

Studies on the Chinese  
Market Economy Series

# Several Issues Arising During the Retracking of the Chinese Economy

*Chief Editors:*  
Gao Shangquan  
and Chi Fulin

---

FOREIGN LANGUAGES PRESS      BEIJING

Studies on the Chinese Market Economy Series

**Several Issues Arising  
During the Retracking of  
the Chinese Economy**

*Chief Editors:*  
Gao Shangquan *and* Chi Fulin

FOREIGN LANGUAGES PRESS BEIJING

First Edition 1997

The project is aided by  
(Hainan) China Foundation for Reform and Development Research

ISBN 7-119-01976-7

© Foreign Languages Press, Beijing, 1997

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

中国经济转轨中若干改革问题研究:英文/迟福林著. —北京:

外文出版社, 1997

(中国市场经济研讨丛书)

ISBN 7-119-01976-7

I. 中… II. 迟… III. 经济体制改革—研究—中国—英文

IV. F121

中国版本图书馆 CIP 数据核字 (96) 第 20132 号

责任编辑 吴灿飞

封面设计 唐 宇

## 中国经济转轨中若干改革问题研究

迟福林 著

\*

©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

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

1997 年(大 32 开)第 1 版

(英)

ISBN 7-119-01976-7 / F·37(外)

02150

4-E-3158P

## FOREWORD

China is in a state of transition from a traditional planned economy to a socialist market economy. This transition is the most important event in China's recent history.

How to accelerate the pace of reform and smoothly make the transition from existing conditions to a market economy are the questions of the day.

During the past 20 years, reform of the Chinese economy has passed through several stages of development. New conditions and new problems continually arise requiring study and solution. At present, many of these problems demand broader thinking, uncompromising investigation and clear analysis in the search for optimum solutions. For instance, we have set as a goal the establishment of a modern enterprise system. So, how can we actually attain this goal? This requires the solutions to a series of deeply ingrained problems.

Major reform targets have been very clearly set in the recent period but many conflicts and contradictions have appeared which impede their implementation. This now has become a rather complicated situation.

Keeping in mind that the major goal of reform is the establishment of a market economy, we must now make a thorough and concrete study of various aspects of reform so that these obstacles can be removed.

China's socioeconomic development is now at a crucial stage. Can the economy sustain the current rapid rate of growth? It must be our goal to ensure that it does. The suggestions and ideas in the six chapters of this book try, insofar as possible, to meet this demand.

Chapter one, for example, puts forward concrete proposals for the reform of state-owned enterprises. These proposals pro-

ceed from the premise that a general solution is required to bring these enterprises back to life. On the subject of macroeconomic reform, in chapter two we have offered concrete suggestions for controlling inflation according to the principles of a market economy. Chapter three deals with the rural economy and how we can speed up rural market reform. In chapter four we focus our attention on solving the problem of the inconsistencies in regional development and on policies conducive to the further opening of developed regions. Chapter five deals with the introduction of a new social security system which stresses both the just and equitable treatment of individual staff and workers, and the overall efficiency of the system. Chapter six explores legislation, touching on the evolution of legislation in recent times and stressing that legislation is closely linked to the process of economic reform.

The author believes that in this reform period, in order to guarantee sustained and rapid economic growth, we must establish a market economic system.

My studies on reform in recent years, coupled with my opportunities to participate in research, have been invaluable in the formulation of the ideas presented in this book. I have been able to talk with many specialists and have benefited greatly from these discussions. My colleagues, Sun Xiuping and Zhu Huayou, have been an enormous help.

Economic reform is a very large topic and we must continue to give it serious attention.

My heartfelt thanks go to the many colleagues who have helped in the publication of this book, and in particular the (Hainan) China Foundation for Reform and Development Research for its support.

Chi Fulin  
June 28, 1995

# Contents

## *Chapter I*

<b>Reform of State-Owned Enterprises</b>	1
I. Energizing the Overall State Economy	1
II. Market Orientation of State Assets	11
III. Setting Up State Holding Companies Quickly and Training State Seed Teams	27
IV. Boldly Carrying Out Any Needed Experiments So As to Perfect the Shareholding System in China	38
V. Accelerating the Reform of the Property Right System	49

## *Chapter II*

<b>Macroeconomic Reform in the Changing Trend of China's Economy</b>	62
I. Macroeconomic Reform in the Transition to a Market Economy	63
II. Reform of the Macroeconomy Must Fully Utilize the Initiative of Both Central and Local Sectors	72
III. Inflation Must Be Effectively Curbed While Stepping Up Reform and Development	76
IV. Correctly Handling the Relationships Between the Utilization of Foreign Investment and Control of Inflation	81
V. Suggestions on Effective Control of Inflation	84

## *Chapter III*

<b>Rural Economic Reform in China's Economic Transition</b>	94
I. The Pressing Tasks That the Rural Reform Faces in the Transitional Period	94
II. The Key to Deepening the Reform of the Property Right System in the Countryside Is the Promotion of the Systematized Long-Term Utilization of Farmland	101

III. We Must Perfect Macro-Adjustment with the Aim of Establishing Agricultural Produce Markets	112
IV. Promoting Coordinated Development Between the Urban and Rural in Advancing the Establishment of Rural Markets	121
V. The Promotion of the Establishment of Rural Markets and the Change of Government Functions	127

#### *Chapter IV*

<b>Regional Economic Development in the Transition of China's Economy</b>	131
I. Regional Common Development and Economic Integration	131
II. Transition from Unbalanced Development to Balanced Development	135
III. The Development of Regional Economy and Social Development	139
IV. Regional Development and Special Economic Zones	141

#### *Chapter V*

<b>The Reform of the Social Security System in the Transition of China's Economy</b>	163
I. The Basic Thinking in Establishing the Modern Social Security System	163
II. Some Questions Concerning the Specific Operation of the Social Security System	172

#### *Chapter VI*

<b>Legislation in China's Economic Transformation</b>	181
I. The Coordination of Reform and Legislation	181
II. We Must Make Use of Advanced Legislation in the Transition of the Economic System	184
III. Start a Program of Trial Legislation in the Localities	190



## *Chapter I*

# **Reform of State-Owned Enterprises**

The reform of state-owned enterprises plays the most decisive role in China's transition from a planned economy to a market economy. These enterprises have already gone through many changes over the past decade. But fusing them fully into the framework of a modern market economy presents problems which demand further bold exploration and confrontation. Many issues remain to be satisfactorily resolved, from basic theory to concrete practical application. Several years ago the author of this book proposed that state assets should enter the market and become market-oriented. The purpose of this proposal is to explore the most efficient methods of making the transition from state enterprise to state asset and market orientation. I wanted to find a way to stimulate and energize the state economy as a whole rather than concentrating on the handling of individual state enterprises. Some of my views, such as market orientation of state assets, were publicly criticized. It was thought I was advocating wholesale privatization. This was not the case and was a distortion of my intention.

The question is how to make reforms of state enterprises suit the needs of the market. And this calls for further deep investigation.

## **I. Energizing the Overall State Economy**

### **A. The State-Owned Economy Should Provide a Leading Role in Overall Prosperity and Competitive Power**

Under market economy conditions the reform of state-owned enterprises must be focused on achieving competitive power so as

to enable state-owned assets to play a leading role in the national economy.

The most important problem here is how to speedily integrate these enterprises into the market economy and obtain maximum efficiency. If this problem is solved well, it will greatly accelerate the reform of both state enterprise and the government management system and enable state enterprises to take a leading role in the national economy.

As this transition progresses, state enterprises will realize increasing benefit and competitive power until they become a dominant force in the total capital of society, able to exercise control and influence over the national economy.

To do this, emphasis in state investments should change from ordinary competitive enterprises to basic industry and other strategic areas and professions. This, of course, does not mean that the operation of state assets should not be competitive. It does mean that:

- 1) the state assets will become very active in competitive professions and areas that bear directly on the national economy and people's standard of living.

- 2) the operation of state enterprises in basic industry and public utilities must be carried out so as to enhance the efficiency of and benefit to the state asset by successfully competing not only with non-government-owned enterprises but amongst each other.

- 3) the competition between state-owned assets in basic industry and public utilities should be carried out intelligently to avoid creating barriers between different departments and regions, diversified ownership, blind launching of projects and duplicative construction all of which lead to wastage of resources.

Assuming a leading role in a state-owned economy does not necessarily lie in absolute superiority of quantity nor in the concentration of all economic spheres into the hands of the state. In ordinary professions and industry government owned enterprise can compete with the non-national sector on an equal footing and for mutual development. But in those spheres that affect the overall economy and standard of living the government

owned enterprises should maintain control and fully manage quality and economic performance so as to ensure actual competitive power.

The superiority of state assets should come into full play in the careful planning of its allocation, organization and structure. Let state enterprises prosper or go out of existence in conformity with the principles of a market economy—fostering the good and scrapping the obsolete.

The three superiorities are as follows:

Allocation superiority—state asset stock should be placed under good management and handled well. As a result of a manager's effort the value of any state asset should be preserved and increased while its scale is expanded. State capital should be reinvested to further increase the strength of state assets.

Organizational superiority—this means firstly that state assets should be utilized to abundantly fund the projects and enterprises that have a major impact on the economy. Secondly, through the establishment of state holding companies non-governmental assets and enterprises can be absorbed and placed under control in organized conglomerates.

Structural superiority—this means overall enhancement of the national economy by fostering an optimum organization of state assets. This includes reduction of loss-making state enterprises. In this way state assets will play an ever increasing role in the control and guiding of the national economy. They will be used to guarantee investment to those sectors which will most benefit the national economy and, as needed, to shore up any weak links.

To deepen the reform of state enterprises market competition should be encouraged to develop enterprises that do have superiority. Assets and resources will then be transferred to those enterprises which have demonstrated the highest efficiency thereby enhancing the vitality of the entire national economy. We must not let it be thought that before state assets can assume a leading role in the economy that every state enterprise need be energized and on an upswing. This is neither possible nor necessary in fact. As the social insurance system becomes established,

state enterprises that have been making losses for long periods of time, with liabilities exceeding assets, and which show no signs or prospect of recovery, should gradually be allowed to declare themselves bankrupt. Where possible other individuals or corporations can be allowed to merge with or buy out these enterprises. Any remaining assets should be sold by public auction. In the case of small state enterprises they can be leased or bought as the case may be. As for enterprises which have achieved a superior position in the market economy, from the point of view of policy, they should be rewarded. They can evolve into principal enterprises which can become the mainstay of the national economy. Of course, priority should be given to big enterprises or enterprise groups which have the strongest bearing on national economy and standard of living. This includes those involved in both domestic and in international markets as well as those which accelerate China's industrialization.

## **B. Ensuring Optimum Conservation of State Assets**

This is a problem of great and practical significance that has to be solved in the transition from planned to market economy. It's not just a problem of guaranteeing or increasing the value of state assets in the ordinary sense of the word. Its aim is to give a correct definition of the position and function of state assets in a socialist market economy. In the old days under the planned economy system, state enterprise encompassed almost every sphere and aspect of society's economic life. This had two direct consequences: total efficiency of state enterprises was extremely low and state assets were ineffectively and inadequately being utilized. We have noted the problem of conserving and increasing the value of state assets during this period of reform. This is entirely necessary for no matter what the circumstances, the increase or decrease in the value of state assets is a vital consideration—they must not be allowed to devalue, expire, or go to waste. However, in the course of the economy's transition, it is woefully inadequate to worry only about immediately increases. We must seriously study and determine the best overall utilization of these assets for both the immediate and long term interests

of the national economy. We must study and solve the problem of how to best use these assets to readjust and control the market economy and create an adequate environment and infrastructure which will guarantee China's sustained, speedy and stable economic development.

In doing this we are using a concept far more embrative than merely conserving and increasing the value of state assets—important as these may be. We must seek to use state assets to achieve the maximum long term benefit to the national economy and to the entire society as well.

This "optimum benefit of state asset" is a demand of any socialist market economy in the course of its development. The mark of a market economy is the competition between economic entities in their pursuit of maximum profit. As can be seen this can easily deteriorate into fixations on economics that bring in high profit quickly and in short cycles while neglecting economic projects that bring in profit slowly and involve longer cycles. Doubtless it is true that the market economy itself contains contradictions between partial and whole interest, immediate and long term profits, and personal and social benefits. Yet a socialist market economy calls for speedy, embrative, sustained, stable and harmonious development of the entire national economy. This requires the state to use its abundant material resources to create conditions which force the development of priority areas and to take the large scale actions necessary to enable the large state enterprises to successfully participate in the market economy so as to positively influence the economy's development. This would include the use of state assets to handle the above mentioned inherent contradictions in a market economy.

Thus we see that the role of state assets in the betterment of the economy can not be overstated. When they are employed in the direction of long term stable development they bring better results: they impact on the economy as a whole and also guarantee long term expansion of assets and a wider and more stable economic base.

Under modern market economy conditions we must stress

conserving and increasing the value of state assets. We must stress even more, however, the employment of these state assets to strengthen the economy's long term capital base.

In considering the optimum use of state assets we must readjust our orientation as to its best investment. Viewed from the standpoint of overall social benefit, national economic growth, or optimum long term development it is clear that the power of state assets manifests best when injected into basic industry, emerging new industry, or community social services.

A vital function of the correct use of state assets lies in the development of infrastructure and the organization of basic industry. These two factors determine, in large measure, the long term development of the economy as a whole. At present the serious lag in China's industrial and agricultural infrastructure is inhibiting the development and adaptation of basic industry to the needs of the national economy. This constraint is an outstanding problem and should be tackled by large scale infusions of state funds into infrastructure and basic industry. This in turn will lay a firm foundation for future development.

As we implement a socialist market economy state assets should and must occupy the main position and play the leading role in such fields as banking, insurance, postal-communications, and aero-space.

Although there sometimes may be economic conflicts in funding social programs, their overall benefits to society outweigh any such problems. State assets are obliged to fund these programs. At present, advancement of China's social services, public utilities, education and cultural works is lagging behind, being unable to keep pace with the current need and demand. In the interests of the entire society more investments should be gradually made to augment these fields.

Optimum use of state assets requires a reorientation in investment priorities. A proportionate reduction in investment should be made on a gradual basis to ordinary competitive professions. These professions more readily absorb both domestic and foreign capital and an overconcentration of capital there leads to biased, unreasonable and wasteful allocation of the society's economic

resources.

China's state assets should be transferred and concentrated from ordinary competitive professions to its basic industry and non-competitive professions in order to guarantee full development of its infrastructure and enable the full optimization of society's resources. In this way will investment from non-government assets be encouraged. This readjustment is a process that takes time and cannot be accomplished all at once. It should begin from the most urgent and pressing areas of socio-economic life and accelerate from there. Capital drawn from private investment (both domestic and foreign) should be courted and the percentage increased.

In accomplishing optimum usage of "state assets" a new concept of the term is required.

**Social benefit vs. economic efficiency** Under the old planned economy system the allocation of state assets was done under a grandiose system involving many different departments and regions, often operating "blind." There was often little return. In other words, huge investments were made but the resulting yield in productivity was low. The net result could be stated to be the wastage or loss of the state asset.

At present, an important reason for the continuing reduction of state assets is that in some areas the management system responsible for these assets is not suited to the transition to a market economy. There is a new concept concerning the utilization of state assets that must be understood to guarantee the full and effective use of these assets under a socialist market economy. The backbone of this concept is the efficient and effective allocation of these assets to guarantee a completely rational and effective system of resources, industrial organization and market structure. Further, a high priority should be placed in utilizing these assets to avoid idleness, minimize waste or loss, reduce production costs, and strengthen management. It is the concept of total overall long-term benefit from these assets that should be fostered. No partial, short-term, individual benefit should be pursued. At the same time any conflict between economic benefit and social benefit must be resolved so as to fully realize proper

social benefit while guaranteeing the economic prosperity of the state asset as a primary condition.

The concept of the "value form" of state asset      Readjusting the flow and structure of state asset investment depends to a large degree on the fluidity of these assets—i.e. how convertible. Under the traditional planned economy system state assets mainly took the form of material objects. The state exercised direct control of these objects from raw material to distribution of finished product. In the present stage of readjustment state assets must be called upon to increase the value and liquidity of our currency. For this reason some state assets need to be changed from "form in kind" to "value form." This change does not in the least affect the leading role of state enterprises—on the contrary, it strengthens their power.

New concept of state asset      Will the readjustment of its investment guidelines decrease or otherwise weaken state assets? From an overall and long term view they will only increase. In ordinary competitive professions if non-government owned business is allowed to flow fully, it increases its profits and thus increases the tax revenue. When the national treasury increases, state assets increase also. If this source of income is used to increase investment in new basic industry, it will yield long-term economic benefit as well as increase the total amount of state assets. State assets should be used primarily to develop basic industry, public utilities, and key industry and strategic professions so as to lay down a firm foundation for the entire economy. This greatly accelerates prosperity and development. The utilization of government assets goes hand and hand with socioeconomic development. And by strengthening the leading role of state enterprises, the asset base will be greatly broadened.

Concept of competition of state assets      The gradual decrease in the percentage of state assets involved in ordinary competitive professions does not mean competition is not an important factor in operating state enterprises. Under a market economy all sectors must be competitive. In fact, in the spheres related to the economy as a whole and to the standard of living, the wholly government owned enterprises must occupy the lead-



ing positions—not to withdraw from competition, but to actively promote it. In the key areas of basic industry and public utilities (where state assets predominate) competition is used to increase efficiency and profits. State assets must compete with non-government sectors and with each other. But in such a way as to not set up barriers between departments and regions. Cooperation and coordination should avoid the wastage and inefficient use of resources that could otherwise result from multiplicity of ownership, duplicative construction, and engaging in blind projects.

### **C. Bright Ideas for Energizing the State Sector: Fewer New Projects and Better Managed Enterprises**

As pillars of the national economy, state enterprises are also the mainstay of the socialist market economy. The practice of over a decade of reform has proven conclusively that where the correct allocation of state assets has occurred, state enterprises have been able to play a leading economic role according to the principles and laws of market economy.

The past decade has also shown some state enterprises lagging behind, stuck between the proverbial rock and the hard place. Unable to advance, unable to retreat. The main reason was the earlier thinking that insisted upon maintaining the huge size of state enterprises at any cost.

It is time for new thinking on the subject of energizing state enterprise. Reform must be aimed at revitalizing the overall economy—not just concentrating on single enterprises.

Theoretically speaking, structuring a new system based on a socialist market economy does not require that the large enterprises formed and operated in the former planned economy era be maintained without change or modification. Realistically it would be impossible for the state to maintain intact every existing state enterprise. The following statistics elucidate this:

- by the end of 1993 China possessed 34.950 trillion yuan in state assets, of which only 74.5 percent were in actual operation.

- the average debt load of state enterprises was 74.3 percent