

The Chinese Economy into the 21st Century

Forecasts and Policies

Chief Editor Li Jingwen



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Foreword

Mankind will soon bid farewell to the calamities and difficulties of the 20th century to enter a new century replete with hope and uncertainty. What's to come for China's 1.2 billion people in the 21st century? In which direction will China with a population of 1.2 billion and a vast territory develop during this historical period? How will this vast and sprawling nation change? And how will these changes affect the rest of the world? These are of vital interest not only to the Chinese, but to statesmen, economists, business people and others all over the globe. This book has been written and is now published in an attempt to answer these questions.

The work combines academic analysis with medium- and long-term forecasts for economic development and policy proposals. In the spring of 1993 the State Council asked the Chinese Academy of Social Sciences to research the intellectual superstructure supporting economic development in China until 2010. The scholars were to precede their colleagues in the various governmental departments in beginning this analysis. The Chinese Academy of Social Sciences instructed me to invite a number of scholars from relevant research institutes to form a research group. The experiences gained since the initiation of the reform and opening policy provided the foundation for determining projected developments over the next 15 years. Qualitative and quantitative analyses were the tools whereby we derived our opinions and designed proposed policies. In the spring of 1994, as reported in the press, the group presented a report entitled "Intellectual Foundations of and Policy Selection for the Ninth Five-Year Plan and a Long-Term Program for Until 2010" to the State Council and relevant governmental departments. Subsequently, the

group continued its work, finishing the book in March 1995 when it was published to much favorable notice both at home and abroad, including a national book award in 1996. The report delivered to the State Council received the 1997 Sun Yefang Award for Economics.

This book recognizes China's enormous achievement in economic development since the initiation of the reform and opening policy and holds that the years leading up to 2010 will continue this achievement. Using a macroeconomic model, the writers provide economic forecasts for 2000 and 2010 and effect a penetrating illumination of the goals and basic characteristics of China's economic development. Coming trends of changes in the industrial and consumption structures, are explored and detailed description and analysis provided concerning the rural economy, industry, rural enterprises, the building industry, tertiary industry, investment, income distribution, foreign trade, use of foreign capital, regional economies, scientific and technological advances, population, employment, ecological environment and international economic relations. The results of this thoroughgoing research are put forward in ideas and policies for alleviating present and future contradictions in the economic system and sustaining steady, rapid economic growth. The result is a comprehensive outline for future development, one that identifies the obstacles on the road ahead and proposes how they may be overcome.

After publication, some of the book's content was adapted for use in various government documents. Forecasts presented in the book are already beginning to be proven true.

As a service to those abroad concerned with the Chinese economy, the Foreign Languages Press has distilled the most essential portions of the book and translated them into English. My colleagues and I extend our heartfelt thanks to the Press and its translators for their painstaking work. I believe that this English edition will surely play a positive role in helping the world to better understand China and strengthen economic, technological and culture exchange and cooperation between China and other nations.

Any questions or comments inspired by this book will be

gratefully received. We look forward to further academic discussion concerning China's economic future.

Chief Editor: Li Jingwen
September 1997

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Chapter One General Trends in Chinese Economic Development

Section One A Brief Overview of Economic Development in China Since the Initiation of the Reform and Opening Policy

In the 16 years between 1979, when China began its policy of economic reform and the opening to the outside world, and 1994 the Chinese economy grew at an average annual rate of 9.8%, the fastest rate worldwide during this time. The growth rate in primary industry averaged 5.2 percent, secondary industry 11.4 percent, and tertiary industry 9.8 percent. Total import / export volume increased by 16.5 percent annually, (exports 17 percent and imports 15.9 percent). The nation's composite strength increased markedly. The standard of living improved substantially and China's international status and influence climbed.

China's achievement drew attention from all over the globe. Such remarkable progress was predicated on adherence to the principle of seeking truth from facts, mental emancipation, the concentration of all effort toward economic construction and persistence in the policy of reform and opening under the guidance of Deng Xiaoping's theory of building socialism with Chinese characteristics.

Several key points came to be understood from this experience:

(1) The relationship between reform, development and stability must be balanced appropriately to insure that they are well integrated and mutually promoting. Stability is the foundation, reform the driving force and development the goal. Stability is a prerequisite for

development and development requires reform. Persistent reform, opening and development are essential to the maintenance of social stability. Indeed, only through reform and opening and accelerated economic development, is it possible to achieve enduring social stability. Accordingly, the policy of "seizing opportunities, deepening reform, opening wider, promoting development and maintaining stability" must be continuously upheld.

(2) The old idea of closing the door to the outside world needed to be reversed, opening doors to opportunities in all directions. Economic contacts and cooperation between China and other countries have become closer and deeper than ever, and this opening has vitalized economic and technological development domestically. Total import/export volume as a percentage of GNP rose from 11 percent in 1978 to 38 percent in 1993. The opening process will be further accelerated in the future. The coastal regions will open still further, along with hitherto un-open areas in the hinterlands, border regions and along the Yangtze River. China will actively pursue foreign capital and advanced technologies, at the same time actively expanding the range of projects with responsibilities apportioned among international partners entered into.

(3) Overall equilibrium must be maintained as the industrial structure is optimized. The development strategy must recognize the nation's limits and capabilities, achieving a positive balance and pursuing progress while maintaining stability. Most importantly, revenues and expenditures must be balanced, credit and foreign exchange balances maintained and inflation avoided. In the future overall control will be effected primarily through regulating the money supply, availability of credit, interest rates and other financial measures. In adjusting the industrial structure, the leadership role of the national industrial policy, economic plans and programs for the various trades and industries must be given full play, adopting preferential and supportive policies where necessary. At the same time and still more importantly, the fundamental role of the market in the

allocation of resources must be given free rein, optimizing this process as competition allows the best to rise to the top.

(4) Relations between the central government and the local governments as well as inter-regional relations must be handled properly. China is a vast country with an enormous population; widely varying historical conditions, distribution of resources and level of productive forces have produced substantial imbalances in economic development. The eastern coastal regions have a sounder economic foundation and their economic development has far exceeded that of the central and western regions. This gap can only be narrowed through the development of the productive forces. While the eastern coastal regions should be encouraged to further accelerate economic development, policies necessary to bolster the central and western regions should be implemented, strengthening their transportation capacities and the ability to exploit natural resources. China's primary production bases for energy and raw materials are in the central and western regions. With this in mind, in the future reforms in the pricing, financial, tax and commodity circulation systems should be effected so that these regions are justly compensated for their resources.

China continues to work hard to deepen reform and open still wider, seizing every appropriate opportunity to accelerate the development of the new socialist market economic system. Reform, opening and development have all entered a new period. The 15 years from 1995 to 2010 will see rapid economic growth in China. This period will be the most crucial in the historic drive to modernization. The difficult tasks before the nation will require enthusiasm and conviction.

Rapid growth has perhaps inevitably brought with it problems and contradictions that have tended to accumulate with the passage of time.

(1) Development of the different industries has been uncoordinated, resulting in a less desirable industrial structure. First, increases in agricultural production have been irregular and structural upgrading of the agricultural system has been slow in coming. Labor

productivity is low. Development will require both increased production and modification of the agricultural structure. Second, growth in the basic industries and processing industries has not been in concert. The infrastructure continues to be plagued with bottlenecks in transportation, communications, supplies of energy and raw materials and urban construction. Third, tertiary industries are insufficient in number. The incremental value produced by such industries amounts to only 28 percent of GDP, far below the average for low and medium income countries. Moreover, the sector suffers from irrational structuring. Fourth, the growth of new high technology industries is not fast, and they account for too small a proportion in the national economy.

(2) Industrial quality and technological levels are not high. Few Chinese products or services are top-grade; most are of medium quality. High quality goods are in short supply while inferior products proliferate. Shortages and overstocks coexist. Large quantities of goods are imported while new domestic operations remain unopened. Many enterprises have high production costs and low profit margins, hamstringing their ability to accumulate capital. Technological progress is slow and comes mainly through imported technology and equipment. Creativity and assimilation of new ideas are inadequate. As a result, fewer new products are developed and the enterprises sag in the international market. Technological advances account for about 30 percent of economic growth.

(3) There is an increasing disparity in regional economic development. This imbalance has been aggravated since the initiation of the reform and opening policy, and the gap between the east and the west continues to widen. Moreover, this trend seems likely to continue and possibly worsen in years to come if steps are not taken. Such a result would be detrimental to comprehensive economic development and long term social stability.

(4) Population pressures on resources and the environment are growing heavier and heavier. Positive economic results up and down

the production chain still await improvement. The state-owned enterprises in particular are lackluster, many operating at a substantial loss, with low profit margins, lacking the capacity to effectively expand or renovate their operations.

(5) A system advantageous to healthy, rapid and sustained economic development is not yet fully in place. Frictions between the old and new systems occur often, directly affecting economic growth and increased returns.

Section Two Essential Conditions Affecting Economic Development and Factors Restricting Economic Development

I. Population and the Human Resources

China's abundance of human resources, the greatest in the world, provides a tremendous motive force to drive economic development. At the end of 1994, China (exclusive of Taiwan, Hong Kong and Macao) had a population of 1.1985 billion, 51.3 percent of whom, 614.7 million, were employed. Whether measured in terms of population, total employment or employment rate, China leads the world. (By way of comparison, the employment rate in the United States in 1987 was 46.1 percent, Britain 43.9 percent, former West Germany 41.6 percent, France 38.3 percent, Canada 46.6 percent and Japan 48.1 percent.) Bear in mind that the Chinese population is younger than that of these more economically developed countries. China's employment rate should climb still higher in the next decade and beyond.

This higher ratio of employment to total population is partially the result of the large population, rich labor resources, low wages and government policies encouraging fuller employment, but a more fundamental cause is a labor employment system wherein supply

restricts demand. Experiences in social and economic development throughout the world have demonstrated that unskilled, low-quality human resources are hardly assets, indeed may prove a heavy burden in less developed countries. Only high-quality human resources, that is to say a well educated, healthy populace with good work skills, can be considered an asset.

Since the founding of the People's Republic, China has done much to limit population growth and improve the quality of the population, improving education, training and public health. As a result, the natural growth rate dropped from 27.64 per thousand in 1964 to 11.21 per thousand in 1994. Nonetheless, China's population is so enormous that even a reduced growth rate produces a great increase in population in real numbers. Full use is not being made of today's human resources. Skills are not being developed and training will fall short of that required in the coming century. Overall, the quality of human resources is not high. There is an unbalanced structure with, on one hand a comparative handful of top scientists and other talents and on the other vast numbers of illiterates and semi-illiterates. There is more than one reason for this state of affairs, but one important factor is the irrational human resources management system.

Today, most Chinese work in primary industries, far fewer in secondary and tertiary industries. A 1990 general survey of employment in different industries showed 72.3 percent of the work force working in farming, forestry, animal husbandry, or fishery, 13.38 percent in industry, 0.1 percent in geological surveying or prospecting, 1.84 percent in construction, 1.83 percent in the transportation or communications, 3.96 percent in commerce, food and beverage or materials supply, 0.95 percent in real estate or utilities, 0.79 percent in public health, sports or social welfare, 2.33 percent in education, culture, arts, broadcasting or television, 0.23 percent in scientific research or comprehensive technical services, 0.33 percent in finance or insurance, 1.94 percent in government organs, political parties or mass organizations, and 0.02 percent working elsewhere. Briefly put, 72.3 percent of laborers work in agriculture, forestry, animal

husbandry, or fishery and 13.38 percent in industry. The percentage of the work force working in all other fields is very low. These figures clearly indicate that in the future the labor needs of secondary and tertiary can and will be filled from the ranks of those currently working in primary industries.

The age composition of the work force is also advantageous to economic development. Workers younger than forty account for 70.02 percent of the total work force compared to 48.9 percent in Japan (in 1982). China's work force is much younger than that of Japan. In the coming decade these young workers will gradually rise to preeminence in China's economic construction. On the other hand, 12.04 percent of those employed in China are between the ages of 15 and 19 as compared to 2.45 percent in Japan, indicating that people enter the work force at an earlier age in China, missing out on the opportunity to complete their basic education or receive specialized training. This problem is particularly salient in the countryside.

China has a gigantic supply of labor force which continues to increase rapidly. In numbers, duration and degree of pressure, it presents a situation unprecedented in Chinese history. According to the 1990 census, there were 334.848 million people under the age of 15. Over the next 20 years beginning in 1991, an average of 21 million Chinese will reach working age every year. The working population aged 15 to 59 is projected to reach 812.51 million by 2000, 926 to 961 million by 2020 and 846 to 979 million by 2050. The working population aged 15 to 64 will reach 844.75 million by 2000 and 983 million to 1.018 billion by 2020, before tapering off around 913 million to 1.047 billion in 2050. Excluding those enrolled in school and those whose mental capacities bar them from the work force, the actual working population should be 731.26 million in 2000, 833 to 866 million in 2020 and 761 to 881 million in 2050.

The rural workforce is expected to grow by 100 million between 1992 and 2000. Adding existent surplus rural labor and subtracting natural depletion, there still will be approximately 200 million able workers to be transferred out of the countryside. Currently, rural