



Annual Report on Reform
China Institute for Reform and Development

2007 EVALUATION REPORT ON CHINA'S REFORM

Editor-in-Chief Chi Fulin



FOREIGN LANGUAGES PRESS

2007 EVALUATION REPORT ON CHINA'S REFORM

DE-2

PM

D62
60

Annual Report on Reform
China Institute for Reform and Development

2007 Evaluation Report on China's Reform

Editor-in-Chief Chi Fulin

Foreign Language Press

First Edition 2007

Website: <http://www.flp.com.cn>
Email Addresses: info@flp.com.cn
sales@flp.com.cn

ISBN 978-7-119-05078-2
© Foreign Languages Press, Beijing, China, 2007
Published by Foreign Languages Press
24 Baiwanzhuang Road, Beijing 100037, China
Distributed by China International Book Trading Corporation
35 Chegongzhuang Xilu, Beijing 100044, China
P.O. Box 399, Beijing, China

Printed in the People's Republic of China

图书在版编目 (CIP) 数据

2007 年中国改革评估报告: 英文 / 迟福林主编.

— 北京: 外文出版社, 2007

ISBN 978-7-119-05078-2

I. 2... II. 中... III. 体制改革—评估—报告—中国—2007—英文 IV.D62

中国版本图书馆 CIP 数据核字 (2007) 第 133470 号

英文审定 May Yee Solange Silverberg Paul White 郁苓

中文编辑 杨春燕

英文翻译 丛国玲 布布 郭辉 闫威 李洋

周晓刚 严晶 王琴 韩清月

封面设计 陈所华

印刷监制 张国祥

2007' 中国改革评估报告

迟福林 主编

*

© 外文出版社

外文出版社出版

(中国北京百万庄大街 24 号)

邮政编码 100037

外文出版社网址 <http://www.flp.com.cn>

外文出版社电子信箱 info@flp.com.cn

sales@flp.com.cn

北京外文印刷厂印刷

中国国际图书贸易总公司发行

(中国北京车公庄西路 35 号)

北京邮政信箱第 399 号 邮政编码 100044

2007 年(小 16 开)第 1 版

2007 年 8 月第 1 版第 1 次印刷

(英)

ISBN 978-7-119-05078-2

09800(平)

2-E-3801 P

Principal Authors

Introduction Chi Fulin

Executive director and professor of China (Hainan)
Institute for Reform and Development

Chapter One Dang Guoying

Director and research fellow of Macro Economy Research Office of Rural Development Research Institute under the Chinese Academy of Social Sciences

Chapter Two Chang Xiuze

Professor of the Macro Economy Research Institute of the National Development and Reform Commission

Tang Haibin

Former deputy director of the Research Office, All-China Federation of Industry and Commerce

Chapter Three Wei Jianing

Deputy director, research fellow of Macro Economy Research Department of the Development Research Center of the State Council

Liu Shangxi

Deputy director and research fellow of the Finance and Science Research Institute of the Ministry of Finance

Ba Shusong

Deputy director and research fellow of the Finance Research Institute of the Development Research Center of the State Council

Chapter Four Sun Liping

Professor of the Sociology Department of the School of Humanities and Social Sciences of Tsinghua University

Li Shi

Professor of the School of Economics and Business of the Beijing Normal University

Luo Chuliang

Associate research fellow of the Economy Research Institute of the Chinese Academy of Social Sciences

Liu Shangxi

Deputy director and research fellow of the Finance and Science Research Institute of the Ministry of Finance

Chapter Five Wang Yukai

Professor of the National School of Administration

Preface

To make an objective judgment and appraisal of China's reform process, China (Hainan) Institute for Reform and Development has, since 2005, released the *Evaluation Report on China's Reform*. This year, we now present the *2007 Evaluation Report on China's Reform* to our readers.

The year 2006, the initial year of the 11th Five-Year Plan (2006-2010), saw the unfolding of a series of major reform measures and important progress in some key areas and links. Systematic measures and mechanisms to ensure the implementation of the thinking of scientific development marked a new beginning for the reforms of this era. The *2007 Evaluation Report on China's Reform* is meant to clearly reflect the following viewpoints: China's reforms are at a critical point which makes the reforms even more significant and complicated. The importance of reforms therefore must be fully appreciated and efforts be made to accelerate these reforms. A greater degree of determination and resolve should be directed to promoting reforms of the economic, political, social and cultural structures toward a comprehensive innovative system, in order to answer the needs of economic and social developments. Reforms should focus on the basic needs of the livelihood of the people, relations involving all quarters should be correctly handled to realize the sharing of the results of reform and development and to realize social justice and equality. Essential breakthroughs should be realized in the reform of the government administrative system.

Compared with past years, this year's report has continued our past style but is more concise. Apart from the Introduction, the reports deal with reforms in rural areas, enterprises, the macroeconomic system, social structure and administrative system. Authors of the various chapters are all specialists with in-depth knowledge of the areas they write about and therefore

are authorities in their fields. To best reflect their academic views, the report maintains the authors' individual viewpoints and styles. It should be pointed out that we have made some editorial changes to their sections for the sake of the structural uniformity of this report. My thanks go to my colleague Miao Shubin for his coordination during the editing and compiling process. I am also grateful to Zheng Gengsheng, Kuang Xianming, Huang Donghui, Xia Feng and Zhan Dachong for their various contributions.

Time flies. China's reforms face more complicated situations and more arduous missions than ever before. China finds itself at a critical stage which calls for concerted efforts, strong resolve, and timely measures in order to let everyone enjoy their own share of the achievements of reform. As Premier Wen Jiabao rightly put it in response to a reporter's question after the Fourth Plenary Session of the 10th National People's Congress in March 2006: "There are always difficulties on the road ahead, but we cannot halt our steps, for there is no way to back out."

Chi Fulin

February 17, 2007 Haikou

Contents

Preface	i
----------------	----------

Introduction Toward Comprehensive System Innovation	1
I. New Situation in Comprehensive Reform in 2006	1
II. Targets and Tasks in System Innovation	11
III. Accelerating Reforms of the Administrative Management System in a Scientific Way	29

Chapter One Rural Reform: System Innovation to Unify Rural and Urban Development	43
I. Substantial Progress in Overall Rural Reform	43
II. Policy Adjustments Focusing on Financial Inputs to Support Rural Areas	48
III. Building up a Rural Social Security System Focusing on a Guaranteed Minimum Standard of Living	54
IV. Establishing a Long-Term Mechanism to Ensure Farmers' Rights and Interests by Focusing on Land Policy Adjustments	59
V. Debate on Focal Issues of Current Rural Policies	64

Chapter Two Enterprise Reform: Building an Institutional	
---	--

Guarantee for Fair Competition	79
I. The Strategic Adjustment of the Layout and Structure of the State-Owned Economy	79
II. Institutional Reform of SOEs	84
III. Institutional Reform of State-Owned Assets Management	87
IV. General Situation of the Private Enterprises Development	91
V. Introducing an Institutional Environment for Fair Competition	106

Chapter Three Macroeconomic Reforms: Toward a Transformation of Economic Growth Patterns 119

I. An Evaluation of the Government's Macro Controls in 2006.....	119
II. Promoting Reform in Finance and Taxation Aimed at Transforming Economic Growth Patterns	128
III. Major Transitions and Opportunities in Financial Reform.....	135
IV. Problems in Macro Control and Future Macroeconomic Reforms	155

Chapter Four Social Reform: Developing the Systems and Mechanisms for a Harmonious Society 175

I. A Harmonious Society: From Plan to Practice.....	175
II. The Key to a Harmonious Society: Harmonizing of Interests Relations	181
III. Selection of Policies to Control Income Disparity	207

IV. Establishing and Improving Public Financial Mechanisms.....	215
V. Basic Order and Social Administration	243

Chapter Five Administrative Restructuring for Service-Oriented Government 262

I. Main Features in 2006 Administrative Restructuring..	262
II. Public Services and Transformation of Government Functions	268
III. Administration under the Rule of Law and Reforms in the Administrative Examination and Approval System	273
IV. Government Performance Evaluation and Accountability Systems.....	276
V. Visions for Administrative Restructuring	283

INTRODUCTION

Toward Comprehensive System Innovation

The year 2006, the first year of the 11th Five-Year Plan period, witnessed achievements in reforms in many areas, particularly in the two areas of rural and financial reforms. "The Resolution on Major Issues Regarding the Building of a Harmonious Socialist Society," adopted at the Sixth Plenary Session of the 16th Central Committee of the Communist Party of China (CPC), calls upon people "to pursue socialist market economic reforms, to adapt to the requirement for social development and to push forward reforms and innovation in economic, political, cultural and social systems." This important Resolution symbolizes that China has entered a new period toward comprehensive system innovation for the goal of development in a scientific way.

I. New Situation in Comprehensive Reform in 2006

Since 2006, building system guarantees for development in a scientific way has been an overall requirement for overcoming the difficulties in the reforms. The central authorities have, therefore, repeatedly reiterated the importance of creating an environment for reform without any delay. The year 2006 saw a new situation for comprehensive reforms.

1. The central authorities have emphasized the importance of "resolutely pursuing reforms." It is of vital importance to push forward the reform in a comprehensive way

In the past 30 years, China's policies of opening up to the outside world have considerably emancipated and developed its productive forces.

With the rapid economic growth in recent years, some new contradictions and problems have also become more obvious during the course of economic and social developments. For example, reforms in the ownership of state-owned assets, health care, housing and education have caused considerable concern and disputes within society. In the face of various doubts about reforms, the central authority's clear-cut attitude was an important precondition for the achievements made in reforms in 2006 and played a very key role in building up motivation and confidence for reform, creating a favorable environment for comprehensive reforms.

2. Progress made in the reforms and new breakthroughs in a number of key areas and links achieved in 2006

In order to objectively evaluate the progress of reform, China (Hainan) Institute for Reform and Development designed a "Questionnaire on China's Reforms in 2006" to solicit opinions from experts and specialists in different areas. A total of 356 questionnaires were returned. The survey shows that 8.36 percent of those questioned held the view that major breakthroughs had been made in 2006; 76.21 percent of those believed that, generally speaking, progress had been made in 2006.

(1) Rural reforms created a stable situation which had rarely been seen for many years

The rural reform in 2006 gathered the most attention. The survey conducted by China (Hainan) Institute for Reform and Development on the reforms in 2006 indicates that 25 percent of the experts interviewed believed that major breakthroughs had been made in the area of rural reform; 63.22 percent of those thought that progress had been made, bringing the total to 88.22 percent. Compared with several years ago, visible achievements in the area of rural reforms had been made in the following areas:

Firstly, the 19th Session of the Standing Committee of the 10th National People's Congress abolished "The Regulations on the Agricultural Tax of the People's Republic of China." From January 1, 2006, Chinese farmers bid farewell to the practice of paying agricultural tax. The document issued at the beginning of 2006 entitled "Opinions of the Central Committee of the Communist Party of China and the State Council on Building Up New Socialist Rural Areas" marked a new round of profound

changes which were to take place in rural China.

Secondly, the conference on the comprehensive rural reforms in the whole country marked the establishment of principles and guidelines for rural reforms in the new phase: to center on the reform in the superstructure in rural areas, to promote comprehensive rural reforms and solve the complicated problems of contradictions between the superstructure and economic basis in rural areas. In many places, remarkable progress was made in township fiscal revenue and payments supervised by county governments. Visible results had been obtained in the rural compulsory education system by sorting out the responsibilities of governments at different levels, securing sources of funding for education for rural compulsory education and relieving students of their burdens. The promulgation of "The Law on Compulsory Education" has guaranteed funding for compulsory education, which means that the restructuring of compulsory rural education has entered a new period of system regularization and standardization. About 40 percent of the counties and prefectures in the entire country have entered into a new system of cooperative health care. The amount of RMB 4.73 billion from the central treasury was earmarked for this purpose, over seven times more than the figure in the previous year. The Rural Working Conference held by the central authorities at the end of 2006 announced that in the year 2007, students would be exempted from all miscellaneous tuitions fees during the compulsory rural education stage, and the new rural cooperative health care arrangement should cover over 80 percent of the counties (cities and prefectures) in the country.

Thirdly, at the Rural Working Conference at the end of 2006, the central authorities explicitly promoted the following: The need to actively explore the development of a social security system to cover both urban and rural areas and to establish a minimum standard of living in rural areas in the whole country. The central government requested that administrations at different levels should, in accordance with the local level of economic development and fiscal ability, define the targets and standards for poverty stricken people, encourage the areas with established systems to make improvements, support those areas without existing systems in setting up systems, and allocate subsidies from the central treasury to poverty stricken

areas. This constitutes major progress compared with the system of rural minimum living security where conditions permitted, called for at the Fifth Plenary Session of the 16th CPC Central Committee held from October 8 to 11, 2005.

(2) Substantial achievements have been made in the sphere of financial reform

The survey on the reforms of 2006 made by China (Hainan) Institute for Reform and Development proved that 13.08 percent of the experts questioned held the view that major breakthroughs had been made in financial reform in 2006. This percentage point is next to the rural reform in the evaluation of a single reform item. Among the experts, 60.76 percent of them believed that the year 2006 saw progress in financial reform. The two figures come to a total of 73.84 percent. The achievements in the financial reform in 2006 covered the banking, securities and insurance areas, where some fundamental reform measures had been implemented.

Firstly, substantial steps had been taken in the reform of the shareholding system of state-owned banks. After the Bank of Communications, China Construction Bank and Bank of China were listed in the Hong Kong Stock Exchange and the Bank of China was listed in the A-share market on the mainland, the Industrial Bank of China was listed simultaneously in both A-share and H-share markets and investment in the banking shares of the Chinese banks became hot items in the capital market. The banks mentioned above have made achievements in ownership, corporate governance, internal control, strategic cooperation and quality improvement of the staff, creating a good image of modern commercial banks.

Secondly, reform on the division of stock rights went smoothly. By the end of 2006, about 1,300 companies listed in Shanghai and Shenzhen completed reforms in this regard or had started the reforms. The values of shares that had been reformed took up over 97 percent of the total market value.¹ The time has come when all the shares can be circulated, effectively reducing risks in the securities market where the situation has obviously taken a turn for the better.

^① Ba Shusong, "Review of 2006 and Looking Forward to 2007 in China's Financial Reform," *Ping'an Securities*, January 10, 2007.

Thirdly, the reform on the RMB exchange rate has continued in the direction of a market economy. Since the reform on the exchange rate in 2005 was initiated to develop a mechanism, new financial products were available and related policies were issued to create a combination of a balanced market value and adjustments of market mechanism so that pressure on RMB revaluation has been relieved, elasticity of the exchange rate has been constantly strengthened and revaluation has been stabilized.

Fourthly, “Opinions on Reform and Development of the Insurance Industry” promulgated by the State Council in June 2006 clearly indicated that a social security system with different levels should be built up, that individual and group pension business, responsibility insurance and expanding insurance service areas should be actively developed, mapping out a basic framework for the reform of the insurance industry. In October 2006, China Insurance and Supervision Regulation Commission formally issued “The Guidelines for the Development of China’s Insurance Industry in the 11th Five-Year Plan Period.” This marked the fact that blueprints had been established for the reform of China’s insurance industry, introducing a new orbit for speedy development.

(3) Starting reforms in a comprehensive way in the social sectors with public services as the focus

Compared with the past 28 years, the year 2006 witnessed visible progress in the reform of the social sectors. In the past, social stability was the precondition for reform and development. Now the building up of a harmonious society is one of the basic goals for the reforms in the new period.

Firstly, the reform of the income distribution system has commenced. Faced with the widening gap of income distribution, the Political Bureau of the CPC Central Committee held a meeting on May 26, 2006, and put forward systematic ideas on reforming the income distribution. Since July 1, over-all reforms of the income distribution system have started from the regularization of the income distributions for civil servants.

Secondly, major goals for reforms of the medical and health system had been set. Headed by the National Development and Reform Commission and Ministry of Health, a coordination group for reforms was formally set up with participants from 11 ministries and commissions to table an agenda for new medical and health reforms. Hu Jintao, General Secretary

of the CPC, reiterated that the public welfare nature of the health sector should be maintained to serve the public interest and that a basic health care system covering both urban and rural residents should be established to provide them with safe, effective, convenient and inexpensive public health and basic medical care services. This indicates that substantial reforms of China's medical and health systems have entered a new phase.

Thirdly, major steps have been taken toward a public fiscal system in the fiscal system reform. "The Resolutions" adopted at the Sixth Plenary Session of the 16th CPC Central Committee outlined the major tasks for building up systems and guaranteeing social fairness and justice, "to improve the public fiscal system and gradually achieve equality of basic public services." The goal for reforms of the fiscal system is more clearly defined: the focus should be placed on the equality of basic public services and increase of input in social undertakings. In 2006, additional fiscal payments were made for rural areas, agriculture and farmers, and for the development of social undertakings, preliminarily demonstrating the welfare nature of the fiscal system. In 2006, reforms in the categorization of governmental fiscal revenue and payments were also conducted. They have been the most important changes to the fiscal statistics systems since the founding of the People's Republic of China. This reform helped to reflect the sizes of governmental revenue and expenditure and major governmental functions in a complete and explicit way, to strengthen control over fiscal payments and budget transparency to prevent and control corruption from its very source.

3. The overall situation in 2006 showed that expected results had not been obtained in the reforms in some important sectors, underscoring that the reform is a fairly difficult endeavor

(1) Reforms in the state-owned monopoly industries are moving at a slow pace

The survey for the reform in 2006 conducted by China (Hainan) Institute for Reform and Development showed that 49.13 percent of the experts questioned believed that there was almost no progress in the reforms of the state-owned enterprises. Although the reform of the monopoly sectors was one of the key reform tasks at the time, progress was slow in this area in