

Chapter 9

The Contradictions and Difficulties of China's Market Economy

Kyoichi Ishihara

Introduction

China, who aims at realizing a "Socialist Market Economy", seems to be rushing into a full market economy at great speed. In the first half of this chapter we make it clear how the transitional periods to a market economy have been filled with social contradictions and confusion. In the latter half we examine the problems that China will be faced with after its rapid economic growth and conversion to a market economy.

I. The Contradictions of the Transitional Periods

1. *Inflation*

In the process of conversion from a planned economy to a market economy all of the socialist countries had to abolish price control. This, inevitably, resulted in them experiencing high price rises caused by the change from suppressed inflation to explicit inflation.

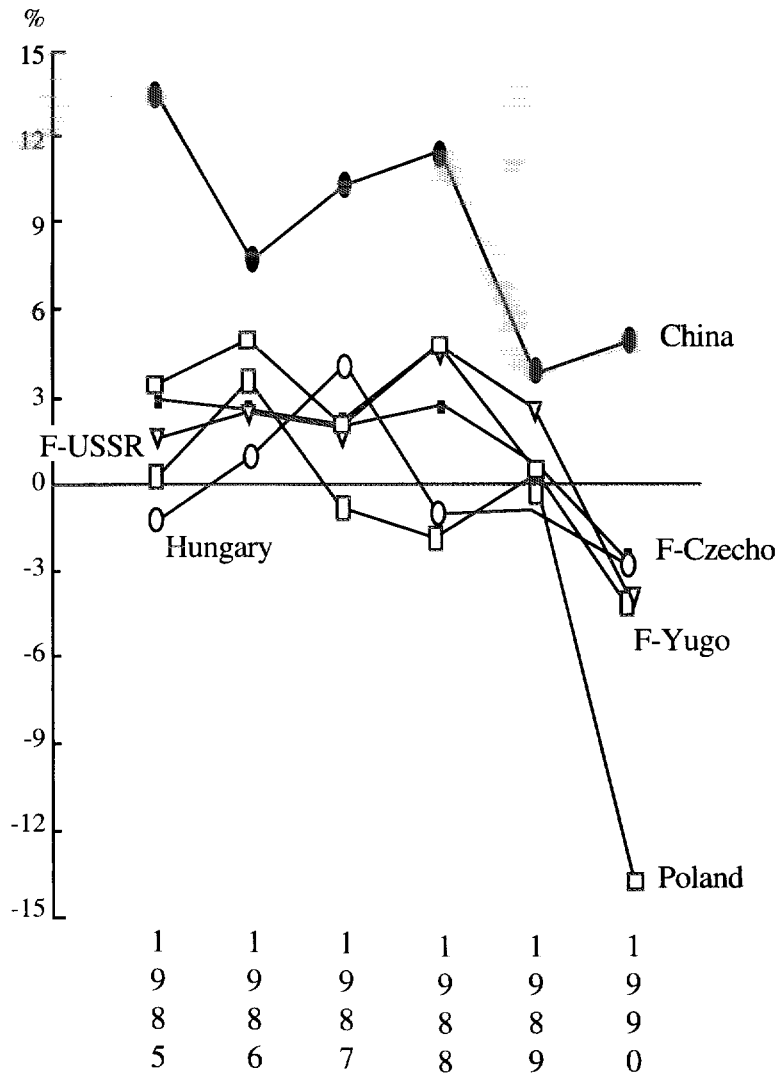
Figure 9-1 shows the economic growth rates of the former Soviet Union, Eastern European Countries, and China for the past few years. The West was very pleased by the rapid political democratization of the former Soviet Union and Eastern European Countries. In contrast to this, the conversion to a market economy has been slow and economic performance remains at a low level. Hopes held at the beginning of democratization are gradually fading. The people in these countries are becoming dissatisfied and are beginning to feel despair.

Although China's economic performance is much better than the former Soviet Union and Eastern European Countries, she, too, is not free from the inflation peculiar to transitional periods. Enterprise reform, mainly pursuing the enlargement of enterprise powers, increases wages and fringe benefits, thus strengthening the demand-pull factor for inflation. The liberalization or rise in prices of producer goods forms the cost-push factor for inflation. A mismatched and inconsistent economic reform plan, which aims at controlling money supply by financial measures but in fact increases it very quickly. These three factors have been working together to aggravate inflation in China.¹

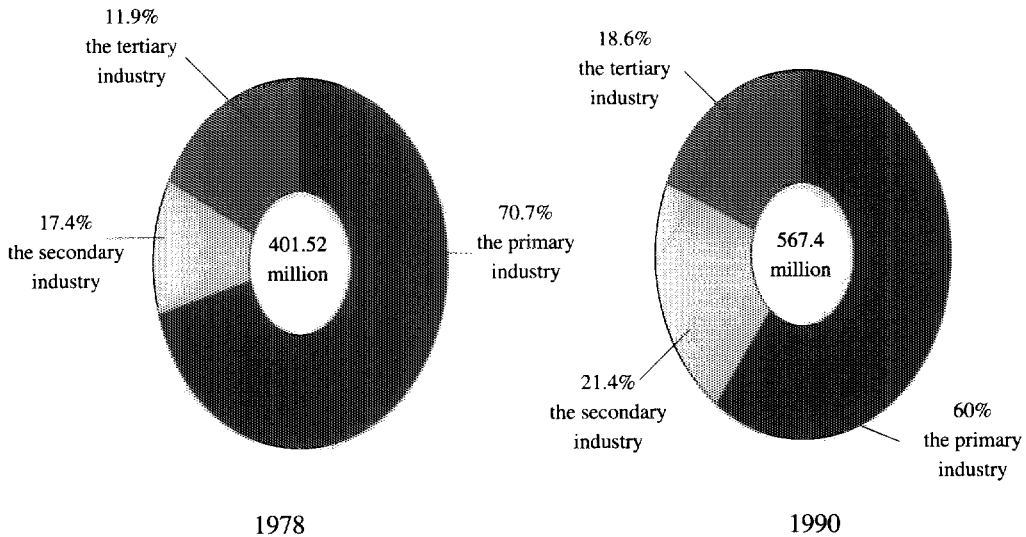
2. *The Transformation of the Industrial Structure and Population Migration*

China has to carry out not only the conversion to a market economy but also the transformation of its industrial structure because she is a developing country. As shown in Figure 9-2, the percentage of the labor force engaged in primary industry has declined to 60% in 1990 from 70.7% in 1978. China's employment structure has already begun to change.

Figure 9-1 The Growth Rates of MPS's National Income



Sources: *Statistical Yearbook of China*, 1991.

Figure 9-2 The Structure of Employment

Sources: *Statistical Yearbook of China*, 1991.

Limited to about ten years after the commencement of economic reform and the open-door policy, the migration of population caused by the transformation of industry did not have a great impact on China's economy as a whole. This is proved by the following three points.

Firstly, the absolute number of the labor force engaged in primary industry has not decreased even though the weight of the primary industry has declined in comparison to the increases in the secondary and tertiary industries within the employment structure. This is because the whole scale of the labor force increased by 150 million from 1978 to 1990.

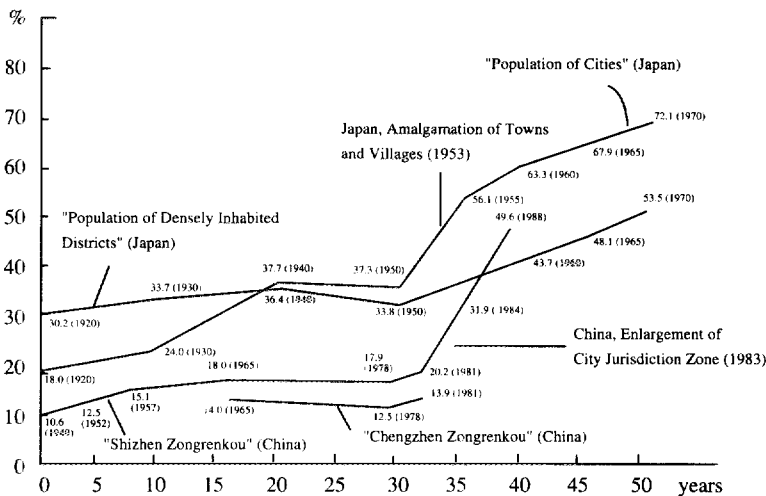
Secondly, China is still adhering to a socialist system which is different from the capitalist system of the NIEs and the ASEAN countries.

According to the dual structural model of development economics, it is possible for China to develop a complete national economy because some of the modernized sectors in the urban districts can absorb a large influx of the labor force from the rural districts. However, China at present is being urged by enterprise reform to cut surplus staff and workers employed in state-owned enterprises. Therefore, there is no room available for any labor flowing out of the rural districts. Based on data from 1989, there is a potential in China for a further 15 million people to become unemployed in the urban districts. This is in addition to the 5.5 million already unemployed in these areas².

Thirdly, most of the population, which has left agriculture, has remained in the countryside and has not migrated to the cities.

Figure 9-3 shows a comparison of urban population growth between Japan and China. As shown, China's "Shizhen-Zongrenkou" has expanded rapidly since 1984. However, this is due

Figure 9-3 The Proportion of Urban Population



- Notes: 1. "Shizhen Zongrenkou" (China) – the population of cities and towns including all the people living within the limits of the administrative city or town
2. Chengzhen Zongrenkou" (China) – the population of cities and towns excluding the "agricultural population" living there
- Sources: Japan – Statistics Bureau of Management and Coordination Agency, *Nihon jinko no chiiki bunpu to sono henka*, 1983, 0.60
- China – *Statistical Yearbook of China*, 1981/1989.

more to the expansion of city jurisdiction districts than to an influx of population into the urban areas. At the present stage, labor migration is mainly occurring within the rural areas, and the agricultural population has not decreased significantly. The same thing can be said in relation to the period following the enactment of the 1953 Town and Village Merger Promotion Law in Japan. In order to fully observe the progress of urbanization, the population of densely inhabited districts, which is growing slowly, reflects the actual situation more accurately than the population of cities, which is expanding rapidly.

In view of the above information, we can see that any influence caused by the transformation of the industrial structure within China, up until now, has been moderate. However, from now on the situation will be quite different. Under the present system of accelerating reform, open-door policy and the pursuit of rapid economic growth, China will experience large social change. This structural transformation will lessen the number of agricultural laborers on the one hand, and increase the number of consumers in the population on the other. Resulting from this transformation China will have a new fourth reason for inflation.

3. Immature Market Mechanism

A market economy can not be built in a day as can be seen from Japan's economic development following the second world war. In the coal industry, which had declined rapidly due to the conversion from coal to oil, many coal miners were made redundant and a severe

confrontation between the management and the employees caused bloodshed. At the time of privatization of the Japan State-Owned Railway a mass reorganisation of the trade unions was enforced resulting in a loss of confidence amongst the workers. This gloomy feeling grew steadily and many conflicts and tragedies were reported.

The development process of the market economy caused severe social unrest in Japan where the national economy was going well and social insurance systems were comparatively well established. In comparison, China will encounter more severe unrest and confrontations at the time of privatization.

It is not necessarily true that a market mechanism will run smoothly if the government abolishes its control. The appearance of many false brands and low-quality goods in China testifies to this. The large number of these false commodities has in one year, caused 12 billion dollars worth of damage and the deaths of several hundred people³.

For example, a country-run-liquor factory in Sichuan province sold imitation "Wuliangye" at ten yuan a bottle although a genuine bottle costs about 70 yuans. The factory gained a profit of 1 million yuan a year through this swindle which enabled it to escape bankruptcy.

To take another example, a state-owned metal products corporation acquired "Feige" brand bicycles worth 300 thousand yuan. They found after unpacking these bicycles that they had no trademarks and no producer's name. They took a lot of trouble locating the producer's factory, only to find that the factory had already been closed. They had no choice but to sell the fake bicycles in order to prevent loss.

Finally, the case of the fake "Beijing Jeep" (this brand is famous for its joint-undertaking with the automobile company of the U.S.A.) was more elaborate. There were many repair and parts shops organized by the network to produce fake vehicles in Xingzheng-county, Hebei province. What is more, a fake "Beijing Jeep" produced here had a genuine certificate issued by the Beijing Automobile Co., Ltd. Buyers realised that the jeeps were fake only when the gears or breaks failed after driving two to three thousand kilometers⁴.

As a recent case of instability connected to the evolution of reform and open-door policy, we can take the riot in Shenzhen on the 10th of August, 1992. This riot was called the "economic Tiananmen incident" by some Hong Kong journalists.

The incident occurred in relation to the sale of 500 million stocks of 14 corporations listed in the Shenzhen Stock Exchange. The authorities concerned decided to draw lots for the purchase sell of 5 million lottery tickets worth 100 yuan per sheet. Among these 5 million lottery ticket only 500 thousand were entitled to buy stocks. The probability of drawing a lucky number was just 10%. But if someone was lucky, he could buy 1000 stocks per ticket. In addition, if he prepared 10 sheets of identification cards from other people, he could purchase 10 lottery tickets.

China's stock markets have just been established. The authorities concerned are positively trying to develop the markets. Therefore, many Chinese people believe that prices cannot go down because only a few superior corporations are listed in the market. About one million people, who thought this was a big chance to make money, flew into Shenzhen city from various places and stood in a long line to buy lottery tickets. However, all the tickets were sold before many buyers could buy them. It was self-evident that 10 million lottery tickets had to be issued if one person could buy ten sheets, but in fact only 5 million had been printed. What was worse, staff of the authorities concerned and other persons concerned, had acquired tickets secretly in advance and a number of them had already been resold at a price much higher than the original. The police used whips and clubs to keep the masses in line while openly helping their relatives and friends to queue jump. As a result, some of the crowd who failed to buy tickets began to make a fuss. By midnight the situation had developed into a riot and many people were killed and injured.

This incident may possibly not have occurred if some proper and concrete measures had been adopted, for example issuing the lottery tickets unlimitedly or accepting applications by mail⁵. However, it is natural that a large number of people lacking opportunities for employment thought it was a good chance to make money and flooded into Shenzhen in today's world where money is everything. It would come as no surprise if similar riots were to break out in other cities in China.

4. *Social Instability*

As is generally known, the former socialist system was a hotbed for forming privileged cadres and corrupt bureaucrats. Similarly, after the conversion to a market economy is accomplished, we will see spreading corruption and an influential underworld. Social contradictions and confusion occur easily during transitional periods from a controlled economy to a market economy.

Anyone who is in the position to take advantage of utilizing the difference between official and free-market prices or the differences between official and black-market exchange rates can make an easy profit. When the law is imperfect and society is in disorder, the underworld and criminals can easily find opportunities for their dealings. Although official prices of daily necessities were abolished in the former Soviet Union, the people were unable to find goods in the stores. This was because an "economic Mafia" was systematically buying up commodities. In pre-revolution China an underworld organization who made money through opium sales, gambling and prostitution pulled the strings of the political world. Once such an organization has expanded the scope of its influence it is impossible to curb its activities. As known in the case of Italy, the U.S.A. and Japan, democratic politics have often been exposed to the menace of underworld organizations.

Zhujiang Delta's economy has shown remarkable development due to the open-door policy and foreign capital investment in the past ten years. But moral corruption and a gang of racketeers are rampant there. Compared with Hong Kong, where we can see various kinds of corruption and crime under the laissezfaire capitalist system⁶, Zhujiang Delta is no less corrupt than Hong Kong. "Zhujiang Delta has not only the same phenomena of corruption and crime which Hong Kong has but it also has some other phenomena which Hong Kong does not"⁷. Drug dealing, organized prostitution, gambling, concubinage, gangs, smuggling, and export of crime, these are known as the "Seven Evils of Zhujiang Delta". These "Seven Evils" are hard to deal with because local cadres, government officials and policemen are involved in the corruption cases. In the long-term the stability and order of society is indispensable to economic development. There is little possibility of success for China if they enforce the conversion of one system to another without considering social justice or the improvement of people's daily life.

II. After the Accomplishment of High-Rate Economic Growth and the Establishment of a Market Economy

1. *The Characteristics of the System China is Striving for*

The 14th National Congress of the Communist Party of China held in October 1992 formally adopted the slogan of "A Socialist Market Economy". China is now aiming at the establishment of a complete market economy including a financial market, a real estate market,

Table 9-1 Economic Zones Planned by the Long-Term Planning Bureau of the State Planning Commission

Name	Provinces, Municipalities, and Autonomous Regions	Characteristics	Population (million)	per capita GNP (US\$)
Dongbei (the Northeast)	Heilongjiang, Jilin, Liaoning, The East of Neimenggu	① The biggest heavy industrial bases of the country ② Agricultural forestry, cattle breeding bases	101.9	524
Huabei (Northern China) and Circum-Bohai	Beijing, Tianjin, Hebei, Shandong	① Knowledge and technology intensive industries ② The exploitation and breeding of ocean resources ③ Cotton production bases	159.3	415
Changjiang River	Shanghai, Jiangsu, Zhejiang	① The biggest economic centre of the country which has a group of high-technological industries and characteristic manufacturing industries ② Bases of an open-door policy ③ A general centre of personnel training, finance, trade and information	120.2	556
Nanfang (Southern China) Coastal Districts	Guangdong, Guangxi, Fujian, Hainan	① An outside-orientated economy ② Export bases	137.1	388
Huanan (South China)	Hong Kong and Taiwan involved		162.8	1,613
The Middle Course of Huanghe River	Shanxi, Shaanxi, Henan, The Middle and West of Neimenggu	① The exploitation of coal and mine resources ② The general development district of energy heavy and chemical industries	159.4	266
The Middle Course of Changjiang River	Hunan, Hubei, Jiangxi, Anhui	① The economic belt along Changjiang River ② Important agricultural production bases	204.3	274
The Upper Course of Huanghe River	Gansu, Qinghai, Ningxia	① Bases for water-power generation and material production ② Bases for food industries and forage industries	30.7	267
The Upper Course of Changjiang River	Sichuan, Guizhou, Yunnan	① Bases of heavy and chemical industries ② Bases for rural economic development	175.2	217
Shinjiang	Shinjiang	① Agriculture, cattle breeding ② Manufacture industries ③ Oil fields ④ Petrochemical industries	14.5	367
Tibet	Tibet	Modernization based on the development policies of the central government	2.2	251

Notes: Both population and *per capita* GNP are the data of 1989.

Sources: Made by the author utilizing the plan of the State Planning Commission.

a technology market, an information market, a labor market as well as the previously set-up markets for consumer goods and producer goods. So far as the framework of the system is concerned, China is aiming at having one which is almost the same as a Western market economy. But there is one important difference between them. This difference is that state-owned enterprises will still dominate a substantial part of the Chinese economy.

The diversification of the ownership system has developed due to the evolution of reform and the open-door policy since the end of the 1970's. However, the weight of state-owned enterprises in the mining and manufacturing industries, is still more than half of the whole industrial output value. Whether China's economic reform will be successful or not depends on changes in the management mechanism of these state-owned enterprises.

China is proceeding with the privatization of, and the setting up of, joint-stock systems in the state-owned enterprises, but the end result will be somewhat different from complete private ownership. The State-Owned Assets Management Bureau under the control of the State Council will own between one third and one half of all the stocks of the state-owned enterprises. What is important is that in Japan enterprises whose forms are similar to NTT and JR are few, whereas in China "state-owned and privately run" enterprises will be prevalent in the future.

History has not yet known any cases where a system under which the national economy is dominated by "state-owned and privately run" enterprises has managed to function successfully. If things go wrong, the system of "state-owned and privately run" may allow "bureaucratic capitalism" to dominate the major part of the national economy as was seen in the period of the Republic of China. Moreover in the rural districts we may also see "local tyrants and gentry capitalism" flourishing once again. It is mostly peasants, who have immigrated from other Provinces and Autonomous Regions in China, that have engaged in physical labor in the rural districts of Guangdong Province following the open-door policy. These people often occupy an important position, for example as managers or as managerial personnel of the township and village-run enterprises. Among these people some groups drive high grade imported cars and go to "yam-cha" (drinking tea), dancing and gambling every day depending on the amount of rent revenue they receive from renting land and houses.

2. Enlargement of Regional Differences

As is well known, there are large differences in the economic development of the urban and rural areas and between the coastal and inland districts in China. Comparing the income levels among the rural areas, rural townships and villages in the coastal districts are richer than those in the inland districts. For example, among the 100 best counties of all the rural districts in 1991, 93 counties were located in the coastal districts⁸.

The Long-Term Planning Bureau of The State Planning Commission divided the whole country into 10 Big Economic Zones and presented the economic development plans based on each region's character. If the return of Hong Kong to Mainland China and the development of economic cooperation between Taiwan and the Mainland are taken into consideration, we may

see the formation of several economic zones as drawn in Table 9-1. However, the difference between the coastal and inland districts are large as is accounted for in the Figure itself. If the central government does not take the initiative to invest funds and build up the infrastructure of the inland districts, it will be impossible to prevent money and qualified personnel from flowing into the coastal districts.

Furthermore, the weight of central government expenditure in the total government expenditure has been declining. In the Mao Tse-dong period, central government expenditure accounted for about 50 – 75% of total government expenditure. But for the past ten years it has accounted for only 40%. Although China is trying to introduce the “Fenshuizhi” (a separate tax system), which is similar to the separation between national taxes and local taxes, it is uncertain as to what extent China will be able to build a stable base for the increase of central government revenue. The day might possibly come when the coastal districts attempt to throw off the poor minority nationality regions and frontier regions supported by central government subsidies.

3. *Inadequate Resources*

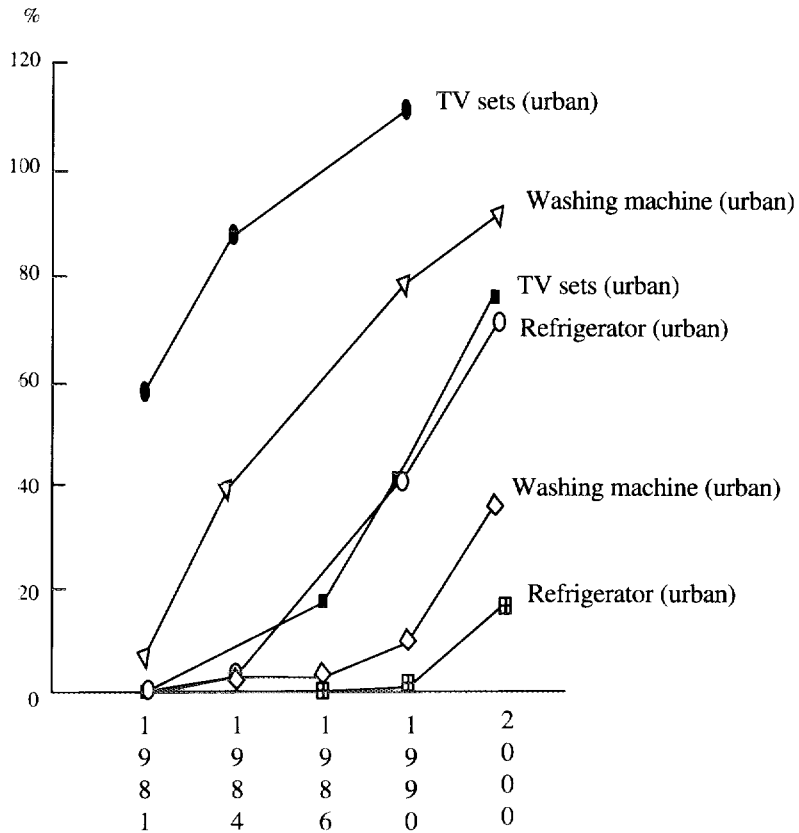
The rising consumption level means changes in the consumption structure as well as in the increase of consumption quantity. In order to increase the consumption of meat, a huge amount of grain has to be fed to cattle. A man can have a full stomach by eating grain directly and by eating cattle, but the amount of grain consumption in the latter case is more than in the former case.

China’s *per capita* grain supply (the total of production volume and net import/population) was 300kg in 1978. It had already reached “wenbao” level, that is, dressing warmly and eating enough. In 1985 *per capita* grain consumption surpassed 355kg and China entered the stage where the consumption of meat and alcohol increased quickly. In 1991 *per capita* grain consumption amounted to roughly 400kg. China can be regarded as having reached the stage where alcoholics and morbid obesity appears⁹. It will be very difficult to supply a sufficient amount of grain for China’s agriculture which faces rapid decreases in cultivated land and the increase of peasant migration out of agriculture.

In spite of China’s comparatively low level of *per capita* GNP (about 370 US Dollars), durable consumer goods have come into wide use. As shown in Figure 9-4, the diffusion rate of television has already surpassed 100% in the urban districts. In Japan television had spread to nearly all urban households by 1959 when the present Emperor was married. By the time of the Tokyo Olympics, held in 1964, most rural households had televisions. China is also eager to invite the Olympics to Beijing in the year 2000, when her diffusion rates of durable consumer goods are sure to have reached a remarkable level.

The influence caused by the wide use of durable consumer goods is not confined to the necessity of increased production in materials which are used to make finished products. Not only electricity but also water needs to be supplied for using washing machines.

Figure 9-4 The Diffusion Rates of Durable Consumer Goods in China

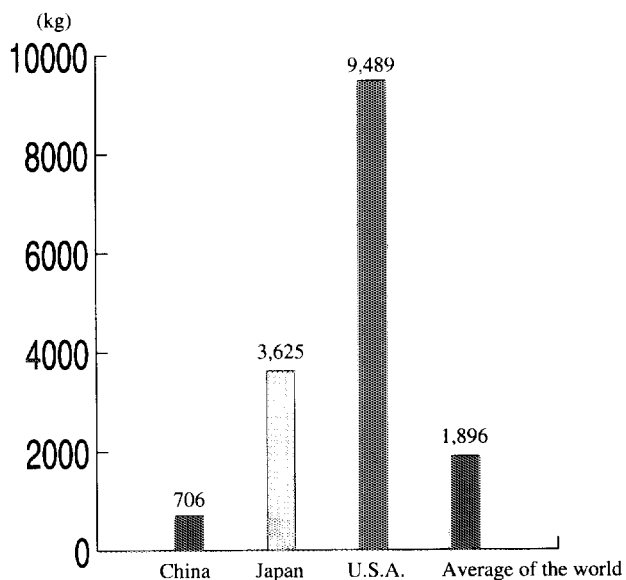


Sources : *Statistical Yearbook of China*, 1991.

Ma Hong, mainly ed., *2000 nian Zhongguo de renmin xiaofei* (The people's consumption in 2000's China), Zhongguo shehui kexue chubanshe and the others, 1997, pp. 84-55 and p. 136.

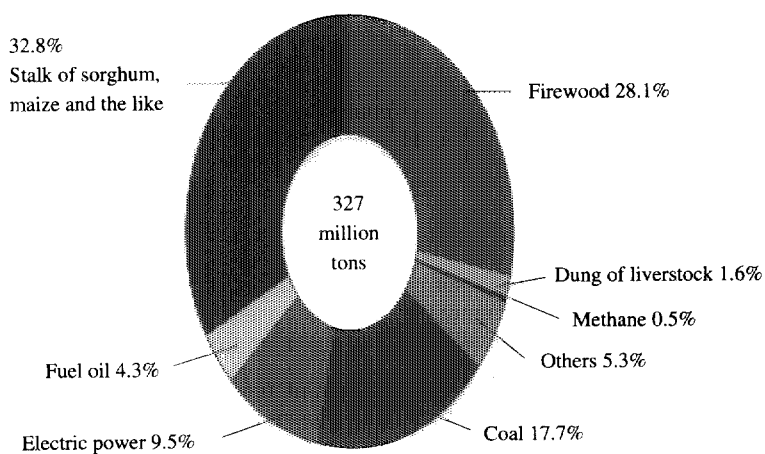
Compared to the *per capita* consumption of commercial energy, China is equivalent to only one fifth of Japan as shown in Figure 9-5. However, viewed from the total consumption of the whole country, China already consumes 1.3 times more than Japan.

In addition, there is another problem to be considered. Commercial energy accounts for only 30% of all energy consumption in China. As shown in Figure 9-6, about 70% of energy consumption is composed of firewood and stalks of sorghum, maize and the like which are self-supplied and self-sufficient in the countryside. In the not so distant future most of China's rural households will also have several kinds of durable consumer goods, when China's total energy consumption may be equivalent to 6-7 times that of today's Japan.

Figure 9-5 Per capita Consumption of Commercial Energy (1986)

Notes : In kilograms of coal equivalent.

Sources : *Japan Statistical Yearbook*, 1989.

Figure 9-6 Energy Consumption in the Rural Districts of China

Notes : The white-colored part shows the commercial energy.

Sources : Qian Jinxi, ed., *Zhongguo de nengyuan* (Energy in China), Shanghai jiaoyu chubanshe, 1987, p. 163.

4. *The Destruction of the Natural Environment*

Extensive and great damage was done by the flood which hit the Changjiang River basin. 2295 people died and 220 million people suffered huge losses. Economic loss amounted to 68.5 billion Reminbi: equivalent to 3.9% of the total GNP of China. 16.7 million hectares of cultivated land, equal to 17% of all the cultivated land in China, lost 30% of its normal crop. In particular the provinces of Anhui, Jiangsu, Hubei and Sichuan, where the Changjiang River flows and Guizhou where the tributary river flows, were badly damaged.

As important causes of the flood in the Changjiang River basin, we can point out the increase in the soil erosion area caused by deforestation of the mountains in the upper course of the River in addition to the natural calamity of heavy rain. Table 9-2 compares the 1950's and the 1980's in Yunnan Prov. and Guizhou Prov. both located in the upper course of the Changjiang River. In direct proportion to the doubling population and advancing exploitation, the percentage of forest cover decreased by half and the soil erosion area extended to one and a half times the previous size.

The soil and sand washed away from the mountains flowed into reservoirs and lakes. 86 thousand reservoirs of large-and medium-scale have been built since the founding of the People's Republic of China, but one fourth of the total capacity of all reservoirs was filled up by soil and sand. Therefore 22 major reservoirs have been rendered useless. For example, Lakes Dongtinghu and Panyanghu have decreased the area of water cover to 60% of the 1950's.

The yearly volume of flowing water of all rivers amounts to 2,600 billion m³ in China. This volume per head is about 2.6 thousand m³ equivalent to only one fifth of the U.S.A. or one seventh of the former U.S.S.R. whose territory is as large as China. The shortage of water supply per head is excessive.

In addition to this, water resources are distributed quite unevenly. Although the basins of Huanghe, Huaihe and Haihe contain 40% of all the cultivated land in China, the volume of flowing water is only 6.6%. In contrast, Southern China's water flow is about 83% of the water in all rivers but it has only 36% of the cultivated land. Moreover China's precipitation is concentrated in the season of June to September. The other seasons of the year experience water shortages. In the stricken area, which lost over 30% of its normal crop, the damage caused by drought was double that caused by the flood.

The utilization of subterranean water also has its limits. The districts of Tangshang, Beijing, Tianjin and Cangzhou, the area from Ji County in Hebei Prov. to Dezhou City in Shandong Prov., and the area from Qingfeng County to Nanle County in Henan Prov. have already experienced land subsidence over an area of one thousand km² from drawing too much subterranean water¹⁰.

The demand for both industrial water and living water will increase more and more in the future. The volume of water consumed in China is estimated to amount to 600-700 billion m³ by the year 2000. This volume is one and a half times more than the available water resources on the ground¹¹. The situation threatens to grow worse.

5. *Environmental Pollution*

Among many problems of environmental pollution in China air pollution is the most serious¹².

China's environmental standards are not as rigid as developed countries. As shown in Table 9-3, the limited volume of SO₂ pollution per day restricted by China's standards is 1.38 times in residential areas and 2.28 times in industrial areas more than that in Japan. Most of the

Table 9-2 Forest Area and Soil Erosion

	Guizhou Prov.			Yunnan Prov.		
	Population (10 thousand)	percentage of forest cover (%)	Soil erosion area (10 thousand km ²)	Population (10 thousand)	percentage of forest cover (%)	Soil erosion area (10 thousand km ²)
The 1950's	1,416	30.0	3.13	180	50.0	2.53
The 1980's	2,932	12.6	5.0	392	23.2	3.82

Sources : Zhang Tianceng, "Changjiang cheng hanhe weiqi buyuan,"
Dangdai yuekan, Aug. 15, 1991, p. 53.

Table 9-3 Air Environment Standards

U.S.A.	Japan	Unit	Pollutant	Unit	China		
					1st Level	2nd Level	3rd Level
Average per year 0.03	Average per day 0.04 Average per hour 0.1	ppm	SO ₂	mg/m ³	Average per year 0.02 (~0.007 ppm)	0.06 (~0.022ppm)	0.10 (~0.036ppm)
					Average per day 0.05 (~0.018 ppm)	0.15 (~0.055ppm)	0.25 (~0.091ppm)
					Once measurement 0.15 (~0.055 ppm)	0.50 (~0.182ppm)	0.70 (~0.25ppm)
Average per year 0.05	Average per day 0.04-0.06	ppm	NO _x	mg/m ³	Average per day 0.05 (~0.024 ppm)	0.10 (~0.049ppm)	0.15 (~0.073ppm)
					Once measurement 0.1 (~0.049 ppm)	0.15 (~0.073ppm)	0.30 (~0.146ppm)

Notes : China's classification of three levels are prescribed as following:

- 1st Level: There is no harm to the natural environment or human health in the long term. This level is generally applicable to the 1st Districts (nature conservation areas, scenic and historical sites).
- 2nd Level: It is harmless to human health and protection of animals and plants in the urban and rural districts for a long or short term. This level is generally applicable to the 2nd Districts (residential areas, business areas, schoolzone, rural areas).
- 3rd Level: There is no acute or chronic diseases affecting human health and no troubles on the normal growth of common animals and plants in the urban districts. This level is generally applicable to the 3rd Districts (the polluted urban areas, industrial areas and highway areas).

Sources: Suzuki Shin, "Chugoku no kankyo mondai no genjo (1)", *Nicchu keizai kyokaiho*, No. 2, 1991, p. 15.

residential and industrial areas of Japan have already controlled the volume of SO₂ pollution within the standard restrictions. However, China's environmental standards on SO₂ have not been observed in many cities because of slack enforcement. 40% of Northern China's cities and 30% of Southern China's cities exceeded the standard limits of SO₂ pollution in 1990. This situation results from the fact that 75% of energy consumed for industry and living depends on coal. What is worse, in the coal mined for fuel in the region south of Changjiang River there is a sulfur content of between 3-6%.

NO_x in the air is discharged from trucks with Diesel engines and from boilers. Japan has not successfully kept the volume of NO_x within the limites prescribed in the environmental standards. In China the 11% in Northern cities and the 21% in Southern cities has surpassed the standard limits.

The volume of dust and fallout discharged yearly in China is 220 million tons about 5 times more than that in Japan. Acid rain is made up of clouds and fog taking in dust, fallout, SO₂, NO_x, and gaseous material in the air. Once exposed to acid rain, trees wither, cultural assets corrode and fishes in rivers and lakes face extinction. In particular the regions of Sichuan, Guizhou, Guangxi and Hunan have been damaged badly.

The quality of water is badly polluted. Based on the environmental assessment of 1990, among 94 cities located in river basins, the water of 65 cities was polluted by ammonia nitrogen, volatile phenol and oxidized organisms.

In rural districts the quality of surface water has been polluted mainly by the development of township-and village-run enterprises. The pollution of cultivated land amounts to one fifth of the total amount of cultivated land. 70% of the rural population have to drink water which exceeds the limits prescribed by the hygienic standards. China has already experienced serious water pollution over 1300 times since the 1970's.

The destruction of the natural environment and environmental pollution in China are becoming more and more aggravated. Based on an early and rough survey at the beginning of the 1980's economic loss caused by environmental pollution and the destruction of the natural environment was valued at 67 billion renminbi and 26.5 billion renminbi respectively per year¹³. The total sum of both was equal to 21% of 1980's GNP. It will be more and more difficult to apply the breaks to increasing pollution and destruction without strong control being exerted by central and local governments with the cooperation of the general public.

Conclusion

The Sanxia Dam in the upper stream of the Changjiang River, whose primary construction plan was approved in the spring of 1992, will be a great construction stretching 600 km from the east side to the west side of the reservoir, sinking 29 thousand hectares under water, and displacing 1.13 million inhabitants. The planned electric energy output will be 84 billion KWH per year which is equivalent to one eighth of all the electricity generated in China. It may be the true state of affairs with the Chinese people that they must shut their eyes to a certain degree of destruction of the natural environment in order to meet their increasing demands for energy.

However, we must not avoid imagining the days when China, with its huge population, realizes a market economy of mass production and mass consumption. The future China will certainly have an extraordinary impact on global resource distribution and environmental pollution. Developed countries have no right to ask China and the other developing countries to suppress their economic growth while they continue to enjoy their current level of consumption. China's conversion to a market economy will shake the existing system and values of the world from its foundations.

Notes:

1. Ishihara, Kyoichi, *China's Conversion to a Market Economy*, the Institute of Developing Economies, Tokyo, 1993.
2. Wu Renhong and Zhou Zhengqing, "Nongcun shengyu laodongli zhuangyi yu tonghuo pengzhang (The transfer of rural surplus labor and inflation)," *Jingji yanjiu*, No. 10, 1989, pp.61-62.
3. *Jingji cankaobao*, Apr. 22, 1992.
4. *Jingji cankaobao*, Apr. 30, 1992.
5. Sam Yatfei, "Shenzhen shijian fanle wuge cuowu (The Shenzhen incident made five mistakes)," *Hong Kong Economic Times*, Aug. 20, 1992.
6. Based on *Oriental Daily News*, Feb. 20, 1993, the number of corruption committed by the staff of ten major sections of Hong Kong Government was 910 in 1992, even if limited to the number reported by citizens.
7. *Hong Kong Economic Journal*, Oct. 23, 1992.
8. *Jingji ribao*, July 8, 1992.
9. Kojima, Reetsu, ed., *Chugoku no keizai kaikaku* (China's economic reform), Keiso shobo, Tokyo, 1988, p. 5.
10. Chen Qi, mainly ed., *2000 nian zhongguo de ziran ziyuan* (China's natural resources in 2000), Shanghai renmin chubanshe and the others, 1988, pp. 37-44.
11. Guojia keweizhengce faguisi, ed., *2000 nian Zhongguo zhongda wenti yanjiu*, Dizhen chubanshe, 1990, pp. 21- 22.
12. Suzuki, Shin, "Chugoku no kankyo mondai no genjo (The present situation of environment problems in China) (1) (2)," *Nicchu keizai kyokaiho*, No. 2-3, 1991.
13. Qu Geping, "Zhongguo huanjing zhengce de shijian yu renshi (Practice and recognition on China's environment policies), in Liu Kun and the others, mainly ed., *Guoqing yu guoce*, Jingji kexue chubanshe, 1990, p.278.