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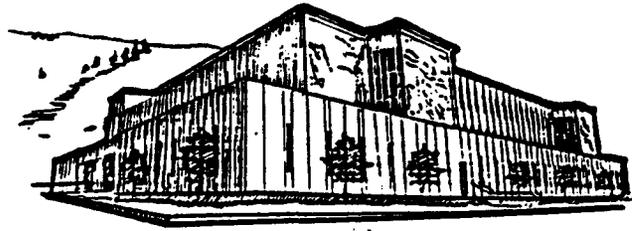
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AN ANALYSIS OF THE RECENT ECONOMIC
AND MANAGERIAL REFORMS IN CHINA

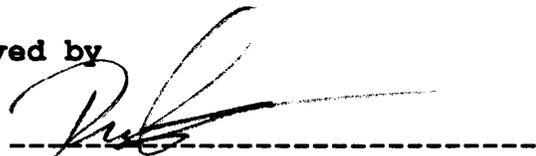
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Presented in partial fulfillment of the requirements
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1993

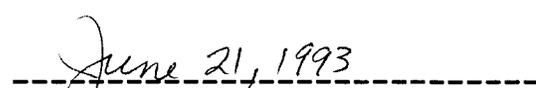
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Lin, Dingwei, MBA, June 1992 Business Administration

An Analysis of the Recent Economic and Managerial Reforms in China (58 p.p.)

Director: Richard Withycombe



This thesis deals with the economic and managerial reforms going on in the People's Republic of China with special emphasis on its new upsurge in 1992. It introduces the orientation, goals, new measures and policies, achievements and environment of the present economic and managerial reforms carried out by the Chinese government all over the country. It also analyzes the existing problems and forecasts the future trend.

In January 1992 Deng Xiaoping, the chief architect of China's line of reform and openness to the outside world, made an inspection tour in South China. He called on the Chinese people to further liberate their minds, become bolder in pursuing the policy of reform and openness to the outside world, and hasten the steps of China's economic construction. After that the Central Committee of the Chinese communist Party made a series of major decisions centered around the issue of shifting from a planned economy to a market economy. The 14th National Congress of CCP has determined the general goal for the reform of China's economic system -- establishing a system of socialist market economy so as to further liberate and develop the productive forces.

The central issue concerning the restructuring of China's economic system is the reform of enterprises. The key to the reform of enterprises is to convert the operational mechanism of enterprises. The focal point of converting enterprises' operational mechanism is for enterprises to exercise their independent power of management. Therefore, it is essential to change the government's function and to separate the responsibilities of enterprises from those of the government.

In 1992, China's economic construction as well as the cause of reform and openness to the outside world entered into a new stage of vigorous development. Great achievements were made during the year in China's manufacturing, agricultural and tertiary industries. However, a series of problems still remain to be solved. It can be expected that China will continue to deepen its economic reform and open more widely to the outside world in the next few years.

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CHAPTER ONE

THE ADVENT OF A NEW UPSURGE IN CHINA'S ECONOMIC AND MANAGERIAL REFORM

The Government of the People's Republic of China began to pursue a policy of economic reform and openness to the outside world at the end of 1978 after the Great Cultural Revolution [1] and the downfall of the gang of four [2]. During the following ten years China's national economy grew rapidly (See Table 1-2). In 1989 the output of China's products ranked first in the world in the following: grain, tobacco, cotton, meat, rapeseed, egg, coal, cement, cloth and television sets.¹ China's Gross National Product (GNP) rose from 169 billion dollars in 1980² to 350 billion dollars in 1988³.

Table 1

Main Indicators of China's National Economy

Item	1978	1988
GNP (billion U.S.dollars)	169 (1980)	350
Gross Output Value of Agriculture and Industry (billion yuan)	563.3	2,843 (1989)
Gross Output value of Agriculture (billion yuan)	139.7	655 (1989)
Gross Output Value of Industry (billion yuan)	423.6	2,188 (1989)
Per Capita GNP	171 (1980)	320
Total Value of Imports & Exports (billion U.S. dollars)	20.64	109.1
Value of Exports (billion dollars)	9.75	57.1
Value of Imports (billion dollars)	10.89	52.0

* Exchange rate in May 1980: \$1 US = 1.51 yuan; Exchange rate from Mar. 1988 to March 1989: \$1 US = 3.72 yuan.

Table 2
Output of China's Major
Industrial and Farm Products

Item	1978	1989
Coal (billion tons)	0.618	1.040
Electricity (trillion kwh)	0.257	0.526 (1988)
Crude Oil (millions of barrels per day)	2.08	2.73 (1988)
Steel (million tons)	31.780	59.000 (1988)
Cement (million tons)	65.240	207.000
Cotton (million tons)	2.167	3.790
Cloth (billion meters)	11.030	18.600
Grain (billion tons)	0.305	0.407
Aquatic Products (million tons)	4.660	11.480
Bicycles (million units)	8.540	36.720
Television Sets (million units)	0.517	27.010
Washing Machines (million units)	0.0004	8.260
Refrigerators (million units)	0.049	6.620
Automobiles (million units)	0.149	0.574

- SOURCE: 1) Liu, William T. China Statistical Abstract 1988. New York: Praeger Publishers, 1989, P.4-87.
- 2) Pocket World Atlas (in Chinese). Beijing: China Atlas Publishing House, Dec. 1990, P.3.
- 3) The World Almanac and Book of Facts. New York: St. Martin's Press. 1983, P.528. 1991, P.698, P.133.
- 4) China, a Country Study. Washington: U.S. Government Printing Office. 1988, P.253.
- 5) The World Factbook 1989. Washington: Central Intelligence. 1989, P.62.

However, during the two and a half years after the Tian An Men Square Political Incident in June 4, 1989, radical conservative thinking once again prevailed over the country. Some ultra-Leftists were promoted to important positions both in the Party and in the government. They denied the great achievements made by China during the past ten years of economic reform. They tried to place obstacles to the economic reform and make China go back down the old road

followed during and before the Great Cultural Revolution. Meanwhile, many Chinese showed deep concern and were quite worried about China's future. Others felt helpless though they wanted their government to carry the economic reform through to the end.

Under these circumstances, China's economic reform experienced setbacks and was at a low ebb. The process of economic reform slowed down. Some leaders even advocated the old line of practicing a pure planned economy and negating the policy of combining the planned economy with the market economy. In some areas where the ultra-Leftists had power, reformists were squeezed out and criticized, and old systems and regulations were restored. As a result, China's national economy suffered.

However, in January 1992 Deng Xiaoping, the chief architect of China's line of reform and openness to the outside world, made an inspection tour in South China. In an important speech he analyzed the internal and external situation and highly praised the achievements made in the external economic development zones in South China. He also called on the Chinese people to further liberate their minds, become bolder in pursuing the policy of reform and openness to the outside world, and hasten the steps of China's economic construction. He called on the leaders on all levels not to lose the opportunity for vitalizing China's economy so as to effect a minor change in a year and a major change in three years.

In March of that same year the Chinese Communist Party convened a plenary session of the Central Committee of the Political Bureau in response to Deng's instructions. Since then the Central Committee of the Party and the State council have made a series of major decisions concerning the acceleration of China's economic and managerial reform as well as its economic construction.

On October 12, 1992 the 14th National Congress of the Chinese Communist Party was inaugurated in Beijing. In the Congress Jiang Zemin, the general secretary of the Party, gave a very important report, which announced the Party's new policy of shifting from a planned economy to a market economy and set the goal of building China into a modernized socialist country with Chinese characteristics. This report also formulated the following ten tasks confronting the Chinese people for engaging in the reform and economic construction in the 1990s:

- 1) Establish a system of socialist market economy and hasten the steps of economic reforms.
- 2) Further expand the fields opening to the outside world; Make more and better use of foreign funds, resources, technologies and managerial experience.
- 3) Adjust and optimize the industrial structure; Pay great attention to agriculture; Accelerate the development of the basic industries, infrastructure and the service industries.

- 4) Promote technological progress; Vigorously develop education; Bring into full play the role of intellectuals.
- 5) Fully utilize the advantages of the local regions so as to expedite the development of local economy and improve the layout of China's national economy.
- 6) Actively push ahead with reform of the political system as well as the socialist democratic and legal systems.
- 7) Have determination to conduct the reform of the organizational structure and the administrative management system; Convert the operational mechanism of the state industrial enterprises; Streamline administration and raise working efficiency.
- 8) Elevate the socialist spiritual civilization to a new level.
- 9) Continuously improve the life of the people; Strictly control the growth of the population; Make every effort to protect the environment.
- 10) Strengthen China's military forces and increase the actual strength of its national defense for securing the smooth process of its economic reform and construction. ⁵

Jiang's report, Deng's instructions and a series of the Party's major decisions regarding China's reform and economic construction have received warm support from the Chinese people. Since then great changes have taken place in every enterprise, every industry, every city and every province in China. Now the greatest concern of the broad masses is how to earn money, how to set up and run a business and how to get the greatest return from the investment of securities. Various kinds of companies are springing up like bamboo shoots after a spring rain. China's national economy is growing dramatically. As a result, the supply of consumer goods is sufficient and the market is brisk. At present, a new upsurge of economic and managerial reform is taking shape all over the country. China is in a transition period of shifting from a planned economy to a market economy.

NOTES

- [1] The Great Cultural Revolution is a political movement waged by Mao in 1966 against so called "a handful of authorities in the Party who took the road of capitalism".
- [2] The gang of four refers to the four ultra-Leftists who usurped the high leading positions of the Party during the Great Cultural Revolution launched in 1966. They are Jiang Qing (Mao's wife), Wang Hongwen (Mao's successor), Zhang Chunqiao and Yao Wenyan.

CHAPTER TWO

TRANSFORMATION FROM A PLANNED ECONOMY TO A MARKET ECONOMY

During the 30 years from 1949 to 1978, China implemented a planned economy. This economic model was copied from the Union of Soviet Socialist Republics (U.S.S.R.). At that time, China's national economy developed in a planned and proportionate way on the basis of public ownership [1]. Only consumer goods were regarded as commodities to the exclusion of the means of production [2]. Anything related to "capital" was considered incompatible with socialism and therefore was rejected.

However, China's past experience has proved the fact that the highly centralized system of a planned economy has serious deficiencies. It lacks flexibility, causes rigidity of the national economy, makes production detached from demand, and deprives the enterprises of their independent management power, thus resulting in low operating efficiency.

Therefore, nearly all the Chinese people have realized that the old economic system must be reformed. But how to reform the economic system remained a problem. During the 13 years of economic reform from 1979 to 1991, the Chinese government adopted the following economic models in historical sequence: a) A planned economy supplemented by market regulation; b) A combination of the planned economy with a market economy; c)

A market mechanism with market regulation as the basis and state regulation as the leading factor; d) A planned commodity economy.

Nevertheless, none of the above models has been proven to be as effective as a market economy. The chief designer of China's economic reform realized the truth in time. On his inspection tour in South China at the beginning of 1992, Deng made the following remarks: "The planned economy is not equal to socialism because capitalism also has its plans; the market economy is not equal to capitalism because socialism also has its markets. Both plan and market are economic means. Whether plan or market has the larger proportion is not a major difference between socialism and capitalism."⁶

After Deng's speech the Central Committee of the Chinese Communist Party (CCP) made a series of major decisions centered around the issue of shifting from a planned economy to a market economy. The 14th National Congress of CCP has determined the general goal for the reform of China's economic system -- establishing a system of socialist market economy so as to further liberate and develop the productive forces.

In January, 1993, the National Economic Restructuring commission put forward the following eight suggestions about how to establish the new system of socialist market economy:

1. Construct a diversified ownership structure with the public economy [3] as the main component

supplemented by the individual economy [4], the private economy [5] and the foreign capital economy [6]. These different economic components can coexist for a long period, develop together and engage in equal competition.

2. Set up a system to establish independent economic entities, which assume the sole responsibility for their profits or losses and are based on the separation of management power from the ownership of assets.
3. Establish a unified, sound, and complete market system as well as the mechanism of price formation.
4. Set up an indirect macro-economic managerial system with economic policies and economic leverage as the main regulatory means for the purpose of realizing the macro-economic equilibrium and the optimized economic structure.
5. Build a highly efficient economic management system with a rational organizational structure and clear responsibilities.
6. Establish a competitive labor and employment system under which the management and the employees in an enterprise can choose each other.
7. Institute a sound and unified social security system as well as a multiple distribution system with the system of distribution according to work as the basis.

8. Set up a strict, scientific, complete and unified system of economic laws and economic supervision.⁷

Establishing and improving the socialist economic system is a long-term process of development as well as an arduous and complicated social systems project. It is necessary to boldly engage in exploration and experimentation, sum up the experience in a timely manner and promote the smooth transformation from the planned economy to the market economy.

According to an editorial in the People's Daily on Oct.13, 1992, the purpose of establishing a system of socialist market economy is to let the market play the basic role in resource allocation under the socialist macro-economic control and regulation, to let the economic activities follow the rule of value and be adaptable to the changes of the relationship between supply and demand, to allocate resources to the related links with higher economic efficiency through the function of price lever and competitive mechanism, to produce pressure and motivation for enterprises so as to let the profit-making enterprises exist and allow the money-losing ones to go into bankruptcy, as well as to promote the timely matching of production and demand by utilizing the advantage of the market in flexibly responding to various economic signals.⁸

The past experiments showed that economic vitality was relatively strong in places where the role of the market was

brought into full play. If China wants to optimize its economic structure, upgrade its economic efficiency and participate in international competition, it must go on strengthening the role of the market mechanism.

At the end of 1992, the proportion of market regulation in China's industrial economy increased to 84%. On the other side, at the same time the percentage of China's command plans decreased to 16%; the means of production distributed centrally by the state were reduced to 19 categories; and the percentage of prices determined by the state fell to less than 30%. Over 90% of China's economic operations have relied on market regulation, especially in certain districts such as the special economic zones, the Pearl River Delta, and the cities of Suzhou, Wuxi and Changzhou in the Yangtze River Delta.⁹

All these facts indicate that a market mechanism has taken the leading position in the operations of China's national economy, and that China's market economy has prevailed to a large degree over the planned economy.

NOTES

- [1] The planned and proportionate development of the national economy on the basis of public ownership was regarded by the then Chinese government as an important economic law characteristic of socialism. It required the planned and proportionate distribution of manpower and means of production among different sectors of China's national economy with the aim of rationally utilizing manpower, materials and financial resources.

- [2] "The means of production" is a term used by Karl Marks in his works of On Capital. According to Marxist view, the means of production includes any materials, tools, machines and equipment used for production.
- [3] The public economy includes the state economy and the collective economy.
- [4] The individual economy generally refers to the operational activities conducted by an individual or together with his/her family, such as peddlers, individual handicraftsmen or small shops run by couples.
- [5] The private economy refers to various kinds of private enterprises, such as sole proprietorships, partnerships and incorporated companies. these firms generally hire a certain number of employees.
- [6] The foreign capital economy refers to foreign direct investment by foreign enterprises or governments.

CHAPTER THREE

NEW MEASURES FOR CHINA'S ECONOMIC REFORM

I. GREAT DEVELOPMENT OF CHINA'S TERTIARY INDUSTRY

On June 16, 1992 the Central Committee of the Chinese Communist Party and the State Council jointly published a decision of expediting the development of China's tertiary industry [1]. According to the scheduled plan, the proportion of the tertiary industry in the Gross National Product will be increased from about 1/4 to 1/3.

In the 14th National Congress of CCP, General Secretary Jiang's report also stressed the importance of greatly developing the tertiary industry. He said, " The flourish of the tertiary industry is an important characteristic of the modern economy. It is imperative to bring into full play the initiative of the state, the collective and the individuals to develop and engage in the tertiary industry as well as to markedly increase its proportion in the industrial structure."¹⁰

The Chinese government has determined the following general goal for developing its tertiary industry: take ten years or more to gradually establish a unified market system, a socialized integrated service system both for cities and the countryside and a social security system, all of which are

adaptable to the socialist economic system. The specific goals are as follows:

- 1) In order to set up a nationwide unified open market system, it is necessary to develop a commodity market, a financial market, a technical market, a real estate market, a service market and an information market to realize the marketization for the exchange of various production factors. It is also necessary for China to break through the local blockade, eliminate departmental separation and break the industrial monopoly so as to form local, regional and national markets, and to establish a new market order of equal competition with a sound legal system and unified rules.
- 2) In order to set up a relatively sound socialized integrated service system, it is necessary to develop an open type of social service industries with multiple levels and functions such as transportation, communication, municipal utility, education, public health, culture, tourism, science and technology, information, consultation and rural comprehensive services. To attain this aim it is imperative to form sound market intermediaries, provide market services and convert most of the institutions into operational self-developing enterprises.

- 3) In order to set up a new type of social security system, it is necessary to establish a pension insurance system, an unemployment insurance system, a medical insurance system and various kinds of rural insurance systems, all of which are rationally shared by the state, the collective and the individual. Meanwhile, the facilities of social welfare and social relief should be vigorously developed.¹¹

II. THE REFORM OF CHINA'S FINANCIAL SYSTEM

The new measures for the reform of China's financial system are: a) Greatly develop the financial markets; b) Gradually form the nationwide securities exchange center, the inter-bank borrowing/offering center, the bill discount center and the foreign exchange dealing center; c) Further increase the number of foreign-owned banks and financial institutions and expand the fields of their operational activities; d) Start the off-shore financial operations; e) Create the necessary conditions for building Shanghai into a center of international finance.

In the last 14 years China established or restored five professional banks and an insurance company: the Bank of

China, the Industrial and Commercial Bank of China, the Agricultural Bank of China, the People's Construction Bank of China, the Bank of Communications and the People's Insurance Company of China. By the end of 1991, China had 58,200 rural credit cooperatives, 3,421 urban credit associations, 7 insurance companies with 3,060 branches, 377 investment trust companies, 66 securities firms, 19 financial companies and 9 rental companies.¹²

In 1992, the Industrial and Commercial Bank of China ranked among the world's eight largest banks. Its total assets were over 1,430 billion yuan, and its total assets of Renminbi (RMB--Chinese currency) reached 55.1 billion yuan. They increased by 22% and 12.7% respectively as compared with those in 1991.¹³

When the international financial market was still unstable, the Bank of China actively opened up its markets in Europe and Asia and financed the funds of foreign exchanges through multiple channels. It successfully issued 15 billion Japanese yen of publicly subscribed bonds in the Tokyo market and \$ 150 million of Asian dollar bonds in the Singapore market. It also concluded 10 buyer's credit agreements in the amount of 550 billion U.S. dollars with many European countries. Besides, the Bank of China conducted economic activities and business dealings with domestic enterprises as well as the Soviet Union and other neighboring countries. It provided loans for trade in the border regions.¹⁴

In recent years, the People's Construction Bank of China has started a credit card business in its branches in 19 cities and counties. By the end of 1992, it had 50 institutions engaged in credit card business. During the two years of 1991 and 1992, the bank issued more than 50,000 Master and Visa credit cards. It handled the businesses of settling and cashing credit cards and using them to distribute wages for clients.¹⁵

III. EMERGENCE OF THE SECURITIES EXCHANGE MARKET

Fueled by senior leader Deng Xiaoping's recent call for bolder market reform--including more experimentation with stock markets--and motivated by the desire to get rich quick, a stock craze is sweeping China.

In 1992, China's security industry developed speedily, causing various countries in the world to take notice. So far, China has only two fledgling stock markets, one in Shanghai, and the other in the southern boom town of Shenzhen near Hong Kong. Three national security corporations (Guotai, Huaxia and Nanfang) were established respectively in Shanghai, Beijing and Shenzhen. In October of 1992, the State Council made a decision on the establishment of the State Council Security Commission and its executive department--

China Securities Supervision and management Committee. The National Economic Restructuring Commission and other four ministries jointly published 16 documents for guiding and normalizing the process of making experiments on the shares system.

At present, popular interest in setting up securities exchanges is surging. A host of other cities around the country from Guangzhou in the south to Shenyang in the northeast are making every effort to become the site of the third stock market. The city of Shenyang, situated in the industrial heartland of China's northeast, opened a securities exchange not long ago in the hopes of getting the central government's approval to trade in stocks.

China now has its first securities magazine, Securities Investment Weekly, which began publication in March of 1992. The Stock Exchange Executive Council, a private group with close government ties, has been besieged by requests for guest lectures. At major bookstores in Beijing, daily sales of financial books are reaching as high as 700 a day, with long lines of customers often forming in front of counters to buy such bestsellers as The ABCs of Investment in Stocks. Shanghai formally opened its stock exchange in December 1990. It is the first time since the Communist takeover in 1949 that informal " stock corners " have sprung up in factory cafeterias, parks and clubs. Frequently seen now are workers debating the prices of stocks and the merits of stock markets.

For Chinese authorities, who see economic progress as essential to the existence of socialism, there is an increasing understanding that securities markets can raise capital that is sorely needed in China's transition to a market economy. With a household saving rate of 40 percent of disposable income, China has generated a pool of private savings that is estimated to be close to \$ 200 billion.¹⁶

In the past, many people and leaders had a tendency to argue that "capital markets are a symbol of the capital system, something that must be done away with". But after Deng made a trip to the dynamic southern China, calling for bolder experimentation in securities and stock markets, the dominant tone is markedly different.

However, unlike markets in the West, the exchanges in Shanghai and Shenzhen are relatively small, each now having only a few dozens of listed companies. Share prices are heavily controlled by regulators, rather than the market, although some controls are easing in Shenzhen.

In February 1992, the Shanghai market, once the biggest in Asia, took a great leap forward by allowing foreigners to trade shares for the first time since 1949. Foreigners were allowed to trade special B shares of Shanghai Vacuum Electron Device Co., a state-owned television company. By mid-April, 1992, Shanghai had issued B shares with a face value of about \$18 million, and Shenzhen has issued about \$36 million in B shares.¹⁷

B shares are denominated in Chinese Yuan, but are paid for in foreign currency at the official exchange rate. They can only be traded by foreigners and are not exchangeable with A shares, which are reserved for local investors.

By October 1992, China had more than 7,000 securities exchange institutions and their agencies, thus forming a basic network of securities exchange for the cities and the countryside all over the nation. In 1992 the total transaction value of the securities exchanges in Shanghai and Shenzhen was over 100 billion yuan, and the number of listed companies increased from 15 in 1991 to 50 in 1992. The Shanghai security market has become the national center of securities exchange. Along with the continuous expansion of its market scale, Shanghai Securities Exchange has three times experienced renovation and transformation. Now it is setting up a computerized operating system which can provide the modern means for the equality, stability and high efficiency of the security market.¹⁸

IV. THE REFORM OF CHINA'S EXTERNAL TRADE AND ECONOMIC SYSTEM

After the 14th National Congress of CCP, China adopted the following five measures in the field of foreign trade and external economic relations: a) Further expand the regions and fields which are open to the outside world. b) Further carry out the reform of restructuring the system of foreign trade;

accelerate the conversion process of the operational mechanism of the foreign trade enterprises and promote the development of these enterprises towards the goals of internationalization, economic entities and enterprise groups. c) Utilize foreign capital more actively, boldly and effectively. d) Actively open up international markets. e) Stick to the policy of "getting earnings by effectively upgrading the quality of export commodities"; Maintain a good reputation for China's foreign trade.

In 1992, the Chinese government further relaxed its policy towards foreign investment in China. The field of foreign investment was further expanded especially in the tertiary industry. China opened to the outside world all the provincial capitals in the interior regions, five cities along the Yangtze River and thirteen inland border cities. Last year China also canceled the import and export adjustment tax and reduced its tariffs twice. The general level of China's customs duty was lowered by 7.3%. Now there are only 53 import commodities under license control. According to The temporary Provisions Regarding the Management of Export Commodities, published by the Ministry of External Trade and Economic Affairs at the beginning of 1993, the detailed list of all the commodities for import substitution has also been canceled.¹⁹

V. THE REFORM OF CHINA'S TAXATION SYSTEM

On January 1, 1993 the State Taxation Bureau published The Temporary Provisions of the People's Republic of China Regarding the Wage Adjustment Tax Levied against Enterprises and Institutions. It stipulates that the wage adjustment tax is payable on the wage expense spent by the state-owned enterprises, collective enterprises, joint run businesses, institutions, private enterprises and incorporated enterprises. All the enterprises and institutions are taxpayers. The wage expense includes monetary wages, bonuses, allowances, stipends, subsidies, wages in kind and compensation for services provided. The tax-exempt standard of the wage adjustment tax is the annual amount of 2,400 yuan per capita. The five-level extra progressive taxation system is applied. The graded tax rates are as follows:²⁰

Monthly Average Taxable Wages Per Capita (Yuan)	Tax Rate
200 - 400	10%
400 - 800	20%
800 - 1,200	30%
1,200 - 1,600	50%
Over 1,600	70%

The wage adjustment tax is in essence a variation of personal income tax. Its purpose is to redistribute and readjust personal revenue on the principle of equality.

In the history of China's fiscal revenue, enterprises' profits turned over to the state were once the main source of

China's fiscal revenue. During or before the Great Cultural Revolution, the normal condition was that the amount of profits turned over to the state by enterprises was greater than the aggregate amount of all tax revenues. From 1976 to 1985 the proportion of Revenue from Enterprises and Revenue from Taxation changed greatly. The proportion of Revenue from Enterprises gradually decreased every year from 52.42% in 1978 to 2.1% in 1985. On the other hand, the proportion of Revenue from Taxation gradually rose from 47.58% in 1978 to 97.9% in 1985.²¹

The basic cause of this drastic change is that the distribution pattern of the enterprises' revenue changed completely. At first, all the profits created by enterprises were turned over to the state. Later, in the process of economic reform a series of new systems was implemented on a trial basis -- a system of retained profits, a system of converting profits into taxes and a system of contracting profits. As a result, a portion of the profit formerly turned over to the state was converted into an enterprise income tax and various other tax revenues. Meanwhile, the drastic increase of the enterprises' retained profits and the repayment of debts before tax caused the Revenue from Enterprises to drop by a wide margin.

However, although the enterprises' retained profits increased much more than before, the advantages of the new systems were not obvious. The above measures did not play an

effective role in promoting the self-accumulation and self-development of the enterprises. Besides, dispersion and waste of the enterprises' funds were also serious.

Due to the above reason, in 1992 the Chinese government began to implement on a trial basis the new system of separating profits from taxes. The enterprise income tax rate was about 33%. The distribution of after-tax profits depends upon the specific situation of an enterprise.

At present, along with the development of China's socialist commodity economy, there appears a small portion of people who are becoming wealthy earlier and own much more property than other people. Not long ago some government officers and scholars suggested that both the estate tax and the gift tax be assessed on this small group of wealthy people when they die or give their property to others as a gift. According to these individuals, the rational starting level for the assessment should be 30,000 to 50,000 yuan.²²

VI. THE NEW SYSTEM OF CAPITAL CONSTRUCTION

In 1992, Vice-Premier Zou Jiahua announced a new measure adopted by the Chinese government for the project management of capital construction [2]. From the date of his announcement, a new system of project-owner's responsibility was implemented in principle for all newly-operated large- and medium-sized projects of capital construction.²³ In this

way China's investment efficiency can be improved markedly. The implementation of the system of project-owner's responsibility is an important measure of economic reform, both for converting the operational mechanism of construction project investment and for upgrading investment efficiency. It is not only a new organizational form of project management, but also an important basis for the actual operation of the system of the socialist market economy in the field of capital construction.

NOTES

- [1] China's tertiary industries include various kinds of service industries, such as transportation, communication, postal service, commerce, catering trade, material supply and marketing, warehousing, finance, insurance, real estate, public utility, tourism, consultant service, education, culture, broadcast and television, scientific research, public health, physical education, social welfare, as well as the services provided by the state and Party organs, mass organizations, army and police.
- [2] Capital construction is the reproduction of fixed assets realized through the form of investment in the various sections of the socialist national economy. The newly increased portion of fixed assets is characteristic of the expanded reproduction; Whereas the replaced scrapped portion of fixed assets is characteristic of the

simple reproduction. As far as its physical forms are concerned, capital construction includes the building of factories, mines, railways, bridges, ports, power stations, hospitals, schools, residences and shops as well as the purchase and installment of machinery, equipment, vehicles and ships. In terms of its economic sense, capital construction includes productive construction and nonproductive construction. The process of capital construction is as follows: Determination of projects, selection of construction sites, exploration and design, purchase of equipment, organization of construction, preparation of production, completion of construction, and check and acceptance of projects before delivery. Capital construction occupies an important position in the whole national economy. It also plays a leading and decisive role in the economic development of a socialist country.

CHAPTER FOUR

NEW MEASURES FOR CHINA'S MANAGERIAL REFORM

I. A SHIFT OF OPERATIONAL MECHANISM IN CHINA'S STATE-OWNED ENTERPRISES

In July 1992, the State Council promulgated The Ordinance Regarding the Conversion of Operational Mechanism of State-Owned Industrial Enterprises. The ordinance specifies that a state-owned industrial enterprise is invested with the following 14 rights: the right to make decisions on production and management; the right to fix the prices of its products and services; the right to sell its products; the right to purchase the needed materials; the right to conduct import and export trade; the right to make decisions on investment; the right to allocate the retained funds; the right to dispose of its assets; the right to form a joint run business or to merge with other firms; the right to employ workers; the right to exercise the power of personnel management; the right to distribute wages and bonuses; the right to set up internal institutions; the right to refuse appropriation of manpower, material and financial resources imposed by any external departments or organizations. While having full managerial power, a state-owned industrial enterprise must assume sole responsibility for its profits or losses as well as establish both self-restrained and supervisory mechanisms for the

distribution of wages and bonuses. In addition, the ordinance stipulates corresponding legal liabilities in order to prevent the abuse of managerial power by these enterprises.²⁴

On October 16, 1992 the Central Committee of CCP and the State Council jointly issued a notice regarding the principles and measures for conscientiously implementing the above-mentioned ordinance. Its main points are as follows:

1. The central issue concerning the restructuring of the economic system is the reform of enterprises.
2. The key to the reform of enterprises is to convert the operational mechanism of enterprises.
3. In order to convert the operational mechanism of enterprises, it is necessary to change the government's function and to separate the responsibilities of enterprises from those of the government. The government organs at all levels must provide social services for enterprises and support them to conduct the reform of restructuring their labor system, personnel management system and distribution system.
4. The focal point of converting enterprises' operational mechanism is for enterprises to exercise their independent power of management. The government organs at all levels should actually delegate independent management power to enterprises and make them become self-developing

and self-restrained commodity producers and independent management units.

5. If any action infringing upon the enterprises' independent management power occurs, the superior government organs should investigate the legal liabilities of the departments and personnel concerned.
6. The state-owned industrial enterprises should exercise the independent management power invested by the ordinance and actively enter into domestic and international markets.
7. The state-owned industrial enterprises should intensify the self-restrained mechanism and consciously accept supervision by society and relevant governmental departments.²⁵

After the promulgation of the central government's ordinance and notice, not only state-owned industrial enterprises but also state-owned financial institutions and foreign trade enterprises began to convert their operational mechanism.

At present China's financial institutions are in the process of transformation from administrative type institutions into financial enterprises. China's professional banks are trying to change their administrative operational system and implement the new system of separating profits from taxes and retaining the profits for their own use. They are to become

self-restrained independent financial enterprises, which assume their own risks and sole responsibility for their profits or losses. Recently, the financial institutions with multiple financial assets and operational functions have been expanding swiftly with the development of multiple forms of credit.

Now, China's government is also optimizing the organizational structure of foreign trade enterprises and creating the necessary conditions to help them take the road of self-development and self-restraint. This necessitates the conversion of the government's function of administering foreign trade affairs from micro-management into macro-control and regulation. The foreign trade enterprises are required to provide services for other business enterprises. It is expected that through reform, the foreign trade enterprises will have a stronger capability of successfully engaging in economic activities in the highly competitive international market.

II. GROWTH OF PRIVATELY-OWNED ENTERPRISES AND INDIVIDUAL BUSINESSES

In 1992 the Chinese government adopted a more lenient policy towards the private economy and the individual economy. Individual businessmen and private enterprises were allowed to operate across different areas, different industries and

different ownerships, as well as to engage in horizontal economic integration and mutual penetration in one another's incorporated operations. The state permitted them to rent, contract and purchase small-sized state-owned enterprises or collective enterprises. Regulations specified that any people who had operating capability and possessed productive and operational conditions were eligible to apply to initiate individual businesses or private enterprises. The state had the responsibility to protect the legal rights and interests of individual businesspeople and private enterprises according to relevant laws. These businesspeople were entitled to refuse any willful imposition on them to extort irrational fees, fines or taxes.²⁶ In October 1992, a new policy was issued which permitted individuals and private enterprises to run businesses abroad or form cooperative enterprises with foreign firms.²⁷

A survey of the Chinese markets shows that the private economy has become a significant force in China's national economy. By the end of 1992, there were about 15 million individual businesses and 139,000 private enterprises registered in China's Industrial and Commercial Administrative Bureau at all levels. They had 22.1 billion yuan in listed assets and more than 24 million employees or self-employed workers. In 1992, they handed over to the state two billion yuan as taxes and profits.²⁸

III. FORMATION OF ENTERPRISE GROUPS

The enterprise group is a new form of organization which has emerged in accordance with the needs of China's socialist market economy and socialized large-scale production. By the end of 1992, China had more than 1,000 of various kinds of enterprise groups. They have played an active role in improving the organizational structure of China's enterprises, developing a social division of work and enhancing the effectiveness of macroeconomic regulation by the state. China's enterprise groups have relative independence, but they accept macroeconomic regulation by the government. The enterprise groups together with the contracted responsibility system and the shares system have been regarded as three effective measures for invigorating China's enterprises.

Anshan Steel Group Corporation, formed on Dec.27, 1992, is a typical large Chinese enterprise group. It consists of 9 close-layer enterprises, 11 semiclose-layer enterprises and 31 loose-layer enterprises across different areas, multiple industries and various ownerships, with Anshan Steel Co. as the core business. It has the advantage of a scale economy, rationally allocates and uses production factors, and brings into full play the leading role of a large state-owned enterprise.

**IV. GROWTH OF FOREIGN PROPRIETORSHIPS, JOINT
VENTURES AND CHINESE-FOREIGN COOPERATIVE ENTERPRISES**

In 1992, the Chinese government approved the establishment of over 40,000 foreign proprietorships, joint ventures and Chinese-Foreign cooperative enterprises in China, which outnumbered the total sum of such enterprises approved during the previous 13 years. The amount of foreign capital, according to agreements, was more than 50 billion dollars and the foreign capital actually utilized reached as high as 16 billion dollars, increasing by 160% and 40% respectively as compared with those in 1991.²⁹

Recently, the Chinese government made a promise to foreign businesspeople that China would gradually bring into effect "national treatment" for foreign businesspeople so as to create an investment environment of fair competition in which foreign businesspeople could make investments and run businesses in China according to international practice. The Chinese government also made the following commitments: a) further carrying out the policy of exchanging markets for technologies. China would open its domestic markets for high technology products produced by enterprises with foreign investments. b) further expanding the fields of foreign investment. Foreign businesspeople would be allowed to invest in the fields of domestic commerce, finance, foreign trade, navigation and aviation. c) permitting foreign businesspeople to make investments with intangible assets as capital. These

intangible assets could be proprietary technologies and such industrial property rights as patents and trade marks.³⁰

V. THE EMERGENCE OF INCORPORATED ENTERPRISES

The incorporated enterprise is a new type of enterprise which emerged in China during recent years as a result of the managerial reform of enterprises. Before 1992 it was only tried on a small scale. A shares system was implemented in selected units. However, in 1992 incorporated enterprises developed swiftly across the whole nation. By July 1992, China had 3,220 different categories of incorporated enterprises, among which, 89 enterprises (3%) openly issued stocks to the public, 2751 enterprises (85%) only issued stocks to their employees, and the remaining 380 enterprises (12%) held one another's stocks as legal bodies.³¹

The trial implementation of the shares system played the following active roles: a) It opened up a new financial channel to raise funds for major economic construction projects and promoted the growth of the fund market; b) It was beneficial to keeping or adding to the value of state-owned assets; c) It was helpful in adjusting the relationship between enterprises and local government, thereby promoting the adjustment of industrial structure and the growth of

enterprise groups; d) It was conducive to the conversion of enterprises' operational mechanism.³²

After the implementation of the shares system, the government will greatly reduce its intervention in the affairs of the incorporated enterprises, and the independent rights of these enterprises will be visibly increased. Because the employees of the incorporated enterprises hold part of the stockholders' equity, they become the owner of the enterprises' partial assets. This is conducive to the mobilization of the employee's initiative in participating in production and business management.

VI. CHINA'S FIRST TRANSNATIONAL ENTERPRISE

The General Capital Steel Corporation is China's first transnational enterprise. Before China's economic reform it was only an ordinary steel company. In the 1980s, it was approved by the Chinese government as one of the earliest pilot units for conducting the managerial reform of enterprises. Now, It has gradually developed into a vast enterprise with its operations across different industries, different regions and different countries.

So far, the General Capital Steel Corp. has merged with 39 enterprises in the industries of building, munitions, machinery, electronics and ship-building. In 1992, it set a

grand goal of increasing its annual output of steel to a high level of over 20 million tons within this century and squeezing into the ranks of the ten largest steel enterprises in the world.³³

Two and a half months after Deng's inspection of this enterprise last year, the General Capital Steel Corp. was specified by the Chinese government as a new pilot unit. It was especially authorized to have the right to make decisions on investment items, the right to engage in independent foreign affairs and foreign economic activities, as well as the right of financial accommodation. Currently, it is making preparations to set up the Huaxia Bank -- China's first commercial bank run by an industrial enterprise. It also plans to establish or to purchase a bank in Hongkong as Huaxia Bank's offshore branch.

In November 1992, the General Capital Steel Corp. purchased the total assets of Peru Iron Ore Co. at the price of 120 million U.S. dollars after it just bought an American steel mill in the state of California. So far, it owns 15 proprietorships and joint ventures abroad. At present, this transnational corporation is ambitious to greatly expand its existing oceangoing transportation fleet in order to transport iron ore from Peru. Its next operating target is to rank among the world's 500 largest enterprises as a big transnational corporation in 1995.³⁴

VII. GROWTH OF THE ENTERPRISES
RUN BY TOWNS OR VILLAGES

In 1992, encouraged by the Chinese government, China's enterprises run by towns or villages developed at high speed. The value of their total output reached more than 1.6 trillion yuan in that year, increasing by 40 percent as compared with that of the previous year. Currently, it accounts for 1/3 of the output value of the industrial economy and 2/3 of the output value of the agricultural economy. The total number of employees in these enterprises was over 300 million, thus solving the problem of employment for a great number of laborers.

The externally-oriented economic growth of these enterprises is also gaining momentum. In 1992, the delivery value of their foreign trade exceeded 100 billion yuan, much more than the delivery value of 65 billion yuan in 1991.³⁵

The emergence and rapid growth of China's enterprises run by towns or villages since the 1980s is a miracle created during the process of China's economic and managerial reform. It is another pioneering work performed by Chinese peasants after the implementation of the contracted system of linking a household's output with remuneration.

During a short period of the past score of years, these enterprises have become a strong leading force in China's market economy because they have gradually formed a good mechanism of market economy in the process of its self-

development. In the absence of government investment, China's enterprises run by towns or villages have evolved into the main body of medium- and small-sized enterprises.

In 1993 the Chinese government continues to encourage these enterprises to run various kinds of non-banking financial organizations, such as investment companies, trust companies, credit unions, foundations and insurance companies. They are also allowed to develop the shares system and enterprise groups. In addition to the further improvement of the contracted responsibility system, the bankruptcy system will be implemented this year.

CHAPTER 5

ESTABLISHMENT OF THE PUDONG DEVELOPMENT DISTRICT IN SHANGHAI ----- CHINA'S PRESENT KEY AREA FOR OPENING TO THE OUTSIDE WORLD

The Chinese government decided to develop the New Pudong District in Shanghai at the beginning of the 1990s. After Deng Xiaoping made an inspection in Shanghai, the New Pudong District was approved by the central government as China's key area for opening to the outside world in the 1990s.

The New Pudong District is a delta to the east of Huangpu River and to the Southwest of the Yangtze River. It has an area of 350 square kilometers and a population of 1.7 million people. It is close to the central city and has good geographical conditions for building a harbor and developing water transport. There are 2,500 industrial enterprises and 380,000 employees in the district.³⁶

At the beginning of 1992, in order to support the development of the New Pudong District, the State council formulated five new preferential policies in addition to the previous ten preferential policies. All these preferential policies can be summarized as follows:

1. Allow foreign enterprises to operate tertiary industries such as department stores and supermarkets.
2. Permit the Shanghai municipal government to establish a security exchange as well as to

independently examine, approve and issue Pudong Construction Bonds, B stocks and the stocks denominated in Renminbi (RMB).

3. Permit the Shanghai municipal government to set up a bond zone in the region of Waigaoqiao. This is a free-trade zone, in which a number of especially preferential policies are pursued. Customs duties and import-export licenses are exempted. International Trade Institutions invested with foreign or domestic capital are also allowed to set up. The foreign exchange earned by enterprises all can be retained for their own use. The currencies of various countries can be circulated freely.
4. Permit foreign businesspeople to set up banks, financial companies, insurance companies and other financial institutions in the entire city of Shanghai.
5. Grant the Shanghai municipal government the independent right to approve the construction of both productive and non-productive projects as well as the import and export transactions conducted by enterprises.
6. Annually provide Shanghai with a prime interest loan of 300 million U.S. dollars and an appropriation of 300 million yuan RMB.³⁷

Shanghai municipal government has formulated an overall plan for developing the New Pudong District. Apart from an investment of 20 billion yuan on ten construction projects, such as the Nanpu Bridge, Yanggao Avenue, Waigaoqiao Power Plant, Pudong Gasworks and Pudong Waterworks, it will make a new investment of 40 to 50 billion yuan on another batch of ten construction projects, which include a deepwater port, an international air harbor, a key communication project, a second subway system, an overhead road, a multiple track in a tunnel, an exterior circuit line for urban buses, a railway, a polluted water treatment project, and a packaged energy project.³⁸

According to the Pudong Development Plan for the 1990s, an area of over 60 square kilometers will be developed and the urbanized area will reach more than 100 square kilometers.

In the 1990s, the New Pudong District will realize the following six 'mosts' in China: a) a first-class municipal infrastructure; b) the largest center of business transaction; c) the most advanced high technology industry and export processing base; d) a free trade zone with the highest degree of openness to the outside world; e) a residential quarter with the highest quality of packaged services; f) the most modernized externally-oriented agriculture [1].

By the year 2000, the gross national product of the New Pudong District will reach as high as 50 billion yuan with an annual average growth rate of 23.6%.³⁹

Since the Chinese government announced its decision to develop Pudong District at the beginning of the 1990s, an earth-shaking change has taken place in this land. This change is manifested in the following five aspects:

- 1) The industries of finance, commerce and foreign trade have developed vigorously. So far, there are 30 Chinese and foreign financial institutions which have entered into the New Pudong District. At the beginning of 1993, the total amount of deposit and credit transactions conducted by foreign-capital financial institutions was over 800 million U.S. dollars, increasing by four times as compared with that in the same period of 1992. At present, more than 100 professional companies engaged in foreign trade have established their branches in the New Pudong District. In addition, thousands of enterprises conducting domestic trade have been approved to initiate their business in this district.
- 2) The real estate industry has become the hottest industry invested in by both Chinese and foreign businesspeople. The New Pudong District has rented over 130 lots of land to Chinese and foreign businesspeople. The total amount of investment in real estate made by them has reached more than 30 billion yuan RMB.

- 3) The investment in both domestic and foreign capital projects has increased dramatically. By the end of 1992, the enterprises invested in by foreign businesspeople exceeded 700 with a total investment of 3.23 billion U.S. dollars, increasing by 19 times and 16 times respectively as compared with those before the development of the Pudong District. At the same time, the enterprises invested in by various departments of the central government and interior municipalities and provinces reached 1,119 with a total investment of 8.53 billion yuan RMB.
- 4) The speed of constructing municipal infrastructure has been greatly expedited. The ten basic engineering projects with an investment of 15 billion yuan RMB during the period of the Eighth Five-Year Plan are being constructed at an unprecedentedly high speed. Hopefully, they can be completed ahead of schedule.
- 5) The construction of the six key functional zones is in full swing. Among these are China's largest central business zone, Zhangjiang High Technology Garden Zone, Waigaoqiao Free Trade Zone, Jinqiao Export Processing Zone, a modernized commerce and trade zone, and a tourism and holiday zone.⁴⁰

While constructing the key development zones, Shanghai municipal government will also set up the following six packaged systems: a) a modernized telecommunication and information system; b) a convenient and efficient communication system, which includes expressways, subways, aviation transportation, urban overhead road and river-crossing communication. The most important thing is to build an international air harbor, a deepwater port and an express railway so as to build Shanghai into an important hub of communications in Asia and the Pacific Rim; c) a public utility service system with complete functions; d) a modernized cultural dissemination system; e) a complete social welfare and security system.⁴¹

NOTES

- [1] An externally-oriented agriculture refers to an agriculture which engages in the production of agricultural products mainly for selling in international markets rather than in domestic markets.

CHAPTER 6

ECONOMIC ACHIEVEMENTS, PROBLEMS AND PERSPECTIVES

Economic Achievements

In 1992, China's economic construction as well as the cause of reform and openness to the outside world entered into a new stage of vigorous development. Great achievements were scored during the year in China's manufacturing, agricultural and tertiary industries. Last year, China's national economy grew at a high rate of 12.8 percent, and its gross domestic product reached 2,393.8 billion yuan. Most of China's industrial and agricultural products increased by a big margin.⁴² (See Table 3-5)

Table 3

Main Indicators of China's National Economy in 1992

Item	1992	Percentage of Increase Over 1991
GNP (billion U.S.dollars)	425.0	---
Gross Domestic Product (billion yuan)	2,393.8	12.8 %
Value Added of Agriculture	580.8	3.7 %
Value Added of Industry	1,011.6	20.8 %
Value Added of Tertiary Industry	662.3	9.2 %
Value Added of Light Industry	504.7	20.9 %
Value Added of Heavy Industry	506.9	20.7 %
Total Value of Import & Export (billion U.S. dollars)	165.6	22.3 %
Export Value	85.0	18.2 %
Import Value	80.6	26.4 %
Economic Growth Rate	12.8 %	

* Exchange rate in Oct. 1992: \$1 US = 5.55 yuan

Table 4

Output of China's Major Industrial Products in 1992

Item	1992	Percentage of Increase Over 1991
Chemical Fibre (million tons)	2.083	9.1 %
Yarn (million tons)	4.900	6.3 %
Cloth (billion meters)	18.500	1.8 %
Machine-Made Paper & Paper Board (million tons)	15.900	7.5 %
Sugar (million tons)	8.155	27.4 %
Crude Salt (million tons)	28.130	16.7 %
Cigarettes (million boxes)	32.880	1.9 %
Synthetic Detergent (million tons)	1.616	10.6 %
Color TV (millions)	13.140	9.1 %
Household Washing Machine (millions)	7.127	3.7 %
Household Refrigerator (millions)	4.753	1.1 %
Raw Coal (billion tons)	1.111	2.1 %
Crude Oil (billion tons)	0.142	0.5 %
Electricity (trillion kwh)	0.747	10.3 %
Steel (million tons)	80.060	12.7 %
Rolled Steel (million tons)	65.340	15.9 %
Ten Nonferrous Metals (million tons)	2.930	13.1 %
Cement (billion tons)	0.304	20.3 %
Timber (million square meters)	55.800	-3.9 %
Sulfuric Acid (million tons)	13.960	4.7 %
Soda Ash (million tons)	4.506	14.5 %
Chemical Fertilizer (million tons)	20.990	6.1 %
Agricultural Chemical (million tons)	0.284	11.3 %
Electricity-Generating Equipment (million kw)	13.120	12.7 %
Metal-Cutting Machine Tool (millions)	0.212	29.1 %
Automobiles (millions)	1.082	51.5 %
Tractors (millions)	0.063	19.2 %

In the countryside, the Chinese government has adjusted the structure of agricultural production, further improved a contracted responsibility system of linking a household's

output with remuneration, and actively pushed ahead with multiple forms of agricultural systems for socialized services. The year 1992 saw a bumper harvest in agricultural production. The annual added value of China's agricultural output reached 580.8 billion yuan, increasing by 3.7% as compared with that in 1991.⁴³

Table 5
Output of China's Major Farm Products in 1992

Item	1992	Percentage of Increase over 1991
Grain (billion tons)	0.443	1.7 %
Cotton (million tons)	4.528	-20.2 %
Oil-Bearing Crops (million tons)	16.400	0.1 %
Rapeseed (million tons)	7.653	2.9 %
Sugarcane (million tons)	72.520	6.8 %
Beet (million tons)	15.011	-7.9 %
Jute and Bluish Dogbane (million tons)	0.619	20.7 %
Flue-Cured Tobacco (million tons)	3.142	17.8 %
Silkworm Cocoon (million tons)	0.067	15.2 %
Tea (million tons)	0.559	3.1 %
Fruit (million tons)	24.000	10.3 %
Pork, Beef & Mutton (million tons)	29.330	7.7 %
Milk (million tons)	5.010	7.8 %
Aquatic Products (million tons)	15.460	14.5 %

SOURCE: State Statistics Bureau, "Statistical Report Regarding China's National Economy and Social Development in 1992." The People's Daily, Overseas Edition (in Chinese), No. 2528, Feb. 20, 1993, P.2.

In 1992, China's industrial reform was implemented in width and depth. China hastened its steps in the adjustment of industrial structure as well as in the conversion of operational mechanism of enterprises. The intensification of the role of market mechanism together with the rapid increase in investment greatly accelerated the growth of industrial production. The added value of China's industrial output for the year attained 1,011.6 billion yuan, increasing by 20.8% as compared with the previous year.⁴⁴

Since China adopted the policy of economic reform and openness to the outside world, its tertiary industry has developed at a fast speed. In the 1980s the average growth rate of the tertiary industry reached 10.9 percent, much higher than the average growth rate (8.9%) of the Gross National Product in the same period. In 1992, the increased product of the tertiary industry accounted for 27.2% of the GNP, and the number of its employees accounted for 18.9% of the total number of social laborers. The proportion of China's traditional industries such as finance, insurance, transportation, communication, commerce and material supply in the total tertiary industry was as high as 2/3. At the same time, its newly emerging industries such as information, consultation and tourism also developed speedily.⁴⁵

Under the favorable situation of Chinese government's relaxed policy, China's foreign trade has developed swiftly. In 1992, China's export value was 85 billion U.S. dollars and

its import value was 80.6 U.S. dollars, increasing by 18.2% and 26.4% respectively as compared with those in 1991. The agreement amount of foreign investment was 68.5 billion U.S. dollars with the actual investment reaching \$ 18.8 billion.⁴⁶

In 1992, the industrial and commercial tax revenue collected by the state totaled 260.1 billion yuan, increasing by 11.4% over the previous year. The aggregate tax revenue increased by 26.7 billion yuan, 9.7 billion yuan more than the target set in the state plan worked out at the beginning of the year. Among all the industrial and commercial taxes, the circulation tax (including the excise tax, the value-added tax and the business tax) brought into full play the role of a main category of tax. The revenue from the circulation tax in 1992 was 205.3 billion yuan, increasing by 19 billion yuan as compared with that in the previous year.⁴⁷

The living standard of the Chinese people has also been greatly improved. In 1992, the average wage of employees was 2,677 yuan, increasing by 5.3% (after deducting the factors of inflation) as compared with that in 1991 . The total amount of residents' deposits reached as high as 1154.5 billion yuan, 243.7 billion yuan more than in 1991.⁴⁸

Problems

Since China embarked on the road of economic reform and openness to the outside world in 1979, great changes have taken place in its macroeconomic environment. Currently,

China is in the period of transition from a planned economy to a market economy as well as in the process of replacing the old managerial system with a new one. This situation has brought about not only opportunities for China's economic development but also severe challenges. While great achievements have been made in China's national economy, the following problems still remain to be solved:

- 1) The economic development of different regions in China is not balanced. The coastal regions are much more developed economically than the interior regions.
- 2) China's tertiary industry is still quite backward as compared with other countries in the world. In 1992, the value added of China's tertiary industry accounted only for 27.2 percent of the GNP. This proportion is not only far below that of the developed countries but also below the average level of developing countries. The average proportion of the tertiary industry in GNP for developed countries has reached as high as over 60 percent.
- 3) The investment in fixed assets tends to be excessive.
- 4) Money tends to be put into circulation in too large an amount and at too quick a speed.
- 5) China lacks a series of sound regulations and

measures regarding the shares system. Besides, China's existing security exchanges are well below international standards. For example, at present China has no national securities laws or regulations for listing stocks.

- 6) China's force of science and technology is relatively weak.
- 7) The existing facilities of China's communication and transportation can not meet the ever increasing needs of economic growth. And also, the supply of raw materials is tight. These factors hinder the further growth of China's national economy.
- 8) There is an excessive increase of prices for consumer goods in cities as well as for partial means of production.
- 9) China's industrial investment structure is not quite rational. The proportion of investment in primary industries is declining.
- 10) China's economic efficiency is still at a low level. This is not in keeping with its high industrial growth rate.
- 11) It is not an easy task to convert the operational mechanism of enterprises. For example, so far, 40 percent of the pilot units in Peking have not extricated themselves from a predicament of losses. Furthermore, the phenomenon of triangular debts [1] becomes increasingly serious.⁴⁹

Perspectives

Based on the author's analysis and judgement, the following nine forecasts about China's economic development and reform in 1993 can be made:

1. As long as Deng remains alive, China will continue to deepen its economic reform and open more widely to the outside world.
2. China's state-owned enterprises will hasten their steps of managerial reform and engage in necessary structural adjustment.
3. China's agricultural production will grow steadily. Significant measures will be taken towards market economy in the countryside.
4. China's tertiary industry will develop at an extraordinary high speed. Its growth rate in 1993 will be much higher than in 1992.
5. There will be major changes in the investment field for foreign capital. Hence, the field of communication and transportation would benefit.
6. It must be alerted that inflation might become a problem.
7. China's security market will develop in a steady way. There would be little possibility that a "third" security exchange would be established.
8. The growth rate of China's national economy will be both steady and high. The difference in economic

development between various regions will be further enlarged.

9. China's previous policies formulated by the government will be re-evaluated. The modernization of China's legal system will make headway.

NOTES:

- [1] Triangular debts refer to the phenomenon of interwoven debts formed among three enterprises.

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