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**Ministry for State Security of the GDR, Main
Department II, 'The Domestic Policy, especially the
Economic Development of the PR China, since the
XIII CCP Party Congress - Status and Conclusions for
the Relations between the GDR and the PR China'**

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Summary:

An extensive report on China's economic policies and development.

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Subject

"The Domestic Policy, Especially the Economic Development of the PR China, since the XIII CCP Party Congress - Status and Conclusions for the Relations between the GDR and the PR China"

1. Developments since the XIII Party Congress^[1] do confirm:

- a) The Party Congress has provided a real assessment of the status of social development of the PR China. It has outlined tasks for the further socialist development of the country according to concrete conditions.
- b) The party and state leadership is working with determination to implement the decisions made by the Party Congress. Thus despite major problems the overall successful development of recent years did continue. Notable successes have been achieved in the socio-economic area. However, the process of development does not run on a linear course.

The definition of the status of development was of fundamental importance for the further outlining of the CCP's strategy. The Party Congress assessed that, after conclusion of the transition period, China is currently at the initial stage of socialism. In this phase, which is overall said to take about 100 years, it is warranted to raise productive forces to such a level of development that will express the superiority of socialism over the capitalist social order. Based on this situation, the policy of the CCP is aimed at shaping the economic strategy and the forms of property and distribution. The main objective, according to the CCP, is to develop productive forces and such relations of production that guarantee an optimal pace of economic development on the path to socialism.

The fundamental line of the CCP for building up a socialism with Chinese characteristics was defined at the Party Congress as follows:

"To lead the people's masses of all nationalities of the country and unite them, to view economic development as the main focus, to maintain the 4 Fundamental Principles and the policy of reform and opening up, to rely on its own potential, to work hard, and to fight for turning China into a strong, democratic, and civilized modern socialist state".

2. The dynamic development of the economy continued in 1987 and in the first half of 1988. In 1987, the gross national product exceeded 1 trillion Yuan for the first time, which was an increase of 9.43 percent over 1986. In the first half of 1988 growth amounted to 11 percent. Thus China ranks seventh on a global scale (per capita of the population, China is still counting as one of the poorest countries). Industrial gross output grew in 1987 by 14.6 percent, and in the first 6 months of this year by 17.2 percent.

Although the planning targets for steel, coal, and electric energy had been met in principle, the above-average-increasing energy demands of the economy could not be satisfied (for instance: overall electric energy production was 470 billion Kilowatt/hours, the deficit amount was 70 billion Kilowatt/hours, import of 10 million tons rolled steel products [became necessary]). In addition, there are issues with

transportation and the infrastructure overall.

Production of agricultural products rose in 1987 by 4.7 percent. Grain harvests amounted to 402.4 million tons (plan was 405 million tons). The production of pork and sugar decreased, and through the release of prices the production of other goods received more support (now the pork production is increasing again since the buying-up rates have been raised by 40 percent).

Among the most significant social changes in the countryside are the developments of local industries and local service systems. This way in recent years more than 80 million workers, who had become redundant in field production, were re-assigned. In the coming years, an additional 100 million workers are supposed to need a new profile. In the long term, the employment problems will be one of the most urgent social issues. In 1987 the production value of the rural industry surpassed for the first time the value of purely agricultural production. This development was continuing in the first half of 1988.

Overall it can be assessed that the impressive development of the economy will continue after the XIII Party Congress, proportions will improve, and efficiency and work productivity will increase. However, so far it has not been achieved to guarantee a systematic proportional development of the economy. Spontaneous factors in development are playing a comparatively major role - high, at least to 50 percent unscheduled, investments primarily in the non-productive sphere, high price increases for means of production and consumer goods, as well as a relatively high rate of inflation (in the first quarter of 1988 about 11 percent, in June 1988 about 10 percent), et cetera.

So far a stable all-comprehensive social process of reproduction has not yet emerged. The Chinese economic organism is still subject to heavy swings and changes. This has palpable consequences for the overall domestic situation and external economic relations.

3. The main instrument for the development of economic power is the policy of reforms. In its essence it is based on stimulating responsibility, initiative, and material incentives, and on implementing the law of value. The reforms in the cities are in the center of attention. They aim at implementing the socialist economy of goods, the transition from administrative to economic methods of economic guidance, and the introduction of various systems of responsibilities in the factories (among else, individual leadership by directors, self-responsibility for gains and losses).

The party and state leadership is talking about these reforms being now at a decisive stage. They are saying that the price reform, this is the painful increase in prices for the population (groceries, consumer goods, rents) and the compensating increase in incomes, is the litmus test for the reforms.

The visible increases in the standards of living over recent years can probably not continue unabated. A significant part of the population will have to bear with a decrease. The discontent within the population is growing. However, the leadership is thinking that primarily political stability has to be guaranteed. This was in the center at the discussions in Beidaihe^[2].

Based on the assessment that China is in the initial stage of socialism, other forms of property are allowed and supported while maintaining state-owned property in general: collective and private property, foreign property in the form of joint ventures, and businesses with exclusively foreign capital. In agriculture, currently the family responsibility systems (while maintaining the collective property) are the predominant form of cultivation.

At the last Session of the [6th^[3]] National People's Congress two constitutional amendments were passed: 1. Approval for private businesses (currently there are 225,000 private businesses with more than 8 employees and overall 3.6 million employees); 2. Approval to transfer land usage rights.

4. The development of science and technology, and their close linkage with production, enjoys priority in the PR China's economic strategy. Research is oriented towards production, but the process of integrating research facilities in production complexes is just at the beginning. The scientific potential is overall very large (e.g. just the scientific facilities of the electronics industry have more than 100,000 employees). The technical equipment of many research institutions is on a high level, material conditions for a rapid increase of the efficiency of scientific work is good. Other supporting factors are the training of scientific-technological cadres abroad, the delegation of highly qualified scientists to other states to gain knowledge in the areas of high technology, and the application of various forms of economic and scientific cooperation to gain scientific-technological knowledge, among else via Chinese living abroad, et cetera. Through own work and adoption of knowledge from other countries, results that rank in the top worldwide have been achieved. Selected fields reaching international standards are microelectronics, computer technology, optoelectronics, laser technology, biotechnology, new materials, crystal growing, control technology et cetera, also research projects like a mini fast-neutron reactor, standardized long-wave laser systems, highly precise axis systems, and highly precise machine tools.

5. The changed conditions for reproduction are expressed through the significantly increased integration of China in international economic relations. In 1987 33.7 percent of the national income were achieved through foreign trade relations (about 17 percent of the gross production). The foreign trade volume amounted to 82.7 billion U.S. Dollars, it grew faster than the production volume. Through an export offensive in 1987, which has continued in 1988, the foreign trade deficit got reduced from 14.9 billion U.S. Dollars in 1985 and 12 billion U.S. Dollars in 1986 to 3.4 billion U.S. Dollars in 1987. Main trading partners are Hong Kong (27 percent), Japan (20 percent), the United States (10 percent), and the FRG (5.3 percent). The USSR has a share of 3.1 percent (2.6 Million U.S. Dollars), the GDR of 0.66 percent. About 50 percent of Chinese foreign trade is done with the capitalist industrialized countries, 40 percent with the developing countries, and 10 percent with the socialist countries.

The trade balance with the capitalist industrialized countries is permanently negative: In 1987 a volume of 41 billion U.S. Dollars resulted in a negative balance of about 12 billion U.S. Dollars. With the developing countries the balance was highly positive: in 1987 a volume of 34.3 billion U.S. Dollars resulted in an export surplus of 9 billion U.S. Dollars. The balance with the socialist countries is basically even.

The commodity structure of Chinese exports is characterized by textiles (28 percent) and oil products (10 percent), while 19 percent are "non-specified goods" - this is arms and gold (= 7.436 billion U.S. Dollars in 1987). Significantly participating in this share of Chinese exports are Jordan and Zaire.

Concerning Chinese imports, metal processing industry products are continuing to be ranked first (37 percent). They are amounting to 80 percent of the GDR's exports to China.

In order to achieve an additional push in economic development, the PR China is undertaking multiple efforts to attract foreign capital. The policy of opening up has constantly added, and gets expanded by, new aspects - establishment of special economic zones; opening up coastal cities; opening up areas and regions; credit borrowing; foundation of joint ventures; approval of businesses with exclusively foreign capital; most varied forms of doing banking business, including government

bonds abroad. In 1979 China declared itself to be a developing country and thus applied for various development funds; it became a member of the International Monetary Fund, the World Bank, and the Asian Development Bank. Through all these activities between 1979 and 1987 foreign capital in the amount of 36.7 billion U.S. Dollars was generated (26.5 billion commercial credits, government credits, credits from international financial institutions, government bonds, and 10.2 billion U.S. Dollars in direct investments). In addition, there were direct aid programs by the United Nations and other international organizations, foundations, etc. (e.g. 50 million U.S. dollars from UNICEF between 1985 and 1989).

By the end of May 1988, China was in debt with 18.85 billion U.S. Dollars (17.1 billion U.S. dollars in currency reserves and 12 million fine ounces in gold reserves = about 3.5 billion U.S. Dollars).

The building of factories with foreign capital investments is the most important method to acquire foreign capital. So far there exist 11,500 joint ventures and 255 businesses with 100 percent foreign capital. The overall amount of investments from abroad so far is 9.5 billion U.S. Dollars (50 percent from Hong Kong and Macao, 15 percent from the United States, 8 percent from Japan). China is expecting this sector to continue to expand rapidly.

Special attention must be devoted to the growing Chinese investments abroad. The company CITIC^[4] alone has so far invested 100 million U.S. Dollars abroad. In foreign countries China has invested in 450 projects in 70 states (of which 100 projects are located in Hong Kong). The goal of these investment activities is to prepare for the takeover of Hong Kong [in 1997], the securing of raw material imports (e.g. iron ore, timber), and the acquisition of modern equipments (e.g. the purchase of 70 percent of shares of a metallurgical factory for mechanical engineering in the United States).

6. In implementing the orientations given at the XIII Party Congress, major efforts have been undertaken since to reform the political leadership structure and changing modes of operations. This is pertaining mainly to the following aspects:

- Separation of competences between party and state apparatus, transfer of responsibilities for and authority over state-related work to state organs. This is also ending the practice of the Army directly guiding state issues through party organs (often in personal union).
- Upgrading the role of the National People's Congress as a legislative and controlling body.
- Restructuring the central government organs. Gradual transition from direct administrative guidance of the overall economy to a central guidance of economic main processes only, while businesses have their own economic responsibilities. This process is running very complicatedly and in part contradictory (e.g. regarding investment policies). Gradual transfer of authority to lower organs, de-centralization of decision-making authority.
- Gradual changes in the electoral system, nominating more candidates than positions to be filled (so far this is practiced selectively, up to the level of Deputy Chairman of provincial government).
- Reform of the cadre system (introduction of a system for state employees is in preparation) and the system of workers' employment. The so far common life-long association of workers with their factories is supposed to be overcome gradually.

- Establishing a system of consultations and social dialogues (e.g. support for open and critical discussions in people's representation organs; upgrading the role of social organizations; criticism of state organs, businesses, et cetera in the press; open information provided by leadership organs et cetera).

- Development of the socialist judicial system and the rule of law (introduction of legal procedures; propaganda for the law; persecution of crime, corruption, and the abuse of power).

Measures to reform the political structure and the methods of operation are just at the beginning.

7. Since the XIII Party Congress major efforts have been undertaken to strengthen the build-up of the party, to completely restore the authority of the party after the Cultural Revolution, and to develop the leading role of the party under the new conditions. The role of the Central Committee has been upgraded. Working guidelines for the Politburo and the Secretariat of the Central Committee have been passed and implemented in practice.

The party leadership is aiming at the complete restoration of party life (role of the basic party units) and the acceptance of new members (especially young people and members of the intelligence); after reviews of their activities during the Cultural Revolution and rehabilitations have been completed. The party leadership is making great efforts towards the qualification of cadres. Social science research is focusing on all questions within the context of the initial stage of socialism (among else, reasons for the mistakes and then role of Mao Zedong, socialist commodity economy, law of value in socialism). The need to strengthen the political-ideological work has been recognized, but a clear concept on contents and methods has not been outlined yet. Political education of party members is developed only modestly. There is strong emphasis on keeping the Four Basic Principles, which means in essence to maintain the socialist path. However, the party has not yet found a way out of the passive situation regarding ideological work.

Relations between the GDR and the PR China

In recent years, especially with the official visits^[5] by the General Secretaries, relations between the GDR and the PR China have entered a new stage. Cooperation was expanded both comprehensively and in intensity. Now it is important to maintain the high level of relations (which are not integrated in the multilateral forms of cooperation between the socialist states) and to develop these relations long-term and systematically. Concerning the future development of relations, one has to look primarily at the qualitative aspect. Concrete results must be secured to a greater extent.

Focus areas:

1. In order to talk about fundamental issues of domestic development, the international situation and bilateral relations, there should be regular contacts between members of the party leaderships (about twice annually). Also, this way high continuity of mutual information by both party leaderships is guaranteed.

The exchange of experiences on issues of how to shape the socialist society has to be deepened. After during the first period the relaying of experiences from the side of the GDR was in the foreground, in the future we have to move more towards mutual benefit in the exchange of experiences (this also results in new challenges to our analytical work).

2. The active participation of the PR China in the struggle for peace, disarmament, detente, dialogue, and cooperation is requiring a further systematic expansion of the foreign policy mechanism of consultations. In consideration that China was a part of the anti-Hitler coalition, the PR China is supposed to get continuously informed about the policy of the GDR vis-a-vis the FRG and on the Westberlin question. The content of consultations has to be gradually enriched in order to reach a level entirely appropriate to the character of relations between 2 socialist states. New topics have to be opened up where useful results can be achieved through joint consultations (e.g. struggle against the COCOM[6] decisions and other forms of embargo policies and protectionism, use of international instruments of global economic relations and financial relations, policy vis-a-vis the Third World, international cooperation on environmental issues, et cetera). It would be helpful to include the IPW [Institute for International Policy and the Economy[7]] in the cooperation.

3. Party relations are continuing on the path of their systematic expansion. In addition to continuing the work in the areas currently in the foreground (e.g. party structure, social science, qualification of cadres, propaganda, publication of works of the classics), relations should also address additional areas (party control, united front).

Consultations about theoretical and practical question of the international communist and workers movement are supposed to be deepened and strengthened.

Since the structure of central apparatuses in both parties are different, those departments of the SED Central Committee that have no partner institutions in the apparatuses of the CCP Central Committee, should participate in state delegations according to requirements (for instance from the economic departments).

Regarding cooperation in the fields of social science, a fundamental decision needs to be made. Experiences so far tell that the Academy for Social Sciences at the Central Committee of the SED is the main partner of such cooperation on the side of the GDR. Therefore one should act as a partner of the Chinese Academy of Social Sciences and also coordinate on subjects from the fields of the [GDR] Academy of Sciences.

4. Cooperation between the parliaments and the central state organs is to be carried on continuously. Gradually, and especially under consideration of requirements to structure the socialist society, this cooperation is to be expanded to new areas. The launched collaboration between the Volkskammer[8] and the National People's Congress is to be continued. Contacts are to be established with the newly formed [PRC] Ministry for Control. Agreed cooperation in the area of the judiciary is to be implemented. The level of contacts in the area of both Ministries for National Defense has to be raised gradually. Among else, such measures should be undertaken that influence the political image of the [Chinese] People's Liberation Army. Cooperation in the area of Ministries of the Interior could be gradually expanded as well.

5. The system of contractual agreements between both states is developed quite well. Negotiations about a judicial assistance agreement and an equivalency agreement are to be concluded as soon as possible. Further negotiations are necessary pertaining to the rules for non-commercial payments. For the development of contractual agreements an exact coordination according to contractual guidelines must be guaranteed in order to implement uniform rules (e.g. regarding financing).

6. Since 1984 the foreign trade balance has more than doubled. It is displaying a continuously growing tendency and has a commodity structure favorable to the GDR (80 percent share of metal processing industry products). However, continuing further development according to the interests of the GDR is not secured.

The PR China has reduced its imports in areas where its own production has significantly increased (e.g. regarding trucks); therefore this is resulting in high export losses for the GDR. In other areas there is a high demand, for instance

concerning forming technology, as well as regarding polygraphic and textile machinery. However, we do not have sufficient export capacities on the side of the GDR. It has to be reviewed whether there is a chance to better adapt the GDR's export offers to the requirements of the Chinese market. Here it also would be necessary to review the domestic economic regulation mechanisms of the GDR, which in turn also determine the economic interests of the Combines (plan classifications, direction coefficients). In light of conditions of increasing competition on the Chinese market, a more precise and faster reaction by GDR foreign trade factories and Combines to Chinese requests is needed. Sluggish responses to requests and imprecise offers are damaging to the reputation of the GDR industry and impair the development of trade.

7. The multi-year discussions and deliberations about new forms of economic cooperation can be summarized as follows:

a) Barter trade with the [Chinese] Ministry of Foreign Economic Relations and Trade in addition to the trade agreement is offering good opportunities (practiced in 1988),

b) Better conditions for a long-term stable development of foreign trade can be created through the development of industrial cooperation. Here we have good experiences with the agreements on refrigerator wagons, combine harvesters, and the carbon print gasification facility.

d) Opportunities for the development of trade with provinces have to be practically reviewed. Offers from the Chinese side do exist here. Short-term concrete agreements should be done with one or two provinces in order to draw lessons for further conclusions.

e) Concerning the preparation for major projects, it has to be decided in advance whether an internationally common granting of credits is possible. Before long and extensive negotiations are held in detail, it should always be determined first whether the material and economic chances for an implementation do actually exist.

f) There is no basis [on the GDR side] for capital investments, establishment of joint ventures, et cetera.

8. Scientific-technological cooperation has developed step by step from an export support measure to a form of cooperation, which is saving both sides technological development and instead aims more and more at high technology.

The Chinese own research competencies and the results of [China's] cooperation with highly developed capitalist states are creating favorable conditions for serving the interests of the GDR in scientific-technological cooperation. Therefore the central guidance of scientific-technological cooperation in the GDR has to improve qualitatively. It is necessary to exactly register Chinese publications concerning scientific-technological results to evaluate them with respective organs, and to derive potential new areas of scientific-technological cooperation from them. Simultaneously the analysis of travel reports from the large number of GDR academics [visiting China] needs to be guaranteed. Furthermore, close cooperation between the [GDR] Ministry for Science and Technology and the Academy of Sciences has to be secured, so that we are avoiding duplications and overlaps that are so common nowadays.

9. So far the [GDR] Economic Committee has done useful work, especially with regard to the development of cooperation between the ministries, the preparations for the 15-Year Agreement, the further implementation of the contractual system, et cetera. It must be noted on our side that in the context of reforms [like in China] we have even less than in the past an uniform, centrally guided process to develop economic relations with individual countries (even more so when it is not about countries with a

special focus).

Therefore it will be necessary to analyze what can be achieved through the instrument of the Economic Committee and what cannot - and what kind of forms have to be applied. In order to discuss current and, still to be prepared, long-term projects of cooperation, meeting between the Chairmen respectively the Secretaries could be convened in shorter intervals. The time between the extensive conferences should increase. The Committee could initiate discussions of various problems, like e.g. developing industrial cooperation, scientific-technological cooperation, development of trade relations, financial relations, et cetera. A diverse range of activity by the Economic Committee would have a strong and vitalizing impact on the economic relations [between the GDR and China].

10. Collaboration in the areas of culture and art, science, education, health, sports, mass media, et cetera has reached a wide range. There are firm agreements of cooperation in place that need to be fulfilled exactly, and to be developed in deliberate fashion. In implementing the range of cooperation in these areas we have to achieve a higher degree of exactness. Furthermore, it is important to continuously create certain highlights, for instance in cultural relations, that are also subjects of major publicity (exhibits, artists, et cetera).

Working with the German language in China and in the areas of research on German and GDR history continues to require special attention. It should be reviewed whether leading representatives from these fields should be invited to the GDR for academic stays (usually the Chinese side is not selecting delegations in the framework of agreed cooperation). The city twinnings agreed upon in 1988 are supposed to be developed in concrete terms.

An expansion of the education of cadres is of high importance for the further development of bilateral cooperation.

[1] 25 October to 1 November 1987.

[2] Regular "summer meetings" of the CCP leadership in a seaside resort in Hebei Province.

[3] 1983-1988.

[4] China International Trust Investment Cooperation, established in 1979 in Beijing.

[5] Erich Honecker visited the PR China from 21 to 27 October 1986, Zhao Ziyang visited the GDR from in June of 1987.

[6] "Coordinating Committee for Multilateral Export Controls", founded by the Western powers by 1950 to place a comprehensive arms embargo on socialist countries.

[7] A SED research 'think tank'.

[8] "People's Chamber", the GDR 'parliament'.