

EXPLORING THE COURSE OF REFORM & OPENING

Volume One

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**EXPLORING THE COURSE
OF REFORM & OPENING
(Volume I)**

PREFACE

Revolution means liberation of productive forces, and so is reform. Overthrow of the reactionary rule of imperialism, feudalism and bureaucrat capitalism liberated the productive forces of the Chinese people. This is revolution, and so revolution means liberation of productive forces. After the socialist basic system was established, it is also necessary to fundamentally change the economic system restraining the development of the productive forces and establish a socialist economic system full of vigor and vitality so as to promote the development of the productive forces. This is reform, and so reform also means liberation of productive forces.

The essence of socialism is to liberate productive forces, develop productive forces, wipe out exploitation, eliminate polarization and finally attain common richness.

The reason that major steps and breakthroughs have failed to be made in reform and opening-up is the worrying of too many capitalist things and going the road of capitalism. The crucial point lies in the question of being “capitalist” or being “socialist”. The criterion for judgement shall mainly be whether or not it is favorable to developing the productive forces of the socialist society, whether or not it is favorable to consolidating the comprehensive national strength of the socialist country, and whether or not it is favorable to improving the livelihood of the people.

(Deng Xiaoping. Main Points of the Speeches in Wuchang, Shenzhen, Zhuhai, Shanghai and Other Places. Selected Works of Deng Xiaoping, Vol.III, the People's Publishing House, 1993)

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THEORY ABOUT REFORM

GREAT PRACTICE AND SUCCESSFUL EXPERIENCE

In Commemoration of the Twentieth Anniversary of the Third Plenary Session of the Eleventh Central Committee of the Communist Party of China

In 1978, after a massive discussion on what the criterion for judging the truth consisted of and bringing order out of chaos in the ideological and theoretical fields, the Communist Party of China victoriously convened the Third Plenary Session of its Eleventh Central Committee. The session made the great strategic decision to shift the focus of work of the entire Party to economic construction and to practicing the reform and opening to the outside world. This has accomplished a historic transition. The session is of epoch-making significance and is a new milestone in the history of the Communist Party of China. It initiated a new prospect in which China started carrying out the reform and opening-up and engaging in modernization on a comprehensive scale.

In the past 20 years, under the strong leadership of the Communist Party of China with its scientific decisions, and guided by Deng Xiaoping Theory, peoples of all ethnic groups of China have exerted concerted efforts in carrying forward the reform and opening-up and made great achievements that attracted worldwide attention. Very rich experiences of historical significance have been accumulated. The 20 years of reform and opening-up was a new Long March and a new revolution under the leadership of the Communist Party of China. Comrade Deng Xiaoping is the chief architect of China's reform. He has made great contributions of historical significance to China's reform, opening-up and modernization. In his report to the Fifteenth Party Congress, General Secretary Jiang Zemin placed China's reform and opening-up on a par with the Revolution of 1911 and the founding of the People's Republic of China and the establishment of the socialist system and listed them as the three tremendous historical changes on the Chinese people's road of progress in the 20th century. On this commemorable day we cherish even more the memory of Comrade Deng Xiaoping and the proletarian revolutionaries of the older generation.

To review and summarize the 20 glorious years of reform and opening-up is of especially important significance.

I

The reform is an inevitable trend of development in today's world. After 30 years of exploration full of untold hardships and summarizing both the positive and negative experiences, the reform and opening-up are China's inevitable choices. It is also the inevitable result of developing and improving the socialist system. The aim is to change once and for all the highly centralized planned economy which restricted the economic development and to establish a socialist market economy, and by doing so to liberate and develop the social productive forces and blaze a trail for the establishment of socialism with Chinese characteristics.

China's reform and opening-up are taking place under special historical conditions and background. Their chief manifestations are as follows.

1. China's reform and opening to the outside world were initiated against the background that her socialist cause had experienced a series of tortuous hardship, especially the bitter lessons of the "Cultural Revolution" and that her economy was on the verge of collapse

From the founding of New China through to the eve of the Third Plenary Session of the Party's Eleventh Central Committee, China had been practicing socialism for 29 years. In the course of those years our undertaking has experienced healthy development and made glorious achievements. However, later in the process due to our misunderstanding of socialism, a series of "leftist" tendencies were bred and China underwent a string of frustrations and tribulations. The erroneous guiding principle of "taking class struggle as the key link" and the frequent political struggles threw into confusion the normal process of the economic construction. Especially so was the ten years of turmoil brought about by the "Cultural Revolution." Those were years of extreme disasters to the entire Party and the entire Chinese people. The "Cultural Revolution" made a mess ideologically and theoretically of the basic principles of Marxism and caused extreme chaos in people's cognition. In practice, the "Cultural Revolution" destroyed the development of the productive forces and

pushed the national economy to the verge of collapse. After the downfall of the “Gang of Four,” we had to set things to rights in the ideological and theoretical fields. More importantly, we had to sort out and summarize comprehensively the mistakes we made and the lessons we learnt when exploring the socialist path in the past. We had to answer in a scientific way “What is socialism?” and “How should we build socialism?” These were questions of overall and fundamental importance.

2. China’s reform and opening-up have been carried out on a rather low plateau of productive forces

The fundamental realities of China are a large population, a poor foundation to start with and relatively insufficient resources. The new China was built on the ruins of a semi-feudal and semi-colonial state. Efforts exerted in the nearly 30 years after the founding of the People’s Republic resulted in great achievements of China’s socialist construction. However, the underdeveloped state of the economy was far from being overcome. Not only did the development of productive forces remain low, but also multiple stratification appeared. There was a serious lack of financial resources; the people’s livelihood was generally very low; and the problem of providing the people with adequate food and clothing remained unresolved. In 1978, China’s per capita GNP according to the then exchange rate was US\$ 230. While that of the developed countries averaged US\$ 8,100; that of the medium-level income countries averaged US\$ 1,160; and that of the developing countries averaged US\$ 520. Comrade Deng Xiaoping in a speech made in September 1978 said, “In today’s world, our country is counted as poor. Even within the third world, China still rates as relatively underdeveloped.” (Selected Works of Deng Xiaoping, Vol. 2, 2nd ed., p. 128) To carry forward the reform on such an underdeveloped basis entailed many unfavorable factors and tremendous difficulties and pressure. Furthermore, tremendous risks existed.

3. China’s reform and opening-up have been carried out under a highly centralized planned economy

China’s planned economic structure was modeled after that of the Soviet Union. Such a highly centralized planned economy did play a certain positive role under the special social and historical conditions after the founding of the People’s Republic. However, since it rejected the commodity-money relationship and negated the role

of the market mechanism, it became increasingly obvious that such a structure restricted the productive forces. The present reform and opening-up aim at changing the highly centralized planned economy into a socialist market economy. They also aim at renovating the entire mode of the economic operation, rules and regulations pertaining to it, and change people's thoughts, conceptions and mode of behavior. In other words, they aim to effect changes in all spheres and structure innovation. Reform is related to the powers and interests of all quarters. It is similar to tearing down old houses while building new ones simultaneously. Furthermore, the reform must promote development and ensure stability. It is a tremendously difficult and complicated task indeed.

4. China's reform and opening-up have been carried out on the basis of an almost unitary public ownership system

China's reform took the road of having the public sector of the economy to remain dominant and diverse sectors of the economy to develop side by side. The socialist market economy is being built on such a basis. In the history of the world, market economy has been associated with the economic private ownership. To integrate public ownership with the market economy and make it show greater superiority have never been attempted before in the world. Furthermore, to dovetail such a gigantic state-owned economy like China's with the market economy has no precedents to follow. This is an entirely new pioneering project, which will have to be carried forward as we grope along.

5. China's reform and opening-up were initiated under closed or semi-closed situation and carried out under special international circumstances

During the Ming (1368-1644) and Qing (1644-1911) dynasties, China became increasingly complacent and conservative and cut itself off from the rest of the world. As a result, it lagged behind and became vulnerable to attacks. Ultimately, it was reduced to a semi-feudal and semi-colonial state. After the founding of New China, it found itself in a closed or semi-closed situation. This was the result of the Western powers' policy of being politically hostile to China while intervening

militarily in Chinese affairs and economically blockading China. On top of it all China's homemade "Leftist" influence in its foreign relations made it all the more closed or semi-closed to the outside world. Consequently, China lost many excellent opportunities to develop. The world was then in the grip of the cold war characterized by turbulence. China's economy lagged more and more behind that of the developed nations. It was under such a closed or semi-closed situation that China initiated the reform and opening to the outside world. It was in an ever-changing international situation that China's reform and opening-up unfolded and constantly intensified.

The above-mentioned special historical conditions and background decided that China's reform and opening-up would be exceedingly difficult and complicated. China's reform is a deep-going revolution. It is not about the fixing of certain parts but an overall reform. It is not the tinkering of certain components but a comprehensive and deep innovation of the entire structure. It is not a simple change of policies but an in-depth adjustment of interest relationships. The success of China's reform and opening-up injected new vigor and vitality into her socialist cause. It also demonstrated to the developing countries of the world new ways to free themselves of poverty and develop their economies. Twenty years of carrying out the reform and opening-up revealed that the Chinese people stood up to rigorous tests in the historical process of practicing the market economy in underdeveloped socialist conditions and submitted a glowing answer sheet. The great achievements of China's reform and opening-up made it clear to the world that China has achieved initial success in blazing a trail for the promotion of the reform of the economic structure and modernization in underdeveloped economic conditions, a highly centralized planned economy and a stringent international environment.

II

In retrospect of the difficulties and hardship China had experienced in the 20 years of reform and opening-up can roughly be divided into three stages of development:

Stage 1 (December 1978–September 1984)

This was the stage when the reform was initiated. Reform was focused on the countryside, but at the same time pilot projects delegating more decision-making power to enterprises were ran in the cities, and special economic zones were first established.

Stage 2 (October 1984 - December 1991)

This was the stage when the reform unfolded in earnest. Reform was focused on the cities. State-owned enterprises became the core of the entire reform and the price reform became the key. From the economic sphere, reform was extended to other spheres such as science and technology and education.

Stage 3 (Beginning of 1992 to the present)

This was the stage when a fledgling socialist market economy came into being. Reform was focused on creating new structures. In the main efforts were made to further expand and develop the market, establish the modern enterprise system, and construct new macro regulation and control systems. If during the first two stages the major task was to break the old structure and tear down the old mansion, then the task of the third stage was to create new structures and construct a new mansion. With 20 years of reform and opening-up behind her, China's economic structure and operation mechanism have undergone profound changes. The highly centralized planned economy, which mainly wielded administrative measures, has "collapsed." The market under the macro regulation and control of the state greatly strengthened its basis role in the allocation of resources. The basic framework of the new structure has been set up, a pattern of opening to the outside world has been developed, the overall national strength has been greatly increased and the livelihood of the people has been improved significantly. Major manifestations are as follows.

1. The reform of the rural economic structure has realized a fundamental change from the people's commune system to the dual management system that combines household with collective operations based on the household contract system

Providing the people with adequate food has always been an issue of paramount importance. It had confounded us for nearly 30 years and was never resolved. Rural reform naturally became the starting point of China's reform of the economic structure. In the past 20 years, the rural reform of the economic structure advanced with big strides. The dual management system that combines household with collective operations based on the household contract system was popularized throughout the countryside. The "people's commune" system was abolished. Mandatory plans for the agricultural production were eliminated and substituted with the contractual procurement. Price controls over most agricultural products

were lifted and the state now practices protective pricing for those major agricultural products such as grain and cotton that affect the national welfare and people's livelihood. The state now encourages all sorts of ownership economies and non-agricultural industries to develop. Township enterprises suddenly came to the fore and are developing rapidly. Integration of trade, industry and agriculture and promotion of coordinated production, processing and sales systems have been accelerated. The industrialization of agriculture is swiftly unfolding. Matching measures to differing local conditions, optimum scale farming and intensive management has made good development. The countryside had the strongest natural economy in color and was the weakest link in the national economic development. It can be said that after 20 years of reform, its operation mechanism took the lead in stepping onto the track of market economy. The implementation of a new economic structure in the countryside and the continual relaxation of policy controls have brought about a general surge of production enthusiasm among the peasants. The reform of the structure of the rural economy has achieved tremendous results and created a human miracle. It was a towering example and great impetus to the reforms undertaken in other sectors.

2. The allocation of resources in the fields of production and distribution has made the fundamental change from plan-oriented to market-oriented

In the past, mandatory planning was ubiquitous and all embracing. It covered every aspect of the national economy. After 20 years of reform, all mandatory planning of agricultural products has been eliminated. The state only manages the agriculture through guidance planning of the production of 9 major agricultural products. The proportion of the state planning in the gross value of the industrial output dropped from over 70% in 1979 to the present 4.6%. At present no more than 12 kinds of industrial products are managed through mandatory planning and even that is limited to only part of their output. This is only 4.1% of the national gross value of industrial output, a 90% decrease compared to that before the reforms. Decisions regarding the production and prices of over 95% of industrial consumer goods are independently made by their producers according to the market supply and demand. In the total volume of the retail trade, prices managed by the state occupy 7.2% of the gross commodity value as compared to the more than 95% of 1979. A nationwide unified

commodity market has come into being. Factor markets, especially capital markets have developed in scale. By the end of November 1998, a total of 992 different kinds of securities and 843 companies are listed in Shanghai and Shenzhen. Their total market value was 2,112 billion Chinese yuan with 38.89 million investors holding established accounts.

3. Regarding the management system of state-owned enterprises, a transformation is taking place from the traditional type to the modern enterprise type

The reform of the state-owned enterprises started by granting decision-making power to enterprises and allowing them to keep more profits, “paying taxes instead of turning profit over to the state” and the “contracting system.” It continued with the transformation of enterprise operating mechanism and running pilot projects of establishing the modern enterprise systems. Though at present quite a few state-owned enterprises are hobbling along, yet compared to pre-reform days, their management systems and operating mechanism have undergone enormous changes. The strategy of “focusing on large industries while giving a free hand to small ones” and the measure of “three reforms and one strengthening” have been effectively implemented. Modern enterprise systems are being actively established. Various flexible forms of reorganization and restructuring are being attempted. They include such forms as corporations, mergers and acquisitions, conglomerates, leasing, contracting and joint-stock companies, and such measures as declaring bankruptcy and selling out. The state-owned capital is moving from low efficiency and forbidden zones to industrial zones which are fundamental, strategic and critical in nature. This has greatly elevated the quality and performance of the national economy. Such a state of affairs is conducive to giving play to the dominant role of the national economy. It is also favorable to the development of diverse forms of ownership. Quite a number of state-owned enterprises are changing from factories into corporations. Product management is changing into capital management. Single investment main bodies are changing into multiple investment main bodies. Dispersed and small-scale enterprises have begun changing into conglomerates and groups. However, the problems of redundant employees, liabilities and social burdens have yet to be resolved once and for all. Conditions and circumstances for competition need to be further improved. Reforms involving the integration of the

state-owned economy with the market and state-owned enterprises becoming the main body of the market are at a critical moment.

4. Regarding the relationship of different forms of ownership, a transformation is taking place in which unadulterated “large in size and public in nature” is changing into a pattern where the public ownership plays the dominant role in the national economy and diverse forms of ownership join in mutual development

Before the initiation of the reform and opening-up, China's economy was made up basically of a single public ownership system. After the convocation of the Third Plenary Session of the Party's Eleventh Central Committee and the proceeding from the fact that China's socialism is in its primary stage, the Party proposed that public ownership play a dominant role in the national economy and diverse forms of ownership join in equal competition and mutual development. As a result of actively exploring the possible organizational make-up with which public ownership can be realized and furthermore encouraging the development of the non-public ownership, such as individual and private ones, important changes have been effected in terms of the ownership framework. The situation in which there was a solitary public ownership under the traditional planned economy has been thoroughly broken up. The framework and quality of the state-owned economy have been greatly upgraded and improved. As a result its control capacity of the national economy has greatly increased. For instance, in 1978, the original value of the fixed assets of state-owned enterprises was 448.82 billion Chinese yuan and the net value of fixed assets was 320.14 billion Chinese yuan. In 1996, the original value and net value of the fixed assets of state-owned enterprises were 5,042.82 billion Chinese yuan and 3,499.59 billion Chinese yuan respectively, a rise of 10.20 times and 10 times respectively compared to that of 1978. A situation in which the publicly owned economy is the main body and the state-owned economy occupies a dominant position has been realized. A pattern in which state-owned, collective, individual, private and foreign economic sectors compete in the market and achieve common development has taken shape. This state of ownership is in conformity with the development of the productive forces of China's socialism in its primary stage and is therefore favorable to the economic development. It also leads to the shaping up of a vibrant market

mechanism where multiple aspects compete with one another.

5. Regarding the mode of the economic regulation and control, government has made a fundamental change from direct control to indirect regulation and control

In the course of reforming the highly centralized planned management of the past, China did not let the market drift of its own accord. On the contrary, it steadily kept up the building of a macro regulation and control system. First, the reform of the financial structure gained breakthrough advances. In 1980, the public finance practiced “apportioning revenues and expenditures between the central and local authorities, while holding the latter responsible for their own profit and loss.” By 1994, a system of sharing taxes between the central and local authorities on the basis of division of labor was established. The framework of a new fiscal and taxation system, which conforms to market requirements, was fundamentally in place. It guaranteed the stable increase of the state revenue. Secondly, the reform of the banking structure took decisive steps. A macro regulatory and supervisory system under the central bank was initially formed and the mode of regulation and control was greatly improved. A system of banking organizations was basically established in which the state-owned commercial banks are the main body; non-commercial banking is separated from commercial banking; and diverse financial institutions including local joint stock cooperative banks and foreign-invested banks coexist. The unification of exchange rates was realized. A managed floating exchange rate of the Renminbi was established and a system of convertibility under the current account was put into practice. A financial market system with unified opening-up, orderly competition and strict supervision is developing steadily. Furthermore, the reform of the investment and fund raising system has made substantive progress. Multiple fund raising channels were opened. Attention was paid to the guidance role the industrial policies and regional policies played toward social investment. In general, the framework of the new macro regulation and control system is basically set up. The state is more frequently using economic measures to adjust social economic activities.

As a result of the formation of an effective macro regulation and control system, economic stability is increasingly strengthened even though the speed of development remains high. From 1978 through 1997, the differential of economic