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Foreign Affairs Bureau
Chinese Academy of Social Sciences

梁本凡 《Fertility and Market
Participation of Rural Household A
Case study in Guangdong province》
第¹⁹⁸页到第¹⁹⁹页

ECONOMIC MANAGEMENT PUBLISHING HOUSE

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Development in China, 1978—1998^[1]

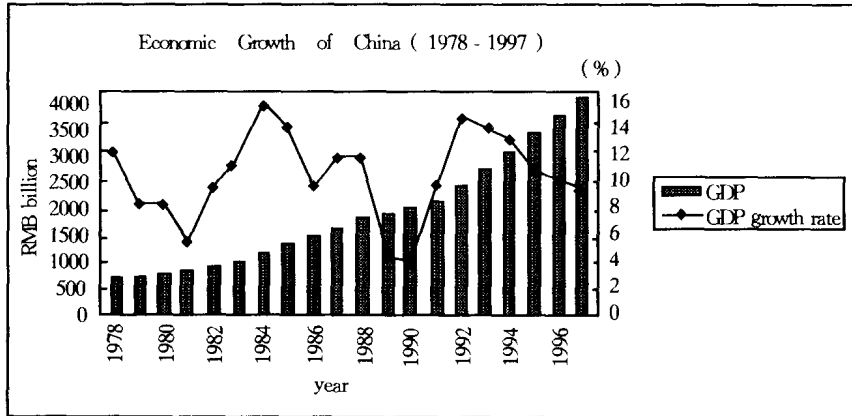
Wang Tongsan

China has experienced a high rate of economic growth for 20 years and has made remarkable achievements since reform and opening up to the rest of the world started in 1978. According to the official statistics, from 1978 to 1997, the average annual growth rate of GDP was 9.8% (Figure 1). Economists take great interest in the “Chinese miracle.” This chapter considers China’s development policy over the past two decades.

In the report of the 14th Communist Party Congress in 1992, the Chinese leader Jiang Zemin noted China’s “historical course from rural reform to urban reform, from reform of the economic system to that in other fields, and from enlivening the domestic economy to opening to the outside world.” The development achievements of the past two decades can be attributed to successful policy reforms and the opening of the domestic economy to international influence. In the course of reforming the old system, the vitality of the economy improved. By opening to the outside world, China joined other countries in learning advanced technology, obtaining necessary investment capital, and making use of its comparative advantage. The macroeconomic management system set up and perfected in reforms has played an increasingly important role in economic development. The central government controls the speed and quality of economic development and maintains rapid, long-term growth by formulating industrial policy and by using financial and monetary instruments. Three aspects of Chinese development policy are:

- Economic system reform;
- Opening to the outside world;
- Strategy and policy of macroeconomic development.

Figure 1
Economic Growth of China, 1978-1997



Source: China Statistical Yearbook, 1997 and previous years.

Reforms: Institutional Innovation and Economic Development

China's reform is generally regarded as "gradual reform," different from "radical reform" carried out in the former Soviet Union and the Eastern European countries. The gradual reform approach is a key to rapid growth in China. The critical difference between the two approaches is that radical reforms were designed in advance, so to speak, artificially. In contrast, Chinese leaders and economists had no clear advance designs of their final aims, directions, and steps. In fact, most of the policies of reforms were developed and implemented (Lin, 1995), just as, in the words proposed by Deng Xiaoping, the chief architect of China's reform, "groping stones to cross the river." Institutional innovations have ranged across every field from macromanagement to micro-operations.

Chinese reforms have undergone three stages:

- The takeoff stage (1978 - 1984),
- The full-swing stage (1984 - 1992),
- The deepening stage (1992 -).

The Stages of Reforms

First Stage (1978-1984)

The 10 years of “Cultural Revolution” that ended in 1976 drove the economy to the edge of collapse. Many Chinese politicians and intellectuals realized that the political route based on class struggle had to be terminated and that China should concentrate on economic reconstruction. At that time, the great majority of common people believed that as long as China focused on the economy instead of political movements, its economy would develop rapidly, and living standards would improve. The political route based on class struggle was ended at the Chinese Communist Party’s 11th National Congress in December 1978. At that meeting, leaders adopted the idea that “the focus of work [should be] shifted to economic development” and made a decision to move toward “reform and opening.”

The reforms began in rural China, mainly at the micro-or household level. The system of contracted responsibilities for the household with remuneration linked to output broke through the enforced egalitarianism that had existed in the rural economy and had reduced peasants’ incentives. Under the new scheme, once peasants had met their output quotas to the collective or village, they were permitted to sell the rest on the free market. As a result, the output of food increased by a big margin, and rural production developed rapidly. In this period, the central government also experimented with reforms for management of some state-owned enterprises and partially loosened state plan controls for enterprises in order to increase incentives. These changes were limited in scope and depth. Collectives, individually owned enterprises, and especially township enterprises developed gradually with the encouragement and help of the central government. The main success was the development of the rural economy. In general, the reforms did not resolve the fundamental contradictions of the Chinese economic system.

Second Stage (1984-1992)

In this stage, the focus of reforms was shifted from rural areas to cities. In 1987, at its 13th National Congress, the party stated that the socialist planned economy was inherently a consensus system between market and plan. Planned adjustment and market adjustment were both means to control economic development. Privately owned firms and “foreign-funded enterprises” would be a necessary and profitable supplement to the socialist economy for a long time to come.

At this stage of the reforms, the main focus was to break through the constraints imposed by some traditional concepts. The policies of this stage were to increase the vitality of state-owned enterprises by setting up contracted responsibilities for them. Under a “dual-track” system, market prices coexisted with centrally planned prices. At the same time, the central government reformed macroeconomic policies and began to carry out reforms in taxation and in financial institutions.

Third Stage (1992-Present)

After three years's effort, inflation was restrained, and economic order took a favorable turn. However, when concerns about igniting inflation flared once more, the central and local governments were overcautious for a time. As a result, economic growth during 1989 – 1990 was reduced to 5%. In 1992, with a return to high growth, economic reforms entered a new stage.

In October 1992, at its 14th National Congress, the Chinese Communist Party set the goal of establishing a new system, a “socialist market economy.” After more than 10 years of experimentation, China confirmed the direction of reforms. The party advanced the thesis that it was basic to China's economic system to retain a dominant position for public ownership in addition to developing other forms of ownership; the two models of ownership would operate side by side. In December 1993, the Chinese government set up the basic framework to establish a market economy:

- Establishing a modern enterprise system with “clearly established ownership, well-defined power and responsibility, separation of enterprise from administration, and scientific management”;
- Fostering and developing the market system to serve as the basic means of regulating the allocation of resources and building a unified and open market with orderly competition;
- Transforming the government's functions and establishing and perfecting the macroeconomic control system.

In 1994, China took great steps in reforming finance, taxation, banking, foreign trade, foreign exchange, and pricing. Next, we look more closely at rural reforms and state-owned enterprise reforms.

Rural Reforms

China is an agricultural country with a huge population. Agriculture occupies a core position in the national economy. The central government has always emphasized that agriculture is, in fact, the foundation of the economy. As noted earlier, before 1978, under the People's Commune system, the peasants had no incentives to produce, and, as a consequence, labor

Year	Gross output value of agriculture (RMB billions)	Growth rate of gross agricultural output (%)	Gross crop output (million tons)	Growth rate of gross crop output (%)	Per capita net income of rural residents (RMB)
1991	815.70	3.7	435.29	-2.5	708.55
1992	908.47	6.4	442.66	1.7	783.99
1993	1099.55	7.8	456.49	3.1	921.62
1994	1575.05	8.6	445.10	-2.5	1220.98
1995	2034.09	10.9	466.57	4.8	1577.74
1996	2342.87	9.4	504.54	8.1	1926.07
1997	2470.92	5.3	494.17	-2.1	2090.13

Sources: China Statistical Yearbook, 1997 and previous years; A Statistical Survey of China, 1998.

increase of 21.2% over the previous year. The output of the main agricultural products increased substantially. The output of grain and cotton, for example, totaled 40.7 and 60.7 billion tons, respectively. China's production of cotton leaped to first place in the world. Some economists estimated that half the increase of agricultural output came from the improvement of labor productivity reflecting innovations in the rural operating system.

However, there were still problems in the new rural system. The major problem was that small agricultural plots slowed agricultural mechanization because peasants operating small plots of land could not realize the benefits of mechanized production. As the contribution of institutional innovation to economic growth slowed, the growth rate of agricultural output decreased. From 1985 to 1988, the growth rate of value-added in agriculture was only 3.1%. Therefore, new institutional innovations were called for in agriculture and rural areas. Since 1990, the central government has tried to enlarge the scientific and technical input to agriculture. It has adopted a series of measures to encourage "big farming households" to lease land so that they can mechanize and operate on a large scale. The central government is trying to find a way to further stimulate peasants' incentives and to improve agricultural output in ways other than increasing the price of food.

Town and Village Enterprises

The gains in productivity and income coming from rural reform made available financial and labor resources at the local level. These were turned into a success story with the rapid development of town and village enterprises (TVEs). As is shown in Table 2, the gross value of industrial output of the TVEs increased at extraordinary rates, particularly during the booms of 1984-1988 and 1991-1994. The TVEs, which are largely light and processing industries operating on a small scale, have far outdistanced the

state-owned industries (SOEs). Beginning with a share of only 11.6% in 1978, the TVEs accounted for more than 50% of industrial output by the mid-1990s. These firms operate with a “hard” budget constraint; they must cover their costs. Despite the fact that they remain under collective ownership, they are guided by market forces. It should be noted, however, that their advantage in terms of growth is offset by the fact that they frequently operate on a small scale, with low capital intensity and primitive technology.

Table 2 **Development of Township and Village Enterprises (TVEs)**

Year	Gross value of industrial output of TVEs (RMB billion)	Growth rate of gross industrial output value of TVEs (%)	Growth rate of gross industrial output value of SOEs (%)	Share of TVEs in gross industrial output (%)
1978	49.31	—	14.4	11.6
1979	54.84	11.2	8.88	11.7
1980	65.69	19.8	5.6	12.7
1981	74.53	13.5	2.53	13.8
1982	85.31	14.5	7.05	14.7
1983	101.68	19.2	9.39	15.7
1984	170.99	68.2	8.92	22.4
1985	272.84	59.6	12.9	28.1
1986	354.09	29.8	6.2	31.6
1987	474.31	34.0	11.3	34.3
1988	649.57	36.9	12.6	35.6
1989	742.84	14.4	3.9	33.7
1990	846.16	13.9	3	35.4
1991	1162.17	37.3	8.6	43.6
1992	1797.54	54.7	12.4	52.0
1993	3154.07	75.5	5.7	65.2
1994	4258.85	35.0	6.5	60.7
1995	5125.92	20.4	8.2	55.8
1996	5553.74	8.3	5.1	55.8

Sources: China Statistical Yearbook, 1997 and previous years.

Opening to the World Economy

When the People's Republic of China was founded in 1949, China's international trade was limited to the socialist bloc. After the relationship with

the USSR was broken in the late 1950s, China had to develop its economy by self-reliance and implemented a "closed door" policy. In the 11th Party Central Committee Congress, responding to the changes in international circumstances, the party put forward the "opening up" policy. In the 20 years since, the economy has been greatly opened to foreign trade and influence. This has not only contributed directly to Chinese economic development but also supported China's reform.

China's opening up was a gradual process. It began by setting up the special economic zones (SEZs) to open the coastal and riverine cities, then to open the frontier cities, and finally to open in all areas. The setting up of SEZs and economic experimentation areas (EEAs) improved local economic growth and encouraged economic reform and additional plans for opening more broadly. The SEZs that served as the tasting grounds for reform and opening were not only the window to the outside world but also the forerunners of economic system reform and of the construction of the market economy. They provided much valuable experience for the development of the whole Chinese economy. They played demonstrative, diffusive, and leading roles in making institutional changes, upgrading industries, and opening China more widely to the outside world. According to the official statistics, the GDP of the five special economic zones (Hainan, Shenzhen, Zhuhai, Shantou and Xiamen) reached RMB 215.5 billion yuan and accounted for 3.8% of the total GDP in 1996. Total export-import volume accounted for 20% of the whole economy in 1996 and grew by 36.8% per year in the 1990s.

Use of Foreign Capital

China has had great success in absorbing and utilizing foreign capital. By the end of 1997, the volume of foreign capital flowing into China had been growing at 30.5% annually. Accumulated foreign capital, including foreign direct investment (FDI), foreign loans, foreign securities, and so on, exceeded U.S. \$ 360 billion; FDI was U.S. \$ 220 billion. At present, about 240,000 foreign funded enterprises (FFE) are operating in China. China has been first among the developing countries in absorbing FDI for four years from 1993 and in the world, second to the United States. In 1997, foreign capital inflow reached U.S. \$ 64.4 billion, increasing 13% over the previous year (Table 3).

In order to attract foreign investors, the central and local governments implemented many preferential policies, of which taxation concessions and exemptions were dominant. For example, in the SEZs and EEAs, the income tax rate for FFEs is 15%, and the tax rate on profit remittances is 10%. For high-tech and export enterprises, the income tax rate is only 10%, and profit remittances, capital goods imports, and product exports

are all tax-free. New enterprises are granted a tax holiday for two years, and the income tax is levied at half the normal rate in the following three years. These policies are more favorable than Southeast Asian countries.

Table 3 Use of Foreign Capital

Year	Foreign capital inflow (\$ billion)	Growth rate (%)	Foreign loans (\$ billion)	Direct foreign investment (\$ billion)	Share of foreign capital in fixed investment (%)
1979–1983	14.4	19.8	11.8	1.8	2.6
1984	2.7	36.5	1.3	1.3	3.9
1985	4.6	71.8	2.7	1.7	3.6
1986	7.3	56.2	5.0	1.9	4.4
1987	8.5	16.5	5.8	2.3	4.8
1988	10.2	21.0	6.5	3.2	5.9
1989	10.1	–1.6	6.3	3.4	6.6
1990	10.3	2.3	6.5	3.5	6.3
1991	11.6	12.3	6.9	4.4	5.7
1992	19.2	66.2	7.9	11.0	5.8
1993	39.0	102.9	11.2	27.5	7.3
1994	43.2	10.9	9.3	33.8	9.9
1995	48.1	11.4	10.3	37.5	11.2
1996	54.8	13.9	12.7	41.7	11.7
1997	64.4	17.5	12.0	45.3	na

Sources: China Statistical Yearbook, 1997; A Statistical Survey of China, 1998.

With the increase in the use of foreign capital, some contradictions and problems arose in connection with the operations of FFEs. In order to attract foreign capital, a favorable environment and preferential policies were not enough. Laws that protected the benefits of foreign investors and standardized the treatment of foreign enterprises needed to be enacted. Beginning in 1989, China published a series of laws: the taxation law, the labor law, the law of exchange management, the law of enterprise registration, the law of foreign economic contracts, and so on. At the same time, the Chinese government signed agreements with many countries concerning protection of investment and avoidance of dual taxation. With the implementation of some local laws and regulations, an environment suitable for international investment was established.

Some problems of using foreign capital were connected with two issues. One was related to unequal industrial distribution. Most foreign capital was concentrated in labor-intensive processing industries, while foreign capital inputs into technology-intensive and basic industry were comparatively

small. The other issue was the unequal regional distribution. The FDI flows were mainly focused on the eastern coastal regions. According to industrial surveys, the accumulated contract volumes of FDI in the eastern regions accounted for 90.4% of total FDI at the end of 1995. To stimulate development of the middle and western regions, the central government put most foreign government loans into infrastructure and basic industrial projects in those regions and provided incentives to encourage foreign capital to flow there. According to statistical sources, 47% of the loans of foreign governments and 40% of the loans of international financial organizations were put into the middle and western regions in 1996.

The use of foreign capital makes up for shortages of construction funds, promotes the level of industrial technology and management, and advances economic growth. It also makes use of, and improves, available human talent, increases employment, raises tax collection, stimulates imports and exports, and adds to foreign exchange reserves.

With the increase of the numbers of FFEs and the fields they entered, the problem of competition between the FFEs and domestic enterprises became troublesome. As mentioned before, the central and local governments formulated many preferential policies, especially taxation reductions and exemptions, to attract foreign capital. These concessionary policies were not available to domestic enterprises. Already at a disadvantage because of the heavy burdens of the old economic system, state-owned enterprises and collective enterprises were unable to compete with foreign enterprises. Some township and village enterprises (TVEs) and individually owned enterprises that experienced rapid growth in the initial stage of the reform were also hurt by competition because of their unequal treatment. The Chinese government realized the seriousness of the problem and adopted some appropriate measures. China adopted a policy to give FFEs "national treatment," hoping it would help its effort to join WTO. In addition, new measures are being implemented to improve the investment environment and to attract foreign capital.

Foreign Trade

China's foreign trade has developed rapidly since reform and the opening-up policy. From 1978 to 1997, the total value of imports and exports increased by 14.5 times from U.S. \$ 20.6 billion to U.S. \$ 325.1 billion, and the average annual growth rate was 15.5%, 5.7% above the GDP growth rate (Table 4). China ranked 10th in the world in international trade in 1997, up from 32nd in 1978. The expansion of foreign trade served to stimulate economic growth. It is estimated that in the period 1991-1995, an 1% increase in exports could make the economy grow 0.2%. The share of exports in GDP reached more than 20%, up from 5% in 1979. The foreign

trade structure has also changed greatly from agricultural and mineral primary products to industrial manufactured products. The ratio of primary products exports to industrial manufactured products exports has changed from 1:1 in 1980 to 1:6 in 1996. From 1990, service trade increased as rapidly as goods trade. Although there are still many restrictions on FFEs seeking to enter Chinese services markets, in 1995 import of insurance and other services doubled over the previous year.

Table 4 Imports and Exports

Year	Total value of im-ports & exports (\$ billion)	Growth rate(%)	Imports (\$ billion)	Growth rate (%)	Exports (\$ billion)	Growth rate (%)
1978	20.64		10.89		9.75	
1979	29.33	42.1	15.67	43.9	13.66	40.1
1980	38.14	30.0	20.02	27.8	18.12	32.7
1981	44.02	15.4	22.01	9.9	22.01	21.5
1982	41.61	-5.5	19.29	-12.4	22.32	1.4
1983	43.62	4.8	21.39	10.9	22.23	-0.4
1984	53.55	22.8	27.41	28.1	26.14	17.6
1985	69.6	30.0	42.25	54.1	27.35	4.6
1986	73.85	6.1	42.91	1.6	30.94	13.1
1987	82.65	11.9	43.21	0.7	39.44	27.5
1988	102.78	24.4	55.27	27.9	47.51	20.5
1989	111.68	8.7	59.14	7.0	52.54	10.6
1990	115.44	3.4	53.35	-9.8	62.09	18.2
1991	135.63	17.5	63.79	19.6	71.84	15.7
1992	165.53	22.0	80.59	26.3	84.94	18.2
1993	195.7	18.2	103.96	29.0	91.74	8.0
1994	236.62	20.9	115.61	11.2	121.01	31.9
1995	280.86	18.7	132.08	14.2	148.78	22.9
1996	289.88	3.2	138.83	5.1	151.05	1.5
1997	325.06	12.1	142.36	2.5	182.7	21.0

Sources: China Statistical Yearbook, 1997; A Statistical Survey of China, 1998.

Reform of the Foreign Trade System

Decentralizing export management was the most important aspect of the reform of the foreign trade system. During the experimental stage from 1979 to 1986, controls on imports and exports of commodities were gradually eliminated. Reform of the foreign trade system started in 1987 by implementing a contract responsibility system on foreign trade offices. In order to encourage exports, the government implemented an export subsidy poli-