About 80 per cent of the population is rural and engaged in agriculture. Provincial governments are effectively departments of the central government. China has immense natural resources (especially minerals and energy) and an underutilized labour force.

#### Domestic Political Situation

Political power in China is tightly controlled by the Communist Party. The party's effective leadership is the six-man Political Bureau, and the 12-man Secretariat of the Standing Committee. Currently the most important of China's leaders is Deng Xiaoping, toward whom power has shifted since 1977. A protégé of Deng's, Hu Yaobang, as General Secretary of the Central Committee, is now head of the Chinese Communist Party.

Executive governmental authority is vested in a State Council headed by Premier Zhao Ziyang, another of Deng's key protégés. The legislature, the National People's Congress (NPC), is elected every five years and meets in full session once a year, although its Standing Committee of some 175 members meets more frequently. The Sixth NPC held its first session in June 1983 and elected the PRC's first State President since the 1960s, Li Xiannian. Although its power is limited by Western standards, the NPC has recently become a forum for broader discussions.

#### The Chinese Economy

China's primary problem is to feed itself and provide a reasonable standard of living to its massive peasantry which is organized in a hierarchy of collective and state units. Available land is already very intensively cultivated and large-scale mechanization to increase yields would only aggravate rural underemployment. Economic expansion in the industrial sector since 1949 has thus led to a significant income gap between urban and rural China. Even in industry, however, with the exception of a few high-priority sectors such as nuclear weapons, the technological level is low and the labour force inadequately trained. These are tough conditions under which to promote economic prosperity.

Against this background, China re-launched a 10-year "Four Modernizations" program in 1978 with high-growth targets for GNP and foreign trade. Within a year, imbalances in the economy and

increasing foreign debt led to introduction of a retrenchment policy known as "readjustment." This policy cut down on large capital projects and imports of equipment and put renewed emphasis on agriculture, light industry and infrastructure (i.e. energy, transportation and communications). It is still in force, although heavy industrial production and capital construction have been harder to restrain than hoped.

On the commune, the peasants' private plots have been roughly doubled in size and the produce of these plots may be sold at market prices in urban fairs. The "responsibility system," which promotes individual initiative through the mechanism of contracts between the production teams (units of the communes) and peasants organized on a household basis, has been successful in increasing agricultural production and rural wealth. Reform of science and education and the sending of Chinese scientists and students to the West on a large scale, which began in 1979, have continued. Other reforms, such as the decentralization of decision-making to local industrial enterprises at first encountered difficulties and were temporarily curtailed in early 1981, with production quotas and investment under tighter control by state planning authorities. Most of these restrictions were lifted, however, by a key Central Committee decision in October 1984 to accelerate the reform process; national policy, for example, allows Chinese enterprises to keep and reinvest profits after taxes, and the scope of central planning is to be reduced somewhat. This economic liberalization is also spreading to commercial, scientific and even cultural fields.

Under both the 1981-85 five-year plan and a 10-year plan for the 1980s, prospects are for steady but gradual growth without major surges for the rest of this decade. Concentration on solving infrastructural problems, on readjustment and on responsibility systems will be combined with technical renovation. There will be a progressive increase in the import of industrial equipment and semi-manufactured products. Development plans call for more rapid growth in the 1990s, but this will depend in part on the solution of long-standing problems such as pricing, labour immobility, weak management, lack of systematic planning, and poor central-provincial co-ordination.

Over the next three to five years, energy shortages will continue to pinch Chinese industry, especially since the PRC counts on petroleum products to supply a significant portion of its export earnings. Planners are depending on substantial offshore oil production in the late 1980s to underpin economic growth.

In 1984, industrial output value increased by 13 per cent; agriculture grew by at least 5 per cent; oil by 9 per cent; coal by 10 per cent; and hydroelectricity grew by 16 per cent.

China's foreign exchange reserves are predicted to remain high and will embolden planners to spend