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THE PROGRESS AND OBJECTIVE OF CHINA'S ECONOMIC STRUCTURAL REFORM

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The reform in the past nine years has brought about drastic changes in China's economic structure and its operational mechanism. The changes may be synthesized into three aspects, namely, a transition from a highly centralized administration of the economy to a system of different levels of administration, from direct administrative management of enterprises to indirect administration through economic levers, and from an operational mechanism of the economy entirely regulated by planning to a system which integrates market with planning. In Chinese parlance, China is in a transition from the traditional model of product economy into one of planned commodity economy. Following is a presentation of the past, present and the future of the Chinese economic structure with a view to illustrating the drastic changes.

I. The Defects of China's Traditional Economic Structure

China's traditional centrally-planned economic system took its shape against the particular historical background during the 1950's. That system played an important role during the early period after the founding of new China in mobilizing the financial, material and human resources for the restoration of the national economy and for the construction of priority projects. However, it failed to adapt timely to the economic development. That it restricted further expansion of social production became increasingly apparent. These restrictions include:

1. The mono-form state-owned economy suppressed the development of collective economy and of individual and private economy in particular;

2. The power of economic decision-making was in the hand of the central government. Local authorities, especially enterprises did not have the indispensable independent power;

3. The production, supply and marketing activities of the enterprises were supervised by vertical administrative authorities and through mandatory planning, leaving little room for the market to develop and play its role in regulating the production and management of enterprises;

4. The State was responsible for all incomes and spending, and applied an egalitarian principle of income distribution as expressed in the metaphor "eating from the same rice pot", thus resulting in the lack of dynamism and low efficiency in the economy.

In summary, the traditional economic system in China was based on the theory of a product economy with rigid planning control leaving little independent power for the enterprises in their management and precluding the role of market force in regulating the economic performance. Although the Chinese economy underwent certain form of restructuring over 30 years, it had no brought about fundamental changes in the economic structure because of the failure to recognize in theory and practice of the fact that a socialist economy must also be a commodity economy.

II. Progress in China's Economic Restructuring

Since 1979, China has drawn lessons and experience in the socialist economic construction and made comparative study on other countries' experiences in their economic development and has come to realize that for whatever social system, the modernization of a country's economy requires the development of a commodity economy; and the development of a commodity economy on the basis of public ownership requires reform of the economic structure.

Then, what progress has been made in the economic structural reform in China over the past nine years? What changes have taken place in the pattern of the economy?

1. The restructuring of the pattern of ownership, the emergence of different forms of operation, expansion of the independent power of enterprises and other basic economic units.

In the rural economy, the three-level ownership by the People's Commune, production brigade and production team with the production team as the basis, has been transformed into a household contract responsibility system. Mandatory planning for agricultural production has been abolished. The peasants plan their own production in accordance with state purchase contracts and market demand. The ratio for commercial sales in the total agricultural and side-line production increased from 45% in 1978 to around 60% at present. Free market plays an unprecedented active role in the sales of agricultural and side-line products, supplying 70% of the urban population's consumption of vegetables. In the rural areas there are a great number of specialized households (4.5 million), self-employed industrial and commercial households (over 9.2 million), and joint production units (0.48 million) engaging in the production and sales of merchandises.

There have also emerged various forms of associations such as agricultural/commercial, agricultural/industrial/commercial, trade/industrial/agricultural associations. The rural economy is

developing towards the direction of specialization, commercialization and modernization.

In the urban economy, in order to explore the way to separate ownership from management authority, various forms of business practices like contractual responsibility and leasing systems have been widely introduced in state-owned enterprises. According to 1987 statistics, the contractual responsibility system has been applied to 80% of the large and medium-sized state-owned enterprises. Leasing or contracting system is generally applied to small enterprises, Some of them have been auctioned. Experimentation of a share-holding system is being carried out in a number of enterprises. Bankruptcy and mergers are could happen.

The government encourages the development of self-employed industrial and commercial households and private enterprises. At present, there are 15 million self-employed industrial and commercial households with more than 20 million people engaged in the business. There are 115,000 private business (with more than 8 employees) involving a total number of 1.84 million employees. Self-employed, private enterprises and other non-public enterprises account for 2.1% of the total national industrial output. Self-employed, private and cooperative enterprises account for 17% of the total retail sales in society.

2. Decentralizing authority and expanding power of enterprises so as to increase their capability of self-development.

Centering on the revitalization of enterprises, China's urban reform defines their responsibilities obligations and benefits as commodity producers and dealers. The status of enterprises as appendages to administrative departments of government has been changed as a result of the decentralization. In contrast to the past, the state enterprises now have independent powers in the following seven aspects:

(1) Management and planning. Enterprises have the power to adjust their products structure, operational plans in light of the market requirements and production capacities. (For a small number of enterprises which undertake state planned targets, they are requested to consult with competent departments in doing so.)

(2) Buying and selling products. Industrial enterprises may directly purchase raw materials on the market or from the place of origin except for a few products subject to mandatory plans. All final products can be sold directly on the market or marketed by distributing agencies. Commercial enterprises can directly go to the factories for their purchases.

(3) Product pricing. The prices of products under market regulation can be decided by the enterprises according to the cost and market supply and demand situation. For products subject to State pricing, enterprises could also determine the prices for

additional products in excess of State planned production targets.

(4) Use of financial resources. The proportion of profits retained by enterprises rose from 3.7% in 1978 to 43% in 1987. Enterprises can dispose of their own financial resources for categorized purposes. However, very large construction projects have to be examined and endorsed by competent departments.

(5) Wages and bonuses. The state only sets the annual increase rate of total amount of wages. As for the forms of wage and bonus distribution, it is up to the enterprises to decide. At present, most of the enterprises employ the method of linking wages and bonus with economic efficiency. Others forms such as wage content per-unit of product and piece-rate wage are also adopted.

(6) Establishment of horizontal ties. Enterprises can decide on the establishment of economic ties across sectors, regions and ownerships. They can engage in collaboration with regard to technology transfer and production, and exchange financing, technical personnel as well; They can also purchase each other's shares and transfer property rights with compensation and set up various kinds of organizations and associations. There have been 32,000 integrated enterprises among which 11 are nation-wide large enterprise groups.

(7) Labour and personnel. Enterprises can formulate their own criteria on open recruitment of workers from the society. The direct appointment of selecting director (or manager) has been replaced by : 1) Election by ballot votes on more than one candidate nominated by superior authority; 2) Direct election by workers; 3) Public invitation for applications. Director (or manager) has the right to appoint office staffs of the factory and dismiss workers.

3. Developing of various markets and strengthening the regulatory role of market mechanisms.

Development of commodity economy must be accompanied by developed commodity and production-factors markets which would enable enterprises to better carry on production and management activities in accordance with changes of the market supply and demand. The past practice of exclusion of market mechanisms to the economic operation has greatly changed.

(1) Markets for agricultural and side-line products and industrial consumer goods have been established. Consumer goods produced by enterprises can compete and be sold on the markets throughout the country. The number of shops and spots of the country's commercial network has risen from 125,000 in 1978 to 11 million in 1987 of which 2,200 are urban trade centres, and the number of shops and spots of individual household from 178,000 to more than 9.1 million. In 1987, the total amount of retail sales registered RMB 510 billion Yuan, of which 110 billion Yuan

derived from the urban and rural free markets.

(2) Markets for means of production are taking shape. Means of production as commodity has been put on the market for commercial exchange. This has changed the traditional system of allocation by government departments, marking a major break through in reforming China's economic structure. Today, over 180 cities have successively established such markets. There is a network more than 32,000 trading spots and 644 trading centres. According to statistics collected from 85 markets for steel products, the total sales volume of steel for 1987 reached 6.44 million tons.

(3) Substantial development of financial markets. In 1987, the short-term loans transacted among financial enterprises amounted to 200 billion Yuan while bonds and stocks issued aggregated to 64.8 billion Yuan and 2 billion Yuan respectively. The business of security transfer has been put in operation run in more than 40 cities and foreign exchange adjustment markets are set up in a number of cities as well.

(4) Technological markets are becoming more active. China presently has over 5000 enterprises involved in technological development and trade. In 1987 contracts for technological transactions numbered over 130,000 amounting to 3.35 billion Yuan and foreign exchange earnings through export of technologies reached to US\$ 116 million.

(5) Progressive growth of labour markets. According to incomplete statistics of 27 provinces and municipalities, in 1987 the number of people for whom exchange agreements were concluded on the labour markets reached 140,000 and the number of new workers recruited on a contract basis registered a record of 2.02 million (7.26 million in the aggregate).

(6) Real estate market begins to emerge. China is reforming its housing system and has started the process of housing commercialization. The real estate market is taking shape and the right to use land can be auctioned in Shanghai, Fuzhou, Shenzhen and Hainan, etc.

(7) Price reform is implemented. Major progress has been made in the reform of the price system and price administrative practices with a view to expanding various commodity and production-factors markets. The former single state pricing has been replaced by three-form-pricing, i.e. state price, state guidance price and market price. The product coverage of state price is being reduced while that of market price enlarged. Of the total value of agricultural products sold by the peasants, the proportion under state price dropped from 92.6% in 1978 to 35% in 1987; the proportion under state guidance price and market price rose from 7.4% to 65% in the corresponding period. In the total value of retailed consumer goods, the proportion under state price decreased from 97% in 1978 to 47% in 1987, of which the proportion of light industrial products reduced from 95% to

45% while that of heavy industrial products from 100% to 60%. This shows that the role of market force has been substantially strengthened and the economic mechanism fundamentally changed in China.

4. Reforming the planning system and the direct government administration of economic activities and shifting the macro-economic management from direct control to indirect supervision.

China has greatly reduced the scope of direct state planning with regard to production, commerce and distribution. The number of industrial products subject to state mandatory planning has dropped from more than 300 to 60; the number of means of production subject to the unified state distribution has dropped from over 250 to about 20; the number of products subject to the planning of Ministry of Commerce has dropped from over 180 to 22. It is estimated that in volume terms, only 20% of all means of production required by enterprises and localities are distributed by the state, the rest of 80% are dependent on the market supplies.

Of the total funds earmarked for production and construction, the share from the state budget dropped from 77% in 1978 to 32% in 1987 while that of bank credits rose from 23% to 68% over the same period. In the total basic construction investment, the share of state budgetary funds dropped from 83% to 33% while that of funds collected by localities and enterprises rose from 17% to 67%.

It is clear that the function of such instruments as state planning and state budget allocation as to directly regulate the economy has been considerably weakened and the function of market monetary mechanism to indirectly regulate the economy reinforced. The free-of-charge use of investment in fixed assets and circulating funds has been replaced by repayable use. The policies of investment, finance and monetary affairs have begun to play a decisive role in regulating the demand, guiding the direction of financial flow, promoting industrial structural adjustment as well as production management and scientific and technological progress of enterprises.

5. Implementing the open policy and transforming the closed economy to an open one.

During the past nine years or more, China has taken four major steps in opening to the outside world. First, in 1980 it applied special policies and flexible measures in Guangdong and Fujian provinces and set up four special economic zones, i.e. Shenzhen, Zhuhai, Shantou and Xiamen; secondly, 14 coastal cities and Hainan Administrative Region (presently as Hainan Province) were opened to the outside world in 1984; thirdly, in 1985 the Changjiang (Yangtze) River and Pearl River Deltas and the triangular area in Southern Fujian Province were also opened to the outside world; fourthly, the economic development strategy for coastal areas went into implementation in 1987. These areas

have formed a coastal open strip with a population of 200 million accounting for half of the total value of the national industrial and agricultural output. This is of great significance to the direct participation by China's coastal areas in the development of an export-oriented economy, and the advancement of China's modernization.

The implementation of open policy has created a new situation of utilization of foreign capital and importation of technologies. By the end of 1987, the number of enterprises with foreign investment in China exceeded ten thousand. The total amount of committed foreign investment stood at US\$ 22.8 billion, actual disbursement was US\$ 8.5 billion. Their export earnings amounted to US\$ 1 billion in 1987.

The opening measures have also brought about expansion of foreign trade. According to the Customs Statistics the total value of foreign trade had increased as much as three times from US\$ 20.6 billion in 1978 to US\$ 82.7 billion in 1987.

The great achievements in the economic reform signifies that China's traditional model of centrally planned economy has been cast out and that the country is advancing towards a new socialist commodity economy.

III. Objective of China's Reform of Economic Structure

After summing up the practical experience of the economic reform, in 1984 China explicitly stated that the socialist economy is a planned commodity economy based on public ownership. This is both the theoretical basis and the envisaged model of the reform of the economic structure.

The term "planned commodity economy" means socialist commodity economy. It may be translated into "socialist market economy". The crucial difference between a socialist market economy and a capitalist market economy lies in the difference of ownership. Public ownership plays a predominant role in China while private ownership serves as a foundation for capitalist countries. However, in terms of economic mechanisms such economic principles as comparative advantage, supply and demand relationship and market competition must be observed in developing market economy regardless of different social and economic systems. In short, the new system of socialist commodity economy China pursues is the one in which "the state regulates the market and the market orientates enterprises" by integrating both forms of regulations through planning and the market so as to ensure the predominant role of public ownership. By the so-called "the state regulates the market and the market orientates enterprises", it denotes that the state regulates the total supply and demand of the society and the equilibrium between them through industrial policies, economic means like taxation and monetary instrument, legal means and necessary administrative means, so as to create a favourable economic environment for competition among enterprises guide them towards correct management decisions. By

integration of planning and the market force, it specifically refers to the following aspects:

1. State administration of the economy. In order to keep abreast of the evolving trend of socialization and collaboration of production, achieve proper allocation of resources, promote optimal utilization of production factors and maintain a general balance between the overall supply and demand of the society, it is necessary to give play to the market and free competition among enterprises on the one hand and to the regulation of state economic development programming and planning on the other.

2. Economic activities of enterprises. To enhance the competitive vitality of enterprises and enable their production and management activities in line with the needs of the national development, it is necessary for enterprises not only to arrange production and management plans according to the market supply and demand situation, but also to respond correctly to the economic policies and regulatory measures formulated by the state.

3. Economic interrelationship

The integration of planning with the market manifests itself in the economic interrelation between the State and enterprises, between regions and between enterprises. Such interrelationship is established in different forms of contracts on the basis of equality and mutual benefits. Direct Government administrative intervention through mandatory planning is reduced to the minimum extent possible.

After more than nine years of reform, the new system of socialist commodity economy is being established. China is in a transition from the old economic structure to a new one, in which the features of both the old and new economic structures and operational mechanisms co-exist. The establishment of a new system and the accomplishment of the objectives of the reform requires efforts to accelerate and intensify the reform.

VI. Task for Deepening the Reform

To establish a new system of socialist commodity economy within not too long a period, China faces the following main tasks to accelerate and intensify the reform:

1. To deepen the reform of operational mechanism of enterprises. Efforts should be made to develop various forms of contract responsibility and leasing system and share-holding system, to separate the ownership of enterprises from management authority, and to set right the relation between the state and the enterprise in respect of benefits and properties. The system with director (manager) assuming full responsibility will be

further implemented and the management within the enterprises improved. These reforms should bring about continuous increase in economic efficiency of enterprises and strengthen their competitiveness and facilitate their full responsibility for profits and losses.

2. To further improve the market system and actively push on the price reform. The markets for consumer goods and means of production will be further liberalized; Short-term financial markets developed; long-term financial market opened up; Stock market and foreign exchange market expanded; Technology market, labour market and real estate market brought into being. In order to establish an improved market system, China will firmly and progressively push on the reform of pricing system and price administration system. With exception of a few essential items subject to state [rice administration, prices for goods and services will be liberalized. Production and distribution of enterprises will be regulated by market.

3. To accelerate the reform of macro-economic control system. In the course of the structural reform of governments at various levels and the alteration of their function in the administration of the economy, the power of the government for macro-economic control will be improved. The industrial product coverage of mandatory planning will be further reduced, and that of guidance plan and market regulation be expanded. The subject of investment will be shifted from the government to the enterprises. The state will be mainly responsible for ensuring overall equilibrium and construction of infrastructure. The function of taxation and financial instruments in macro-economic control will be strengthened. The competence of the central and local governments in administration and finance will be explicitly defined, a system of different levels of taxation and a system of different levels of macro-economic control will also be established.

4. To adhere to the open policy. Efforts will be made to promote further economic and technological exchange and cooperation with foreign countries and to establish a comprehensive administrative system to facilitate development of foreign trade, foreign investment, transfer of technology, tourism, foreign contracting projects and labour service cooperation. Reform of foreign trade system will be carried out firmly and step by step, aiming at ensuring foreign trade enterprises full authority over management and full responsibility for profit and loss, facilitating better co-ordination between industry and foreign trade and popularizing agency system. Strategy for economic development in the coastal areas will be implemented to establish a new export oriented economy regulated by the market force.

5. To strengthen the legal system. Various laws and regulations governing economic activities will be made and improved and economic judicature will be carefully done so that economic management and operation will be guaranteed by an established legal system.

When the above-listed tasks of reform are accomplished, the framework of a new system of socialist commodity economy with Chinese character will be established. It will take us years, there will be many difficulties to overcome and we need to make exploratory and ceaseless efforts, before we could finally create this economic system. It is certain that China's economic reform will be a success, and will meet with understanding and supports from all over the world.