

AUGUST 1994

ECONOMIC
COMMISSION FOR
LATIN AMERICA
AND
THE CARIBBEAN

CEPAL

REVIEW



UNITED NATIONS

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China's economic reform *and opening to the world:* a retrospective and *prospective view*

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This article, written specially for *CEPAL Review*, analyses the past evolution and future prospects of China's economic reform and opening-up to the world economy. Section I describes the process of reform and openness in the past 15 years and analyses its various results. Section II considers some lessons that can be learnt from the Chinese experience, including political and social aspects as well as economic aspects proper. Section III examines the outlook for the Chinese economy in the last years of this century, while the concluding section, Section IV, analyses three questions: Is the Chinese reform process reversible? Will a socialist market economy be established in China? Will China become a Superpower?

I

The economic reform and opening-up process over the last 15 years

At present, almost all the countries of the world are carrying out some kind of economic reform and adjustment. They are all oriented towards the outside world, trying to link up the domestic market more closely with the world market. Compared with other countries, China's reform and opening-up process has both similarities and differences.

The reform process in China involves the transformation of the old highly-centralized planned economy into a Socialist market economy. China is therefore carrying out its reforms with a primarily Socialist orientation: a self-perfection of Socialism with the aim of emancipating and developing the forces of production, speeding up economic development, and improving the people's living standards and building up China into a modern country marked by prosperity, democracy and a high level of civilization.

China is a developing country. In comparison with the majority of other developing countries—apart from the differences in social systems—it is more or less at the same stage of overall development and the same level of economic development. Economic reform in China has the aim of building a market economy: in this respect it is similar to many other developing countries. But China aims to build a *Socialist* market economy, and this is its special feature.

China applied a highly-centralized planned economy in the past, as in the former USSR and the Eastern European countries. After the drastic political changes which took place a few years ago, the former USSR and the Eastern European countries have deserted Socialism for privatization and Western-type free market economies, but China still remains true to Socialism. This is a fundamental difference.

Since the Third Plenary Session of the Eleventh Congress of the Chinese Communist Party at the end of 1979, which marked the beginning of the process of reform and opening-up to the world, China has gone through four stages in 15 years.

1. The initial reform period (1979-1983). In this period, reform in China was focussed on the rural areas. China has a rural population of 800 million, and agriculture is the foundation of the national economy. It was therefore important to start the reform process in the rural sector in order to stimulate the enthusiasm of all peasants for higher production and speed up agricultural development, by doing away with the people's communes and introducing instead the family responsibility system. Under this system, the land and production is contracted to peasant families and the peasants themselves decide what to produce and how to produce it. This system has greatly raised the enthusiasm and initiative of the peasants with regard to production. As a result, agricultural production has grown rapidly and the living standards of the peasants have improved significantly. With regard to the process of opening-up to the world, four Special Economic Zones (SEZs) (Shenzhen and three others) were established during this period.

2. The period of the spread of reform (1984-1988). On the basis of the progress made in agricultural reform, the focus of reform shifted to the cities. Economic reform in the cities is much more complicated than in rural areas, since it involves structural reforms in planning, finance, taxation, prices, labour and wages, etc. We adopted the principle of gradual progress, building up experience and learning lessons through practice. Due progress was made in reform as a result of this principle, and the national economy registered rapid growth. China opened up more extensively to the world: in addition to the four SEZs, Shanghai and 14 other coastal cities became open cities during this period.

3. The period of tortuous progress in reform (1988-1991). As a result of the insufficient emphasis placed by the government on macro-control and regulation, there was over-investment in capital construction, an excessive increase in social consumption, an imbalance between aggregate social demand and aggregate social supply, overheating of the

economy, and a rise in the rate of inflation. In order to get round this situation, regulatory measures and adjustments were carried out and a contractive economic policy was applied in these three years, while the process of opening-up was further widened, and in addition to the previous four SEZs Hainan Island now became the newest and biggest SEZ.

4. Finally, since 1991 a policy of regulation and adjustment has been successfully applied and the process of economic reform, opening-up and economic development has thus entered upon a new stage.

A noteworthy event was the series of important speeches delivered by Deng Xiaoping during his inspection tour of South China, calling upon the people to grasp the opportunities of that time and to further emancipate their minds in order to accelerate the pace of reform and opening-up. This call greatly inspired people all over the country. In 1992 the Fourteenth Congress of the Chinese Communist Party called upon the nation to embark upon the task of building a Socialist market economy, which further clarified the orientation of reform. During this period, China has further intensified her opening-up to the rest of the world. The Pudong District of Shanghai has begun to build itself up as a new area of openness to the world, and many large and medium-sized cities along the Yangtse River and in border areas, as well as all the provincial capitals, have joined the ranks of open cities.

Fifteen years of reform and opening-up have profoundly changed the economic picture in China:

i) The single ownership structure of the past has been replaced by a new pattern of co-development of multi-economic elements, with public ownership as the mainstay. The share of public ownership in the GNP dropped from 98% in 1979 to 85% in 1992, with the share of State ownership going down from 55-60% to 35-40%, while the share of the collective economy has greatly increased. At the same time, the private economy and foreign capital came to account for 10-15% of the national economy of China.

ii) In the past, all links between economic activities in China were controlled and managed by the

State Plan, but now those under the control of that Plan only constitute a small part of GNP and the overwhelming majority of the rest is regulated by the market. In 1992, for instance, the prices of 80% of all commodities were regulated by the market.

iii) Considerable changes have taken place in the structures of finance, taxation, prices, labour, wages, etc.

iv) An all-round pattern of opening-up to the outside world has been formed, made up of the SEZs, coastal cities, cities along the Yangtse River and in border areas, and the provincial capitals. Due reforms have also been made in the foreign trade and foreign exchange management systems.

The reform and opening-up process has promoted economic development and improved the people's standard of living:

i) From 1979 to 1992, the average annual growth rate of GNP was 9%: 5.9% for agriculture and 13.2% for industry, and the Chinese economy was significantly strengthened.

ii) Foreign trade is developing very rapidly. Over the period 1979-1992, the average annual increase in the value of foreign trade was 16%, and in 1992 the total value of China's imports and exports came to US\$165.61 billion. The share of foreign trade in GNP rose from 10% in 1978 to 40% in 1992. Foreign investment has also shown rapid growth, and tens of thousands of joint ventures, cooperative partnerships and wholly-foreign-owned enterprises have been established, while over US\$80 billion of foreign capital has been brought into the country and invested.

iii) Marked changes have taken place in the relative shares of the primary, secondary and tertiary sectors in GNP. In 1979 their respective shares were 28.4%, 48.6% and 23.0%, whereas in 1992 they were 23.9%, 48.2% and 27.9%.

iv) The income of the people has increased significantly. Over the period 1979-1992, the average annual growth rate of wages and salaries was 7.4%, while the average annual rise in the consumption level of the population was 6.8%.

II

Experiences and problems

The process of reform and opening-up in China has won great achievements. Some of the experiences in this respect are summarized below:

i) Political and social stability is an important political guarantee for reform and opening-up as well as economic development. It goes without saying that reform and opening-up cannot press forward successfully in a situation of political instability and social unrest.

ii) Theory can proceed side by side with practice. In China, reform and opening-up to the world are unprecedented events, and there is no previous experience or ready-made theory to follow. We could only press on ahead first, sum up the experiences and lessons of the process of trial and error, and then formulate theories on this basis. With the progress made in reform and opening-up, the theory resulting from this great practice is gradually matured and systematized, as embodied in concentrated form in the theory of Chinese-style Socialism put forward by Deng Xiaoping, which is the compass guiding China's process of reform and opening-up towards victory.

iii) Reform in China presses forward step by step in a gradual manner, starting in rural areas and then extending to the cities. We did not adopt drastic "shock therapy". Our opening-up to the world also widens gradually. This gradual process of reform helps to protect the economy from drastic fluctuations and confusion, and guarantees that it will not exceed the limit of social sustainability. Thus, sustainable development of society is guaranteed.

iv) The broad masses of the people should be benefitted by reform. Reform is a grand cause of the whole people, and it is necessary to arouse and maintain their enthusiasm. Consequently, as well as propagating reform and educating the people to take part in it, it is important that they should gain visible material benefits and improvements in their living standards from reform and opening-up. Of course, this does not necessarily mean that people of all strata and all trades will enjoy equal rises in living standards. China encourages part of the population to get rich first and recognize the differences in

social income, but at the same time it guarantees that all the people can see their lives improved to a certain extent and gradually approach the target of prosperity for all.

v) An effort must be made to achieve synchronized progress in reform and development, so that reform can promote development and economic and social development can guarantee the gradual deepening of reform. China's experience indicates that even under Socialism economic development will not be a completely stable process: fluctuations are unavoidable. We strive, however, to avoid drastic ups and downs in the economy and to ensure rapid, sound and sustainable development.

We believe that what we have done is in keeping with the reality of China and with the objective laws of reform, opening-up and economic development. This is precisely why China has been able to gain significant success in its policy of reform and greater openness.

On the other hand, we are also well aware that there are quite a few difficulties and problems, the main ones being the following:

i) The reforms carried out in China promote rapid economic development, but economic efficiency is not yet high, especially among the large and medium-sized State enterprises, one-third of which have suffered repeated losses. They tend to pay attention only to speed, and not enough to efficiency.

ii) There are problems in the industrial structure, especially in the following respects: a) although agricultural production has made remarkable progress, it has not been growing rapidly in recent years; b) tertiary industry is lagging behind; and c) the infrastructure in such areas as energy, transport, postal and telecommunications services, etc. cannot meet the demands of economic development and the needs of rising living standards.

iii) A general balance between aggregate social demand and aggregate social supply is needed in order to ensure sustainable economic development free from drastic fluctuations, but owing to the preoccupation with speed of growth, the aggregate social demand tends to expand arbitrarily, especially in the

case of the excessive growth in investments in capital construction, which has resulted in overheating of the economy, greater inflationary pressures, and faster price rises.

iv) China is a vast country, and conditions in the different regions vary greatly, so that uneven development among the regions is inevitable. It is important for the relatively developed areas—for instance, the coastal areas of East China—to bring along the less-developed areas, so that the regional gaps can be gradually narrowed and even-handed development can be achieved.

v) China's strategy focuses on building-up of the economy and development of the forces of produc-

tion. This is undoubtedly the right approach, but it is also necessary to maintain a balance between economic development and socio-cultural development. For instance, education in China is still backward in spite of the great progress already made, and the contribution of science and technology is still far from sufficient.

The above-mentioned difficulties and problems are inherent in China's development process, and they will have to be solved as reform is enhanced and deepened. It goes without saying that they will not disappear by themselves without the adoption of effective measures.

III

Prospects towards the end of this century

Reform and opening-up in China have made considerable progress and registered significant achievements in the past 15 years, but there is still a long way to go before reaching our goal of transforming the old structure and building up a new Socialist market economy. In order to accomplish this historic task, we must make great efforts to press on with the process of reform and opening-up and solve a number of fundamental problems that confront us:

i) *Transformation of the operational mechanisms of large and medium-sized State enterprises and the establishment of a system of modern enterprises.* This is not only the basic way to change the situation of low efficiency displayed by these enterprises but also the central element for building a Socialist market economy. For this purpose, it is absolutely necessary to separate the ownership of State enterprises from their management and to push them into the market in order to ensure their autonomous management. The experiment of establishing shares and shareholders currently being carried out is part of the efforts in this direction.

ii) *Establishment of a sound market system.* The market has gradually developed in China during the 15 years of reform. So far, however, it is mainly the market for consumer goods which has shown significant development, while the markets for the means of production, capital, negotiable securities, foreign exchange, technology, services and information, etc., are still in their initial stages and in some cases still

under trial. Great efforts are needed in order to speed up the development of these markets into a sound, unified and open market system.

iii) *Thorough transformation of the functions of the State.* In the past, under the centrally planned economic system, the government exercised direct control over the economy through State plans (mainly of a mandatory nature) and administrative means. Under the system of a Socialist market economy, the function of the government must be changed from direct control over the economy to indirect control and regulation. For this purpose, there must first of all be a complete change in the concept of the State, while it must also acquire the necessary means and capacity for control and regulation.

iv) *Broader openness to the world.* In addition to the SEZs, coastal cities, cities along the Yangtse River and in border areas, and provincial capitals, it is also necessary to open up cities along the major railways and highways. Even more important is the structural reform of foreign trade, so that China's foreign trade rules and regulations will be gradually brought in line with the conventions of the world market, tariffs will be lowered, and imports and exports will be liberalized. Efforts will be made to secure the resumption of China's membership in GATT as soon as possible. The investment environment will be further improved in order to attract more foreign capital, and economic cooperation with the whole world will be further strengthened.

In November 1993, the Third Plenary Session of the Fourteenth Congress of the Central Committee of the Chinese Communist Party adopted a "Decision on Several Questions Concerning the Establishment of a System of Socialist Market Economy", noting that the country's process of reform and opening-up and the cause of modernization were entering upon a new stage. The new economic system is to be primarily established at the end of this century. The Decision set out a series of principles, policies and measures for the solution of various complex problems, and it is expected that the reform and opening-up of China will advance even faster and more vigorously in the coming years.

IV

Answers to some salient questions

It is necessary to have a correct understanding of some salient questions concerning the process of reform and opening-up in China:

Is China's process of reform and opening-up likely to be reversed or abandoned? We must say that this is absolutely impossible, because:

a) Building Socialism with Chinese characteristics through this process is the only correct road to happiness, and is finally being realized after protracted exploration, repeated setbacks and suffering, ever since the founding of the People's Republic of China. It has become a national consensus, and Chinese people of all nationalities have a vital interest in it. Therefore, it can never be changed.

b) Fifteen years of reform and opening-up have greatly changed the situation in the country and brought improved living standards for the broad masses. Reform and opening-up are unanimously supported by people all over China.

c) The process of reform and opening-up is guided by the theory of building Socialism with Chinese characteristics pioneered by Deng Xiaoping, which has been institutionalized in the Constitution of China.

Will China eventually be able to establish a system of Socialist market economy? This is a question that preoccupies many of our friends. Some think that Socialism cannot integrate with the market. Indeed, this was what many of us believed ourselves

for a long time. We thought that Socialism could only adopt a planned economy and should not try to develop a market economy. After being explored for more than ten years, however, this question has been fundamentally clarified both in theory and practice in China. Now we understand that Socialism is a basic social system, while planning or the market are different options for developing and regulating the economy which can be used by Capitalism but also by Socialism. In the past, we believed we should only use the planning option—especially mandatory planning—and that we should reject the market. This was an extremely one-sided concept, for which we have suffered a great deal. Now we have a new concept of the situation, and we are more confident in our actions.

At the same time, the economic construction of China will gain still further momentum. The country's strategic target is to double GNP by the end of the century compared with the GNP of the 1980s, which was itself double that of the previous decade, thus giving the population a decent standard of living: not outstandingly affluent, but free from poverty. The population will not only be assured of proper food and clothing, but will also enjoy a considerable improvement in their standard of living, with a significant improvement in their educational and cultural level. There is every possibility that this strategic target will be reached ahead of schedule.

Will China become a Superpower? In recent years, there have been a number of reactions in many countries to the rapid growth of the Chinese economy: that China already is a superpower, or will become one in the next century; that China's economic might has put it in third place in the whole world, just behind the United States and Japan; that China is now one of the "poles" of the world; and some people even worry that China will be a threat to others when she gets stronger. All these assumptions are groundless, however, and it would appear that someone fomented them out of ulterior motives, in order to mislead people and create suspicion against

China. The truth is that although China has had great success in her economic reform, with outstanding achievements in terms of economic development, and will assuredly have even greater success and achievements in the future, China will always be a factor of world peace and stability, and never the opposite, for the following reasons:

a) China is a country with a big population, and although its economy is quite big the level of per capita income is still not very high. China is still a developing country, and even among the developing countries it ranks rather to the rear in economic terms. Therefore, China will have to make strenuous efforts for a long time before it can become a prosperous and affluent country, and hence it will definitely focus its main efforts on building up its

economy and will never be a threat to others even when it gets stronger in the future.

b) China had a bitter history of humiliation as the victim of oppression and aggression for many years, so that it now always shows sympathy and solidarity for the just cause of weaker countries and nations and will never be guilty of aggression or oppression against other countries when it gets stronger.

c) China steadfastly follows the five principles of peaceful coexistence, and in its diplomacy it maintains a line of independence, autonomy and peace. Guided by these principles and this line of action, it has constantly improved its relations with other countries and won the respect and trust of the peoples of the world.

(Original: English)