

CONTENTS

Part One Introduction to Reform 1

Chapter 1 The Raise of the Issue of Reform 3

- 1.1 The Establishment of a Soviet-Style Socialist System 3
 - 1.1.1 Lenin's Assumption before the Revolution and Soviet Russia's Early Practice 3
 - 1.1.2 The Establishment of Stalin's System 8
- 1.2 An Economic Analysis of the Centrally Planned Economic System 12
 - 1.2.1 Neoclassical Economists' Theoretical Demonstration of the Feasibility of a Planned Economic System 12
 - 1.2.2 The Debate on Socialism among Western Economists in the 1920s and 1930s 13
 - 1.2.3 The Reexamination of Planned Economy in the Late Twentieth Century 17
- 1.3 Reform in the Soviet Union and Eastern European Socialist Countries 20
 - 1.3.1 The Effort of the Soviet Union to Improve the Economy and Its Failure 21
 - 1.3.2 Self-Management Socialist Reform in Yugoslavia 24
 - 1.3.3 The Gradual Reform in Hungary 26
 - 1.3.4 The Four Rounds of Reform in Poland 27
 - 1.3.5 The Aborted Reform in Czechoslovakia 28
 - 1.3.6 The Transition of Russia and Eastern European Countries to Market Economies under New Political Systems 29
- 1.4 The Establishment of the Chinese Planned Economic System and the Raise of the Issue of Reform 31
 - 1.4.1 The Establishment of the Centrally Planned Economic System in China 31
 - 1.4.2 The Raise of the Issue of Reform in China 36

Chapter 2 The Evolution of China's Reform Strategy 43

- 2.1 Administrative Decentralization (1958 to 1978) 44
 - 2.1.1 The Establishment of the Policy of Delegating Power to and Sharing Profit with Local Governments 44
 - 2.1.2 The Implementation of the Policy of Transferring Administrative Functions to Lower Levels 46

| | | |
|-------|--|----|
| 2.1.3 | Disorder Caused by Transferring Administrative Functions to Lower Levels and Its Remediation | 49 |
| 2.1.4 | An Economic Analysis of Administrative Decentralization | 54 |
| 2.2 | Incremental Reform (1979 to 1993) | 57 |
| 2.2.1 | The Emergence of the Strategy of Incremental Reform | 58 |
| 2.2.2 | The Shift of the Focus of Reform from “Inside the System” to “Outside the System” | 62 |
| 2.2.3 | The All-Round Implementation of Incremental Reform | 64 |
| 2.2.4 | The Emergence of the Dual-Track System | 68 |
| 2.2.5 | The Negative Outcomes of the Long-Time Practice of Incremental Reform | 71 |
| 2.3 | Strategy of “Overall Advance” (1994 to Present) | 74 |
| 2.3.1 | The Attempt at Changing Reform Strategy and Launching All-Round Reform in 1984–1986 | 75 |
| 2.3.2 | The Third Plenary Session of the 14th CCCPC Started a New Era of Overall Advance of Reform | 82 |
| 2.3.3 | In-Depth Development of the Strategy of Overall Advance | 85 |

Part Two Reform in Different Sectors 91

Chapter 3 Rural Reform 93

| | | |
|-------|---|-----|
| 3.1 | The Agricultural Operation System before the Contracting System Reform | 93 |
| 3.1.1 | From Cooperatives to People’s Communes | 96 |
| 3.1.2 | Basic Conditions in Rural China before Reform | 102 |
| 3.2 | Implementation and Economic Effects of “Contracting Output Quota to Each Household” | 104 |
| 3.2.1 | The Three Ups and Downs of “Contracting Output Quota to Each Household” before 1976 | 104 |
| 3.2.2 | Quick Spread of the Household Contracting System | 108 |
| 3.2.3 | Economic Results of the Household Contracting System | 114 |
| 3.2.4 | Reform of Property Rights by the Contracting System | 117 |
| 3.2.5 | Impact on the Development of TVEs | 118 |
| 3.3 | Existing Problems and Prospects for Further Reforms | 120 |
| 3.3.1 | Reforming the Purchase and Marketing System of Agricultural Products | 121 |
| 3.3.2 | Improving the Land System | 126 |

- 3.3.3 Alleviating the Burden on Farmers 128
- 3.3.4 Solving Contradictions between Small Farmers and Big Markets 130
- 3.3.5 The Issue of the Transfer of Rural Surplus Laborers 133

Chapter 4 Reform of State-Owned Enterprises 139

- 4.1 The Enterprise System of Traditional SOEs and the Reform with the Main Theme of Power-Delegating and Profit-Sharing 139
 - 4.1.1 Major Features of the Enterprise System of Traditional SOEs 139
 - 4.1.2 The Reform with the Main Theme of Power-Delegating and Profit-Sharing 142
 - 4.1.3 The Essence of the Reform of Power-Delegating and Profit-Sharing 148
 - 4.1.4 Achievements and Deficiencies of the Reform of Power-Delegating and Profit-Sharing 151
- 4.2 Corporatization of Large SOEs 154
 - 4.2.1 Progress in Corporatization of Large SOEs 155
 - 4.2.2 Governance Problems of Transformed Companies 158
- 4.3 Further Reform Measures to Be Taken 163
 - 4.3.1 Further Lowering the Proportion of State Equity Shares 163
 - 4.3.2 Strengthening the Internal Control Systems of Large Enterprises 166
 - 4.3.3 Overcoming Defects of Insider Control and Instituting Checks and Balances between the Owner and the Management 168
 - 4.3.4 Bringing the SASAC into Play to Exercise Shareholder Rights in Accordance with the Law 171
 - 4.3.5 Learning from International Experience and Strengthening Corporate Governance 173

Chapter 5 Development of Nonstate Sectors 177

- 5.1 Blind Worship of State Ownership and Its Breakdown 177
 - 5.1.1 The Establishment of the Dominance of State Ownership in China 178
 - 5.1.2 Practice of the Reform and Opening up Continuously Breaking the Restrictions of Traditional Ownership Theory 181
 - 5.1.3 The Debate over Ownership and the Establishment of the Guiding Principle of “Allowing Diverse Forms of Ownership to Develop Side by Side” 186

- 5.2 The Layout Readjustment of the State Sector: Advancing in Some Areas while Retreating in Others 189
 - 5.2.1 The Guiding Principle for the Layout Readjustment of the State Sector 189
 - 5.2.2 Letting Go of and Invigorating Small and Medium SOEs 192
- 5.3 The Emergence of a Diverse Ownership Structure with Multiple Forms of Ownership Developing Side by Side 198
 - 5.3.1 The Rapid Development of Nonstate Sectors 198
 - 5.3.2 The Emergence of Diverse Ownership Structures with Multiple Forms of Ownership Developing Side by Side in Some Regions 199
- 5.4 Impediments to Further Development of Nonstate Sectors 204
 - 5.4.1 Improving the Business Environment of Nonstate Sectors 204
 - 5.4.2 Enhancing Support to Small and Medium Enterprises 206
 - 5.4.3 Relying on Nonstate Enterprises to Develop High-Tech Industries 208
 - 5.4.4 Nonstate Enterprises Should Make Even Greater Endeavors 211

Chapter 6 Reform of the Banking System and Development of the Securities Market 217

- 6.1 The Concepts of “Money” and “Finance” in a Planned Economy and Changes in China’s Financial System in the 1980s 217
 - 6.1.1 Changes in Enterprise Financing 219
 - 6.1.2 The Introduction of New Financial Instruments and the Start of the Capital Market 219
 - 6.1.3 Changes in the Organizational Structure of Financial Institutions 220
 - 6.1.4 Changes in the Central Bank’s Approaches to Macroeconomic Control 220
- 6.2 The Banking Reform in the 1990s and Its Future Direction 222
 - 6.2.1 Major Problems in China’s Banking System before the 1994 Reform 222
 - 6.2.2 The Progress of the Banking Reform since 1994 226
 - 6.2.3 New Challenges for the Banking Reform in the New Millennium 229
- 6.3 The Development of China’s Money Market 234
 - 6.3.1 The Current Situation of China’s Money Market and Its Problems 234

| | | |
|-------|--|-----|
| 6.3.2 | The Further Development of China's Money Market | 236 |
| 6.4 | The Development and Improvement of the Securities Market | 237 |
| 6.4.1 | The Development of China's Securities Market since the Reform and Opening Up | 237 |
| 6.4.2 | Problems in China's Securities Market and Proposed Solutions | 239 |

Chapter 7 Reform of the Fiscal and Taxation System 255

| | | |
|-------|--|-----|
| 7.1 | Government Finance in a Planned Economy | 255 |
| 7.2 | Fiscal and Taxation Reform from 1980 to 1993 | 258 |
| 7.2.1 | Changes in the Financial Relations between the Central Government and Local Governments | 259 |
| 7.2.2 | Changes in the Financial Relations between the Government and Enterprises | 263 |
| 7.2.3 | Institutional Defects of the Fiscal Responsibility System | 265 |
| 7.3 | All-Round Reform of the Fiscal and Taxation System in 1994 | 269 |
| 7.3.1 | Main Requirements of the Third Plenary Session of the 14th CCCPC for Fiscal and Taxation System Reform | 269 |
| 7.3.2 | The Tax-Sharing System for Fiscal Budget | 270 |
| 7.3.3 | Basic Requirements of the Taxation System Reform | 272 |
| 7.4 | Reform of the Fiscal and Taxation System after 1994 | 274 |
| 7.4.1 | Straightening Out "Extra-Budgetary Revenue" | 275 |
| 7.4.2 | Further Improving the Tax-Sharing System | 279 |
| 7.4.3 | Realizing the Transition toward a Public Finance System | 281 |
| 7.4.4 | Proposals for New Reform Measures | 285 |

Chapter 8 Opening to the Outside World 291

| | | |
|-------|--|-----|
| 8.1 | The Evolution of China's Foreign Economic Relations and Development Strategy | 291 |
| 8.1.1 | 1949–1971: Self-Seclusion | 291 |
| 8.1.2 | 1972–1978: Import Substitution | 293 |
| 8.1.3 | 1978–2001: Combination of Export Orientation and Import Substitution | 293 |
| 8.1.4 | After the Accession to the WTO in 2002: An Open Economy | 294 |
| 8.2 | The Spatial Evolution of Opening to the Outside World | 295 |
| 8.2.1 | Establishing Bases for Opening to the Outside World in the 1980s | 295 |

| | | |
|-------|---|-----|
| 8.2.2 | Expanding the Regions Open to the Outside World in the 1990s | 297 |
| 8.2.3 | Development Prospects of Special Economic Zones | 299 |
| 8.3 | Foreign Direct Investment | 300 |
| 8.3.1 | Growth and Characteristics of Foreign Direct Investment in China | 300 |
| 8.3.2 | Promoting the Growth of Local Enterprises | 305 |
| 8.4 | The Development of Import and Export Trade | 311 |
| 8.4.1 | The Process of the Reform of the Foreign Trade System | 311 |
| 8.4.2 | The Development of Foreign Trade | 315 |
| 8.4.3 | Problems Demanding Immediate Solutions | 317 |
| 8.5 | Prospect of China's Opening to the Outside World | 319 |
| 8.5.1 | The Accession to the WTO Is a New Milestone in China's Opening to the Outside World | 319 |
| 8.5.2 | China Will Enter a New Era of All-Round Opening to the Outside World | 319 |
| 8.5.3 | Active Participation in Regional Economic Cooperation | 320 |

Part Three Macroeconomic and Social Issues 325

Chapter 9 Establishment of a New Social Security System 327

| | | |
|-------|---|-----|
| 9.1 | The Social Security System before Reform and the Reform Plan of the Third Plenary Session of the 14th CCCPC | 327 |
| 9.1.1 | The Establishment of a Social Security System in China | 327 |
| 9.1.2 | Drawbacks of the Traditional Social Security System | 329 |
| 9.1.3 | Targets for Social Security System Reform Established by the Third Plenary Session of the 14th CCCPC | 332 |
| 9.1.4 | Suggestions of the World Bank on Pension Reform | 335 |
| 9.2 | The Implementation of the Reform and Its Problems | 336 |
| 9.2.1 | Pension Insurance Reform | 337 |
| 9.2.2 | Medical Insurance System Reform | 346 |
| 9.2.3 | Unemployment Insurance | 349 |
| 9.2.4 | Minimum Living Guarantee System | 351 |
| 9.2.5 | Rural Social Security | 352 |

Chapter 10 Macroeconomic Policies in the Transitional Period 355

| | | |
|------|---|-----|
| 10.1 | Macroeconomic Issues and Macroeconomic Policies | 355 |
|------|---|-----|

| | | |
|--------|---|-----|
| 10.2 | Inflation between 1980 and 1994 | 356 |
| 10.2.1 | Inflation Is a Common Problem in the Transitional Period | 356 |
| 10.2.2 | Four Rounds of Overheated Economy and Changes in Macroeconomic Policies between 1980 and 1994 | 359 |
| 10.3 | Deflation and Remedial Policies between 1997 and 2002 | 374 |
| 10.3.1 | Causes of Insufficient Aggregate Demand | 374 |
| 10.3.2 | Policies to Increase Domestic Demand and Their Effect | 375 |
| 10.3.3 | Changes in Macroeconomic Situation | 378 |
| 10.4 | Short-Term Problems and Mid- and Long-Term Risks in China's Economy | 378 |
| 10.4.1 | The Root Cause of the Problems in the Chinese Financial System Was the High Input and Low Efficiency of the Economy | 379 |
| 10.4.2 | Essential Measures Needed to Avoid a Crisis | 383 |

Chapter 11 Social Relations and Government Functions in the Transitional Period 385

| | | |
|--------|--|-----|
| 11.1 | Social Contradictions in the Transitional Period | 385 |
| 11.1.1 | The Transitional Period Is a Period in Which Social Relations Are under Great Tension | 386 |
| 11.1.2 | Evolution of the Social Structure and Social Contradictions during China's Transitional Period | 389 |
| 11.1.3 | Increase in Corrupt Activities | 391 |
| 11.1.4 | Enlarging Income Disparity among Social Strata | 398 |
| 11.2 | Constructing a Good Market Economy | 403 |
| 11.2.1 | Different Attitudes toward Reform | 403 |
| 11.2.2 | Maintaining Social Justice Was a Critical Issue in the Transitional Period | 407 |
| 11.3 | Government Functions in Economic Transition | 413 |
| 11.3.1 | The Important Functions of the Government in the Transitional Process | 413 |
| 11.3.2 | The Necessity of Change in Government Functions | 416 |
| 11.4 | Active Promotion of Political Reform | 417 |
| 11.4.1 | The Necessity of Political Reform | 417 |
| 11.4.2 | Major Contents of Political Reform | 423 |
| 11.4.3 | Nurturing a Civil Society and Improving the Self-Organizing Ability of the Society | 429 |

| | | |
|-------------------|---|------------|
| Part Four | Brief Conclusion | 431 |
| Chapter 12 | Concluding Remarks | 433 |
| 12.1 | Economic and Political Goals Becoming Increasingly Clear in the Process of Reform | 433 |
| 12.2 | Promoting Reform and Comprehensively Improving the Socialist Market Economic System | 437 |
| | Bibliography | 441 |
| | Postscript by the Translator | 447 |
| | Name Index | 449 |
| | Subject Index | 453 |