



The **MARKET ECONOMY and CHINA**

Chief Editors: Gao Shangquan, Liu Guoguang and Ma Junru

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Preface

Li Tieying

In 1993 some sixty well-known economists from home and abroad were invited to attend an international symposium of "The Market Economy and China" sponsored jointly by the State Commission for Restructuring Economy, the State Bureau of Foreign Experts Affairs, and the Chinese Academy of Social Sciences. Extensive and penetrating discussion were held on theory and practice, operative mechanisms, governmental functions, reform of enterprises, construction of the legal system, and other challenges facing China during its transformation to a socialist market economy. The organizers of the symposium have compiled the papers which were presented into the book—*The Market Economy and China*.

China is a large country with a population of 1.2 billion, uneven economic development and a generally low economic and technological development level. It is a very complicated and enormous project to establish a socialist market economy in such a large country as China. We are therefore faced with some arduous tasks. Only if we take Deng Xiaoping's theory of building socialism with Chinese characteristics as guidance, emancipate the mind, and practice and explore courageously with the spirit of seeking truth from facts, can we accomplish this glorious task entrusted to us by history.

During socialist modernization construction and reform and opening to the outside world, we should emancipate our minds and courageously absorb and draw on the experience of all the achievements of civilization, including all the advanced operation modes and management methods reflecting modernized production laws in the capitalist countries. We should also firmly resist degenerate things and thereby reflect innate socialist characteris-

tics.

We should not deviate from the practice of reform and opening up while studying the new modes in theory. The economic management modes and systems of various countries develop along with economic development. We should proceed in all cases from China's basic conditions. It is those basic conditions that determine China's diversified economic sectors, the publicly owned economy as the main body with various forms, the important position of rural areas in economic development, the important role of the government in cultivating markets, adjusting the industrial structure, reducing differences between regions and preventing polarization; and also assure that we are building socialism with Chinese characteristics and establishing the new socialist market economic system.

The modern enterprise system suits the needs of the socialist market economy, because it includes distinct property right, explicit responsibilities, and separates functions for government and enterprises, and scientific management. We should actively explore effective forms of realizing public ownership based on the distinct ownership of state-owned properties, and the property right of corporate enterprises. All enterprises should strive to establish a modern enterprise system.

The advantages of the socialist system compared with the capitalist system mainly lie in higher productive forces and the realization of social justice which is impossible for the capitalist world. High efficiency, social justice, and common prosperity are the basic characteristics of the socialist system. However, socialist equality and justice do not mean egalitarianism. The "big-pot" and "iron bowl" only sacrifice efficiency, preventing the realization of real justice.

We should uphold the principle of giving priority to efficiency while giving consideration to justice. The principle of giving priority to efficiency is reflected in primary distribution; and adhering to the principle of to each according to his work, and more pay for more work reflects the principle of giving priority to efficiency. Social re-distribution embodies the principle of justice, and the government adjusts excessive differences caused

by primary distribution through tax revenue, social insurance and other means, preventing polarization with the premise of guaranteeing efficiency, and realizing common prosperity.

Justice is reflected not only in distribution and consumption, but also in equal competitive conditions and opportunities during production and circulation. Justice is reflected not only in the quantity of distribution, but also in opportunities. Society should provide all people with equal competitive opportunities. Therefore, we should strive to establish standard market competitive order and operational mechanisms, such as a strong legal system, and guarantee the real unification of efficiency and justice in market competition.

The development of the socialist market economy also involves periodicity. Differing from capitalist society which changes radically, the socialist market economy will enter a new stage every few years. We should strengthen research into the developmental laws of economic periodicity, and establish a statistical indicator system precisely reflecting new economic operating mechanisms and indicating economic development.

At present we are confronted with rapid reform and development. Reform leads to rapid development and only through reform can the deep contradictions and problems restricting the rapid and sound economic development be solved. The objective of reform is to achieve development, and its success or failure is determined by practice. We must study accelerating reform under rapid economic development and its complicated economic relations, and master the high technologies controlling the national economy.

Closely related to the establishment of the socialist market economy are the relationships between reform, development and stability, between the transformation of governmental functions and the operational system of enterprises, macro control and market mechanisms, central and local governments, urban and rural reforms, economic development in east and west China, the economic structural reform and the reform of science, education, culture and public health, and the construction of a sound legal system. And we must solve these problems. I hope economic

workers will study these problems in a thorough manner and put forward realistic and proposals. I also sincerely hope that overseas experts and scholars will continue to consider China's reform and opening up and put forward more and better suggestions.

Foreward

Li Jingwen

The 14th National Congress of the Communist Party of China (CPC) set the objectives of establishing the socialist market economy, and the Third Plenary Session of the CPC 14th National Committee put forward concrete objectives and procedures for the construction of the socialist market economy, marking the further acceleration of China's reform and opening to the outside world and confirming that the socialist market economy had entered a new stage. When China plunges into the practice of a market economy, *The Market Economy and China* has become available for readers.

This book is a collection of theses by many well-known Chinese and foreign economists, such as world-famous economists Lawrence R. Klein, professor of Economics at the University of Pennsylvania, U.S.A., and recipient of the 1980 Nobel Prize in economics, and Merton H. Miller, professor of Economics at the University of Chicago, U.S.A. and recipient of the 1990 Nobel Prize in economics. From September 18 to 20, 1993, an international symposium of "The Market Economy and China" was convened in Beijing by the State Commission for Restructuring Economy, the Chinese Academy of Social Sciences, and the State Bureau of Foreign Experts Affairs. Over 60 experts and scholars from the mainland of China, the United States, France, Japan, Australia, the Republic of Korea, Taiwan, and other countries and regions, as well as international organizations such as the United Nations Program, the World Bank, the Bank of Europe, and the Ford Foundation attended the symposium. There were extensive and penetrating discussions on theory and practice, operational mechanisms, governmental functions, reform of enterprises, construction of the legal system, macro regulation and control, and challenges confronting

China during its transformation to a socialist market economy. Jiang Zemin, president of China, met with the foreign participants and made an important speech at the symposium. Li Tieying, member of the Political Bureau of the CPC Central Committee, and minister of the State Commission for Restructuring Economy, met with all participants and attended the opening ceremony. The participants expressed excellent opinions of the points made on several important issues in President Jiang Zemin's speech, many of them substantiating their own theses, and some participants submitted written suggestions on other issues discussed by President Jiang Zemin.

To help readers gain a comprehensive understanding of these papers, the organizers worked very hard compiling the theses carefully into this collection. Of course, the viewpoints expressed in these articles do not necessarily represent those of the compilers.

From the theses of the foreign experts, readers may see that China's step-by-step reform was widely praised and the establishment of the objectives of the socialist market economy has strengthened confidence in national and international economic circle in the prospects for China's reform and opening to the outside world. We believe that guided by the Resolutions of the CPC Central Committee on Certain Issues on the Establishment of the Socialist Market Economic System, a new socialist market economic system will be preliminarily established by the end of this century. By that time China's economic development will have entered a new stage. Of course, during the process there will be many problems to be studied, and some new problems will emerge. However, we will surely attain our objectives so long as we persist in our objectives and unite around the Party Central Committee with President Jiang Zemin as its core, guided by Deng Xiaoping's theory of building socialism with Chinese characteristics.

November 20, 1993

Contents

Taking a Market-Oriented Direction and Pushing Forward in a Gradual Way—The Basic Experience of China's Economic Reform	1
What Do Our Economists Know Now About Transition to a Market System?	12
Establishing a Socialist Market Economic Framework	30
The Challenge of Transforming from a Centrally Planned to a Market Economy	37
The Marketization Process of the Chinese Economy and the Current Macroeconomic Situation	47
Some Thoughts on Economic Reform in China	58
Market Reform Strategies for Dealing with Imbalances in Regional Economic Development	71
On the Speed of Transition in Central Europe	81
Reflections on the Open Policies After the Opium War of 1840 and Since the Reform and Opening in 1978	112
Clearing Up Some Doubts About China's Change to a Market Economy	134
Strengthening Macrocontrol in the Transition to a Market Economy	149
Emergence of the Market Economy and Income Distribution in China: A Comparison with the Japanese Experience	170
Financial Reform Is Key to Economic Transition	188
Price and Commodity Control in Japan's Postwar Inflationary Period	194
The Market Economy and Macro Regulation and Control	232
Monetary Transformation and Macroeconomic Man-	

agement in China	239
Focal Points and the Difficulties of Changing China's Double-Track Economic System into a Market Economy	267
Difficulties and Countermeasures in the Transition from a Planned Economy to a Market Economy	292
The Role of Futures Markets in the U.S. Economy and the Development of Futures Markets in China	303
The Chinese Economy in the 21st Century	310
The Modern Market and Small Production Peasant House- holds—New Idea About Handling Relations Between Peasants and the Market	335
Two Catch-up Models: The Chinese and the Japanese	347
Constraints of Foreign Currency in the Process of Economic Development from the Japanese Experience	362
The Regionalization of the Asian Economy and Its Impact on China's Development	373
The Growth and Standardization of China's Futures Mar- kets	386
Reform, Internationalization and Macroeconomic Instabili- ty	407
<i>Appendix:</i>	422
Major Statistical Figures on China's National Economy and Social Development in 1996	

Taking a Market-Oriented Direction and Pushing Forward in a Gradual Way

—The Basic Experience of China's Economic Reform

Gao Shangquan

Former vice-minister of the State Commission
for Restructuring Economy and executive vice-president
of the Chinese Society of Economic Restructuring

Fifteen years have passed since China began economic reform. Over the past decade or so, reform has been a keynote of the country's social and economic life. It has penetrated into almost every aspect of the nation, from rural areas to cities, from coastal regions to the interior, from the non-state-owned economy to the state-owned economy, from the small-scale to the large-scale, from the economic field to the fields of science, education and politics, and it has realized universally acknowledged achievements. Looking back on the recent reform and summing up its experience, one finds that one strategy which China has employed is to gradually increase the proportion of market mechanisms in its economy, taking a market-oriented direction and pushing forward in a gradual way.

I. Taking a Market-Oriented Direction: Basic Achievements of Reform

One of the reasons China has been able to obtain success in economic reform is that it has adopted a strategy of taking a market-oriented direction and pushing forward in a gradual way.

China's reform has undergone four stages: During the first

stage, which started at the end of 1978 and ended in October 1984, reform was first implemented in the country's rural areas with great success; and reform was also conducted in cities on a trial basis by granting more autonomy to enterprises. In the second stage, which extended from October 1984 to September 1988, the focus of reform shifted from rural areas to cities, and reform was carried out in all fields. The third stage, which lasted from September 1988 till the end of 1991, was highlighted by the government's effort to rectify the country's economic environment and economic order to create better conditions for deepening reform. Comrade Deng Xiaoping's important speeches made during his tour of southern China in early 1992 marked the beginning of the fourth stage. Following Deng's instructions, the 14th National Congress of the Communist Party of China set up the economic reform target for building up a socialist economic system, which, in turn, has quickened the reform and opening to the outside world and has pushed it to a new stage.

Profound changes have taken place in China's economic system since reform began:

—The old structure of the country's economic ownership has been altered. While publicly owned enterprises still contribute to the bulk of the nation's economy, various other economic forms including collectively owned, privately operated and foreign-invested enterprises have emerged, and they have coexisted and developed well together with state-owned enterprises. In 1992, 48.8 percent of the nation's total industrial output was produced by state-owned enterprises, 38.2 percent by collectively owned enterprises, and 13.4 percent by foreign-invested enterprises, privately owned enterprises and individuals. Of the total retail volume of social commodities, state-run commercial enterprises account for 19.3 percent, the collectively owned enterprises, 27.9 percent and individuals, private owned enterprises and foreign-invested enterprises, 30.8 percent. The rapid development of the non-state-owned economy and the non-publicly owned economy has injected new vigor into our nation's economic life.

—Operational mechanisms of state-owned enterprises are now being transformed and gradually pushed into the market

under the principle of separating government administration from enterprise management and ownership from operational autonomy. Various forms of reform have been conducted in state-owned enterprises with emphasis on granting them more operational autonomy. Ninety-three percent of the country's publicly owned industrial and commercial enterprises have adopted various forms of the contract system in production and operation. A number of enterprise groups have been established in order to combine production elements in a reasonable way. Some of the medium- and small-sized state-owned enterprises now have been either leased, transformed, or sold. In recent years, various forms of stock systems have been introduced into a great number of state-owned enterprises. By the end of 1992, more than 3,700 enterprises with stock systems had been set up throughout the country, of which, shares of 92 such enterprises are now on the stock exchanges in Shenzhen and Shanghai.

—Prices of commodities are now determined largely by the market, rather than by the state. Today the government has abandoned its control of the prices of most commodities. At present, agricultural products purchased with prices fixed by the state account for less than 15 percent of the country's total; only 10 percent of the nation's industrial consumer goods, and 30 percent of production materials are sold with prices fixed by the state. Meanwhile, various markets including securities, foreign exchange, labor, technology, and land markets have been developing at a high speed.

—Direct interference in the nation's economy by the government, largely by administrative means, is now gradually being replaced by indirect control chiefly by economic and legal means. The rigid economic system whereby production targets, investment, projects, and materials used to be under the direct control of the state has been shattered. As a result, production targets ordered by the government have decreased drastically. Before 1979, more than 95 percent of the country's total industrial production was turned out at the order of the state, a figure which has dropped to only 7 percent now. Proportions of production materials allocated by the state and commodities purchased ac-

according to the state plan have also decreased. Meanwhile, financial and monetary policies now play a much more important role in the country's economic life.

—While distribution according to work still dominates the social distribution system, many other distribution forms have now appeared. A new social insurance system is taking shape. The government's policy encouraging people to become rich through honest labor and allowing for differences in incomes to a reasonable extent has greatly mobilized the enthusiasm of workers.

—Opening to the outside world has greatly accelerated China's domestic reform and development; and a multi-layer, multi-form, and omnidirectional open setup has taken shape. By the end of 1992, the number of foreign-invested enterprises had reached 84,000 with an agreed investment of US\$ 58.7 billion and an actual investment of US\$ 11.2 billion. In foreign trade, China will conduct its import and export trade according to international practice and the regulations of the General Agreement on Tariff and Trade in order to expand economic and technological cooperation with the outside world and compete in the world market. The changes in China's economic system have tremendously improved social and economic life. Over the last 15 years of reform, China's gross national product has continued to grow at an average annual rate of 9 percent, national power has been obviously strengthened, and the life of the people has improved remarkably. Moreover, reform has greatly emancipated the mind of the Chinese people. With the spirit of finding truth from facts, the Chinese people keep searching in practice and have advanced reform step by step.

II. Pushing Forward in a Gradual Way: A Successful Experience

Instead of applying "shock therapy" to its economic system, China has adopted a step-by-step strategy. The essence of this strategy is that no reform measure will be carried out on an overall basis or be applied to the whole country until it has been

tried in a given place and certain conclusions have been drawn. To ensure the success of reform, the government has set up a number of experimental sites throughout the country. These experimental sites designated by the government, either in a city, a county, or an enterprise, are responsible for the trial of various forms of reform measures. The following facts illustrate how reform has been carried out under this strategy: Reform was first implemented in the rural areas, then gradually carried out in cities; even when the focus of reform had shifted to cities, it was first tried in the special economic zones, then in coastal areas, and then in the interior. Market mechanisms were first introduced into rural industrial enterprises, privately operated enterprises, and foreign-invested enterprises, then gradually introduced into the state-owned economy. Reform was first carried out in a small way, such as granting state-owned enterprises more autonomy in production and operation, then was conducted on a large scale by gradually reforming the planned economy and the fiscal and financial systems. This method of pushing forward economic reform in a gradual way is a creation of the Chinese people. It is also a result of their persistent searches in practice.

Price reform is a typical example illustrating how reform has developed gradually. Price reform has always posed difficult problems in every country. It is also one of the first difficult problems we have met in economic reform. The Chinese government and economic circles both recognize the importance of price reform since they know that unless price is determined by the market, market mechanisms will not be brought into full play, competition among enterprises will not be conducted on a fair basis, and optimum deployment of resources will not be materialized. They also understand that price reform must go together with market cultivation, though price reform is something that can be done quickly whereas market development will take a long time. They understand too that price reform requires financial strength in order to guarantee that the interests of the masses will not be hurt during the course of price reform. Price reform will exert varying impacts on different industries and products, and some industries or the production of some products require large

investments, a long production term and high technology. The market cannot keep balance after the government abandons the control over the price, a fact which will result in inflation. Because of this understanding, the government has avoided adopting the method of lifting price control on all commodities at once, but has adopted a positive and prudent price reform policy, under which price control on commodities in different sectors is lifted at different times. Though China has a heavy task in price reform, it has already passed the crucial period.

Why has China adopted the strategy of gradual reform? If we answer this question generally, we can say that the present reform in China is the country's second revolution, aimed at fundamentally changing the country's economic system. This is a creative undertaking never attempted by our predecessors and has no model to follow; therefore, it must be done in a gradual way. But there are some other more profound reasons for the choice of this strategy:

First, reform needs time to win the understanding and support of all the Chinese people, therefore it must be pushed forward in a gradual way. Though people will ultimately benefit from reform, still the interests and power of some people will inevitably be adjusted to a certain extent. Therefore reform needs time to win the understanding and support of society. This is especially true for reform measures involving the adjustment of the people's interests. Therefore, such reform measures, before fully being carried out, must first be experimented with and gradually accepted by the people. Only when people understand these measures can they support them. Otherwise, reform will be very difficult, and it may even destroy previous achievements.

Second, the adoption of this strategy has something to do with the economic system itself. Every part of the economic system is closely linked with every other. If we want to reform the whole system, we must find the right point to make a breakthrough. When we start reforming a particular part of the system, we have to consider what impact it will exert on the other parts. The experience drawn from the past 15 years of reform tells us that reform should first be made on the softest link in the