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Chapter 1 : China's unfinished state-owned enterprise reforms – www.nxgvision.com

*China's Price and Enterprise Reform (Studies on the Chinese Economy) [Hsiao-Chiang Wang, Xiao-Qiang Wang] on www.nxgvision.com *FREE* shipping on qualifying offers. Wang, former Deputy Director of the Chinese Economic System Reform Research Institute (CESRRI), the leading reformist think-tank of the s.*

Economic reforms began after Deng Xiaoping and his reformist allies ousted the Gang of Four Maoist faction. By the time Deng took power, there was widespread support among the elite for economic reforms. By the late s, food supplies and production had become so deficient that government officials were warning that China was about to repeat the "disaster of ", the famines which killed tens of millions during the Great Leap Forward. This move increased agricultural production, increased the living standards of hundreds of millions of farmers and stimulated rural industry. A dual-price system was introduced, in which State-owned enterprise reform state-owned industries were allowed to sell any production above the plan quota, and commodities were sold at both plan and market prices, allowing citizens to avoid the shortages of the Maoist era. Moreover, the adoption of Industrial Responsibility System s further promote the development of state-owned enterprise by allowing individuals or groups to manage the enterprise by contract. Private businesses were allowed to operate for the first time since the Communist takeover, and they gradually began to make up a greater percentage of industrial output. Deng created a series of special economic zones for foreign investment that were relatively free of the bureaucratic regulations and interventions that hampered economic growth. These regions became engines of growth for the national economy. Controls on private businesses and government intervention continued to decrease, and there was small-scale privatization of state enterprises which had become unviable. A notable development was the decentralization of state control, leaving local provincial leaders to experiment with ways to increase economic growth and privatize the state sector. Although the economy grew quickly during this period, economic troubles in the inefficient state sector increased. Heavy losses had to be made up by state revenues and acted as a drain upon the economy. In and , large-scale privatization occurred, in which all state enterprises, except a few large monopolies, were liquidated and their assets sold to private investors. Between and , the number of state-owned enterprises decreased by 48 percent. These moves invoked discontent among some groups, especially laid-off workers of state enterprises that had been privatized. Also in , China was able to surpass Japan as the largest economy in Asia. Observers note that the government adopted more egalitarian and populist policies. Note the rapid increase since reform in the late s. For the period –", Chinese GDP per capita increased from 2. GDP per capita, and from Per capita incomes grew at 6. Agriculture and light industry have largely been privatized, while the state still retains control over some heavy industries. Despite the dominance of state ownership in finance, telecommunications, petroleum and other important sectors of the economy, private entrepreneurs continue to expand into sectors formerly reserved for public enterprise. Prices have also been liberalized. Data from FAO , year Production in metric ton. During the pre-reform period, Chinese agricultural performance was extremely poor and food shortages were common. With the introduction of the dual-price system and greater autonomy for enterprise managers, productivity increased greatly in the early s. Chinese steel output quadrupled between and , and from to rose from Chinese textile exports increased from 4. Textile output increased fold over the same period. Foreign investment helped to greatly increase quality, knowledge and standards, especially in heavy industry. Even during the early reform era, protectionist policies were often circumvented by smuggling. For Argentina, Brazil, India, and Indonesia, the respective percentage figures are In the s, the Bush administration pursued protectionist policies such as tariffs and quotas to limit the import of Chinese goods. Special Economic Zones SEZs were created in the early s to attract foreign capital by exempting them from taxes and regulations. This experiment was successful and SEZs were expanded to cover the whole Chinese coast. The financial sector is widely seen as a drag on the economy due to the inefficient state management. Lip service was still paid to old Maoist ideals of egalitarianism, but it did not inhibit the growth of consumerism. Another theory focuses on

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internal incentives within the Chinese government, in which officials presiding over areas of high economic growth were more likely to be promoted. Despite rapid economic growth which has virtually eliminated poverty in urban China and reduced it greatly in rural regions and the fact that living standards for everyone in China have drastically increased in comparison to the pre-reform era, the Gini coefficient of China is estimated to be above 0. This contrasts with the "big bang" approach of Eastern Europe, where the state-owned sector was rapidly privatized with employee buyouts, but retained much of the earlier, inefficient management. The recent reversal of some reforms have left some observers dubbing the "third anniversary of the end of reforms". These accusations were especially intense during the Lang-Gu dispute, in which New Left academic Larry Lang accused entrepreneur Gu Sujung of usurping state assets, after which Gu was imprisoned.

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Chapter 2 : China Economy - GDP, Inflation, CPI and Interest Rate

Wang was a Chinese reformer, and then went on to earn a doctoral degree in the U.K. this book is based on his dissertation work, in turn based on what he learned working in China's economic reform. I first read the book on the advice of a Chinese economist working at the World Bank in Beijing, who suggested it as the clearest account of China's.

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Over the years, large subsidies were built into the price structure of certain commodities and these subsidies grew substantially in the late s and s. There were diligent efforts to increase energy efficiency and increase use of renewable sources ; over 1, inefficient power plants had been closed, but projections continued to show a dramatic rise in carbon emissions from burning fossil fuels. Louis [80] and other sources, such as the Article IV Consultation Reports, [81] state that, at the end of , the "general government gross debt"-to-GDP ratio for China was By the mids, many analysts have expressed concern over the overall "size" of the Chinese government debt. This has created a situation where businesses, faced with mounting competition and poor oversight, take drastic measures to increase profit margins , often at the expense of consumer safety. This issue became more prominent in , with a number of restrictions being placed on problematic Chinese exports by the United States. Some government revenues also came from taxes, of which the most important was the general industrial and commercial tax. The trend, however, has been for remitted profits of the state enterprises to be replaced with taxes on those profits. Initially, this tax system was adjusted so as to allow for differences in the market capitalization and pricing situations of various firms, but more-uniform tax schedules were introduced in the early s. In addition, personal income and value-added taxes were implemented at that time. Price controls were in effect on numerous basic products and services, but were ineffective with food, prices of which were rising at an annual rate of On 9 January , the government of China issued the following statement on its official website: The worldwide rise in the price of animal feed associated with increased production of ethanol from corn resulted in steep rises in pork prices in China in Increased cost of production interacted badly with increased demand resulting from rapidly rising wages. The state responded by subsidizing pork prices for students and the urban poor and called for increased production. According to the bureau, industrial output went up As supplies have run short, prices for fuel and other commodities have risen.

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Chapter 3 : Subscribe to read | Financial Times

China's Economic Reform Plan China's reform will shift the economy from one based on government spending, state-run companies, and low-cost exports. It moves it toward private investment, entrepreneurial innovation, and domestic consumption.

The raw material of the series is drawn mainly from IMF Working Papers, technical papers produced by Fund staff members and visiting scholars, as well as from policy-related research papers. This material is refined for the general readership by editing and partial redrafting. Rozlyn Coleman prepared the present version. In , after years of state control of all productive assets, the government of China embarked on a major program of economic reform. In an effort to awaken a dormant economic giant, it encouraged the formation of rural enterprises and private businesses, liberalized foreign trade and investment, relaxed state control over some prices, and invested in industrial production and the education of its workforce. By nearly all accounts, the strategy has worked spectacularly. While pre China had seen annual growth of 6 percent a year with some painful ups and downs along the way , post China saw average real growth of more than 9 percent a year with fewer and less painful ups and downs. In several peak years, the economy grew more than 13 percent. Per capita income has nearly quadrupled in the last 15 years, and a few analysts are even predicting that the Chinese economy will be larger than that of the United States in about 20 years. Such growth compares very favorably to that of the "Asian tigers"--Hong Kong, Korea, Singapore, and Taiwan Province of China--which, as a group, had an average growth rate of percent over the last 15 years. This marks a departure from the traditional view of development in which capital investment takes the lead. This jump in productivity originated in the economic reforms begun in . In addition, since the Chinese national accounting system differs from the systems used in most Western nations, it is difficult to derive internationally comparable data on the Chinese economy. Figures for Chinese economic growth consequently vary depending on how an analyst decides to account for them. Although economists have many ways of explaining--or modeling--economic growth, a common approach is the neoclassical framework, which describes how productive factors such as capital and labor combine to generate output and which offers analytical simplicity and a well-developed methodology. Although commonly applied to market economies, the neoclassical model has also been used to analyze command economies. It is an appropriate first step in looking at the Chinese economy and yields useful "benchmark" estimates for future research. The framework does, however, have some limitations in the Chinese context. Original data for the new IMF research came from material released from the State Statistical Bureau of China and other government agencies. Problematically, the component statistics used to compile the Chinese gross national product GNP have been kept only since ; before that, Chinese central planners worked under the concept of gross social output GSO , which excluded many segments of the economy counted under GNP. Fortunately, China also compiled an intermediate output series called national income, which lies somewhere between GNP and GSO and is available from to . After making appropriate adjustments to the national income statistics, including adjusting for indirect business taxes, these data can be used to analyze the sources of Chinese economic growth. In other words, new machinery, better technology, and more investment in infrastructure have helped to raise output. Yet, although the capital stock grew by nearly 7 percent a year over , the capital-output ratio has hardly budged. In other words, despite a huge expenditure of capital, production of goods and services per unit of capital remained about the same. This pronounced lack of capital deepening suggests a constrained role for capital. The labor input--an abundant resource in China--also saw its relative weight in the economy decline. Productivity increases made up the rest. It turns out that it is higher productivity that has performed this newest economic miracle in Asia. Chinese productivity increased at an annual rate of 3. Such explosive growth in productivity is remarkable--the U. Analysis of the pre- and post periods indicates that the market-oriented reforms undertaken by China were critical in creating this productivity boom. The reforms raised economic efficiency by introducing profit incentives to rural collective

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enterprises which are owned by local government but are guided by market principles, family farms, small private businesses, and foreign investors and traders. They also freed many enterprises from constant intervention by state authorities. Why the Productivity Boom? In the important rural sector the story is particularly interesting. Prior to the reforms, nearly four in five Chinese worked in agriculture; by 1985, only one in two did. Reforms expanded property rights in the countryside and touched off a race to form small nonagricultural businesses in rural areas. Decollectivization and higher prices for agricultural products also led to more productive family farms and more efficient use of labor. Together these forces induced many workers to move out of agriculture. The resulting rapid growth of village enterprises has drawn tens of millions of people from traditional agriculture into higher-value-added manufacturing. Further, the post reforms granted greater autonomy to enterprise managers. The reforms also gave greater room for private ownership of production, and these privately held businesses created jobs, developed much-wanted consumer products, earned important hard currency through foreign trade, paid state taxes, and gave the national economy a flexibility and resiliency that it did not have before. This foreign money has built factories, created jobs, linked China to international markets, and led to important transfers of technology. These trends are especially apparent in the more than one dozen open coastal areas where foreign investors enjoy tax advantages. In addition, economic liberalization has boosted exports--which rose 19 percent a year during 1980-1985. Strong export growth, in turn, appears to have fueled productivity growth in domestic industries. In one final area, price reform, the Chinese have proceeded cautiously, granting a fair amount of autonomy to producers of consumer goods and agricultural products but much less to other sectors. Several bouts of inflation have buffeted the Chinese economy in the past two decades, deterring the government from implementing full-scale price liberalization. High rates of growth also raise inflationary worries. Inflation may pose the single greatest threat to Chinese growth, though thus far it has been largely contained.

A More In-Depth Look As with any national economy, China has unique characteristics that the researcher must properly account for. First, many researchers cite the periodic political crises that seized China before as a factor obscuring pre economic strength. Because the political climate in China was so much in flux, these commentators argue, the economic pictures before and after cannot be compared with any accuracy. This proposition was evaluated by dropping from the analysis the subperiod, which encompasses the Great Leap Forward and the Cultural Revolution. The result is that pre productivity increased only modestly as a result, from 1. Second, in the period Chinese central planners invested heavily in the urban industrial sector and restricted migration from the country into the cities. Could the abandonment of this policy after itself explain the strong performance of the economy? Did these sectoral shifts drive growth, or did productivity? In the event, although these sectoral shifts are important, they do not eliminate the independent rise in productivity associated with the reforms. Third, some commentators maintain that if the productivity growth was a one-time shot of adrenaline to the body economic, it is certainly not sustainable. In fact, productivity gains have been steady throughout and even increased during 1980-1985. If the post-reform period is broken into three distinct phases, each associated with a different set of reforms, sizable productivity gains are evident in each subperiod. This indicates that the Chinese were able to carry over initial productivity gains to other parts of the economy. Finally, one can scrutinize the analysis for measurement problems. In particular, are the capital-stock data calculated properly and were there any measurement errors relating to the input data? Regarding the capital-stock measurement, since the Chinese national income statistics exclude the value of residential housing and since outlays for new housing rose during 1980-1985, the investment figures should be adjusted accordingly. When this is done, there is no change to the pre productivity growth estimate and a modest increase in the post-reform productivity growth rate, which corroborates the general story. Could an overvaluation of the initial capital stock have biased the findings? More conservative estimates of the capital stock were used to re-analyze the data, but there is no strong evidence to refute the findings. Although the pre productivity gains become negative, the post-reform productivity rate is unaffected. Another more significant problem with capital-stock data is that Chinese asset surveys do not produce capital stock estimates consistent with the investment data in the national accounts.

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The difficulties of bridging this statistical gap are considerable. The analytical findings of this study were compared with those obtained by economists who had computed the data somewhat differently. On the productivity side, the studies differed in emphasis but not in essence: The outside estimates of productivity growth vary from about 2 percent to nearly 4 percent for the period. Regarding other input data, a study was made of the potential for a differential bias that might overstate the post-reform growth relative to the pre-reform period. This problem might arise because centrally planned economies are prone to the overreporting of output and the underestimating of prices. As it happens, although enterprise managers have traditionally tended to overreport output in an effort to meet production targets set by the government, the incentives to do so have probably declined in the reform era as managers have faced less strict state control. It is unlikely, therefore, that performance in the post era has been overstated relative to earlier eras. The underdeflating of nominal output could be a more serious source of bias. The piecemeal character of price reform--with some sectors liberalized and others not--means that selecting an appropriate deflator for the post period is difficult. Yet, the central planning period may also have seen an underdeflation of output, since repressed inflation was probably widespread as manifested in shortages, black market trading, and long waits for certain goods. Thus, the measurement problem, while real, probably does not much alter the basic conclusion about substantial productivity gains after Most important, while capital investment is crucial to growth, it becomes even more potent when accompanied by market-oriented reforms that introduce profit incentives to rural enterprises and small private businesses. That combination can unleash a productivity boom that will propel aggregate growth. For countries with a large segment of the population underemployed in agriculture, the Chinese example may be particularly instructive. By encouraging the growth of rural enterprises and not focusing exclusively on the urban industrial sector, China has successfully moved millions of workers off farms and into factories without creating an urban crisis. Despite significant obstacles relating to the measurement of economic variables in China, these findings hold up after various tests for robustness. As such, they offer an excellent jumping-off point for future research on the potential roles for productivity measures in other developing countries. Author Information Zuli Hu received his Ph. He was an economist in the Research Department of the IMF when he wrote the article on which this pamphlet is based.

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Chapter 4 : China's Price and Enterprise Reform : Wang Xiao-Qiang :

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China weathered the global economic crisis better than most other countries. The massive stimulus program fueled economic growth mostly through massive investment projects, which triggered concerns that the country could have been building up asset bubbles, overinvestment and excess capacity in some industries. The global downturn and the subsequent slowdown in demand did, however, severely affect the external sector and the current account surplus has continuously diminished since the financial crisis. In order to tackle these imbalances, the new administration of President Xi Jinping and Premier Li Keqiang, beginning in , have unveiled economic measures aimed at promoting a more balanced economic model at the expense of the once-sacred rapid economic growth. At the Third Plenum of the 11th Central Committee of the Communist Party of China, held in December , Deng announced the official launch of the Four Modernizationsâ€”agriculture, defense, industry and science and technologyâ€”which marked the beginning of the reform and opening-up policies. The measures included, among others, breaking down the collective farms, opening up China to foreign investment, encouraging business entrepreneurship, establishing Special Economic Zones and introducing market incentives in the state-owned companies. In early s, Jiang Zeminâ€”the third generation of Chinese leadershipâ€”became the new paramount leader of the country and his administration implemented substantial economic reforms. Under his mandate, most of the state-owned companies, except large monopolies, were privatized or liquidated, thus expanding the role of the private sector in the economy at the cost of leaving millions unemployed. During the same period, President Jiang and Premier Zhu Rongji reduced trade barriers; ended state planning; introduced competition, deregulation and new taxes; reformed and bailed out the banking system; and drove the military stratum out of the economy. They increased subsidies, scrapped agricultural taxes, slowed privatization of state assets and promoted social welfare. However, the global financial crisis forced the Chinese authorities to launch an aggressive stimulus package and adopt a loose monetary policy. The fifth generation came to power in , when President Xi Jinping and Premier Li Keqiang took the reins of the country. In this regard, authorities expressed their willingness to tolerate lower growth rates as a necessary condition to push forward economic reforms. The Chinese dream has endured some growing pains. Although still solid, economic growth has slowed. In , the Chinese economy missed its 7. Investment in manufacturing and infrastructure is slowing as the nation shifts from an investment driven growth model to one more focused on consumer demand. The current account has recorded a surplus in every year since . The capital account followed suit and only recorded two deficits in the last 20 years. This situation of surpluses in the both the current and the capital put pressure on the national currency and prompted the Central Bank to sterilize most of the foreign currency that entered the country. The current account surplus reached its peak in , when it represented . Since then, however, the surplus has since narrowed as the currency strengthened and domestic demand increased. In this regard, Chinese authorities have started to implement some measures, such as removing a cap on foreign-currency deposit rates in Shanghai and releasing some controls on the currency. FDI has performed strongly in the last decade, with record inflows of USD billion in , thereby becoming the second largest recipient of foreign investment. Total trade multiplied by nearly to USD 4. This situation fostered trade growth, particularly after China joined the World Trade Organization in . As an economy highly integrated into the global trade system, the country benefited from a steady improvement in its terms of trade since . Moreover, the country has engaged in several bilateral and multilateral trade agreements that have opened new markets for its products. However, since the end of the commodities super cycle at the end of , global commodities prices have fallen partially due to a decrease in demand from China. The acceleration that many of those same developing and commodity-exporting economies experienced has dramatically decreased since the end of . Purchases from Europe and the U. In parallel with skyrocketing exports, growth in imports of real goods and services soared in the period,

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recording an annual average expansion of Imports experienced a contraction in due to the global crisis, but recovered quickly in and In the period, imports recorded a modest increase of 7. As the construction boom fades in China, fewer natural resources are demanded. This has pulled down global prices for base metals, energy products, as well as other resources. Imports contracted a sharp The central government collected all revenues and allocated all the spending of the administration and public institutions. In parallel with the reforms implemented in the country for Deng Xiaoping, the government started to decentralize the fiscal system. The flagship of the reform was a new taxation system and the adoption of a tax-sharing scheme, where the most lucrative sources of tax revenues, such as the Value-Added Tax and the Enterprise Income Tax, were administered by the central government. The result of this reform was a steady increase in revenues, which jumped from While expenditures followed suit and increased at a double-digit rate in the same period, the fiscal deficit was kept in check. The new system, however, left local governments with fewer sources of revenue. In addition, local governments put in place off-budget local government financing vehicles to raise funds and finance investment projects. Although debt is still at manageable levels, an increase in the reliance on shadow banking and the rapid pace of debt accumulation is worrisome. This move paves the way for local governments to raise debt in the bond market. This situation shields the economy against government debt crises. In , public debt amounted to The Bank also uses the reserve requirement ratio to influence lending and liquidity. Other instruments that the Central Bank uses to manage and adjust liquidity in the banking system are short-term loans, short-term liquidity and standing lending facility operations. The speed and direction of the crawling peg is decided by Chinese authorities according to domestic and international economic developments. The PBOC classifies its regime as a managed floating exchange rate regime based on market supply and demand with reference to an undisclosed basket of currencies. The yuan fluctuates in an intraday trading band around an official midpoint rate. From to , China kept its currency fixed versus the U. This was the case until , when it switched to a managed float of the currency to facilitate a controlled appreciation of the CNY. However, in the wake of the global financial crisis, China pegged its currency to the USD at 6. Since then, the PBOC has made a number of revaluations to the currency in order to bring it closer to its market value. While the Chinese yuan is freely convertible under the current account, it remains strictly regulated in the capital account. Chinese authorities expressed their willingness to allow the yuan to be fully convertible in the near future. Chinese authorities are gradually enhancing the use of the currency in other parts of the world in order to promote the yuan as a global reserve currency. Although the process is far from being completed, China has already established trade settlements with selected countries and launched a series of currency swap agreements with more than 20 central banks. Sample Report Get a sample report showing all the data and analysis covered in our Regional, Country and Commodities reports.

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Chapter 5 : Economy of China - Wikipedia

Get this from a library! The theory of the firm and Chinese enterprise reform: the case of China International Trust and Investment Corporation. [Xiao Qin] -- "Changes to corporate structure, including the role of the corporate headquarters, have been key factors in bringing about economic reform in China.

Township and village enterprises TVEs as a sector absorbed rural surplus labor released from farming, contributed to rural economic growth, increased rural incomes, generated fiscal revenues for local governments, and helped narrow the rural-urban gap. Therefore, it played a catalytic role in transforming the Chinese economy from a command economy to a market economy. The literature on TVEs is extensive. There is a rich body of descriptive and case-study material that provides a good introduction for those new to this field. These studies are mainly conducted by scholars either from international organizations such as the World Bank, or from Chinese research institutes affiliated with the Chinese government, with some joint work by scholars from both camps. Another part of the literature focuses on the institutional underpinnings of the TVE phenomenon. Since the mids, the major literature published turned to the study of property rights transition and privatization in this sector. The causes, the process, and the consequences of the transition were analyzed in detail. A significant feature of TVE research is its interdisciplinary nature. Economists, political scientists, sociologists, and economic historians all contributed to the literature using their own expertise, especially in the field of the institutional foundation of the TVE phenomenon. TVEs became an integrated part of Chinese industry after the property rights transition, and since the mids, the Chinese government no longer provides statistical data for TVEs as a separated independent sector. Research on the TVE phenomenon declined and fewer works on it have been published thereafter. Among such publications, the most influential and frequently quoted work is Byrd and Lin , which is the report of a collaborative research project conducted by scholars from the World Bank and the Institute of Economics, Chinese Academy of Social Sciences. Both Wong and Findlay, et al. The former contains lots of useful statistical data, while the latter covers a wider range of aspects related to TVE development. On the other hand, Putterman presents a more analytical overview to explain the historical success of TVEs. Two documents published in the same year, namely, Ma, et al. Byrd, William, and Qingsong Lin, eds. Structure, Development, and Reform. Oxford University Press, Zhongguo Wujia Chubanshe, Overview, Issues and Prospects. A good introduction to those new to this field, whether they have expertise in economics or not. A descriptive research documented an overview of the historical development of TVEs and the impact of government policies and other institutional factors on such development. Shanghai Shehui Kexueyuan Chubanshe, Users without a subscription are not able to see the full content on this page. Please subscribe or login. How to Subscribe Oxford Bibliographies Online is available by subscription and perpetual access to institutions. For more information or to contact an Oxford Sales Representative click here.

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Chapter 6 : Chinese economic reform - Infogalactic: the planetary knowledge core

When economic reform started the late s, the vast majority of China's labor force toiled in agriculture, using tools and methods not much different from many centuries back.

National Bureau of Statistics of China. State enterprises “ declining importance in the economy Sources: It simply means that FAI undertaken by the non-state sector outpaced that of the state sector. According to the National Development and Reform Commission, private investment grew by Its growth rates were 8. In the first half of , private investment grew by Interestingly, despite evidence of an SOE revival following the global financial crisis GFC , the investment data suggest any rise was merely temporary. Moreover, any success in moving away from investment-led growth and towards the more efficient use of capital would be likely to reinforce this downward trend. State enterprises “ declining share in total fixed asset investment Source: Other measures are equally telling. SOEs accounted for 20 per cent of total industrial employment in , falling from around 60 per cent in The share of workers employed by SOEs have more than halved between and The non-state sector is, and will continue to be, the main source of employment. Taken together, these metrics suggest that SOEs tend to be much larger and more capital-intensive than non-state firms. In on average, a SOE had five times more workers, produced nearly eight times more output value, and used 15 times more asset than a firm in the non-state sector. As previously discussed, larger-scale and more capital-intensive SOEs are direct policy outcomes of the government pursuance of SOE reform since the mids. Indeed, some SOEs have become industrial behemoths on a global scale. In , 54 of the largest SOEs entered into the Fortune , with the largest reaching the 5th place. State enterprises “ sectoral distribution share of total assets and gross output Source: National Bureau of Statistics: Statistical Yearbook of China, The sectoral distribution of SOEs has also changed markedly since the reforms began. SOEs have almost completely abandoned labour-intensive industries such as textile and footwear. State-owned companies continue to dominate key utility and infrastructure sectors, such as electricity, aviation, telecommunications, banking, railway and shipping. Normally this would be an important indicator of whether the reforms have also succeeded in making SOEs more productive. While this apparent reversal in fortunes has been hailed by the government as a success in SOE reforms, policy favouritism, rather than their economic performance, has played an important role Chart 4. State enterprises “ improving profitability but still lagging behind non-state firms left panel: SOEs continue to enjoy a privileged status in natural monopolistic sectors such as utilities. Further, the government has effectively created administrative monopolies that restrict entry and competition from non-state firms in a wide range of activity in services and other industries that it regards as strategically important World Bank Moreover, a disproportionate share of SOE profits come from a few state monopolies that earn artificially high rates of return. In addition to protection from competition, SOEs continue to receive explicit and implicit government subsidies, including low effective tax rates, low dividend payouts, and little or no royalties on resource extraction. SOEs are also in a more favoured position than non-state firms in accessing credit from banks because of the implicit backing they have from the government. An important source of economic distortions Understandably, these favourable policies mean that SOEs remain a source of economic distortion, which is manifested in different forms. First, SOEs are run considerably less efficiently than non-state firms. Resources keep pouring into SOEs, while non-state firms still face discriminations in access to finance, inputs, and entering certain industries. A report released on the Boao Forum said that based on its survey of small and medium enterprises SMEs across China, 62 per cent of them do not have bank loans Zheng , China Daily. Until , SOEs were not required to distribute any dividends to their shareholders. While this is changing, the payout rates remain low. Moreover, most dividends that the government receives have been funnelled back into SOEs in the name of supporting their development. Of the anticipated RMB Excessive retained profits and access to cheap credit enable SOEs to keep investing in areas with non-economic returns. Because of their access to cheap capital, SOEs also tend to maintain a higher level

of inventories, and are able to undertake long-term investment. This in turn exacerbates the issues of excess production capacity already confronting many industries. It is difficult to determine whether the distortions are worsening or not. The declining share of SOEs in the economy suggests that their distortions may also be declining. However, they are also concentrating in certain sectors and competing for increasingly scarce factors of production, which may be increasing their economic cost. Their constraining influence over the broader reform agenda may also have become more costly. SOEs are also in a strong position to influence the process of policy making. The government can exert its influence on SOEs through the appointment of board directors and chief executives, which are the legitimate rights that any majority owner is able to exercise. The government has also appointed independent boards of directors on some occasions, which has reportedly played a positive role in improving the quality of corporate governance and management in such SOEs. There are further policy channels through which the government can influence SOEs, including administrative guidance in implementing macroeconomic policies and industrial policy. The government also gains influence through compliance requirements for SOEs in regard to business regulations, licensing, and bank lending. The role of local governments is particularly important. Decentralisation of economic power during the reform period has generally made local governments an important driver for growth. The performance assessments of local officials and therefore their promotions are closely linked to the performance of their local economy. This has given local officials every incentive to push local SOEs to implement a variety of goals – growth, employment, or social stability. Backed up by local governments, local SOEs have often been compelled into activities which would not be undertaken on a purely commercial basis, which has drawn the government into shouldering the associated cost and risks of such activities. Their stake in the success of local SOEs means that local governments have an incentive towards industrial favouritism, rather than promoting the market economy through greater competition and enhanced consumer protection. However, progress is slow, often hampered by strong and differing local interests. Influence goes both ways. SOEs shape government policy priorities, often advancing their own interests. Lack of effective supervision means that the balance of the relationship is often tipped in the favour of SOEs away from their state owners. This link is reinforced by the rotation between government and SOE positions, and a more common practice by the government of promoting heads of SOEs into key government positions. In this context, it is not surprising that SOEs are an integral part of the policy making process, routinely consulted throughout policy deliberations. As a beneficiary of the existing system, SOEs have strong interests in maintaining the status quo. Their strong voice in the system means that the government has to take into account their interests when undertaking future SOE reforms. This leads to the fundamental question of whether the government is able to push forward necessary economic reforms. The benefits from previous reforms are dissipating, China is approaching closer to the technological frontier, and the working age population has peaked. In policy circles, there has been a clear recognition of the limit to continuing to use credit and investment to drive growth. Many accept that there is an urgent need to transition towards a new growth model, driven mainly by productivity gains, innovation, and private sector participation. Lu The key to this transition, the government believes, is to liberalise the still-tightly controlled portions of the economy, including the SOE sector. World Bank Almost immediately following the inauguration of the new administration, in which reform-minded officials have taken key policy making positions, market-based reform programs have begun rolling out. Naughton a, b. Major reform as announced by the State Council for The administrative system reforms aim to reduce government interference in the economy and transform it into a public service provider. Continued regulatory efficiencies are noted in this reform plan. Fiscal system reforms aim to establish an open, transparent, standardised budget system. Tax reform is a key element, including expansion of the pilot value-added tax VAT into transportation, shipping, certain service sectors, coal and other heavy polluting products, and recommendations for improved management of dividends from state assets, and fiscal support for SMEs. Financial system reforms include the pushes for more market-determined interest rates and exchange rates and progressing RMB convertibility under the capital account. Private sector firms will also gain from the removal of barriers to investment in

hitherto protected sectors such as energy, railways and telecoms. Implementing deposit insurance is also recommended. Other reforms include measures for more market-determined prices for commercial and residential use of electricity, coal, water and LNG; establishment of social security, food security, and environment protection; and pushing for further urbanisation, including reforms of the hukou system household registration, which so far has disadvantaged urban migrant workers in access to government services. More broadly, the State Council notes that this reform package supports ongoing reforms in state-owned-enterprises, economic opening up, and other social services. The clear direction of the reform programs is to use market-based principles to reshape the economy, including pushing for de-regulations cutting red tape to encourage private sector-led growth, allowing the market to set prices for land, resources, energy, and capital through interest rate and exchange rate liberalisation. While discussion of large-scale economic reforms by Chinese leaders is not new, the strength of rhetoric used by top leaders and official statements and the level of detail for implementation suggest this time may be different. Discussions by leading academics and officials indicate that the government is likely to continue pushing SOE reforms along the following three fronts. First, given the existence of so many inefficient and loss-making SOEs, there seems to be significant room to resume the process of privatisation, which has stalled since the early s. By the end of , one quarter of SOEs were loss-making and continued to be viable only through state support. While privatisation remains politically sensitive, it is likely that any further privatisation would proceed quietly and in a gradual manner away from the public limelight. Second, the government is likely to stimulate SOE reforms by increasing domestic competition, through: These reforms will help force SOEs to be efficient and competitive. Allowing private participation in the existing state monopoly sectors could also help lower production and distribution costs, and broaden the revenue bases for the government. Third, there is much room for further corporatisation and corporate governance reforms. The government has clearly indicated that, wherever conditions are met, SOEs will be pushed for public listing in either domestic or international stock markets. The government hopes that public listing could facilitate the separation of ownership from management and the introduction of modern corporate governance practices. As a result, SOEs will be forced to face direct market disciplines, further diversify their ownership structure with broader private sector participation, and better allocate their assets. These reforms would eventually help the government securitise its implicit equity in SOEs. For that purpose, it could consider establishing one or more state asset management companies SAMCs to represent the government as shareholder and professionally manage and trade these assets in financial markets where feasible. This would facilitate a portion of state assets being transferred to the national pension fund with the flow of returns being used to help fund future pension obligations. In the meantime, SASAC would confine itself to the role of policy making and oversight of state assets.

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Chapter 7 : Economic Issues 8 -- Why Is China Growing So Fast?

"The Unirule Institute of Economics has made a significant contribution to the on-going debate over China's reform. This book is a study which reveals the reality of China's state-owned enterprises based on reliable data.

By the time Deng took power, there was widespread support among the elite for economic reforms. By the late s, food supplies and production had become so deficient that government officials were warning that China was about to repeat the " disaster of ", the famines which killed tens of millions during the Great Leap Forward. Under the new policy, peasants were able to exercise formal control of their land as long as they sold a contracted portion of their crops to the government. A dual-price system was introduced, in which State-owned enterprise reform state-owned industries were allowed to sell any production above the plan quota, and commodities were sold at both plan and market prices, allowing citizens to avoid the shortages of the Maoist era. Moreover, the adoption of Industrial Responsibility System s further promote the development of state-owned enterprise by allowing individuals or groups to manage the enterprise by contract. Private businesses were allowed to operate for the first time since the Communist takeover, and they gradually began to make up a greater percentage of industrial output. Deng created a series of special economic zones for foreign investment that were relatively free of the bureaucratic regulations and interventions that hampered economic growth. These regions became engines of growth for the national economy. Controls on private businesses and government intervention continued to decrease, and there was small-scale privatization of state enterprises which had become unviable. A notable development was the decentralization of state control, leaving local provincial leaders to experiment with ways to increase economic growth and privatize the state sector. Although the economy grew quickly during this period, economic troubles in the inefficient state sector increased. Heavy losses had to be made up by state revenues and acted as a drain upon the economy. In and , large-scale privatization occurred, in which all state enterprises, except a few large monopolies, were liquidated and their assets sold to private investors. Between and , the number of state-owned enterprises decreased by 48 percent. These moves invoked discontent among some groups, especially laid-off workers of state enterprises that had been privatized. Also in , China was able to surpass Japan as the largest economy in Asia. Observers note that the government adopted more egalitarian and populist policies. At least firms have revised their corporate charters to allow the CPC greater influence in corporate management, and to reflect the party line. Note the rapid increase since reform in the late s. For the period "â€", Chinese GDP per capita increased from 2. GDP per capita, and from Per capita incomes grew at 6. Agriculture and light industry have largely been privatized, while the state still retains control over some heavy industries. Despite the dominance of state ownership in finance, telecommunications, petroleum and other important sectors of the economy, private entrepreneurs continue to expand into sectors formerly reserved for public enterprise. Prices have also been liberalized. Data from FAO , year Production in metric ton. During the pre-reform period, Chinese agricultural performance was extremely poor and food shortages were common. With the introduction of the dual-price system and greater autonomy for enterprise managers, productivity increased greatly in the early s. Chinese steel output quadrupled between and , and from to rose from Chinese textile exports increased from 4. Textile output increased fold over the same period. Foreign investment helped to greatly increase quality, knowledge and standards, especially in heavy industry. Even during the early reform era, protectionist policies were often circumvented by smuggling. For Argentina, Brazil, India, and Indonesia, the respective percentage figures are In the s, the Bush administration pursued protectionist policies such as tariffs and quotas to limit the import of Chinese goods. Special Economic Zones SEZs were created in the early s to attract foreign capital by exempting them from taxes and regulations. This experiment was successful and SEZs were expanded to cover the whole Chinese coast. The financial sector is widely seen as a drag on the economy due to the inefficient state management. Lip service was still paid to old Maoist ideals of egalitarianism, but it did not inhibit the growth of consumerism. Another theory focuses on internal incentives within the Chinese

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government, in which officials presiding over areas of high economic growth were more likely to be promoted. Despite rapid economic growth which has virtually eliminated poverty in urban China and reduced it greatly in rural regions and the fact that living standards for everyone in China have drastically increased in comparison to the pre-reform era, the Gini coefficient of China is estimated to be above 0. This contrasts with the "big bang" approach of Eastern Europe, where the state-owned sector was rapidly privatized with employee buyouts, but retained much of the earlier, inefficient management. The recent reversal of some reforms have left some observers dubbing the "third anniversary of the end of reforms". These accusations were especially intense during the Lang-Gu dispute , in which New Left academic Larry Lang accused entrepreneur Gu Sujung of usurping state assets, after which Gu was imprisoned.

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Chinese economy prior to reform. During the s, China developed a modern industrial sector, which stimulated modest but significant economic growth.