



Enrich Series on China's Economic Reform Vol.2

# Reforming China

## Experiences and Lessons

Series Editor: Li Tieying

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Series Editor Li Jieying



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Enrich Series on China's Economic Reform



## **Enrich Series on China's Economic Reform**

Enrich Series on China's Economic Reform is an authoritative account of the economic reform of new China since 1978. In this series, a number of official think tanks in Beijing examine the course of economic development against the background of the rise of new China and globalization, explores the underlying theoretical framework of reform, reviews a number of important policies, measures and implementation processes, and summarizes the Chinese model and experience in the international context.

Vol. 1 Reforming China: Theoretical Framework

### **Vol. 2 Reforming China: Experiences and Lessons**

Vol. 3 Reforming China: Major Events (1978–1991)

Vol. 4 Reforming China: Major Events (1992–2004)

Vol. 5 Reforming China: International Comparisons and Reference

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# Foreword

## **China's Reform: In Commemoration of the 30th Anniversary of Reform and Opening Up**

**Li Tieying**

The New China was built on ruins of a semi-colonial and semi-feudal society. The system of a planned economy played an undeniably positive role in the historical conditions of material deficiency and weak industrial foundation in the early period after the founding of the People's Republic of China (PRC). However the limitations of the planned system itself and its role became an important factor in tying up the development of the productive forces. The "cultural revolution" dragged the whole national economy to the verge of collapse. The GNP per capita in China was only US\$230 in 1978. China was rated as a relatively underdeveloped country even in the Third World. The severe challenge, and realistic starting point, confronted by China in the early stage of reform was how to enable the Chinese people who accounted for one fourth of the world's population shake off poverty under economically and culturally backward circumstances and how to step onto the road of modernization and industrialization in the closed or semi-closed international environment, with underdeveloped economic conditions based on a highly centralized planned economy and single public ownership.

### **30 Years of Reform**

China's reform is the greatest social experiment in human history in the second half of the 20th century. The 30 years of reform can be basically divided into two stages:

The first stage was to reconsider the planned economy, commodity economy and market economy in practice, and explore the directions and objectives of reform and opening up (from the Third Plenary Session of the Eleventh Central Committee of the Communist Party of China in 1978 to the Fourteenth Party Congress in 1992).



## Foreword

China's reform reflects historical inevitability. The reform met with a difficult situation in politics, the economy and other aspects from the very beginning. The movement to emancipate thinking had led the Party to repudiate the erroneous way of seeing "class struggle as the key link." The Party made the historical decision to shift the focus of the work of the Party and the state to economic development at the Third Plenary Session of the Eleventh Central Committee. The objective of the reform was to liberate the productive forces, make the country strong and the people rich, and solve the problem of feeding one billion people. *It is the starting stage of reform and opening up from 1978 to the mid-1980s of the last century. The reform focused on the countryside.* History is created by people. The reform started with the "all-round contract system" created by peasants in Anhui and Sichuan. The "single spark started a prairie fire" and generated an overwhelming force throughout the nation. The system of people's communes was abrogated; while the household contract responsibility system was adopted and it ran steadily for 30 years. The peasants' initiative was brought into full play and they became the market players of independent management. Meanwhile, enterprises experimented with extended decision-making powers in cities and mandatory planning by the state gradually reduced. The breach in the traditional planned economy was opened. *Reform and opening up developed during the stage from the mid-1980s to early 1990s of the last century. The focus of reform changed from the countryside to cities.* During this stage, the central authorities successively formulated decisions on reform of the economic structure as well as of the educational, scientific and technological structure, clearly indicating that "Socialist economy is a planned commodity economy on the basis of public ownership. The full development of a commodity economy is an insurmountable stage of socio-economic development and the requirement for realizing the economic modernization of our nation." The authorities implemented a planning scheme for mid-term reform. Centering on the reform of state-owned enterprises, they successively carried out reform measures such as "deregulation," "decentralization" and "contracting out" etc. to empower enterprises to make decisions regarding their own operations. They gradually released control over the prices of a series of crucial products with price reform as the key link. All kinds of experimental reforms were in full swing. Experimental areas in reform and opening up spread from special zones to coastal areas and areas along the Yangtze River. As reform and opening up developed fully, the ownership structure of public ownership in a dominant position and different economic sectors develop side by side was gradually established, laying a solid foundation for the development of the market economy.

*The establishment of Deng Xiaoping Theory was the most crucial theoretical*

*achievement made in the reform practice during this period.* As the chief architect of China's reform and opening up, Comrade Xiaoping held high the great banner of building socialism with Chinese characteristics, scientifically put forward the theoretical generalization of the nature of socialism and the criterion of the "three favorable," as well as penetrating views on the planned economy, socialist commodity economy and socialist market economy. In particular, the important speech made by Comrade Xiaoping on his inspection tour to the South gave a definite answer on the inevitability and feasibility of developing the market economy under socialist conditions, which sounded the bugle of emancipation of thinking once again. It is another major theoretical leap in China's reform.

The second stage was to establish a socialist market economy as the goal of reform and opening up (from the Fourteenth Party Congress in 1992 to a later period).

Through the exploration of reform and opening up, i.e. practice, realize, re-practice and re-realize for more than ten years, the Fourteenth Party Congress specifically defined the establishment of a socialist market economy as the goal of reform and opening up. However, it was still at the exploratory stage as to what the socialist market economy really was and how to establish it. After the Fourteenth Party Congress, the reform was mainly developed centering on the construction of the basic framework of the socialist market economy. People continued to deepen the reform of state-owned enterprises, invigorated large enterprises while relaxing control over smaller ones, enlivened the state sector of the economy as a whole and actively promoted the strategic adjustment of the state sector of the economy; abandoned the "dual-track system" of price of the means of production, promoted market reform of production factors and further improved the market system; realized the transition from mandatory plans to guidance plans, initiated the reform in finance and taxation, commerce, foreign exchange as well as a foreign-related economic structure adapting to the market economy, and initially constructed a new macro-control system; opened a group of cities along the Yangtze River, the borders and the provincial cities and successfully joined the World Trade Organization. At the turn of the new century and the millennium, China's basic economic system in which public ownership is dominant and different economic sectors develop side by side was initially established and the market system began to play a fundamental role in the allocation of resources. The omni-directional, wide-ranging and multi-level opening up pattern basically came into being. People entered the stage to continually develop the socialist market economy after the Sixteenth Party Congress. Aimed at the problems of just pursuing growth rate and

extensive growth, as well as the prominent social contradictions concerning people's livelihood etc., the Party Central Committee raised the strategic idea of implementing a scientific outlook on development and constructing a harmonious socialist society. It would promote China's reform giving priority to reform of the economic structure to the "four-in-one" i.e. coordinated reform of economic, political, cultural and social structures, and promote sound and rapid development of the national economy and of society.

## Structural Breakthrough and Innovation during 30 Years of Reform

There were profound changes in China's economic structure and development pattern during 30 years of reform and while the socialist market economy was taking initial shape. At present, the national economy has become more market-oriented and the fundamental role of the market in allocating resources has become noticeably stronger. Over 90% of commodity prices are totally determined by the market and over 85% of investment is independently made by enterprises and society. Four-fifths of jobs are offered by the non-public sector of the economy.

*From the "highly centralized planned economy" to the "socialist market economy."* The process of exploring the goals of reform of the economic structure can be summarized as three stages, i.e. "planned economy playing the leading role and market regulation the supplementary role," the "planned commodity economy," and the "socialist market economy." The theories on the socialist commodity economy determined by the Third Plenary Session of the Twelfth Central Committee were a major innovation in and development of the economic theories of socialism. The socialist economy is a planned commodity economy on the basis of public ownership. It is the scientific generalization of the Party on a socialist economy, a major development of Marxism, and the basic criterion for China's reform of the economic structure. It is a breakthrough in and development of theories on the socialist commodity economy which make the proposition of theories on the socialist market economy and the establishment of the socialist market economy inevitable. The theories on the socialist market economy not only broke through the traditional planned economy, but also broke through the traditional market economy. The theories separate the basic economic system from the methods for allocating resources, stress on both giving full play to the fundamental role of the market mechanism in allocating resources and strengthening and improving macro-control. The

theories combine the socialist system with a market economy, deeming both plans and the market as means and solving the problem as to whether plans and the market are socialist or capitalist. They answer the questions as to how to build socialism, develop the market economy under socialist conditions and build socialism through the methods of the market economy. This is China's greatest pioneering work. The market economy China developed is the method for developing China and realizing China's industrialization and modernization under socialist conditions on the basis of China's actual conditions.

*From the "single public ownership" to "the public sector of the economy in a dominant position and different economic sectors developing side by side."* The most crucial issue in transition and institutional innovation was to solve the problem of being socialist or capitalist. The breakthrough in the ownership theories can be summarized in two aspects. One was to change from implementing only public ownership to the public sector of the economy taking the dominant position and different economic sectors developing side by side, and vigorously guiding and developing the non-public sector of the economy. The other was to distinguish between ownership and the forms of realizing ownership. Ownership can be realized through multiple forms, one form can be used for multiple kinds of ownership and it should be used in the most favorable way. This is China's main discovery. The Third Plenary Session of the Sixteenth Central Committee clearly put forward the idea of developing a modern system of property rights and confirmed that "the shareholding system is the main form for realizing public ownership," which opened up the way for the sound development of multiple forms for realizing public ownership.

*From the "people's communes that are large in size and collective in nature" to the "basic rural economic system based on household contract management and two-tier management."* Many experiences in China's rural reform were first created by the grassroots. The theoretical achievements of rural reform over 30 years consist of: firstly, breaking through the system of the people's communes to form the two-tier management theory that integrates unified and separate management on the basis of the household contract system; secondly, promoting reform of the distribution system of agricultural products and forming theories on the market system for agricultural products; thirdly, transcending traditional practices and stepping onto the road of rural industrialization and urbanization with Chinese characteristics; fourthly, putting forward the theory of taking the road to agricultural modernization with Chinese characteristics in order to construct the new socialist countryside and promote the formation of a new pattern of integration of economic and social development in urban and rural areas. It was a unique and difficult step in realizing rural modernization in

China's modernization, and could only be realized based on the reality and China's actual conditions.

*From the "state-owned and state-run system" to the "modern enterprise system."* The key to the reform of state-owned enterprises was to construct real legal personal entities and market competitors and enable the sound development of the state sector of the economy under conditions of the socialist market economy. The practical and theoretical innovations in reform of enterprise system over 30 years can be summarized as four aspects. Firstly, put forward the idea that enterprises are market players; secondly, raised the idea of the separation of the functions of the government from those of enterprises and separation of ownership from management; thirdly, established the modern enterprise system; fourthly, deepened the reforms of the management structure of state-owned enterprises and the state assets management system, and optimized the distribution and structure of the state sector of the economy to enhance its dynamism, dominance and influence. The present is a critical moment in reform of state-owned enterprises and we should not consider that the reform has been completed because of temporary good market benefits. The reform of state-owned enterprises and exploration of the state sector of the economy are always accompanied with exploration of the market economy under socialist conditions. It is also an important component of the continued development of the socialist market economy with Chinese characteristics.

*From the "pricing system of state price and centralized management" to the "establishment of a modern market system that is unified and open and that allows orderly competition."* The theoretical breakthrough in the market system can be divided into three stages. Firstly, acknowledged that means and factors of production are all goods and they all have prices; secondly, gradually nurtured the market pricing system; thirdly, developed the market for factors of production and formed a modern market system that is unified and open and that allows orderly competition. We have made great advances in price reform since 1994. However, some problems have not been fundamentally solved. In particular, the relatively slow reform of the pricing mechanism for resource factors directly affects the adjustment of economic structure and transition in the mode of development.

*From "mandatory plans" to "national macro-control on the basis of predictive and restrictive indicators."* Under the traditional planned economy, the national economy was highly planned and centralized. The theories and mechanisms of the planned economy replaced macroeconomic theories and the macro-control system. The government changed from direct administrative planning and management to indirect management giving priority to economic

and legal means during the 30 years and initially established the coordinated and integrated macro-control system. The continual development of the macroeconomic theories and the macro-control system is the maximal feature of and theoretical innovation in the socialist market economy.

*From “distribution egalitarianism” to “the system whereby distribution according to work remains the predominant mode and coexists with various other modes, and factors of production have a rightful share.”* The breakthrough in income distribution theory can be mainly divided into four steps. Firstly, allowing some people and some regions to get rich first and encouraging them to help poor areas and people get rich, so that all the people in the country will ultimately become rich and prosperous. Secondly, giving priority to efficiency with due consideration to fairness. Thirdly, combining distribution according to work and factors of production. Fourthly, establishing a multileveled and socialized social security system, and emphasizing that the relationship between efficiency and fairness in the primary distribution and redistribution must be handled well. The level of development of the productive forces determines the ownership and the ownership determines the social distribution system. Income distribution theories involve the issues of incentive and motivating mechanism, and social fairness. It is a core issue in the structural reform and the construction of a harmonious society.

*From “closed or semi-closed mode” to “all-round opening up.”* Over 30 years we have abandoned the closed or semi-closed mode of development, determined the basic national policy of opening up, and established the open economic system. We have abandoned the “closed-door” policy, fearlessly absorbed and drawn on all the achievements of human civilization including those of capitalist countries, and made full use of both international and national resources and markets; we have adapted to the new situation in entering the WTO, and have initially established a stable and transparent foreign-related system of economic management as well as laws and regulations.

In conclusion, China’s reform and opening up is always in the process of exploring both theory and practice, with the two complementing and enhancing each other, both playing their role in the spectacular progress of reform.

## **Great Achievements Made over 30 Years of Reform**

The significant reform of the economic structure greatly emancipated and developed the productive forces and contributed to unprecedented economic and social prosperity in China. This has been mainly manifested as follows:

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firstly, reform and opening up contributed to the rapid development of socialist productive forces. China's GDP had an average annual increase of 9.75% from 1978 to 2007, and the GDP per capita amounted to US\$2,461, stepping into the ranks of middle income countries. Secondly, reform and opening up greatly enhanced overall national strength. From 1978 to 2007, our total GDP leapt from the 10th to the 4th in the world, and the state revenue showed an average annual increase of 14.1%, reaching RMB 5.13 trillion. The total volume of import and export rose from the 27th to the 3rd in the world with an average annual increase of 17.4%. Thirdly, reform and opening up rapidly improved the living standards of general people. China has solved the food and clothing problem of 1.3 billion people, the per capita income of urban and rural residents has risen by more than five times, and the number of people living under the poverty line in rural areas has decreased from 250 million to 14.79 million over 30 years of reform and opening up. The life expectancy in our nation is 68 years in 1978 and it rose to 72.4 years in 2005. Over one billion Chinese people shook off poverty, became well-off as a whole, and steadily stepped on the road of modernization. The great achievements made in China's reform and opening up have attracted world attention.



# Abbreviations

CBRC	China Banking Regulatory Commission
CHIBOR	China Interbank Offered Rate
CIRC	China Insurance Regulatory Commission
CITIC	China International Trust and Investment Corporation
CPC	Communist Party of China
CSRC	China Securities Regulatory Commission
GDP	Gross Domestic Product
GNP	Gross National Product
ICBC	Industrial and Commercial Bank of China
NPC	National People's Congress
OASDI	old people, veterans, and disability insurance
PAYE	pay as you earn
PBOC	People's Bank of China
PICC	People's Insurance Company of China
PRC	People's Republic of China
QFII	Qualified Foreign Institutional Investor
QDII	Qualified Domestic Institutional Investor
RMB	Renminbi
SAFE	State Administration of Foreign Exchange
SASAC	State-owned Asset Supervision and Administration Commission
SEZ	Special Economic Zones
SOE	state-owned enterprise
SMEs	small and medium-sized enterprises
WTO	World Trade Organization

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