



INSTITUTE OF SOUTHEAST ASIAN STUDIES

# **ASEAN-CHINA ECONOMIC RELATIONS**

## **Developments in ASEAN and China**

Edited by

**Chia Siow Yue**

**Cheng Bifan**

Institute of World Economics and Politics  
and  
ASEAN Economic Research Unit  
Institute of Southeast Asian Studies

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**ASEAN-CHINA  
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# Foreword

ASEAN-China economic relations is an area of considerable significance. Indeed, if anything, this significance has been increasing in recent years. Yet this relationship remains poorly understood, particularly in terms of the overall issues involved and their implications for individual countries and the region as a whole. It was partly to correct this state of affairs and to put ASEAN-China economic relations in their proper perspective that a group of ASEAN and Chinese scholars came together in April 1985 to plan a three-year research project on "ASEAN-China Economic Relations". Three themes were identified: Phase I — ASEAN-China Economic Relations: Trends and Patterns; Phase II — Developments in China and ASEAN and Their Implications for ASEAN-China Economic Relations; and Phase III — ASEAN-China Economic Relations in the Context of Pacific Economic Development and Co-operation. The Institute of Southeast Asian Studies, Singapore, and the Institute of World Economics and Politics, Beijing, are the co-ordinating institutions for ASEAN and China, respectively. Dr Chia Siow Yue is the Co-ordinator of the ASEAN aspects of the project and Mr Cheng Bifan, the Chinese aspects. Both Dr Chia Siow Yue and Mr Cheng Bifan are also the joint editors of the publications emanating from the project, with Dr Chia being responsible for the English edition and Mr Cheng Bifan, the Chinese edition.

The papers of the first phase of the project were presented at a workshop in Singapore in June 1986, and published under the title *ASEAN-China Economic Relations: Trends and Patterns* in October 1987. The research findings of the second phase were presented at a workshop in Beijing in October 1987. It is hoped that this second volume, *ASEAN-China Economic Relations: Developments in ASEAN and China* will also be useful to scholars and policy-makers concerned with ASEAN-China economic relations. The project on "ASEAN-China Economic Relations" has benefited immensely from the contributions of all participants, and from the financial support provided by the Ford Foundation and the International Development Research Centre, Canada. The Institutes would like to record their appreciation of all this assistance and support. Responsibility for facts and opinions expressed in these volumes rests exclusively with the individual contributors, and their interpretations do not necessarily reflect the views or policy of the Institutes or their supporters, or the editors.

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# **1 Economic Reforms in China and Their Impact on China-ASEAN Economic Relations**

**Yang Deming, Yu Yunding,  
and Shen Huasong**

## **I. Introduction**

Since its inception in 1978, China's economic reforms have attracted world-wide attention. Their successful implementation is not only crucial to the development of China's domestic economy, but also highly significant in promoting China's economic ties with foreign countries. The ASEAN countries are China's close neighbours, with whom China sincerely aspires to promote vigorous economic relations on the basis of equality and mutual benefit. This relationship hinges upon numerous factors, the most important of which are: firstly, the economic policies, structures, and development of China and the ASEAN states; and secondly, the pattern and development trends in the world economy. China's economic reform, a most assiduous, complex, and time-consuming undertaking, constitutes a long-term factor that will affect the economic relations between China and the ASEAN nations. What is the nature and trend of China's economic reform? And what impact will it have on prospects for China-ASEAN economic relations? These are matters of general concern to the ASEAN countries.

This paper is divided into three parts: first, an overview of China's economic reforms; second, China's economic structure and related policy reforms; and third, an analysis of the impact of China's economic reforms on China-ASEAN economic relations.

## **II. An Overview of China's Economic Reform**

The economic reforms in China involve two interrelated aspects of structural and policy reforms, with focus on the former. The original economic structure characterized by centralized economic planning took shape in the late 1950s. The merit of such a structure lies in its centralized and unified planning which facilitates the mobilization of vast human, material, and financial resources for major projects vital to the national economy and the people's livelihood. It played a significant role in laying the foundation for China's socialist industrialization

and in setting up an independent and comprehensive system for the national economy. Yet it also had serious flaws, manifested mainly in: excessive concentration of economic decision-making power; over-emphasis on mandatory planning; neglect of the development of the commodity economy and the regulatory role of the market; and lack of enterprise vitality and low economic returns. The basic goal of the economic reforms since 1978 has been to create a new economic structure that is a planned socialist commodity economy based on public ownership suited to actual conditions in China through the elimination of the above-mentioned defects.

The economic reforms first began in the rural areas in 1978 and centred on a household contracted responsibility system linking remuneration to output, putting an end to the prolonged stagnation of the rural economy in a short span of time. Their success laid a solid foundation for a comprehensive reform of the nation's economic structure, with focus shifting to the cities. The major elements of these reforms are: (1) invigorating enterprises into efficient economic entities enjoying relative managerial independence; (2) further expanding the socialist commodity markets along with a gradually improved marketing network; and (3) establishing a new socialist management system with gradual shift away from direct towards indirect state macro-control. Around these three core areas are supporting reforms in planning, pricing, finance, the fiscal system, labour, and the wage system. Together, these function as a complete set of macro-economic control mechanisms capable of combining planning with market regulation, and micro-flexibility with macro-control. This will, in turn, make it possible to harmonize the interests of the state, the collective, and the individual and thus bring about the virtuous circulation of the entire national economy.

### 1. Invigorating the Enterprises

Under the old economic structure, enterprises were no more than "appendages to state administrative organs", bereft of decision-making power and managerial vitality, resulting in micro-structural rigidity and low economic efficiency. Invigoration aimed at turning enterprises from administrative "appendages" into socialist producers and distributors of commodities enjoying relative autonomy in management and bearing full responsibility for their profits and losses. Therefore, enterprise stimulation constitutes an essential part of the nation's economic restructuring. For this, the Chinese Government has, in recent years, adopted a variety of policies and measures and carried out many experiments. These include, among other things, the following:

(1) *Delegating more decision-making power to state-owned enterprises.* The principal measures are: (a) to stipulate that enterprises be entitled to sell their excess state-quota products to meet market demands; (b) to retain a portion of their profits instead of transmitting them all to the state which took care of their wages, income and expenditure, and profits and losses; and finally, (c) to use their funds, appoint and remove middle-level cadres, and recruit workers and staff personnel.

(2) *Introducing an economic responsibility system.* This refers to a management system that will enhance enterprises' socio-economic results under the guidance of state plans and integrate authority responsibility and benefits into an organic whole. Such a system may help eliminate the egalitarian defect of "everybody eating from the same big pot" among enterprises and among workers and staff, in disregard of their performance. Responsibility here has a dual implication — responsibility in terms of the state-enterprise relationship in the form of profit retainment, contracted profits, and losses; and responsibility in terms of intra-enterprise relationship, with rewards based on performance, piece-rate, and floating wages and for overfulfilment of production quotas, and so on.

(3) *Tax-for-profit schemes.* Under this scheme, enterprises pay taxes, rather than transferring all profits to the state, according to related taxation regulations. State-owned enterprises are now required to pay three types of taxes: product taxes or income taxes on net profits, resource taxes, and adjustment taxes meant for rationalizing after-tax net income across similar enterprises. The problem with adjustment taxes is that there is as yet no uniform tax rate. The amount of profits the enterprise delivered to the state in 1983 is taken as the base figure.

(4) *Expanding lateral economic ties between enterprises.* This refers to the removal of existing barriers between the different types of ownership, regions, departments, urban and rural areas, and military and civilian sectors, and fostering co-ordination among specialized departments in production, marketing, use of funds, technological development, and labour administration so as to gradually form various enterprise groups and cartels.

In accordance with the principle of separation of ownership and managerial authority, various types of contract responsibility systems, such as leasing and the managerial contract responsibility system, are being implemented on a trial basis, depending on the nature, size, and technical features of the enterprise concerned. However, whatever the type adopted, the relationship of authority, responsibility, and benefit (between state and enterprise, and between owner and manager of the enterprise) should be formally defined in a contractual form, and management performance taken as the basis for rewards and penalties. Meanwhile, reforms related to the ownership of the enterprise through shareholding are also implemented on a trial basis.

During the Seventh Five-Year-Plan period (1986–90), the government will continue to adopt vigorous measures to further enhance the vitality of enterprises. These measures include:

1. Further streamlining of administration and delegating more power to lower levels. In principle, ministries and commissions under the State Council, provincial governments, and governments in the autonomous regions should no longer directly control enterprises. In cities, a clear distinction must also be drawn between the responsibilities and functions of the government and those of the enterprises.
2. Appropriately reducing the size of accounting units in large and medium-



sized state enterprises and introducing a layered management system with division of decision-making power and turning over some small state-owned enterprises to collective or individual management through a multiformed property-related managerial responsibility system such as contracting or leasing;

3. Adjusting the policies toward large and medium-sized enterprises and collective and individual enterprises in urban and rural areas concerning planning, tax, credit, and management to allow all enterprises to compete with one another on an equal footing;
4. Gradually implementing the system where the factory director (manager) assumes overall responsibility and transforming the enterprise leadership set-up by introducing, on a trial basis, the system of board of directors or management council; and
5. Having the overwhelming majority of enterprises bear full responsibility for their own profits or losses by the end of the Plan period. Enterprises that have been badly managed should be shut down or production suspended, merged, or shifted to other lines of production.

## 2. Establishing and Improving a Socialist Market System

To establish such a network means that it is necessary to set up and open up markets of all kinds, such as consumer goods markets and markets for means of production, for funds, and for labour, etc. It also means that China should undertake reforms on pricing and price control systems. In doing so, the principal goal is to break down the barriers between departments and between regions, and open up markets in provinces, autonomous regions, municipalities, townships and villages, with a view to forming an integrated socialist market, and improving it over time.

### *Establishing an Integrated Network of Socialist Markets*

The first major step in setting up such a network has been the transformation since 1978 of the system of commerce and the institution of a new system under which the state, collective, and individual businesses coexist. State commerce, which used to be under the system of unified purchase and supply of goods by the state, is now run on a flexible multi-formed management, encompassing state monopoly of purchase, planned purchase, ordering, selective purchase, commissioned selling, acting as a dealer, etc. Supply and marketing co-operatives in rural areas have restored their co-operative character and are evolving into all-trade shopping and service centres. Trade centres that have broken down the confines of administrative subordination are on a trial run to transform the wholesale set-up. State commercial enterprises have begun to implement the economic responsibility system that combines authority, responsibility, and benefit in place of the old management system that was based on unified state planning for revenue and expenditure. A series of measures have been taken in the past few