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Planning and the Market

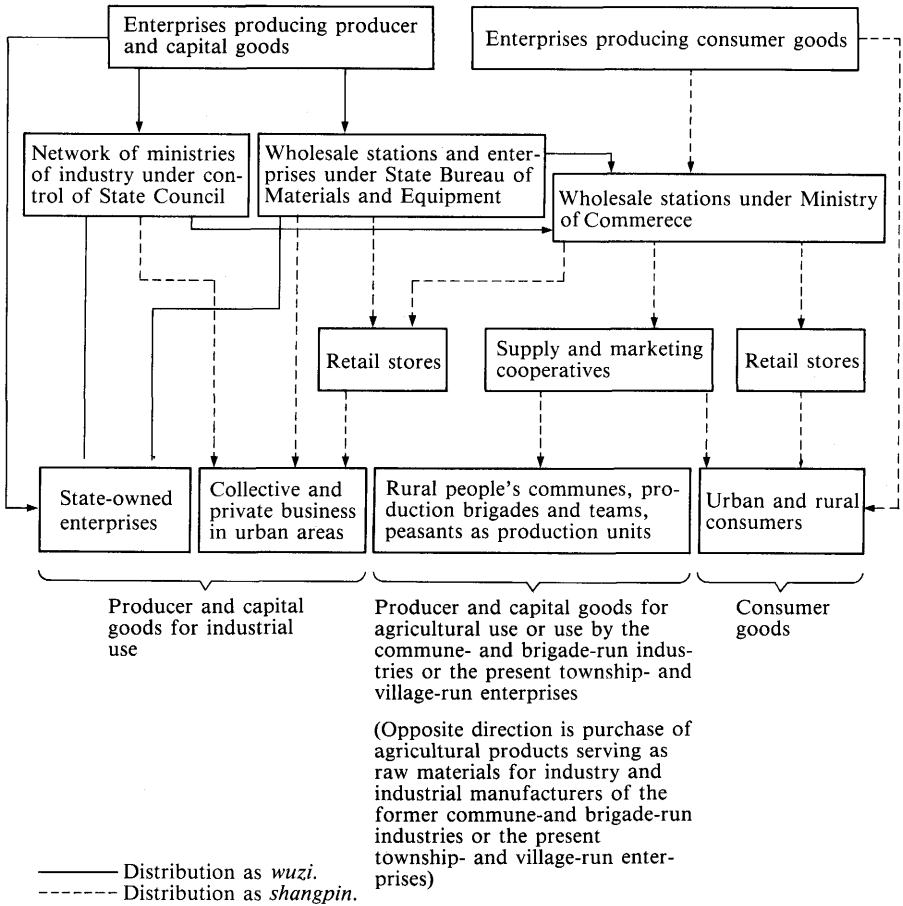
Introduction

In China's pre-reform period, planning management was based mostly upon the classification of products into *wuzi* (materials and equipment) and *shangpin* (commodities). In particular, control over the production and distribution of *wuzi* was maintained less by economic regulators such as prices and more by the direct means of mandatory planning. However, while the framework of the unified distribution system of central government remained unchanged, the share of centrally planned distribution in the total production of *wuzi* declined considerably in the 1970s. Along with this change, the role of mandatory administrative planning in the national economy diminished in importance. This was a major factor in bringing about increased decision-making powers for enterprises, and in introducing elements of the market mechanism and other facets of economic reforms since the end of the 1970s. The model of reform which China aims at will have to reflect these changes.

Decline in the Role of Central Planning

Wuzi and Shangpin

In Western countries the goods produced by economic activities are roughly classified into three groups: producer goods (materials, energy, and the other intermediary goods), capital goods (durable goods used as the means of production such as machines), and consumer goods (goods consumed mainly by households). When studying the market and planning in China, it is important to

Fig. 2-1. Distribution Routes of *Wuzi* and *Shangpin*

Source: Based on Huang Xuezhong and Deng Zhiyang, *Gongye qiye shichang yuce* [Market forecasting for industrial enterprises] (Beijing: Zhongguo-caizheng-jingji-chubanshe, 1983).

understand that the methods of planning management are classified into two groups depending on whether the types of goods produced are “materials and equipment” or “commodities.” The former are the producer and capital goods (hereafter referred to as “producer goods”) distributed among state-owned enterprises and are known as *wuzi*.¹ The latter, known as *shangpin*, are the commodities sold between state-owned enterprises and collective-owned enterprises (including the former people’s communes and production brigades or teams), among collective-owned enterprises, and between state-owned enterprises and private individuals. This distribution is illustrated in Figure 2-1. *Shangpin* primar-

ily include consumer goods, agricultural produce, and agricultural producer goods. The classification is based upon which government organization or administrative unit handles the goods in the distribution process. It is also closely related to planning management in the production process.

In some cases the same item can be treated both as a *shangpin* and *wuzi*. One such example is coal. The distribution of this commodity from the production to consumption stage is shown in Figure 2-2. Almost all of the coal produced by the coal mines under unified central planning is distributed as producer goods (*wuzi*) under the central government distribution system. At the same time, the majority of the coal produced by township- and village-run enterprises (*xiangzhen qiye*) is sold as *shangpin* for general daily consumption and use by the enterprises.

Managing the Distribution of Wuzi

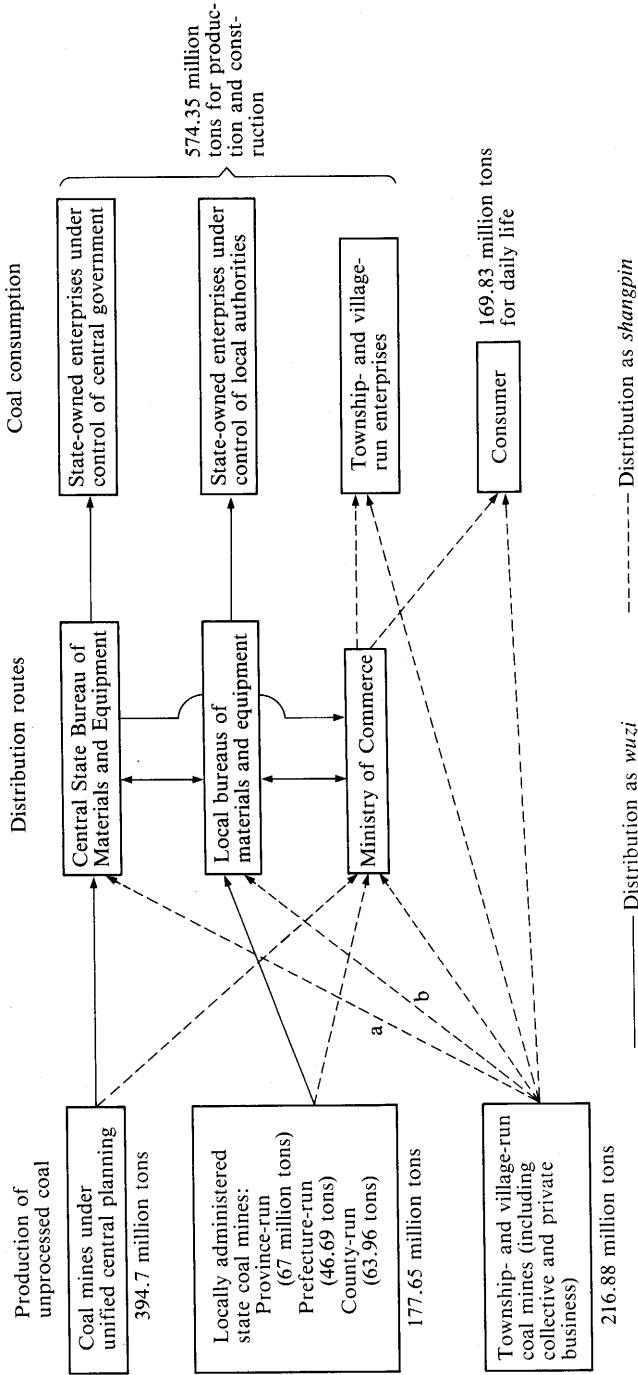
In the planning management of *wuzi* materials and equipment, these are classified into three categories² which were established in the 1950s and used to regulate the distribution of materials and equipment until the 1980s.³ The three categories are:

(1) *Yilei wuzi* (materials and equipment under category I) or *tongyi fenpei wuzi* (materials and equipment under unified central planning): The State Planning Commission supervises the State Bureau of Materials and Equipment in preparing balance charts and distribution plans for these goods. The goods under this category include coal, pig iron, rolled steel, copper, aluminum, lead, zinc, tin, copper materials, aluminum materials, lead materials, sulfuric acid, concentrated nitric acid, caustic soda, soda ash, cement, lumber, automobiles, heavy oil, rubber, power machines, and metalworking machines.

(2) *Erlei wuzi* (materials and equipment under category II) or *zhongyang gegongyebu fenpei wuzi* (materials and equipment under distribution by the ministries of industry of the central government): These are goods distributed by the government organizations concerned with industrial matters under the State Council. The specialized producer goods mainly used by a particular ministry fall under this category. These include mineral ores, oil boring machines, the spinning machines and specialized spinning equipment distributed under the Ministry of Textile Industry, and the ferrous alloys and coke distributed under the Ministry of Metallurgical Industry. Also included are producer goods of relatively high importance which are used in common by the various ministries, for example, newsprint, trucks, and chemical and industrial fuels.

(3) *Sanlei wuzi* (materials and equipment under category III) or *difang guanli wuzi* (materials and equipment managed locally): These are goods which are managed by the material and equipment sectors of the provinces (which includes municipalities directly under central authority and autonomous regions), special administrative districts or prefectures (including provincially administered cities), and counties. There are over 10,000 goods in this diverse category as

Fig. 2-2. Distribution of Coal, 1984



Source: *Zhongguo meitan gongye nianjian, 1985* [China's coal industry yearbook, 1985] (Beijing: China Coal Industry Publishing House, 1985).
 Note: The distribution from township- and village-run mines to the bureaus of materials and equipment of the central government and local governments (provincial, prefectural, and county) is through a new route opened by economic reforms instituted since the end of the 1970s.
 a 6 million tons.
 b 50 million tons to provinces and 30 million tons to prefectures and counties.

illustrated by the following list: metal utensils handled by the five metals corporation; vehicle parts and electrical equipment of the traffic and electric goods corporation; the producer goods handled by the chemical industry materials corporation; the tung oil, hemp rope, bamboo and wood products, jute rope, and bamboo materials handled by the native products corporation; and the gasoline, diesel oil, lubricating oil, worker safety equipment, measuring equipment for chemical tests, and reagents for chemical tests handled by the commercial sectors. Also included are a great variety of goods having diverse regional differences in production and use, making them unsuitable for unified national distribution, such as bricks, tiles, sand, and stone.

As can be seen from Table 2-1, the number of items in the three *wuzi* categories has fluctuated sharply. Among these *wuzi* items, the important materials and equipment produced by the state-owned enterprises are incorporated into the state plans over the entire process from production to purchasing, supply, and consumption. Prices for *wuzi* are fixed by the government and therefore do not enjoy the barometer function played by pricing which fluctuates in accordance with the supply and demand situation in the market. Moreover, the parameter function of prices, wherein supply and demand is adjusted in accordance with changing market prices, does not substantially work. This was particularly true under the system prior to 1978 where the assortment of *wuzi* goods produced, their production volumes, and even the raw materials, fuel, and equipment used for their production were specified in the plans, and enterprises had very little discretion over adjusting the production volumes to match the prices of individual items.

Materials and equipment under category I in particular were centrally managed by the State Bureau of Materials and Equipment in accordance with distribution plans. Furthermore, the items classified therein were mostly important producer goods which supported the national economy, and it was the unified distribution of materials and equipment in category I which enabled the central government to carry out its centralized planning.

Figure 2-3 shows the percentage of key materials and equipment in category I which have been controlled under the unified distribution system. A comparison of the percentage of unified distribution for coal, rolled steel, cement, and lumber to total production, can be made for the period between the 1960s and 1980s. The absolute amount of unified distribution has increased, but the percentage to total production has fallen. This indicates that the range of sectors which can no longer be controlled by the centralized distribution of the government has expanded. Or to put it the other way around, for much of the materials and equipment which are subject to unified distribution, the percentage of actual distribution by the central government has fallen. This situation has come about for the following reasons.⁴

First, the amount of producer goods held by the local regions has increased. This is due in part to the transfer in 1958 and 1970 of enterprises under the

TABLE 2-1
THE NUMBER OF ITEMS IN THE THREE *WUZI* CATEGORIES

Year	Category I	Category II	Category III	Year	Category I	Category II	Category III
1950	8			1964	370	222	
1951	33			1965			5,929
1952	55			1966	326	253	
1953	112	115	5,000	1972	49	168	
1954	121	140		1973	50	567	
1955	162	139		1975	52	565	
1956	234	151		1978	53	636	
1957	231	301		1979	210	581	
1958	93	336		1980	256	581	
1959	67	218		1981	256	581	
1960	75	342		1985	65 (23) ^a		
1961	87	416		1987	20	561	
1962	153	345		1988	27	45	
1963	256	260					

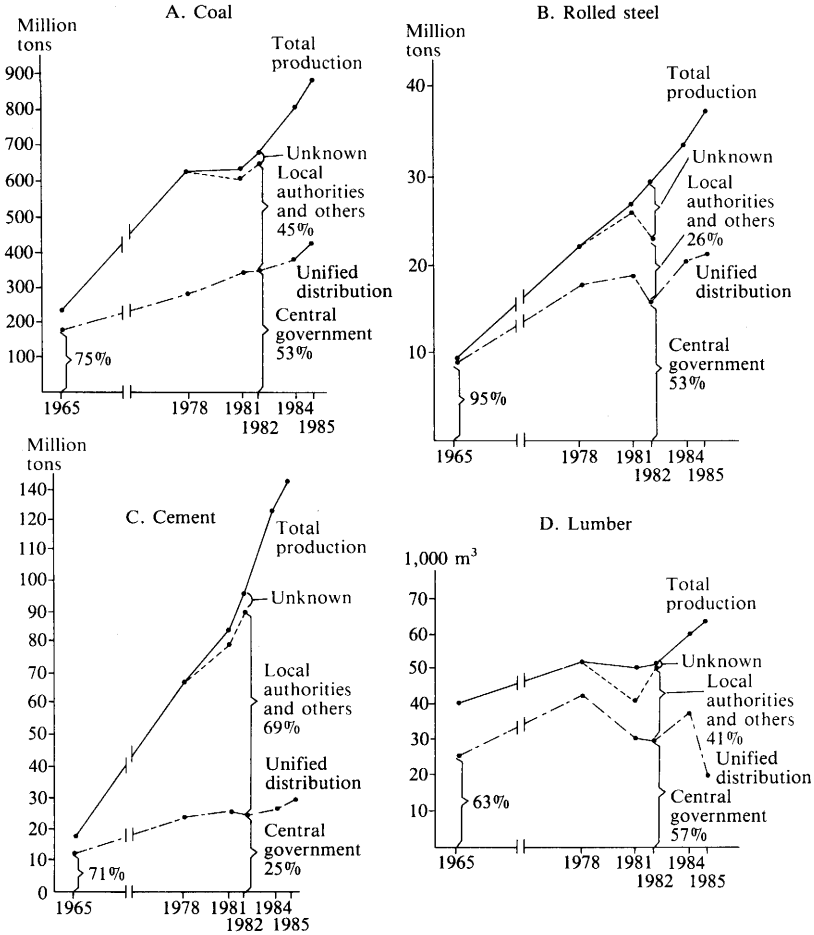
Sources: For categories I and II, *Chūgoku shakaishugi bussshi kanri taisei shiryaku* [Brief history on Chinese socialist management system of materials and equipment], trans. T. Yamagishi and K. Ii (Tokyo: Japan External Trade Organization, 1986). For category III of 1953, Ma Hong, *Zhongguo jingji yu guanli rumen* [Elementary Chinese economy and management] (Kunming: Yunnan-renmin-chubanshe, 1986), pp.463–66; and for that of 1965, Zhou Taihe, ed., *Dangdai Zhongguo de jingji tizhigaige* [Contemporary China's economic reform] (Beijing: Zhongguo-shehuikexue-chubanshe, 1984), pp.70–72. For 1987, *Beijing Review* (Japanese edition), 1987, No.27, p.36. For 1988, *Jingji ribao*, July 5 and July 6, 1992.

^a Based on a report of the yearly plan draft for 1985 by Song Ping. Of 65 items the State Planning Commission directly manages 23 and the State Bureau of Materials and Equipment manages the others (Gao Shangquan, "1979–86 nen, chakujitsu ni shinten suru keizai kaikaku" [The steady development of economic reform between 1979–86], *Beijing Review* (Japanese edition), 1987, No.27, p.36).

jurisdiction of the central government to that of the local authorities. Moreover, the production of rolled steel, cement, coal, and the like by small-scale enterprises under local control has increased considerably.⁵ For example, production by key cement factories in the unified distribution system rose only 2.8 fold from 1958 to 1982, while the production of local cement factories rose as much as 257 fold during the same period. The production of key coal mines rose 2.2 fold from 1963 to 1980 while that for local coal mines rose 5.7 fold.

The distribution of *wuzi* was sometimes forbidden to go across boundaries of territorial jurisdictions, administrative agencies, or ownerships. According to a regulation, the Bureau of Materials and Equipment could not supply producer goods to the former rural commune- and brigade-run enterprises (*shedui qiye*) or to urban collective-owned enterprises which have been making great strides since the 1970s. This regulation would have made it impossible to incorporate the production of local and small-scale industries into state plans.⁶

Fig. 2-3. Percentage of Unified Distribution by Central Government



Sources: Total production: State Statistical Bureau, ed., *Zhongguo tongji nianjian 1985* [Statistical yearbook of China, 1985] (Beijing: Zhongguo-tongji-chubanshe, 1985); for coal 1985, *Jingji ribao*, April 6, 1986. Percentage of distribution: 1985—Li Kaixin, "Jizhong wuli baozheng zhongdian jianshe" [Concentrate material resources to accomplish important construction], *Hongqi*, 1983, No.17, p.16; 1978 and 1984—*Chūgoku shakaishugi busshikanri taisai shiryaku*, trans., T. Yamagishi and K. li, p.90; 1981—China Research Society of Industrial and Economic Management, *Zhongguo gongye jingji guanli (xia)* [China's industrial and economic management (the last volume)] (Beijing: Zhongguo-shehuikexue-chubanshe, p.279; 1982—Chen Xian, *Guomin jingji he shehui fazhan jihua mingci jieshi* [The dictionary of national economy and social development planning] (Beijing: Institute of Planned Economy, State Planning Commission, 1984), p.205, and Zhou Taihe, et al., *Dandai Zhongguo de jingji tizhi gaige*, p.516; 1985—Zhao Renwei, "Woguo jingji gaige guocheng-zhong de shuangchong tizhi wenti" [The problems of a dual system under economic reform in China], *Jingji yanjiu*, 1986, No.9, p.13, for coal, *Jingji ribao*, April 6, 1986.

Second, discipline of planning management has become lax. Even when production targets under the plan are achieved in excess of the norm, there are cases where the targets for supply are not met, production becomes concentrated in relatively high-priced items, or products are sold to production enterprises or construction units outside of the plan at higher than plan prices.

A third factor is one inherent to centralized planning systems. As pointed out by Ellman, when the central authorities are ignorant to some extent about the overall economic situation, and when the techniques for data processing are inadequate, direct centralized planning becomes incomplete and thus inefficient.⁷

Finally, the increase in production volumes and the diversification of production items have resulted in much greater complexity in the economy. At the start of the 1950s, when controls over materials and equipment began, there were only eight types of *wuzi*: rolled steel, lumber, coal, cement, soda ash, copper, machine tools, and hemp bags. But, the number of items gradually increased until by 1981 the *wuzi* under the unified distribution system and those distributed by the ministries of industry numbered 837 items.⁸

The Distribution of Shangpin

Classification

Shangpin, like the previously mentioned *wuzi*, are classified into three categories depending on the differences in management methods. The first such method was set forth in the 1959 *Shangpin fenji guanli banfa* [Procedures for the management of classified commodities].⁹ This covered the following goods:¹⁰

(1) *Yilei shangpin* (category I commodities): These are commodities which are controlled by the ministries and commissions of the State Council under the *tonggou tongxiao* system of state monopoly for purchase and marketing. They include grain, oil-bearing crops, oil and fats, cotton, cotton yarn, cotton fabric, gasoline, diesel oil, lubricating oil, and coal.

(2) *Erlei shangpin* (category II commodities): These are commodities which are controlled by the ministries and commissions of the State Council under the *tonggou* system of purchase through the state monopoly, the *paigou* system of purchase by state quotas, and the *baoxiao* system of exclusive sales. These include live swine, fresh eggs, jute and hemp, ramie, silk cocoons, wool, leather, hemp rope, chemical fertilizer, agricultural chemicals, wires, nails, sewing machines, bicycles, some drugs and materials for herbal medicines.

(3) *Sanlei shangpin* (category III commodities): These are goods for which *yigou yixiao* (negotiated purchase and marketing), *xuangou* (selective purchases), *shengchan danwei zixiao* (sales through a production establishment's own channels), and other methods of purchase and sales are allowed. They include sundry goods, marine produce and fruit produced in regions other than main production regions (marine produce and fruit of main production regions fall

under category II), and herbal medicine materials which are collected from widespread areas and whose yield is small.

According to the 1959 classification of commodities, there were 38 category I commodities and 293 category II commodities. Subsequent revisions to the classification reduced the numbers significantly. Among category I commodities, the State Council controls the purchasing, sales, transportation to and from provinces, import and export, and the storage of grain, edible oil, cotton, cotton yarn, and cotton fabric. The council controls the targets or norms for the distribution of gasoline, diesel oil, heavy oil, and lubricating oil to economic sectors and for import and export. Category II commodities are controlled by the central supervisory ministries of the State Council regarding the targets for distribution to the different regions and sectors and import and export.

The prices for the purchase and sale of category I commodities under the state monopoly system are planned prices set uniformly by the central government. The same is true for purchases under the state monopoly by state quotas for category II commodities. Even some of the category III commodities are controlled by planned prices when they involve sales by the state-owned commercial sector.

Distribution of industrial goods

Among industrial goods, all of the consumer goods and a portion of producer goods sold to the agricultural sector are distributed as *shangpin*. During the 1960s and 1970s the commercial sector purchased manufactured products from industrial enterprises through the following two methods.

(1) *Tonggou* (purchasing under the state monopoly system)—category I commodities were purchased in the prescribed types and quantities. Mandatory legal sanctions were applied.

(2) *Baoxiao* (exclusive sales)—category II commodities and some category III commodities were subject to exclusive purchasing and sales. Industrial enterprises were not able to sell products on their own. The difference from *tonggou* purchases under the state monopoly was that no mandatory legal sanctions were involved.

In the 1950s there were also *jiagong* and *dinghuo* (the placing of state orders with private enterprises for the processing of materials or the manufacture of goods), but these systems disappeared with the conversion to joint state-private ownership in 1956.

New purchasing systems began to be introduced in 1980, followed by considerable diversification of purchasing methods in later years. At present there are four main systems.¹¹

(1) *Tonggou tongxiao* (purchases and sales under the state monopoly system)—The industrial sector is not allowed to sell its own products, not only that portion of production targeted under the plans, but also the portion of production over and above the plans. Covered under this are eleven commodi-

ties, including cotton yarn, cotton fabric, and petroleum products.

(2) *Jihua shougou* (planned state purchases)—Industrial enterprises are allowed to independently sell portions of production that are over the plan targets. The commercial sector is allowed to engage in negotiated purchases. Covered under this system are twenty-four commodities, including sugar, cigarettes, chemical fibers, woven wool fabrics, woven silk fabrics, towels, wool yarn, rubber shoes, matches, soap, pencils, watches, and bicycles.

(3) *Dinggou* (purchases by order)—Purchasing contracts are concluded by negotiation between the production enterprise and the distribution enterprise. Covered under this system are eighteen commodities including powdered milk, brand-name wines and liquors, sewing needles, spirits, wines, fabric shoes, aluminum pots, and television receivers.

(4) *Xuangou* (selective purchases)—These are for category III commodities for which there are no unified standards. Purchases are made from industrial enterprises in consideration of market supply and demand.

Purchasing methods and prices for agricultural products

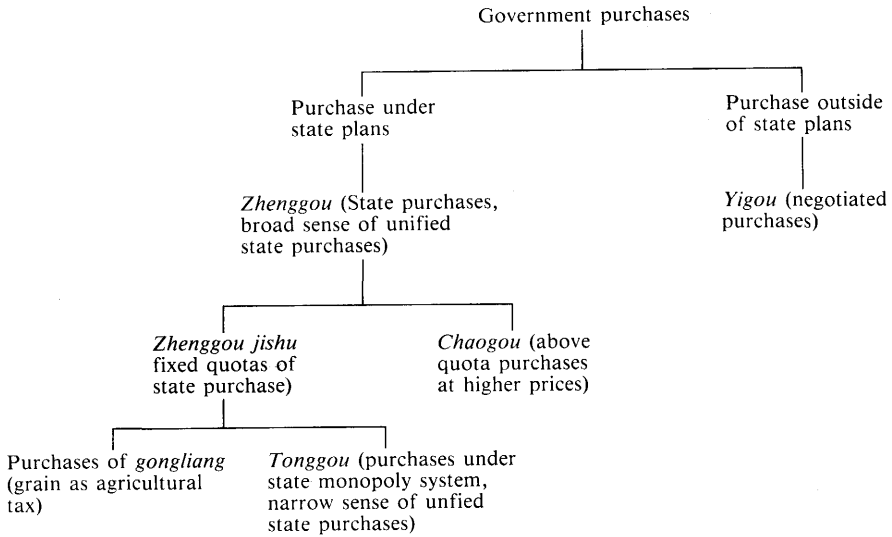
(a) Three purchasing methods

The purchasing methods for agricultural products are determined by which of the three *shangpin* categories a product falls under. At the present time there can be several different purchasing methods employed for the same commodity. However, the state monopoly methods established in the 1950s are still being used for a few important commodities. These are classified into the following:

(1) *Tonggou* (purchases under the state monopoly system)—category I agricultural products: Under the state monopoly purchasing system, peasants are allowed to retain only a portion of their production for their own needs, such as rice for home consumption, for seed, feed, and for stockpiling. They must sell all of the rest of their produce including that for paying agricultural taxes to the state designated commercial sector at the unified purchasing prices set by the state. Private merchants are banned from purchasing from the peasants and thus the state commercial sector enjoys a monopoly. The commodities belonging to category I are covered by this state monopoly system. Grain and oil-bearing crops were placed under this system in November 1953 and cotton in September 1954. Lumber was reclassified as a category I agricultural product in March 1981.

(2) *Paigou* (purchase by state quotas)—category II agricultural products: This system was first applied in 1955 to the purchase of swine. It was expanded to cover other products in subsequent years (particularly in 1959). At the present time, the cattle and sheep of livestock raising regions, as well as tobacco, hemp, silk cocoons, tea, lacquer, tung oil, and other category II commodities are covered. The state-designated commercial sectors use administrative means to allot a fixed quantity of these agricultural products to be delivered by the former

Fig. 2-4. Methods of Government Purchasing of Grain



Source: Prepared by the author.

people's communes and production teams or the present townships and villages.

(3) *Yigou* (negotiated purchases)—category III agricultural products: The state sets no mandatory production levels for these goods. Transactions are established by negotiation between the commercial sector and the producers. Goods falling under this category include regional specialities, subsidiary products for daily use, some fruits and dried vegetables, seasoning, wild fibers, miscellaneous oil-bearing materials, medicinal materials, and other category III commodities.¹²

The above three purchasing methods have been used to regulate the volumes and prices of agricultural products in accordance with their importance to the national economy. For the extremely important category I commodities like grain, oil-bearing crops, and cotton, the state has exercised a monopoly over the distribution process. These three commodities account for 45 per cent of the total value of agricultural and sideline commodities purchased by the state-owned commercial sector.¹³

(b) Purchasing methods for grain

To better understand the effect of prices on agricultural production in China, we will look at the purchasing methods and prices for grain. Grain is a category I agricultural product. As mentioned above, in the 1950s grain was totally under the *tonggou* system of purchases within the state monopoly system. In subsequent years, various other methods came to be allowed, such as

TABLE 2-2
PERCENT COMPOSITION OF PURCHASED GRAIN CLASSIFIED BY
PURCHASING METHODS

	1978	1979	1980-84	1985	1986	1987
State monopoly purchases	68.5	49.5	32.0			
Above quota purchases at higher prices	28.9	42.2	32.2			
Purchases by order				64.0	48.0	40.0
Negotiated purchases	2.6	8.3	36.0	36.0	52.0	60.0

Sources: Zhao, "Woguo jingji gaige," pp.19-21.

Note: The average annual purchases from 1980 to 1984 and the annual purchases for the years 1985 to 1987 are assumed as 125 million tons.

the *chaogou* system of higher price purchases for production beyond state quotas (in some regions, including a *zengou* system of additional purchases for production beyond state quotas, a *chaochaogou*, *chaochaochaogou*, and other additional purchase systems) and the *yigou* system of negotiated purchases (see Figure 2-4). Differences in purchasing prices appeared depending on whether grain was purchased through *zhenggou jishu* (fixed quotas of state grain purchases), through *chaogou*, or through *yigou*.

The purchasing prices through *zhenggou jishu* have been raised by wide margins three times in the past: 25 per cent in 1961, 17 per cent in 1966, and 20 per cent in 1979.

Under the *chaogou system*, after *zhenggou jishu* has been met, grain is purchased at higher prices. The price for purchases beyond state quotas, unlike with *zhenggou jishu*, is determined each year by the size of the harvests (*yinian yiding*). These above-quota purchases add a fixed premium above the *zhenggou jishu* purchasing price (*pingjia*). The amount of the premium has been gradually raised from 10 per cent in 1960 and 1961, to 12 per cent in 1965, 30 per cent from 1971 to 1978, and 50 per cent since 1979.¹⁴

The *zhenggou jishu* purchases and above-quota purchases are made under state plans and so are both included in the *zhenggou* state grain purchases in the broad sense of the term. The government also makes purchases through negotiations with peasants. For the peasants, the lower the price for *zhenggou jishu*, the better it is for above-quota higher priced purchases and negotiated purchases. For this reason, the rate of fulfillment for *zhenggou jishu* quotas is not very good. The absolute volume of grain purchased under *zhenggou jishu* quotas fell from 35 million tons in 1979 to 34.35 million tons in 1980, then 30.4 million tons in 1981; nevertheless, the rate of fulfillment for the quotas fell from 90 per cent to 81 per cent and then 80 per cent.

As clear from Table 2-2, the percentages of above-quota purchasing prices and negotiated purchasing prices to total purchases have risen each year. The portion of production which the government can procure by administrative com-

mand, i.e., the *zhenggou jishu* quotas, has fallen and the portion which must be procured through raising purchasing prices has increased. This shows that the old policy of securing commodity crops by administrative fiat was already reaching a dead end. Finally, in 1985, the government scrapped the system of compulsory procurement and moved to a system of purchases by order. For the government to secure the same amounts of grain it has in the past, it will now have to increase the amount of its negotiated purchases.

As mentioned above, purchases of agricultural products in China, especially purchases of grain, have been guided less by prices and more by the administrative control of production. As clear from many Chinese editorials since the end of the 1970s, prices have not been determined in accordance with changes in costs: instead China has given priority to price stabilization and to closing income disparity. The detriment of this policy, however, has been the deficient allocation of resources.¹⁵

Even before the hikes in the late 1970s of the government purchasing prices of agricultural products, there were times when the Chinese emphasized guidance through prices or indirect planning. These occurred in the late 1950s and early 1960s during periods of economic readjustment. However, these policies were not long maintained. One reason for this was because the Chinese economy lacked leeway for the allocation of resources through the price mechanism. Given the diversity in per peasant grain production in the 1950s from 245 kg (Hebei Province) to 905 kg (Heilongjiang Province), the chronic shortages, and the supplies required for the burgeoning urban population, the tough administrative controls clamped on agricultural production were only natural.¹⁶

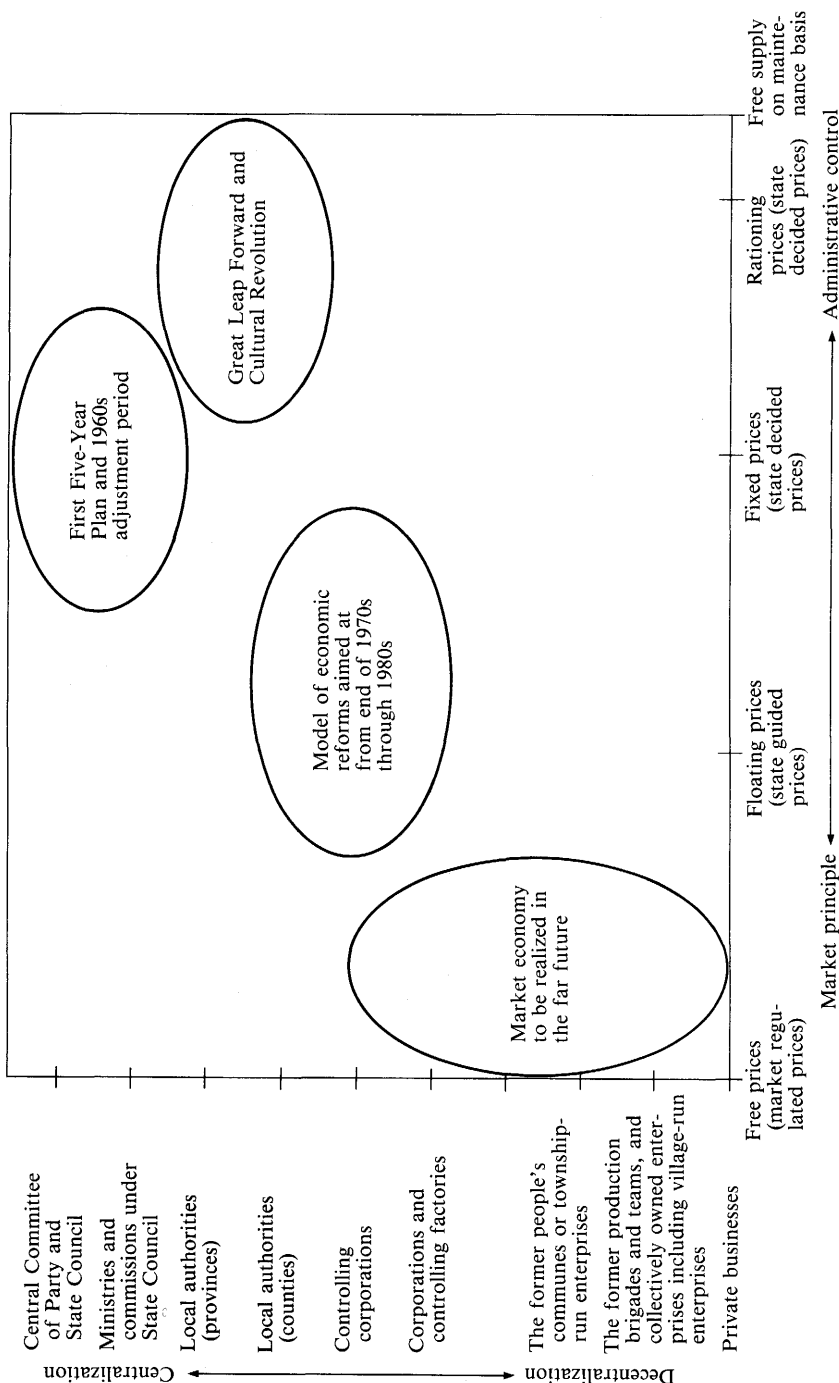
Along with the hikes in the government purchasing prices of agricultural products since 1979, the government has found itself faced with soaring price subsidies which have reached around 20 per cent of fiscal expenditures. The total sum of price subsidies rose from 9.4 billion yuan in 1978 to 37.0 billion yuan in 1984. Subsidies for the purchase and sale of agricultural products alone rose from 100 million yuan in 1957 to 2 billion yuan in 1965, then to 5 billion yuan in 1978, and 20 billion yuan in 1983.¹⁷ Of this, over half went for grain and edible oils. The bill for past price policies is being paid out in the form of price subsidies.

Economic Planning and the Market

The Model of Reform

China's economic reforms carried out since the end of the 1970s can be organized along two axes. One is the decentralization of power to local authorities and enterprises. Of particular importance was the enlargement of decision-making powers for enterprises. In the area of enterprise capital formation, China has gone through several stages such as the introduction of an enterprise fund system, a profit retention system, and a corporate income tax

Fig. 2-5. Two Axes of Price Determination



Source: Prepared by the author.

system as will be mentioned in detail in Chapter 4. The basic direction of all these is toward ensuring funds for enterprises that can be used at their own discretion and in accordance with their individual performance.

The other axis of economic reform is the introduction of the market mechanism. Previously in the economy mandatory plan targets were used to administratively allocate resources. The introduction of the market mechanism reduces such mandatory plan targets and simultaneously aims at allocating resources through utilization of prices, interest rates, taxes, and other economic regulators.

These two axes are not set apart from each other. The realization of enlarged decision-making powers in enterprises management cannot be separated from the introduction of the market mechanism. But I have differentiated between these two axes because it is necessary and convenient for explaining the transition of China's economic system. Under the old system China's economy seesawed between periods of centralized control such as during the First Five-Year Plan and during times of adjustment, and periods of decentralization to local authorities, such as during the Great Leap Forward, and the Cultural Revolution. In all periods, however, the economy was managed through "administrative tools," and in this way they all remained the same. The present economic reform differs in that it calls for decentralization to enterprises and for management by "economic tools."

Price reform as one part of economic reform has also been carried out along the two axes. The vertical axis in Figure 2-5 extends from centralized government control to management by individuals and corresponds to the change of economic centralization to decentralization. The horizontal axis shows the change of economic management from administrative controls to market principles. Centralized price determination and rationing (which even limits the amount that can be sold) are the strongest of administrative controls. Between this and free pricing at the other end of the spectrum lie various other forms of price controls. Economic reform since the end of the 1970s has aimed at the decentralization of authority to enterprises and the introduction of market principles. One can question how much progress China has actually made in this respect, but the economic model it targeted in the 1980s can be positioned near the center of Figure 2-5. Since 1992 China has set a long-term objective of realizing an overall market economy.

Details for distinguishing between the government-determined prices, government-guided prices, and market-adjusted prices shown in Figure 2-5 are set forth in Table 2-3. The government guided prices form the nexus of the 1980s' model of economic reform. There are various means for regulating the prices of goods covered by government-guided prices, but the final decision on prices is left to the production units and business units.

Among the means for regulating are: "floating prices" for which upper limits, lower limits, or upper and lower limits are set; "negotiated prices of production areas" which are determined through negotiation among related parties

TABLE 2-3
CLASSIFICATION OF PRICE CONTROL SYSTEMS

Price Control Systems	Final Authority over Prices	Movement of Prices	Degree of Plan Involvement
Government-determined price	Administrative organization having jurisdiction	Fixed prices	Administrative commands Planned prices
Government-guided price	Controlled business units	Floating prices	Administrative guidance. Planned prices (Negotiated prices)
Market-adjusted price	Uncontrolled business unit	Free market prices	Arrangement between enterprises, Unplanned prices (Negotiated prices) Competitive prices, Unplanned prices

Sources: Yang Lu, "Guojia zhidao jiage yingshi zhuyao jiage xingshi" [Prices guided by the state must constitute the leading price system], *Jiage lilun yu shijian*, 1986, No.6, p. 3.

in industry, commerce, trade, agriculture, etc. organized by the authorities in the production areas in charge of supervising commodity prices and the authorities in charge of supervising administration of the industrial and commercial sectors; "negotiated prices of neighboring areas" which are determined by the relevant government authorities and enterprises in neighboring regions; "unified prices of industry" which are determined through negotiations among production and merchandising units in a industry and submitted for approval by the government authorities in charge of supervising commodity prices.

Government-determined prices, which are decided through the administrative relationship between the supervisory organization and the subordinate enterprise, have the mandatory force of law; government-guided prices are semi-mandatory which means that they are also semi-free and therefore open to a degree of negotiation.

From Table 2-3 it can be seen that "negotiated price" (*yijia*) can sometimes be considered a government-guided price and sometimes a market-adjusted price. For the above-mentioned "negotiated prices of production areas," "negotiated prices of neighboring areas," and "unified prices of industry," the supervisory organizations participate in the negotiations, therefore these belong in the area of government-guided prices. On the other hand, the prices determined by production units and business units through negotiations on their own, or through negotiated prices within an industry which do not require the approval of the authorities in charge of supervising commodity prices, fall under market controlled prices.

Progress in Conversion to a Commodity and Market Economy

"Decision on reforming the economic system"

The "Decision of the Central Committee of the Communist Party of China

on reforming the economic system," adopted at the Third Plenary Session of the 12th Central Committee of the Communist Party of China held in October 1984, summarized the basic feature of the state planning system aimed at as "a planned commodity economy under public ownership." Of note here was that the party and the government officially defined socialism as a "commodity economy." This was a tremendous reversal of China's past interpretation of socialist theory.

In the debate over state planning and the market, which has gone on since 1978, much had already been said about the necessity of utilizing in socialism of the functions fulfilled by commodities and currency, but never had socialism been defined as a "commodity economy." Based on critical study of classical Marxism, open discussion took place over the inseparability of Chinese socialism and a commodity economy. This happened in an article by then director of the Chinese Academy of Social Sciences, Ma Hong, and released in two parts about a month after the third plenary session.¹⁸ The two concepts of "socialism" and a "commodity economy," which seemingly could not be linked in traditional classical socialist theory, were treated as inseparable in Ma Hong's paper.

The theoretical definition of a "planned commodity economy under public ownership" reflects the two directions of change which are now occurring in the Chinese economy. One is the process of collapse of the system of self-supply and self-sufficiency through the spread of commodities and currency and can be termed the conversion to a commodity economy. The other is the introduction of the market mechanism into the planned economy and may be called the conversion to a market economy. Along with the progress of economic reform and the open-door policy since the end of the 1970s, there has been striking progress in the conversion of China to a commodity and market economy. For this reason it is no exaggeration to say that a qualitative change is now taking place in China's economic system.

Conversion to a commodity economy in the countryside

In urban areas and the mining and manufacturing sector, there has already been close to 100 per cent conversion to a commodity economy. At the present time, the conversion from self-supply and self-sufficiency to a commodity economy is only an issue in the rural areas.

Table 2-4 shows the percentage of self-supply and that of purchases for commodities to total expenditures by peasants for daily life. From the table it can be seen that the percentage of purchases for commodities rose sharply from 1978 to 1983. As of 1978, the percentage of self-supply was still larger, but this situation had changed completely by 1983.

However, the rate of self-supply has risen in fuel consumption. In the rural areas of China, firewood and stalks of farm produce (sorghum, corn, rice, etc.) have traditionally been used as the principal sources of fuel. Even today 80 million peasants, or 47.7 per cent of all peasants in China, suffer from shortages

TABLE 2-4
THE PERCENTAGE OF SELF-SUPPLY AND COMMODITY PURCHASES TO
TOTAL EXPENDITURES FOR DAILY LIFE PER RURAL POPULATION

	1978			1983			1990		
	Total (Yuan)	Commo- dities (%)	Self- supply (%)	Total (Yuan)	Commo- dities (%)	Self- supply (%)	Total (Yuan)	Commo- dities (%)	Self- supply (%)
Total expenditures for daily life	112.9	39.7	60.3	242.8	58.8	41.2	497.7	67.2	32.8
Food	78.59	24.1	75.9	147.2	40.2	59.8	295.2	51.3	48.7
Clothing	14.74	89.0	11.1	27.7	98.2	1.8	45.1	97.3	2.4
Fuel	8.28	31.9	68.1	13.5	22.4	77.6	24.4	29.1	70.9
Housing	3.67	95.1	4.9	27.6	97.8	2.2	69.2	99.0	1.0
Daily necessities	7.62	87.7	12.3	26.9	99.0	1.0	63.8	99.5	0.5
Total expenditures for agricultural production	7.66	45.0	55.0	43.5	73.5	26.5	—	—	—

Source: For 1978 and 1983, State Statistical Bureau, Agricultural Statistical Department, ed., *Woguo nonmin shenghuo de juda bianhua* [The big change in Chinese peasant life] (Beijing: China Statistical Publishing House, 1984), pp.27, 67, 70. For 1990, State Statistical Bureau, ed. *Zhongguo tongji nianjian*, 1991, p.298.

Note: Total expenditures in this table are exclusive of expenditures for service.

of firewood for fuel for three to six months of the year. For this reason large amounts of crop stalks, leaves, roots, animal waste and the like are used as fuel for cooking and heating. In the past crop stalks were owned by the collective (production team), but now under the contract responsibility system based on the household, these can be used by individual households. As a result the rate of self-supply in fuel has risen. The types of crops cultivated can now also be decided freely by the peasants, so a conversion may be underway in some regions to crops with long stalks.

Reetsu Kojima gave as one of the reasons for the failure of the Great Leap Forward the collapse of the public dining halls due to fuel shortages and the crumbling of the collective economy.¹⁹ Under the household management system now spreading in the rural districts, it is noteworthy that the rate of self-sufficiency in fuel has risen again. Fuel shortages weakened the collective economy during the Great Leap Forward. At the present stage, fuel shortages may be said to be strengthening the foundation of the household management system.

Degree of conversion to a market economy

Let us now examine how far the market mechanism has been introduced into the economy through three routes for the distribution of commodities.

The first is the pricing system for producer goods distributed among state-owned enterprises. As already mentioned, there has been a great fall since the 1970s in the percentage of producer goods distributed under central government plans. Some of the goods that fall outside of central government plans are transferred to the control of local governments. However, not all of these goods are incorporated into the local plans. For example, 50 per cent of total coal production is left out of the central government distribution system. Half of this is produced by locally administered state coal mines, but the other half is produced by collectively or individually managed mines and is sold at market prices.

According to a paper published in 1985, producer goods outside of the central government's distribution plans (of total production, 50 per cent of coal, 40 per cent of rolled steel, 60 per cent of lumber, and 75 per cent of cement) were in reality distributed at market prices.²⁰ Even among producer goods produced by coal mines under the unified central planning system, enterprises are allowed to sell on their own the portion of their production exceeding the targets for production plans. The prices for such sales can be determined through negotiations among the enterprises concerned. In the case of rolled steel produced by state-owned steel-making plants, the rate of such independent sales reached 23.5 per cent of total production by these plants in 1980 and 30.2 per cent in 1985.²¹

The second route is the price of agricultural products sold by peasants. In 1985 the value of agricultural and subsidiary products sold from rural to urban areas reached 168 billion yuan. This was 47 per cent of total agricultural and

TABLE 2-5
COMPOSITION OF SALES OF AGRICULTURAL AND SUBSIDIARY PRODUCTS

	1978	1979	1980	1981	1982	1983	1984	1985
State listed prices	84.7	71.7	64.4	58.2	57.5	48.0	33.9	} 32.1
Higher prices for above quota purchases	7.9	16.7	17.9	20.9	20.8	28.1	33.6	
Negotiated prices	1.8	4.9	9.5	11.5	11.5	13.4	14.4	51.2 ^a
Free market prices	5.6	6.7	8.2	9.4	10.2	10.5	18.1	16.7

Sources: State Statistical Bureau, ed., *Zhongguo tongji nianjian*, 1985 edition, p.479; *ibid.*, 1984 edition, p.365; and *Jingji ribao*, March 3, 1986.

Note: Higher prices for above quota purchases prices are by definition included in state listed prices. However, the state listed prices in this table mean the lowest purchasing prices, i.e., the *pingjia*. In 1985, the prices for purchases by order are also included in the percentage of 32.1.

^a Negotiated prices and floating prices.

subsidiary production in 1985. This figure does not include sales among peasants and in itself is of dubious value, but it can serve to indicate the rate of commercialization for agricultural and subsidiary products. Of this 47 per cent, 32.1 per cent was comprised of purchases at the state listed prices, 51.2 per cent at negotiated or floating prices, and 16.7 per cent at free market prices.²² If the transactions at prices other than the state listed ones are defined as conversion to the market economy, then the rate of conversion to a market economy in sales by peasants of agricultural and subsidiary products in 1985 (to total volume of sales) was 67.9 per cent (see Table 2-5).

The third route is the consumer goods sold from the state-owned commercial sector to the consumer. Between 1982 and 1983, unified state price controls on industrial manufactured goods were abolished for 510 daily necessities. In addition, floating prices were introduced by the Ministry of Electronics Industry and the Ministry of Machine-Building Industry. However, the prices of consumer goods have a direct effect on people's lives, and they have been left under the strict control of state plans. Though the state control of category III commodities (miscellaneous goods) has been relaxed since the 1950s, state listed prices are still enforced for 120 daily necessities in this category.

In retail sales, the abolition of price control on vegetables, fruits, meat, and fish was experimented with in 1985 and 1988. If the government-guided prices for state-run stores are also counted within the scope of the market economy, it can be said that the supply of vegetables, meat, and other daily foods has essentially become regulated by the market. In Beijing these secondary foods account for as much as 30 per cent of the total retail sales. In recent years the transaction of these foods on the free markets has come to account for over half of all retail sales for these goods, as shown in Table 2-6. The transactions on "*ziyou shichang*" (free market) can be regarded as completely uncontrolled and left to market adjustment.

TABLE 2-6
 PERCENTAGE OF NATIONAL REAL SALES
 FROM JANUARY TO SEPTEMBER 1985

	State-run Commerce, Supply, and Marketing Cooperatives	Free Markets
Vegetables	28.3	71.7
Pork	40	60
Eggs	29	71

(%)

Source: *Jingji ribao*, December 20, 1985.

As can be seen from the above, the market mechanism has been introduced into the distribution routes of a variety of commodities. But industrial manufactures which form important producer and consumer goods still remain under the strict control of state planning. Likewise charges for movies, public baths, transportation, and other services are predominantly set by the state. However, economic reform has definitely increased the role of the market in the Chinese economy and the trend is expected to develop in the future.

Multiple Price System

The establishment of multiple prices

Since the pre-reform period, the prices of producer goods produced by the raw materials and energy sectors have long been lower than those of products produced by the manufacturing sector, and this has been the major reason for the deficits incurred by enterprises in the raw materials and energy sectors. The government, as a matter of policy, deliberately kept profit margins on producer goods down, and one of the aims of price reform commencing at the beginning of 1980s was to raise the government's fixed prices for such goods. At the same time, the government moved to allow the sale of producer goods produced in excess of plan quotas at premium or market prices. The result was the appearance of multiple price levels between the lowest price (the government's standard price) and the highest price (the market price). Some enterprises abused the eased controls and diverted goods to the producer-goods markets or black markets without even working to achieve production targets set by the government, or made use of monopolistic conditions to sell their goods at high prices.

The "Provisional regulations on further extending the decision-making power of the state industrial enterprises," issued by the State Council on May 10, 1984, gave permission for the independent sale of a portion of the producer goods produced by state-owned enterprises and thereby gave formal recognition to the already existing multiple price levels. Up to 20 per cent variations in prices were allowed for "excess production" of rolled steel, pig iron, copper, aluminum, lead, zinc, tin, coal, cement, sulfuric acid, concentrated nitric acid, caustic soda, soda ash and rubber, and for 2 per cent of the planned production of rolled steel.

Following this ruling, the government gradually enlarged the percentage of overall output which enterprises could sell independently and in 1985 removed the 20 per cent restriction on the price differentials allowed. Thereafter the government extended this multiple price system to include such important producer goods as primary and secondary energy, petroleum products, coke, lumber, metal materials, sheet glass, and mineral products.

The following reasons account for the spread of multiple prices for producer goods since China began its economic reforms.

(1) The scope and application of planned prices has been reduced. This is related to a reduction in the ratio of goods distributed by the central government to total production. Comparing the ratio in 1962 to that in 1982, the percentage of coal delivered by the state under unified distribution fell from 75 per cent to 51 per cent, that for rolled steel from 95 per cent to 53 per cent, that for cement from 71 per cent to 25 per cent, and that for lumber from 63 per cent to 57 per cent.

(2) Even enterprises covered by the unified distribution plans of the central government are now able to sell their excess production at market prices.

(3) The prices for goods produced by local state-owned enterprises are managed by the local governments.

(4) There are almost no price controls imposed on the collective or private operations of peasants, including rural enterprises.

(5) "Producer-goods trade centers," which engage in market transactions of producer goods, have been established all over China and even allow participation of out-of-province enterprises and collectively and privately operated enterprises.

(6) The supply of producer goods cannot keep up with demand, resulting in the formation of a black market.

When compared with the old system of a single, centrally controlled price, this type of multiple price system plays a positive role in providing enterprises with incentives to produce and in contributing to market vitality. But, on the downside, it also obstructs the evaluation of business performance, planning, and optimal distribution of resources, and in some ways it promotes negative speculative actions such as short selling and multiple resale.

The actual situation

The spread of multiple price levels is also a reflection of the multilayer structure of the economy. As exemplified by the case of coal, the structure is comprised of centrally controlled coal mines, coal mines under the jurisdiction of local governments, and collectively as well as privately operated coal mines.

We will now take a look at the state of the multiple price situation for individual producer goods.²³

(1) Oil

The Daqing Oil Field was discovered in 1960. In that same year, China produced a total of 4.19 million tons of crude oil, for a self-sufficiency rate

in oil of 42.5 per cent. The government set a new nationwide price for crude oil in March 1961 which took into consideration regional differences and costs. The price was determined in relation to the Soviet price system of the late 1950s.

From 1961 to 1970, the Chinese maintained an average price for crude oil of 130 yuan per ton. This was reduced 20 per cent to an average 103 yuan per ton in the 1971 price revisions. This standard price remained fixed until 1988.

Meanwhile, the cost of sinking oil wells rose two-fold between 1975 and 1985. Survey costs rose 2.5-fold and overall production costs 1.9-fold in this ten-year period. With costs climbing and the price of crude oil held down, almost all oil fields ended up running deficits. It has been reported that they cannot meet costs today unless the price of crude oil rises to at least 200 yuan per ton.

From 1983 the government set up a contract system for crude oil production which allowed the oil fields to export or sell domestically at international market prices any crude above their contract obligations. This led to the appearance of so-called "high priced oil," and a double price standard. At the time, the Daqing Oil Field was selling such "high priced oil" at 650 yuan per ton, while the Shengli Oil Field and the other oil fields were selling it at 520 yuan. After the price revisions of 1983 and 1985, the Daqing Oil Field reduced prices to 545 yuan and the Shengli Oil Field to 475 yuan, but these prices were still roughly five times the government's standard price.

In February 1988, both the government's standard price and the price of "high priced oil," were raised by 10 yuan.²⁴ Needless to say, such a small price hike failed to have much of an effect, and in 1988 the Daqing Oil Field ran a deficit for the first time since it was opened in 1960—26.12 million yuan. In 1989 the standard price was raised by 27 yuan. The result was that various kinds of oil price appeared as shown in Table 2-7.

Among oil products, we have the example of heavy oil for industrial use. The government's fixed price is, as of the end of the 1980s, 115 yuan per ton, while the government's guided price is 145 to 330 yuan, and the market regulated price is as high as 490 yuan.

(2) Steel

The prices of steel products are also multiplying. There is the standard distribution price set by the government, the price used for local government orders, premium import prices, floating prices controlled by the Ministry of Metallurgical Industry, and private sales prices for production in excess of plan volumes (market-regulated prices). The government's standard distribution price for rolled steel was 700 yuan per ton, while the market regulated price was 1,700 yuan and the premium import price was 2,100 yuan (800 yuan of which went for customs duties and the consolidated industrial and commercial tax) around 1987.²⁵ If one also includes the black market prices, the result is a very diverse price structure.

The overheating of the Chinese economy from 1987 to 1988 caused a shortage in the supply of raw materials and energy compared to the increase in demand. Sichuan Province set the price for local government occasional orders

TABLE 2-7
THE MULTIPLE PRICE OF OIL

	Standard-priced Oil						High-priced Oil		
	1961-70	1971-88	1988	1989	1990	1983 (1)		1985	1988
	(1)	(2)	Feb. (3)	(3)	Mar. (3)	Before June	After July	(1)	Feb. (1) (4)
Natural crude oil (domestic average)	130	103							
Daqing	130	100	110	137	167	650	590	545	555
Shengli		100	110	137	167	520	490	475	485
Dagang		100	110	137	167				
Liaohé		100	110	137	167				485
Jilin		100	110	137	167				485
Jizhong		100	110						
Xinjiang	110	115	125	152	182				485
Qinghai	115	115	125	152	182				485
Yumen	120	130	140	167	197				485
Sichuan	150	130	140	167	197				485
Jianghan		130	140	167	197				485
Changqing		130	140	167	197				555
Jiangsu		130	140	167	197				
Henan		130	140	167	197				
Bohai		130	140	167	197				
Dongpu		130	140						
Oil shale									
Liaoning ^a		140		200	210				
Guangdong ^b		150		150	210				
Crude oil accumulated in rocky strata									

Sources: For (1), Zheng Jifang, "Lun woguo shiyou jiage tixi de xingcheng yu gaige" [On the formation and reform of China's oil price system], *Jiage lilun yu shijian*, 1987, No.5, p.25; for (2), *Wuzi jiage jiben zhishi* [Basic information on material price] (Wuzi-chubanshe, 1984), p.145; for (3), "Wenjian zhaibian" [Selected official documents], *Jiage lilun yu shijian*, 1990, No.5, p.60; and for (4), Zhang Wenzhong, *Lun shiyou jiage* [On petroleum prices] (Shiyou-gongye-chubanshe, 1990), p.62. Mr. Tatsu Kanbara informed me of this book.

^a Wushun petroleum industrial corporation.

^b Maoming petroleum industrial corporation.

^c A half of each field's price.

TABLE 2-8
PRICES OF STEEL PRODUCTS IN SICHUAN PROVINCE

	Centrally Cont- rolled Price (Yuan/Ton)	Province Occasi- onal Prices (Yuan/Ton)	Premium Rates (%)
18# channel	860	990	15
6.5 casting plate	860	1,030	20
Plate for shipbuilding	700	870	25
20 Mng medium plate	690	800	16
16 Mng medium plate	750	940	25
16 MnR medium plate	810	850	5
Ferro-vanadium	3,700-3,800	4,400-4,500	18.4-18.9
Ferro-titanium	19,000-26,000	22,800-31,200	12.0

Sources: For steel products, *Sichuan wujia*, 1988, No.4, p.17. For ferro-alloy, *ibid.*, 1988, No.1, p.5.

Note: The data are as of March 1988 for steel products and as of November 1987 for ferro-alloy.

higher than the centrally controlled prices in order to prevent the outflow of raw materials. Table 2-8 shows the prices of some steel products in Sichuan Province. 16 MnR medium plate, which was more expensive than 16 Mng medium plate in the centrally controlled price table, became cheaper than 16 Mng medium in the province occasional price table because of the difference between premium rates.

(3) Cement

As already explained, in 1985 the government gave permission for production units to sell at market prices the portion of their producer goods produced in excess of state plans. In general this measure led to the establishment of three prices for the same grade of cement products: the standard distribution price of the central government, the distribution price of the local governments, and the market price. Meanwhile, the portion of cement distributed by the central government has dropped with each passing year. In 1982 it accounted for no more than 1/4 of the total production volume. At the end of 1985, the ratio of the volume of cement sold under the three prices was 1 : 1.5 : 2.5. At the end of September 1986, this had shifted to 1 : 1.24 : 1.6.

(4) Lumber

Looking at the nation as a whole, there were 50 million cubic meters of lumber traded as a commodity in 1985. Of this, 17 million cubic meters was distributed within the scope of state plans at a price of 140 yuan per cubic meter (the price after hikes in October 1986). On the other hand, there were 13 million cubic meters of southern lumber, 9 million cubic meters of northern lumber, and 9 million cubic meters of imported lumber distributed outside of the plans at an average price of 220 yuan per cubic meter. The price differential was about 1.57 : 1.

(5) Coal

Among the various forms of energy, the Chinese government has kept the

strongest grip on the price of coal. Since the establishment of the People's Republic, there have been only four price revisions. Since 1985 the price has been raised to 24–25 yuan per ton, but this is still extremely low compared with international prices. Production was stimulated in 1983 when the authorities allowed a 100 per cent premium to be tacked onto the government's fixed price for coal produced in excess of the plans. Since that time, multiple price levels for coal have spread nationwide.

As with other producer goods, the percentage of coal distributed under the control of the central government had fallen and was only 46 per cent of total production in 1989. The remaining 54 per cent was split between 2,000 local governments and 79,000 collective and private mines.²⁶ In the middle of the 1980s Shanxi coal sold for over 60 yuan per ton when transported to Shanghai. On the other hand, the same coal, from centrally controlled mines, sold for only 30 yuan in Shanxi province. And coal from rural mines sold for even less around 10 yuan. In general, therefore, the energy conservation investment of the inland provinces such as Shanxi must be less than that of the coastal provinces of China.

Multiple prices resulting from open-door policy

When foreigners use transportation, hotels, and other facilities in China, they are asked to pay in foreign exchange certificates (issued starting April in 1980). Also, while enjoying no better train seats, hotel rooms, and other services, they have to pay several times the rates of native Chinese. In other words, there are special higher charges for foreigners. Since April 1985, the room and dining charges for hotels of Chinese-foreign joint ventures (equity joint ventures or contractual joint ventures) have been left to the decision of the individual hotels.²⁷ The rates for state-run hotels, on the other hand, have remained as officially set. This is resulting in further diversity in prices.

Conversely to the above, there are also cases where prices are lower when foreign exchange certificates are used. In general, the friendship stores around the country are set up for foreign and overseas Chinese customers and ask for purchases to be paid for in foreign exchange certificates (or renminbi with foreign exchange certifications attached). Depending on the product, two prices are sometimes displayed: one for renminbi and one for foreign exchange certificates. In such cases, the price for foreign exchange certificates were 20 to 30 per cent lower in about the middle of the 1980s.

The above-mentioned situation has arisen because the economy had to be opened up after long years of separation from international prices. The non-convertibility of renminbi to foreign currencies and the use of an internal rate for trade settlements in the period 1981–84 also reflect the problems China is facing. However the big devaluation of renminbi, the establishment of foreign currency regulation markets, the increase of foreign currency reserves, and the good achievements of foreign trade have decreased the gap between official and black-market exchange rates since the end of the 1980s.

Summary

It will be no mean feat for present-day China to realize its aim of an overall market economy, judging from the problems of determining and utilizing such economic regulators as prices, taxes, and interests. The author discussed the necessity of price reforms after the start of China's economic reforms in *China Newsletter*.²⁸ The unreasonableness of the price system is the result of long years of abuse of the economy and cannot be put right overnight. As the Chinese put it, "the three feet of ice under your feet is the result of a lot of cold days in the past."²⁹ This is all the more true due to the sheer size of the population and land area.

China's leadership is now facing a double-sided issue of, on the one hand, how to gradually change over from administrative control by central and local government plans to control through economic means and, on the other, how to use economic regulators to guide sectors of the economy no longer under the plans (including black markets). The spread of multiple prices is one problem which has occurred in the transition period from a mandatory planned economy to a market economy. China has indeed taken the first steps toward a market economy, but it still has a long way to go.

Notes

This chapter is based on the author's "Planning and the Market in China," *Developing Economies*, Vol.25, No.4 (December 1987).

- 1 This system started in the Soviet Union. The theory behind it is the Stalinist theory that means of production circulating among state-owned enterprises are not commodities. In present-day Chinese theoretical understanding, *wuzi* materials and equipment are also *shangpin* commodities (Sun Shanqing et al., "Shiping woguo jingji xuejie 30 nianlai guanyu shehuizhuyi shangpin, jiazhi wenti de taolun" [An appraisal of the discussions on socialist commodities and prices by China's economic circles in the past thirty years], *Jingji yanjiu*, 1979, No.10, pp.10–11. However, in practice, the term *wuzi* is still used.
- 2 In 1980 the classification of *wuzi* was partially revised into three categories of "planned distribution" (for energy, major materials, and important equipment—government-fixed prices), "purchase and sale by *wuzi* supply enterprises" (for some machines, metal materials, chemical materials, and construction materials—floating prices), and "sale by producers" (other materials—free market prices).

In 1992 the "planned distribution" *wuzi* will be divided into three groups. The first group is to be supplied through contracts with the different levels of governments (rubber, tires, wood, cars, cement, etc.). The second group is intended to lessen the range of mandatory planning as the preparatory stage for the transfer over to the contract system with the different levels of governments (rolled steel, nonfer-

- rous metals, etc.). The third group will remain under mandatory planning (coal, petroleum, etc.) [*Jingji daobao* (Hong Kong), 1992, No.48, p.26].
- 3 Wang Shou'an, and Jiang Shukuan, *Wuzi gongzuo shouce* [Handbook of materials and equipment] (Jilin: Jilin-renmin-chubanshe, 1985), pp.26–46; *Jingji dacidian—gongye jingji juan* [Economic dictionary—industrial economy] (Shanghai: Shanghai-cishu-chubanshe, 1938), pp.512, 539.
 - 4 Li Kaixin, “Jizhong wuli baozheng zhongdian jianshe” [Concentrate material resources to accomplish important construction], *Hongqi*, 1983, No.17, pp.16–17.
 - 5 William A. Byrd, *The Market Mechanism and Economic Reforms in China* (New York: M.E. Sharpe, 1991), p.107 and Christine Wong, “Ownership and Control in Chinese Industry: The Maoist Legacy and Prospects for the 1980s,” in *China's Economy Looks toward the Year 2000*, Vol.1 *The Four Modernizations* (Washington, D.C.: U.S. Congress, Joint Economic Committee, 1986), pp.574–76.
 - 6 The producer goods supplied under the Shanghai Bureau of Materials and Equipment were subject to the following four regulations (Xu Yi et al., *Shehui zhuyi jiage wenti* [Socialist price problems] [Beijing: Zhongguo-caizheng-jingji-chubanshe, 1982], p.235).
 - (a) Supply is only possible within the city; supply outside the city is not permitted.
 - (b) Supply is only possible within the industrial sectors controlled by the respective supervisory organizations; supply across sectoral lines is not permitted.
 - (c) Supply of materials and equipment under category I and category II to other provinces (cities) is not permitted. Supply of materials and equipment under category III outside of the city is allowed, but letters of introduction are required.
 - (d) Supply is only possible to state-owned enterprises; supply to collective-owned enterprises is not permitted.
 - 7 Michael Ellman, *Socialist Planning* (Cambridge: Cambridge University Press, 1979), Chapter 3.
 - 8 China's *wuzi* classification does not correspond to the international classification of commodities. For example, lumber, coal, and cement based on China's classification fall under the intermediate classification of “Divisions” in the Commodity Indexes for the Standard International Trade Classification (SITC), while rolled steel, copper, and other metals fall under the lower level subclassification of “List of Groups” in the SITC.
 - 9 *Da gongbao*, April 4, 1959; H. Yonezawa, *Chūgoku keizairon* [China's economy] (Tokyo: Keisō-shobō, 1969), pp.160–63.
 - 10 Xu Dixin et al., ed., *Zhengzhi jingjixue cidian (xia)* [Dictionary of political economy (the last volume)] (Beijing: People's Publishing House, 1980), p.428. According to the glossary in the book edited by Lin and Chao, in *wuzi*, category I is explained as including grain, edible oil, cotton, cotton fabric, coal, and the like and category II swine, eggs, sewing machines, bicycles, and the like (Lin Wei and Arnold Chao, ed., *China's Economic Reforms* [Philadelphia: University of Pennsylvania Press, 1982], p.317). This completely confuses *wuzi* (materials and equipment) with *shangpin* (commodities).
 - 11 Ministry of Commerce, Economic Research Institute, “1981 niande guoying shangye” [1981's state-run commerce], in *Zhongguo jingji nianjian, 1982* [Almanac of China's economy, 1982] (Beijing: Jingji-guanli-zazhishe, 1982); He Minglun, and Zhou Mingxing, *Shangye jingjixue* [Commercial economics] (Beijing: Beijing-kexue-chubanshe, 1983), p.289.

- 12 Gao Guangli, et al., *Zhongguo shangye jingji guanlixue* [Management of China's commercial economy] (Beijing: Zhongguo-renmin-daxue-chubanshe, 1980), pp.112–13.
- 13 *Zhongguo baike nianjian, 1982* [Annual encyclopedic report of China, 1982] (Beijing: Zhongguo-dabaik-quanshu-chubanshe, 1982), p.289.
- 14 Bruce Stone makes clear that the surplus quota price of agricultural products contributed to the expansion of fertilizer use despite the “punitive” fertilizer to farm-goods-price ratios [Bruce Stone, “Chinese Fertilizer Application in the 1980s and 1990s: Issues of Growth, Balance, Allocation, Efficiency and Response,” in *Chinese Economy Looks toward the Year 2000*, Vol.1, *The Four Modernization*, ed. U.S. Congress Joint Economic Committee (Washington, D.C.: U.S. Government Printing Office, 1986), p.489]. Invoking N. Lardy's paper, *Agricultural Price in China*, Bruce also explains that the surplus quota price system was established in 1970. But as mentioned in this chapter, this price system was set up in 1960 (Yang Fanxun, *Nongchanpin jiage yanjiu* [The study of prices of agricultural products] [Beijing: Zhongguo-shehuikexue-chubanshe, 1985], p.163).
- 15 Nicholas R. Lardy, *Agricultural Price in China*, World Bank Staff Working Paper No.606 (Washington D.C.: International Bank for Reconstruction and Development, 1983), p.3.
- 16 Kenneth R. Walker, *Food Grain Procurement and Consumption in China* (London: Cambridge University Press, 1984), p.165.
- 17 Yang Fanxun, *Nongchanpin jiage yanjiu*, pp.132–33.
- 18 See Ma Hong's paper, *Jingji ribao*, November 19, 1984; *ibid.*, November 21, 1984.
- 19 Reetsu Kojima, *Chūgoku no keizai to gijyutsu* [Chinese economy and technology] (Tokyo: Keisō-shobō, 1975), pp.158–61.
- 20 Li Wenzhong, “Chubu shixing shei jingying shei dingjia” [Let each management make prices], *Jiage lilun yu shijian*, 1985, No.3, p.23.
- 21 *Zhongguo jingji nianjian*, 1986 edition, p.V-32.
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- 24 “Wujia xinxi zhuanlan” [Price news column], in *Jiage lilun yu shijian*, 1988, No.4, p.155.
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- 28 Kyōichi Ishihara, “The Price Problem and Economic Reform,” *China Newsletter*, No.46 (1983), pp.9–10.
- 29 Fei Zhengming, “Jiage tixi gaige de huigu yu zhanwang” [The prospect and retrospect of price reform], *Jiage lilun yu shijian*, 1985, No.2, p.30; Tian Jiyun, “Tongxin xieli gaohao jiage tixi de gaige” [Make concerted effort to promote price reform], speech at Propagation Department of the Central Committee of Chinese Communist Party, March 23, 1985.