CHINA'S ECONOMIC REFORMS
Chronology and Statistics

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INTRODUCTION

At the end of the twentieth century, the People's Republic of China faces stark trade policy choices. Market reforms implemented since 1978 have brought commercial strength and bright expectations for future prosperity. However, they have also brought China to the point where trading partners insist on commitments to liberal, internationally recognized trading principles. These calls come at a time when China is seeking to enter the World Trade Organization (WTO), is negotiating bilateral trade agreements with Europe, United States and its emerging neighbors, and is working out the terms of its participation in the ambitious Asia Pacific Economic Cooperation (APEC) forum.

The issues at stake cannot be settled with small compromises. Rather, they entail China's basic acceptance or rejection of the neoclassical economic paradigm. Contentious debates are going on within China as well, between reformers and conservatives, wealthy provinces and poor. This summary neither weighs in on debates nor predicts outcomes. These debates will, however, have critical implications for China and the international economic system. Familiarity with recent Chinese reforms helps set the stage for an understanding of unfolding developments. The purpose of this chronology is to provide that familiarity to readers who are not versed in the Chinese economy.

The events summarized in this working paper suggest that recent reforms have traced a steep curve. The curve is remarkable, especially when economic conditions prevailing in China prior to the Deng era are considered. This introductory note provides a baseline for the reforms by examining circumstances in each sector addressed in the chronology as they stood in the late-Mao period (1970-76).

During the Mao era, contrary to conservative Western opinion, the Chinese economy achieved some successes. The 7-8 percent average annual growth over the 40 year post-war period suggests a "new rising power," more than the feudal Cold War adversary commonly envisioned in the United States (See, e.g., Funabashi, Oxsenberg and Weiss 1994, 1). Inflation remained low over the three decades to 1978, budget deficits were small, and external imbalances were minor. China entered the reform period with minimal foreign debt, in contrast with many developing countries. A policy of low foreign debt continues to this day and bolsters China's ability to attract foreign investment and borrow on international markets. In important social areas, such as health care and literacy, Chinese conditions--on average--improved under Mao. Gains, however, were accompanied by set-backs and rising dissatisfaction. As a 1993 International Monetary Fund (IMF) Occasional Paper noted:

> [T]he question arises as to the factors that provided the impetus for economic reforms and their scope...Although no crisis was apparent at the macroeconomic level, there was growing discontent with the system, especially in the rural area...Chinese leaders increasingly recognized that unless the technological disparity between China and her neighbors was effectively addressed, these output gaps [in economic growth] would only widen. (IMF 1993, 6)

The summary of conditions laid out in the next section explains in part the pressures which led to reforms in the Deng era.

Pre-Deng Conditions[1]

Rural Economy

In the late Mao period, rural land remained overwhelmingly in public hands, under collective management. The system was three-tiered: households were organized into production teams, which were organized into brigades, which were ultimately organized into communes of 4,000 to 5,000 households.

In March 1971, a *People's Daily* editorial foreshadowed the coming of a "new rural economic policy." Based on the premise that China had achieved grain self-sufficiency through aggressive rural policy measures (the "learn from Dazhai" campaign), a shift in the rural economy toward technical expertise and light manufacturing was espoused by the Party. In fact, however, large net grain imports (notably from Canada and the United States) were required between 1971 and 1974 (Kraus 1982, 261-2).[2] Moreover, the new rural economic policy, with its emphasis on local decision-making, was burdened by other political baggage that eroded its effectiveness.

Throughout the Cultural Revolution, local grain self-sufficiency had been a national objective. This policy stifled comparative advantage in non-grain agriculture, forced rural energies to be directed toward inefficient production, stunted manufacturing initiatives, and generally depressed total factor productivity. As Lardy (1982) points out, the forced reallocation of agricultural resources had a variety of harmful effects, including an increase in interregional income differentials. This was ironic, given the Communist objective of an egalitarian economy devoid of regional disparities. Government supply and purchasing plans were the mechanism by which state cadres

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[1] It should be noted that each of the sectors chronicled in this paper experienced turbulent developments between 1949 and 1978. The conditions described below reflect the period 1970-76 (the late Mao period), and do not necessarily reflect prior years.

[2] It should also be noted that Chinese national data, upon which western analyses are based, are generally unreliable--at best. Extensive correction for error goes on when describing Chinese economic conditions--therefore considerable squabbling over accuracy as well.

imposed their authority over ostensibly autonomous farm collectives.

As in other sectors, the organization of the rural economy reflected a profound hostility toward the concepts of specialization and comparative advantage. In refuting Soviet admonitions to divide labor among socialist nations, Mao declared:

> [Specialization] is not a good idea. We do not suggest this even with respect to our own provinces. We advocate all-round development and do not think that each province need not produce goods which other provinces could supply. We want the various provinces to develop a variety of production to the fullest extent . . . The correct method is each doing the utmost for itself as a means toward self-reliance for new growth, working independently to the greatest possible extent, making a principle of not relying on others . . . (Mao 1977, 102-3; after Riskin 1987, 206)

The basis for this declaration was more political than economic. The manner in which self-sufficiency was carried out in the rural economy (as elsewhere) entailed a consensual and highly inefficient style of decision-making. Consecutive waves of revolutionary ardor in the rural sector left little vestige of markets to guide resource allocation. The cultural revolution, meanwhile, fractured the central planning bureaucracy (which was Mao's intention, according to many scholars). What was left was local, collective rural decision-making that was marked by a ponderous mixture of politics and economics.

Industrial Sector

Industrial sector conditions and policies in the late Mao period were as disorganized as those in the rural and agricultural area. In short, state control and ideology dominated industrial decisions, with the result that the gap not only between China and the developed world, but also with its Asian neighbors, was widening rapidly. China's basic industrial infrastructure and output were not performing commensurate with the Party's ambitions.

A number of specific industrial sector policies typical of the pre-reform era were criticized by Deng Xiaoping himself in a mid-1970s policy paper known as the "Twenty

Points."[3] His key objections to existing conditions were:

- Excessive Chinese reliance on domestic production to the exclusion of superior imported technology, accompanied by a rejection of foreign trade credits.

- Refusal to permit enterprise management on the basis of production efficiency rather than ideology, coupled with a prejudice against specialization.

- The continued prohibition against worker incentives based on "work intensity, ability and magnitude of contribution." Material incentives were still considered "bourgeois."

- A failure to ensure that the major 1970-73 decentralization of industrial enterprises was managed for the public good. While Deng encouraged decentralization, he was concerned that the devolution of responsibility was leading to local level corruption, even in important industrial enterprises.

- The problem that "redness" was still held in higher regard than "expertise." For example, engineering prowess was not the sole basis on which an industrial engineer was promoted.

The fact that Deng issued his critique underscores the extent to which Communist Party doctrine still held sway in the mid-1970s. Industry had "grown" under Communist principles, but "much useless production occurred in response to arbitrary targets" (Riskin 1987, 186).

In terms of industrial priorities, steel and energy were given the greatest priority during the late Mao period. These sectors were seen as both the means of, and constraints on, national development. Steel production was significantly expanded, but did not totally displace imports. Oil production was seen as a potential source of export earnings, and coal production was increased in order to make oil exports possible. Many small coal mines were sunk, but the quality of coal produced was low and has since contributed to serious environmental degradation representing multi-billion dollar remediation costs--which may spill over onto neighbors like Japan.

Inefficiencies in the Chinese strategy contributed to a failure to meet goals for chemical fertilizers, man made fibers and various important light industries. Increased demand for many intermediate goods, and the misallocation of resources in the

[3] See discussion in Riskin (1987, 194-5).

industrial sector, helped generate an import boom once trade was moderately liberalized by Hua Guofeng in 1977-78. The resulting uncoordinated spending drew harsh criticism from Deng. Instituting a more cautious, step-by-step industrial policy was among his first objectives in the early reform period.

Financial Sector and Fiscal Reforms

Prior to the reform period, there existed virtually no financial sector in China other than the state apparatus for collecting and redistributing taxes. The enormous People's Bank of China served these functions as well as settling small balance of payments credits and debits with other nations. High rates of saving existed during the pre-reform period and helped facilitate subsequent, rapid reforms (IMF 1993, 8). Scholars debate the extent to which pre-reform saving patterns were involuntary--reflecting, for example, price controls and rationing.

During most of the Mao era, the central government collected and redistributed the vast majority of local taxes and fees. Except for two experiments with decentralized fiscal authority (1958 and 1970), the center maintained control over provincial receipts and allocations (Riskin 1987, 212). At extremes, the rich municipality of Shanghai retained only 10 percent of its total local revenue in 1972, while the poor province of Xinjiang received upwards of 120 percent. Subsidies for the backward interior provinces was the general rule under Mao.

Trade and Investment Policy

Trade, like all economic activity, was organized in late Mao China around the principle of "self-reliance." This slogan had clear implications for foreign economic relations prior to the Deng reforms. It required:

- Full utilization of domestic resources;
- Rejection of foreign technology in favor of accumulating indigenous experience;

- Reliance upon domestic saving;
- Establishment of a comprehensive industrial system in China.

Though foreign economic contacts were not ruled out by this paradigm, they were relegated to secondary importance. Self-reliance was invoked by the Party most vociferously during inward-looking periods. During more open periods significant Soviet assistance flowed to China (notably in the 1950s and early 1960s). The late Mao period was extraordinarily inward-looking. Senior officials who favored foreign technology were vulnerable to charges of unpatriotic behavior.

The two motivations for self-reliance were military security and mastery of manufacturing technology. The latter objective was central in the 1970s. In fact, the strongest force behind trade expansion between 1970 and 1973 was a desire to acquire foreign technology *so as to reduce dependance in the future*. With self-reliance trickling down to the enterprise level, local managers were anxious to grab the ability to manufacture a wider range of products, based on foreign technology and intermediates, when the window inched open. The ensuing burst of purchases from abroad (an estimated increase of over 80 percent in real terms from 1970 to 1973) led to a period of retrenchment and cancelled orders in 1974-75.

This cycle recurred in 1976, when the first leader of the post-Mao era, Hua Guofeng, once again allowed imports to surge in order to reinvigorate the economy. With mounting balance of payment difficulties, China was forced to relax prohibitions on foreign borrowing and trade credits. Hua's inexperience in managing this process, and Chinese fear of concomitant foreign financial influence, contributed to Deng's ascendence in December 1978.

In short, the mid-1970s were marked by an attempt by senior Chinese leaders to manage a middle passage avoiding both autarky and an open-door. The results were chaotic and failed to serve either the purpose of self-reliance in the ideological sense, or healthy growth in a market-economy sense.

Special Economic Zones and Regional Opening

Official Chinese policy up to and including the late Mao period of the mid-1970s sought to level disparities between coastal and inland provinces. Industrialization, income, education and productivity all lagged in the interior relative to the coast. Coastal area fiscal revenues were often used to subsidize interior provinces.

Prior to the reform period, the Beijing authorities were reluctant to grant greater autonomy to the dynamic coastal areas. The notion of special economic zones, even if they could attract foreign investment and technological development, was antithetical to the political objectives of egalitarianism. But practical leaders, especially Deng, were abundantly aware that the coastal areas must be permitted to "guide the way" for the rest of the country. Thus, before the end of the Mao era, the conceptual ground was prepared for what came to be known as special economic zones and regional opening.

BACKGROUND OVERVIEW

China to 1949

For most of recorded history, China has held a dominant place in the world, both politically and economically. As late as 1830 China accounted for 30 percent of world manufacturing output (Mathiessen 1991). China only ceased to be the world's largest economy in 1850, when Britain took the economic lead. For the next century, China's economic and political power declined. The ruling monarchy was weakened and ultimately collapsed, "unequal" trade treaties were forced upon China by the western powers, and the country was undermined by civil and international wars. China's decline in relative terms was stark compared to the rapidly industrializing western powers and an emerging Japan (See, e.g., *Economist*, "Global Economy Survey," 10 October 1994, S9). Beside the long tenure of Chinese regional hegemony, however, many consider this weakness an anomaly.

While nineteenth century events are ancient history by American standards, they continue to have relevance to current events in China. For example, the venerable Hong Kong merchant house Jardine Matheson was instrumental in the Opium War (1839-42), in which Chinese markets were forced open by Britain. That memory is still recalled today as China prepares to take control of Hong Kong in 1997, and presents a serious challenge to the firm's prospects. Partly for this reason, Jardines recently moved its headquarters to Bermuda and its exchange listing to Singapore.

In the nineteenth century, industrial activity occurred in pockets, each having different characteristics. In Shanghai light manufacturing emerged; in the northeast, heavy industry was launched by the Japanese in the 1930s; meanwhile, the coastal areas showed some commercial development. Agricultural techniques remained much as they had been centuries earlier.

After the mid-1800s, the central government steadily ceded power to a host of warlords and foreign nations. The Communist Party's People's Army emerged to unite the mainland, under the direction of Mao Zedong, in 1949.

From Revolution to Reform, 1949-76

With the evacuation in 1949 of the Kuomintang (KMT) to Taiwan--the last remaining domestic rival to Communist authority--China was united under consolidated leadership without foreign incursion for the first time in almost a century. However, the coming four decades of socialist ideology and the personality-cult leadership of Mao were bloody and chaotic.

1949-1951	Chairman Mao attempts to solidify rule, shifting somewhat from a military to a civilian footing. However, China soon becomes embroiled with the United States over Taiwan and the Korean War, which bolsters the military and sets the country on an anti-western, pro-Soviet stance.
1952-1957	During these years of institution building and land reform, the Soviet Union extends loans, builds turn-key factories, and offers technical training and planning advice. China's first Five-Year Plan entails the forced provision of cheap agricultural supplies to cities--though per-capita allocation is kept low to discourage urbanization. In rural areas, production decisions are shifted from households to "mutual aid teams," and then to cooperatives where a cadre makes key decisions. Ownership is redefined in the form of state-owned enterprises (SOEs) and collectivized farms. In terms of financial structure, the binding constraints on households and enterprises at this time are coupons, authorizations, and orders to deliver. These instruments rather than money determine production and consumption outcomes, therefore prices are of secondary

importance.

The Hundred Flowers campaign brings unanticipated criticism, especially from intellectuals, which Mao silences in the repressive "anti-rightist campaign."

1958-1960 The "Great Leap Forward" (GLF) is advanced by Mao to instill zeal and elicit stronger growth. As part of this push for hierarchical organization and revolutionary thinking, Mao initiates the People's Commune Movement to foster a communist-agrarian society. Bad incentives and bad weather bring the famine of 1960 with its accompanying economic turmoil, starvation, and rural revolt. Twenty to thirty million people lose their lives through malnutrition and famine (Fairbanks 1987, 296). The failure of the GLF and the People's Commune Movement creates the first open split within the ranks of communist leaders. Furthermore, a major rift opens with the Soviets, leading to a break in relations--and Russian aid flows.

1961-1965 Premier Zhou Enlai and Chen Yun alter China's policy direction. Sectoral priorities during the Great Leap--heavy industry, light industry, then agriculture--are reversed, to produce more food (Riskin 1987, Ch. 7). Private plots are reestablished, limited markets are reopened, and modern inputs such as chemical fertilizers are emphasized (Barnett 1974, 126). The economy shows signs of recovery in 1963, and by 1965 China regains the level of production reached in 1957 (USITC 1985, 11-25).

1966-1969 Again striving to expand his command over the Party, Mao orchestrates the "Cultural Revolution." Early stages of the movement entail a struggle against the so called "antiparty clique," including Liu Shaoqi and Deng Xiaoping. Mao calls on the youth as "Red Guards" to spread revolutionary zeal. They make a specialty of attacking professionals and intellectuals, and wreak havoc on the educational system. Begun as a political struggle, the Cultural Revolution paralyzes normal life and throws the economy into turmoil.

1970-1976 As fervor turns to a realization that China is falling behind, a more pragmatic climate emerges. Premier Zhou Enlai concludes that Chinese industry needs foreign technology and seeks to improve China's economic relations with other countries. Reestablished diplomatic relations with Japan set the stage for Japanese-backed industrial projects. China turns to Europe for fertilizers. However, self-sufficiency is still stressed at the commune level.

In 1972, US President Richard Nixon visits Beijing and signs the Shanghai Communique, paving the way for China to import US technology. Moreover, this is an inescapable signal that pragmatism will take priority over ideology.

1976 The death of Chairman Mao in September finally ends the Cultural Revolution. His death also ends the second purge of Deng Xiaoping, who had been branded a "counter-revolutionary revisionist" earlier in the year when his powerful patron Zhou Enlai died. Mao's death triggers a succession struggle, ultimately resulting in a moderate coalition directed by the weak Hua Guofeng.

Overview of the Reform Period (1976-Present)

Premier Hua Guofeng's Ten-Year Development Plan is designed to reinvigorate the economy, partly through foreign trade. The plan results in a surge in capital goods imports, which causes China to encounter serious balance of payments problems. The difficulties force the leadership to abandon ideological opposition to borrowing from abroad. As part of its new stance, China establishes incentives and regulations to attract and govern foreign investment. Economic complications, however, do not subside, and demands for stronger economic leadership lead to Deng's return.

1978 The Ten-Year Development Plan, poorly managed and wasteful, falls behind schedule. At the December Third Plenum of the Eleventh Central Committee of the Communist Party, Deng prevails over Hua. The plenum adopts a platform of greater reliance on market forces which Deng had been elaborating for years. Also at this meeting, the Cultural Revolution is reassessed to be a national disaster, with Mao himself deemed as only "70 percent good." Deng's guiding philosophy is that capitalist techniques can be put to good use in a socialist economy, and thesis tested from this point forward.

First Phase (1978-1984)

The initial phase of reform focuses on agriculture and an attempt to balance foreign economic relations. Procurement prices for agricultural products are increased; crop diversification and specialization are encouraged; restrictions on trade fairs are relaxed; and decentralized farm organization is explored (IMF 1993, 3). Preferential policies are conferred on special economic zones (SEZs) to attract foreign investment and technology, to promote exports, and to create laboratories for broader market-oriented reforms (IMF 1993, 3).

1980	(September) Long-time Deng ally Zhao Ziyang is elevated to Premier, and advocates faster growth. Embracing the theory of comparative advantage, Zhao exhorts China to abandon the idea of self-sufficiency (Riskin 1987, Ch. 13).
1982	Deng and British Prime Minister Thatcher meet in Beijing; her proposal for continued British administration of Hong Kong is rejected by China.
	In December the Sixth Five-Year Plan is adopted. The first plan put forth under the leadership of Deng Xiaoping, Hu Yaobang and Zhao Ziyang, it is premised on continued progress towards a market economy (USITC 1985, 26-27).

Second Phase (1984-1988)

Building on the success of rural reforms, Beijing turns to reform urban industries dominated by monolithic and inefficient state enterprises. To attract foreign capital and technology, 14 major cities are opened to foreign firms (IMF 1993, 3). China is progressing toward development goals, but social and fiscal problems are booming as well.

1984	The Sino-British Joint Declaration on Hong Kong is signed by Zhao and Thatcher. Hong Kong is to become a Special Administrative Region of China in 1997, enjoying significant autonomy except in foreign and defense affairs, and keeping its economic system, separate customs status and independent finances for 50 years.
1985	The agricultural procurement system is switched from a mandatory purchase quota system to a voluntary contract procurement system.
1986	The "Contract Responsibility System" is implemented: enterprises are required to pay a set amount of profits to the government but may retain profits above the contract requirement. A labor contract system is also introduced for new recruits to state-owned enterprises.

Third Phase (1989-1991)

The economy heats-up from successful earlier efforts to spur demand and production.

As inflation reaches double-digits in 1988 and social dislocations from reforms multiply, new rounds of price reforms are delayed. Booming investment continues to fuel inflation and urban anxiety, however. These social conditions contribute to the climate of Tiananmen Square in the Spring of 1989; to the government's decision to brutally repress civil protest; and to a policy of retrenchment and "rectification" to follow.

1989 The massacre at Tiananmen Square is followed by strong measures to cool the economy, to alleviate negative social externalities, along with renewed political campaigns to suppress dissent.

1990 Overcooling leads to the risk of economic crisis, so fiscal and monetary stimuli are applied to reverse the economic slowdown.

1991 Fairly stable prices toward the end of the period allow authorities to liberalize prices for some goods (IMF 1993, 3). By 1991 the economy shows signs of recovery.

Fourth Phase (1992-Present)

This period is marked by a return to reform and opening. The market system is pronounced compatible with Chinese socialism. Moves are made to develop a market-oriented legal and regulatory framework and to redefine the role and functions of government. Liberalization falters, however, when it comes to implementing concrete steps to address, *inter alia*, bank failures, intellectual property rights violations, and demands for free flow of economic information.

1992 (January) Deng, visiting southern China, calls for acceleration of growth, reform, and opening up (IMF 1993, 3).

(March) The authorities declare an end to the 1988 "rectification program" of centrally imposed price controls.

(October) The Communist Party formally endorses Deng's view that the market system is compatible with socialism, and calls for the establishment of a "socialist market economy."

1993 After formal adoption of "socialist market economy" language, conflicting policy goals issue from Beijing over the year. Some like Vice Premier Zhu Rongji advocate austerity and restrained development, while others push for faster growth.

1994 Attempts to tinker with remaining socialist precepts continue in an effort to maintain growth without attendant social dislocations and pain. Exchange rates are unified, Labor Law is issued, SOE reforms are announced for 18 cities. But problems continue to grow as well. Foreign investment offsets monetary policies and inflation remains high, while WTO accession plans derail.

1995 China tries to steer middle course between partners desire to see liberalization in exchange for WTO-membership, and domestic social pressures and political demands such liberalization might cause. Forthcoming leadership transition preoccupies senior initiative, and further realignment of Chinese policy seems unlikely until the dust from this process settles. Slightly lower growth and inflation indicate a softer-landing, and may buy the time to sort out the politics internally. However, foreign pressure builds to nail-down Chinese commercial obligations.

THE RURAL ECONOMY

1979 Several reforms in rural markets are introduced:
• Procurement prices of agricultural products are significantly increased, and diversification and specialization are encouraged.
• Experiments are begun with the private tenure system (also known as the Household Responsibility System), with private plots enlarged. Under this system, those who hold a plot are obliged to supply part of the output to collective procurement, but they may consume extra output or sell it in free markets.
• Restrictions on rural markets and nonagricultural activity by farmers are relaxed (IMF 1993, 16-17).

early 1980s In the process of agricultural deregulation, township and village enterprises (TVEs) boom. From the start they are permitted to sell their products at market prices and to retain their own profits (unlike industrial enterprises discussed in the next sector). Worker incentives are bolstered as TVE wages are tied to productivity. TVEs account for about half of rural GDP (IMF 1993, 17).

1984 A "two-track pricing system" is first introduced for agricultural products, to be applied to industrial goods soon thereafter. Under this system, farmers receive set procurement prices for output they are required to produce; if they produce beyond that level, they may sell their goods at market prices. Meanwhile, the contract period for the lease of private plots is extended from 5 years to 15 years for annual crops (in 1994, this period was again extended to 30 years), and to 50 years for tree crops (IMF 1993, 16-17).

1985	The procurement system is switched from a mandatory purchase quota system to a voluntary contract procurement system. A major purpose is to alleviate the fiscal burden arising from agriculture procurement and resale operations, which are both inefficient and entail higher prices for rural procurement than for urban resale. The switch leads to an immediate drop in grain production (IMF 1993, 16-17).
late 1980s	The state enlarges its investment in agriculture, and procurement prices are raised. Grain output reaches a new peak in 1990, giving political impetus to a support mechanism based on market prices (IMF 1993, 16-17).
1990	A national trading center for grains is established in Zhengzhou, in Henan Province. Agricultural wholesale markets, such as the rice markets in Jiujiang and Wuhu, are developed to curtail the role of the state in agricultural procurement. By 1992, some 72,000 local markets are open throughout the country (IMF 1993, 16-17).
1991-1992	• Large percentage increases are implemented in agricultural ration prices for urban areas, letting urban sales prices reflect procurement prices. • Grain prices are first decontrolled in Guangdong and Fujian. By May 1993, decontrolled grain prices are effective in about 2000 cities and counties, accounting for about 80 percent of the country (IMF 1993, 16-17).
1993	Farmers continue to be caught by rising costs of seeds, fertilizer, and pesticides, which outpace increases in procurement prices (EIU Profile 1995, 28).
1994	Amid summer flooding in parts of the South and droughts in parts of the North and West, output of grain falls. In response to rises in food prices due to the natural disasters, the authorities increase procurement prices by 40 percent for grain, 60 percent for cotton (EIU Report 1995, 22). At December's Central Economic Work Conference, the government reaffirms the central role of agriculture in China's development plans (EIU Report 1995, 22).
1995	(February) While statistics indicate that land area used for farming is shrinking as remote regions turn to forestry and herding, the government maintains a 500m tons/year grain target for 2000, admitting that this goal will require large fiscal outlays for inputs and technology (EIU Report 1995, 1 and 22). Despite the negative assessment of foreign experts, Xie Zhenhua of the State Environmental Protection Bureau declares at an international conference that "China can feed itself" (EIU Report 1995, 23).

1996 (January) The failure of talks with the United States over agricultural sector trade underscores deep Chinese anxieties over the stability of the rural economy (IUST, 26 January 26 1996, 10). Concerns over food dependence and the flood of rural workers to the cities stiffen Chinese resistance to rural economic reforms.

THE INDUSTRIAL SECTOR

1983 For state-owned enterprises, direct taxation replaces the automatic transfer of profits to the budget. Previously, enterprises handed over all earnings to the state budget and in turn relied on transfers from the budget both to cover losses and to provide funds for investment. Enterprises are gradually given greater authority over their own after-tax profits (IMF 1993, 18-20).

1984 The "two-track pricing system," which was first introduced in rural areas, is extended to a wide range of industrial commodities. Under this system, products are sold to the state up to the quota amount at a fixed price; the above-quota amount is then sold either on the open market or to the state at negotiated prices. Over the ensuing years, the proportion of goods subject to mandatory pricing is gradually diminished; by 1988, market prices are in effect for 53 percent by value of retail sales (IMF 1993, 18-20).

1986 The extent of day-to-day government micromanagement of enterprises is reduced via introduction of a "Contract Responsibility System." Under this system, enterprises are required to pay a set amount of profits to the government, but they can dispose of their profits surpassing the contract requirement (IMF 1993, 18-20; Takayanagi 1993, 74).

A labor contract system is instituted for all newly recruited workers in the state-owned enterprises. At the contract's expiration, both the enterprise and the employee are free to choose whether to extend or terminate the contract. Terms and conditions of work are determined by individual contracts. At the end of 1992, 21 percent of total employees in state-owned enterprises work under the contract system (IMF 1993, 18-20). Meanwhile, an unemployment insurance scheme is set up to provide benefits to unemployed workers (IMF 1993, 18-20).

A Bankruptcy Law is enacted. It is rarely applied in the early years due to strong worker resistance and a public commitment to guaranteed employment. However, in 1992 and 1993, the law is applied more rigorously both because public attitudes change and because the unemployment insurance scheme is better established and funded. Some 66 enterprises are declared bankrupt in the first half of 1992 (IMF 1993, 18-20).

1988	(April) The Constitution is amended, permitting private firms to operate as a complement to the socialist economy. Previously, only individual firms employing no more than seven people as assistants were allowed to operate. The seven employee limit is now discontinued (Yabuki, 1992, 58).
	An Enterprise Law is enacted to transform state-owned enterprises into fully autonomous legal entities, responsible for their own profits and losses (IMF 1993, 18-20).
1991	The authorities announce 20 measures, 12 of which are designed to improve the operations of state-owned enterprises, such as tax concessions and preferential access to bank credit; other measures are aimed at facilitating the emergence of market forces surrounding state-owned enterprises, such as a reduction in mandatory planning (IMF 1993, 18-20).
1992	(July) The authorities publish "Regulations on Transforming the Operating Mechanism of State-Owned Enterprises" to give effect to the Enterprise Law. Under the regulations, state enterprises shall enjoy 14 rights, including the right to decide what to produce, how to price and market their products, how to invest their funds, the right to hire and fire workers, and the right to determine wage policy. In exchange for these rights, enterprises must answer for their financial performance, and inefficient firms are expected to restructure or shut down in accordance with the Bankruptcy Law (IMF 1993, 27-28).
	(September) The authorities announce price liberalization for a large number of industrial inputs, representing over four-fifths of goods previously under control (IMF 1993, 18-20).
	(November) The time frame for eliminating the two-track pricing system is compressed to the next three to five years. The proportions of producer and consumer goods subject to price controls are reduced to 20 percent and 10 percent respectively in 1992 (IMF 1993, 27-28).
1993	Private and foreign-invested enterprises contribute 10.8 percent of industrial output, up from 8.3 percent in 1992; state-owned enterprises account for 52.2 percent of output, down from 60.5 percent in 1992; collectives make up 36.5 percent, up from 31.4 percent in 1992 (EIU Profile 1995, 26).
1994	Subsidies and bail-outs for state-owned enterprises continue to strain the fiscal budget. Because SOEs provide health care, housing and other welfare services, fears of social and political backlashes dampen reform prospects.

1995	Most government estimates say 40-50 percent of SOEs are losing money. However, in January, Zhu Rongji notes that SOE losses amount to only one-third of SOE profits, and claims that the majority of the loss-makers are small and medium sized enterprises. Therefore the number of SOEs operating at a loss may be large, but the total assets and workers the group represents amounts to just 20 percent of the entire SOE sector (EIU Report 1995, 21). Zhu may have down-played the extent of losses to garner support for further reforms. From mid-year, there are signs that senior leaders will restrict the flow of state bank funds to loss-making SOEs. SOEs unable to show a positive net present value for their projects will receive working capital only, not long-term funding. This responds in part to charges that SOEs take their state funds and re-invest them in higher return, higher risk ventures.

FINANCIAL SECTOR

1979-1983	For the first few years of the reform period, the People's Bank of China continues to act as a monobank, functioning as both a central bank and a commercial bank. Funds are allocated in accordance with the state plan, with emphasis on output rather than profitability, which results in severe mismanagement. Three other specialized banks are also permitted to operate: in agriculture, the Agricultural Bank of China; in state construction, the People's Construction Bank; and in foreign exchange management, the Bank of China (IMF 1993, 21-22).
1981	The first treasury bonds are issued and sold on a compulsory basis to enterprises and individuals (IMF 1993, 21-22).
1982	The issuance of enterprise shares is started on an experimental basis for private firms in 1982, and for state enterprises in 1985. These shares do not convey rights of ownership, but they do pay interest or dividends (IMF 1993, 21-22).
1984	The People's Bank of China narrows its operations to those of a central bank, and the newly created Industrial and Commercial Bank takes over the commercial banking function of the People's Bank (IMF 1993, 21-22).
1985	(April) Foreign banks are permitted to set up branches and local subsidiaries and to establish joint ventures with Chinese partners in the special economic zones (Nomura Research Institute, 1995).
1986	Specialized banks are permitted to conduct foreign transactions, and they are gradually allowed to engage in general banking activities

	(IMF 1993, 21-22). Urban and rural credit cooperatives are established as alternative banks; they number more than 60,000 by the decade's end.
mid 1980s	The China International Trust and Investment Corporation (CITIC), established in 1979, becomes the country's major consulting firm and investment bank. Other trust and investment companies, which are often called ITICs (International Trust and Investment Corporations; not organizationally linked to CITIC), expand rapidly; they provide trust, consultant and investment services similar to CITIC's (IMF 1993, 21-22).
1987	The Bank of Communication, a major financial institution in pre-1949 China that was forced to close down (except for one Hong Kong office that maintained operations as part of the Bank of China group), is reestablished. It begins expanding its branch networks, spurring more extensive interbank competition.
1990	Restrictions on lending to non-priority sectors are eased, and provincial branches of the People's Bank are allowed some discretion to allocate credit among commercial banks (IMF 1993, 21-22).
	(November) The first securities exchange is established in Shanghai (IMF 1993, 21-22).
1991	(June) The second securities exchange is established in Shenzhen.
1992	Foreigners are allowed to purchase and sell "B" shares, which are issued by some enterprises. Shares that are limited to purchase and sale by domestic residents are called "A" shares (CIA 1993; IMF 1993, 14).
	Reform of the banking system is planned to transform the specialized banks into competitive, accountable commercial entities. The main components of the reform are: • Separating commercial and policy-based lending; • Requiring all loans to pay market interest rates, and providing interest subsidies for priority projects through the budget; • Encouraging banks to do better loan assessment and portfolio management (IMF 1993, 31).
1993	(January) The State Council Securities Committee is established to improve the regulation of securities markets (CIA, 1993).
	(November) The authorities announce plans to create three banks to support industrial, agricultural and infrastructure projects that may not be commercially attractive but that are crucial to national economic

development. The idea is to free the country's commercial banks from the burden of financing these projects.

1994	(January) The authorities declare that foreign banks will soon be allowed to expand their branch networks, and five foreign banks will also be permitted to conduct local currency transactions. Currently, branching is permitted in 13 cities and economic zones. Beyond these zones, banks can open representative offices but may not carry on profit-making activities. Wherever they operate, foreign banks are limited to foreign exchange investment and guarantees; foreign exchange deposits and joint venture loans; and import or export account settlement.
	(May) In an effort to facilitate the Hong Kong reunification process of 1997, the Bank of China begins issuing currencies in Hong Kong, joining Hong Kong & Shanghai Bank and Standard Chartered Bank, the previous two note-issuing commercial banks in Hong Kong. Circulation of Hong Kong dollars is also to be officially sanctioned in Shenzhen and Zhuhai, two of the special economic zones.
	(August) Shandong Huaneng Power Development becomes the first Chinese company to have a primary listing on the New York Stock Exchange. As such, it is the first of four power companies to launch international public offerings, being dual-listed on the Hong Kong and New York Stock Exchanges.
1995	Equity listings in Hong Kong (and elsewhere outside China) are performing poorly. Further IPOs are held up as the market rethinks the worth of H shares (*Economist*, 16 September 1995, 88).
	(August) China admits that 1 in 5 state bank loans is overdue; unofficial reports put the figure much higher. Reforms are enacted to free commercial banks from state mandated lending obligations, the so-called "policy loans." In addition, the reforms are supposed to free the People's Bank of China (BOC) to attend to traditional central banking responsibilities. New banks--Export & Import, State Development, and Agriculture Development-are supposed to address specific national needs, while "policy banks" continue to subsidize the loss-making SOEs (*Economist*, 9 September 1995, 74).

FISCAL REFORM

pre-1980	All public revenues are remitted to the central government and then distributed to the provinces in accordance with expenditure plans approved by the center (IMF 1993, 20).
1980	A revenue sharing arrangement is established. Under this system, there

are three types of taxes:
• Taxes accruing to the center;
• Taxes accruing to the localities;
• Revenue that is allocated among the center and localities (IMF 1993, 48).

1985	A new arrangement is designed to create incentives for revenue collection by each province: the province's permitted expenditures depend in part on its budget balance in the previous year. However, the central government maintains its tight control over the greatest revenue-yielding areas, such as Shanghai, Beijing and Tianjin (IMF 1993, 48).
1988	A new fiscal contract system introduces six types of revenue sharing, further increasing the portion of revenue retained by localities (IMF 1993, 48).
1993	(November) The authorities announce a plan to reform the tax revenue sharing system. The new scheme allots a larger share of public revenues to the central government.
1994	(January) A new tax system is implemented whereby the central government claims more than 60 percent of total tax revenues. Other features of the system include: • A uniform 33 percent tax rate on enterprise profits, replacing the 55 percent rate previously levied on large- and medium-sized state firms; • The imposition of a value-added tax following international practice; • The introduction of a uniform personal income tax system, to be applied to foreigners as well as Chinese citizens; • A new tax on real property transactions, along with new taxes on stock exchange dealings, inheritances and insurance.
1995	The government claims that the tax collection process in 1994 was a success, but the Ministry of Finance notes that "financial revenue" grew by 18.9 percent while expenditure grew at 22.1 percent (EIU Report 1995, 17). The government attempts to trim expenditure through administrative means: SOEs are told that spending without restraint will bring harsh penalties (EIU Report 1995, 17), and local governments are ordered to limit spending.

TRADE AND INVESTMENT POLICY AND THE EXCHANGE RATE SYSTEM

pre-1978	China's foreign trade is conducted by 12 state-owned Foreign Trade Corporations (FTCs), which procure and trade the quantities directed by the central plan. The state budget absorbs all profits and losses. Several different exchange rates are used for trade transactions

between the FTCs and the domestic enterprises with which they deal, the underlying purpose being to favor some transactions and disfavor others. Under the oversight of the State Administration of Exchange Control (SAEC), a retention system is established, under which exporters surrender their actual foreign exchange and are issued retention quotas by SAEC equivalent to a proportion of their foreign exchange earnings (IMF 1993, 33-37).

1979 Reformers acknowledge that foreign investment can bring China technology transfer, management training, capital, foreign exchange earning potential, infrastructure development and more. To attain these benefits the leadership begins implementing more investment-friendly laws. The Joint Venture Law (JVL) is adopted to provide limited liability and to allow companies to be considered "legal persons." However, the JVL is rigid, requiring that the central government approve all JVs; that the presidents of joint ventures be PRC nationals; that major corporate acts have unanimous board approval; that the joint venture be of fixed duration (10 and 30 years, extendable with permission); that dissolution only occur in special circumstances, with approval; that all owners consent to the transfer of an investment; and that profits be distributed in accordance with registered capital amounts (Feinerman, 5).

However, Special Economic Zones (SEZs) enjoy greater flexibility for attracting FDI. (See the section on Special Economic Zones.)

1981 (January) A single exchange rate is set for the internal settlement of trade transactions; this rate is 2.8 yuan per dollar, while the official exchange rate stands at 1.53 yuan per dollar. National enterprises are allowed to sell their retention quotas to other national enterprises that participate in the retention quota system. The Bank of China serves as a broker in these sales (IMF 1981, 107). Over the ensuing 3 years, the official exchange rate is progressively devalued, and in 1984 the rates are unified at a rate of 2.8 yuan per dollar (IMF 1993, 33-37).

1982 The new constitution promises to protect "the lawful rights and interests of foreign investors."

1983 SEZs experiment with the first Wholly Foreign-Owned Enterprises (WFOEs). In addition to allowing complete foreign ownership of investments in China, the WFOEs have autonomy to determine their own production and business plans, which have fewer reporting requirements. Also, they are allowed to conclude their own labor contracts. A WFOE may be a legal person and is assured of protected profits; however, WFOEs face stiff rules for technology transfer, export performance and lines of business, and they do not enjoy limited liability (Feinerman, 2).

1984	Fourteen coastal cities are designated Economic and Technical Development Zones to attract FDI (See the section on Special Economic Zones).
1986	(July) China formally applies to join the GATT. Because of the wide-ranging implications of China's membership for the world trading system, a GATT Working Group delays resolving the issue through 1994 (US-China Business Council 1992).
	(November) A dual exchange rate is resurrected with the establishment of the Foreign Exchange Adjustment Centers (FEACs). At these centers, approved enterprises may buy and sell retention quotas. However, the FEAC exchange rate (the swap market exchange rate) is set by the authorities, and only foreign-funded enterprises may participate (IMF 1993, 33-37).
1988	(April) The Law on Chinese-Foreign Contractual (Cooperative) Joint Ventures (CJV) is promulgated to offer greater flexibility to investors than permitted by the WFOE law. As a CJV, a company can have limited liability and legal person status. There are fewer restrictions governing the relations between CJV owners, and profits may be shared according to contractual arrangement rather than on the basis of equity interests. There are no limits on a CJV's duration, and no minimum percentage of foreign capital is required. However, this form of FDI entails two drawbacks: higher tax rates and restrictions on the repatriation of capital. Still, varying local regulations add to costs of doing business (Feinerman, 18).
	The Draft Plan for Restructuring the Foreign Trade System is passed to foster greater market-orientation through functional decentralization. The roles of the Foreign Trade Corporations (FTCs) and the Ministry of Foreign Economic Relations and Trade (MOFERT) are diminished, and more decision power is handed to private firms and SOEs, as well as to provincial and local governments.
	Access to the FEACs is extended to all enterprises having foreign exchange retention quotas. Meanwhile, authorities decontrol the swap market exchange rate, allowing buyer and seller negotiations to determine the rate (IMF 1993, 33-37).
1989	By this time, most local branches of the 12 national Foreign Trade Corporations (FTCs) are operating as independent entities. Thus there are now about 4,000 independent FTCs. As such, they are responsible to local authorities for their financial performance (IMF 1993, 33-37).
1990	(January) Taiwan files a formal request for accession to the GATT.

China objects, contending that it should become a full member before Taiwan (US-China Business Council, 1992).

1990	(April) Amendments to the basic JVL are designed to increase investor confidence. New provisions include broader terms for tax holidays, foreign exchange, and duration as well as no expropriation without appropriate compensation. Also, foreigners are allowed to be chairmen of joint venture boards. Investors still have reason to be skeptical, however, as problems persist regarding hiring flexibility, supplies of inputs, price controls, credit restrictions, and more (Feinerman, 17).
1991	(January) All direct export subsidies to FTCs are removed (IMF 1993, 33-37).
	The Foreign Tax Law is passed to give clear and unified tax treatment to investors (Peck, 12).
	(December) All domestic residents are permitted to sell foreign exchange (e.g., acquired as remittances) at designated bank branches at swap rates (IMF 1993, 33-37).
1992	In January, Deng's "walk in the South" signals approval for functional decentralization and greater contact with the west. At the Fourteenth National Congress in October, the Communist Party formally embraces Deng's push for greater market orientation, calling for China to become a "socialist market economy" (CIA 1993).
	(April) In the effort to reduce market barriers, the "import adjustment tax" on most commodities, a form of tariff, is eliminated (CIA 1993).
	(October) The authorities announce reform plans in the context of negotiations to join the GATT and in bilateral discussions with the United States. These plans include: • The elimination of two-thirds of China's import licensing requirements by the end of 1994, and the liberalization of other non-tariff measures. • The removal of all import restrictions, licensing requirements, quotas, and other controls on a wide range of products by 1997. • The creation of a more transparent trade system (IMF 1993, 34).
	(December) Customs tariffs are reduced by an average of 7.3 percentage points on 3,371 items, representing 53 percent of dutiable items. This is the foremost example of a series of tariff reductions (IMF 1993, 34).
1993	(May) President Clinton ties renewal of China's Most Favored Nation status to "significant overall progress" in China's respect for human

rights. If such progress is not certified by spring 1994, MFN status is threatened to be revoked. Chinese officials voice strong opposition to the US linking human rights and trade issues.

1994 (January) The two-tiered exchange rate system is unified to reflect market forces. The former official rate is abolished and a new, single floating rate is adopted, based on swap centers' exchange rates. Shanghai prepares to open the National Foreign Exchange Trading Center that will electronically link China's major swap markets.

(February) China and the United States launch negotiations for better foreign access to the services market in China.

(March) Authorities announce intentions to phase out quotas on most categories of imports by 1997. Some 53 import categories--mostly capital goods--remain subject to quotas and licenses, but these restrictions will be gradually removed over the next three years.

(April) The interbank currency market begins operations, with the yuan exchange rate closing at 8.69 yuan to the dollar on its first official trading day. However, in an attempt to prevent pressures on the interbank currency market in its early phase, foreign funded enterprises are still restricted to swap center trading.

(June) The Clinton Administration de-links MFN status for Chinese exports and human rights conditions in China. Emphasizing the importance of US-China trade and investment relations, Clinton renews China's MFN status, while criticizing its human rights record.

1995 Export figures for 1994 show an extraordinary rise of 32 percent. Part of the surge is due to the elimination of the dual-exchange rate system, in effect a devaluation. Also contributing to the rise are the inflows of export-oriented foreign investment of 1992 and 1993. Textiles, garments, shoes and toys show the most growth (EIU Report 1995, 2).

New regulations require foreign enterprises to submit an annual Foreign Exchange Examination Report detailing their foreign currency transactions. Foreign investors are able to exchange currency more easily, but they face greater scrutiny each year on the basis of their Foreign Exchange Examination Reports (EIU Business China, 15 May 1995).

The United States takes issue with Chinese violations of intellectual property rights and threatens to retaliate under Special 301 procedures. China agrees to clamp down on piracy and to provide better market access to foreign producers of copyright and trademark products (USTR 1995, 58-59).

Despite "delinkage" of China's political landscape and MFN status, the US Congress raises the possibility of mandated trade penalties over human rights considerations. The annual MFN debate in Washington, therefore, continues to be a concern for China.

China steps up its WTO accession campaign, showing some flexibility on dismantling the trading rights system, export rebates, and other practices. The US and EU, initially far from agreement on China's protocol, close ranks enough to show dissatisfaction with China's offer (IUST, various issues).

(November) The APEC Osaka leaders summit elicits a grade of "B" overall, but China makes a strong impression with a pledge to cut tariffs on over 4000 items, reduce simple tariffs by an average of 30 percent, and take other steps (Bergsten 1996, IUST, 24 November 1995, 9). While these commitments turn out to include a lot of "filler," many are nonetheless substantial. However, value added and luxury taxes reduce the value of the cuts as well.

(December) Both China and Taiwan give notice of their intentions to join the WTO. It is unlikely that either can be considered as founding a member (IUST, 5 January 1996, 18).

(December) Beijing announces that import tax exemptions for many foreign invested enterprises will be revoked. Exceptions are envisioned--for some.

1996 (Late February) The deadline for full implementation of the US-China IPR agreement approaches. Unhappy with Chinese compliance up to this point, US officials promise "decisive action" if goals are not met on schedule (IUST, 5 January 1996).

SPECIAL ECONOMIC ZONES AND FURTHER REGIONAL OPENING

1979-1980 Four special economic zones (SEZs) are established in the two coastal provinces of Guangdong and Fujian. These areas are Shenzhen (near Hong Kong), Zhuhai (near Macao) and Shantou, all in Guangdong, and Xiamen (across from Taiwan) in Fujian. Local authorities in SEZs are permitted to attract foreign investors through preferential policies; they may also undertake their own infrastructure development if they can raise the funds. Within the zones, enterprises can make their own investment, production and marketing decisions. Foreign funded enterprises in the region are accorded preferential tax treatment and are exempted from import licenses and customs duties for selected imports (IMF 1993, 38-45).

1984 (April) Some 14 coastal cities are designated Economic and Technical Development Zones open to foreign trade and investment. Local officials are given the authority to approve construction and industrial projects involving foreign investment up to $5 million; later these limits are raised to $10 million for Dalian and $30 million for Tianjin and Shanghai. Enterprises within the coastal cities enjoy similar tax concessions and import duty exemptions. Within this regime, foreign direct investment grows rapidly (IMF 1993, 38-45).

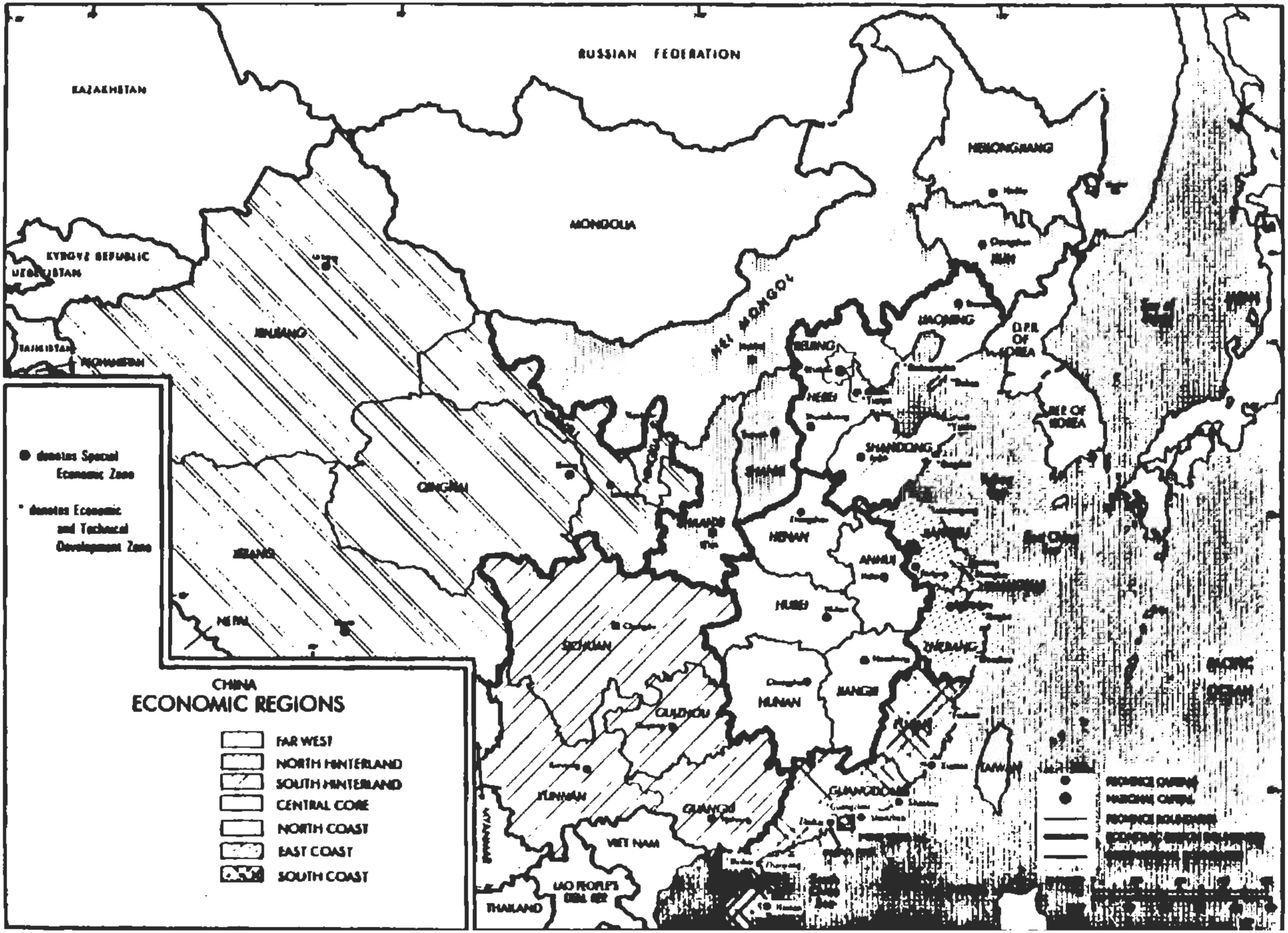
1988 Hainan is designated as China's largest SEZ and accorded the status of a province. Hainan benefits from cheap labor costs, low land prices, and the free movement of capital and merchandise; in some respects, Hainan is afforded greater latitude in preferential policies than other open economic zones (IMF 1993, 38-45).

1990 (April) Pudong New Area of Shanghai is established. Designated an open economic zone, it is to enjoy more flexible policies than those already applied in the original SEZs. The authorities intend for Shanghai to become a major trading, economic, and financial center not only for China, but also for the entire Asian region (IMF 1993, 38-45).

1992 The central authorities target ten major cities for preferential policies and designate six development zones along the Yangtze River valley. The strategy for the Yangtze River cities is to integrate their development with that of Shanghai's Pudong region. The government also grants all provincial capitals and 13 border cities permission to adopt similar policies. Most of the incentives offered in the original SEZs, Hainan, and Pudong are to be extended to the newly opened cities of the inland (IMF 1993, 38-45).

1994 The 1994 tax reforms are designed in large part to capture some of the revenue from the coastal areas and redistribute funds to poorer provinces.

1995 At the November APEC summit in Osaka, China includes among its "downpayments" a pledge to expand "pilot-base" sites for sino-foreign joint ventures to include Shanghai and other unspecified cities.



Map of Special Economic Zones and Open Coastal Cities

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Table 1. Urban Employment: Breakdown by Type of Enterprise (percent of total)

Year	State	Collective	Private	Other
1978	78.3	21.5	0.2	0.0
1982	75.5	23.2	1.3	0.0
1986	70.2	25.7	3.6	0.5
1988	70.0	24.7	4.6	0.7
1992	69.7	23.2	5.4	1.8
1993	68.4	21.2	7.0	3.4

Sources: China Statistical Yearbook 1992, 1994.
Harry Harding. 1987. "China's Second Revolution." Brookings, 129.

Table 2. Government Budgetary and Extra-Budgetary Revenue

Year	Budgetary Revenue (billions yuan)	Extra-Budgetary Revenue (billions yuan)	Extra-Budgetary Revenue as % of Budgetary Revenue
1982	108.4	80.3	74.1
1983	121.1	96.8	79.9
1984	146.7	118.9	81.0
1985	183.7	153.0	83.3
1986	218.5	173.7	79.5
1987	226.2	202.9	89.7
1988	248.9	227.0	91.2
1989	280.4	265.9	94.8
1990	313.4	270.9	86.4
1991	343.1	324.3	94.5
1992	394.4	385.5	97.7

Source: China Statistical Yearbook 1994.

Table 3a. Budgetary Expenditure of Central and Local Governments (as percentage of total expenditure)

Year	Central	Local
1982	49.8	50.2
1983	49.7	50.3
1984	47.8	52.2
1985	45.3	54.7
1986	41.3	58.7
1987	42.1	57.9
1988	39.2	60.8
1989	36.4	63.6
1990	39.8	60.2
1991	39.8	60.2
1992	41.4	58.6
1993	37.0	63.0

Source: China Statistical Yearbook 1994.

Table 3b. Extra-Budgetary Expenditures of Central and Local Governments (as percentage of total expenditure)

Year	Central	Local
1982	30.9	69.1
1983	34.3	65.7
1984	37.7	62.3
1985	40.9	59.1
1986	40.6	59.4
1987	40.3	59.7
1988	39.3	60.7
1989	39.0	61.0
1990	38.3	61.7
1991	40.9	59.1
1992	43.6	56.4

Source: China Statistical Yearbook 1994.

Table 4. China's Exchange Rate by Year (end of year, yuan/US$)

Year	Official Exchange Rate	Average Rate in FEACs*
1986	3.7	n.a.
1987	3.7	5.9
1988	3.7	6.6
1989	4.7	5.4
1990	5.2	5.7
1991	5.4	5.9
1992	5.8	7.3
1993	5.8	8.7
1994	(a)	8.7
1995		8.3

*Foreign Exchange Adjustment Centers (FEACs) are swap centers, established in 1986 to allow approved enterprises to buy and sell foreign exchange at controlled rates.
(a) The official rate is abolished and the FEAC rate becomes the basis of a floating rate.

Sources: IMF, Exchange Rate Arrangements and Exchange Rate Restrictions, Annual Report, various issues; IMF, International Financial Statistics Yearbook 1992, April 1995.

Table 5. Foreign Direct Investment in China (in billions US$)

Year	Contracted FDI	Utilized FDI
1984	2.7	1.3
1985	5.9	1.7
1986	2.8	1.9
1987	3.7	2.3
1988	5.3	3.2
1989	5.6	3.4
1990	6.6	3.5
1991	12.0	4.4
1992	58.1	11.0
1993	111.4	27.5

Notes:"Contracting FDI" is the value of approved FDI plans in that year; "utilized FDI" is the amount actually spent in the year. This includes amounts spent under approvals issued in prior year.

Source: China Statistical Yearbook 1994.

Table 6. GDP Growth and Inflation for China

Year	Percent change in: GDP	Consumer Prices
1979	7.6	2.0
1980	7.8	7.4
1981	4.5	2.5
1982	8.3	2.0
1983	10.4	1.9
1984	14.6	2.7
1985	12.9	11.9
1986	8.5	7.0
1987	11.1	8.8
1988	11.2	20.7
1989	4.3	16.3
1990	3.9	1.4
1991	8.0	5.1
1992	13.2	8.6
1993	13.8	17.0
1994	11.8	21.7
1995	10.2	17.8
1996	9.3	14.6

Notes: GDP at constant prices; 1994-96 figures are PECC estimates.

Sources: IMF, International Financial Statistics Yearbook, 1994. Pacific Economic Cooperation Council (PECC), 1995-96 Pacific Economic Outlook.

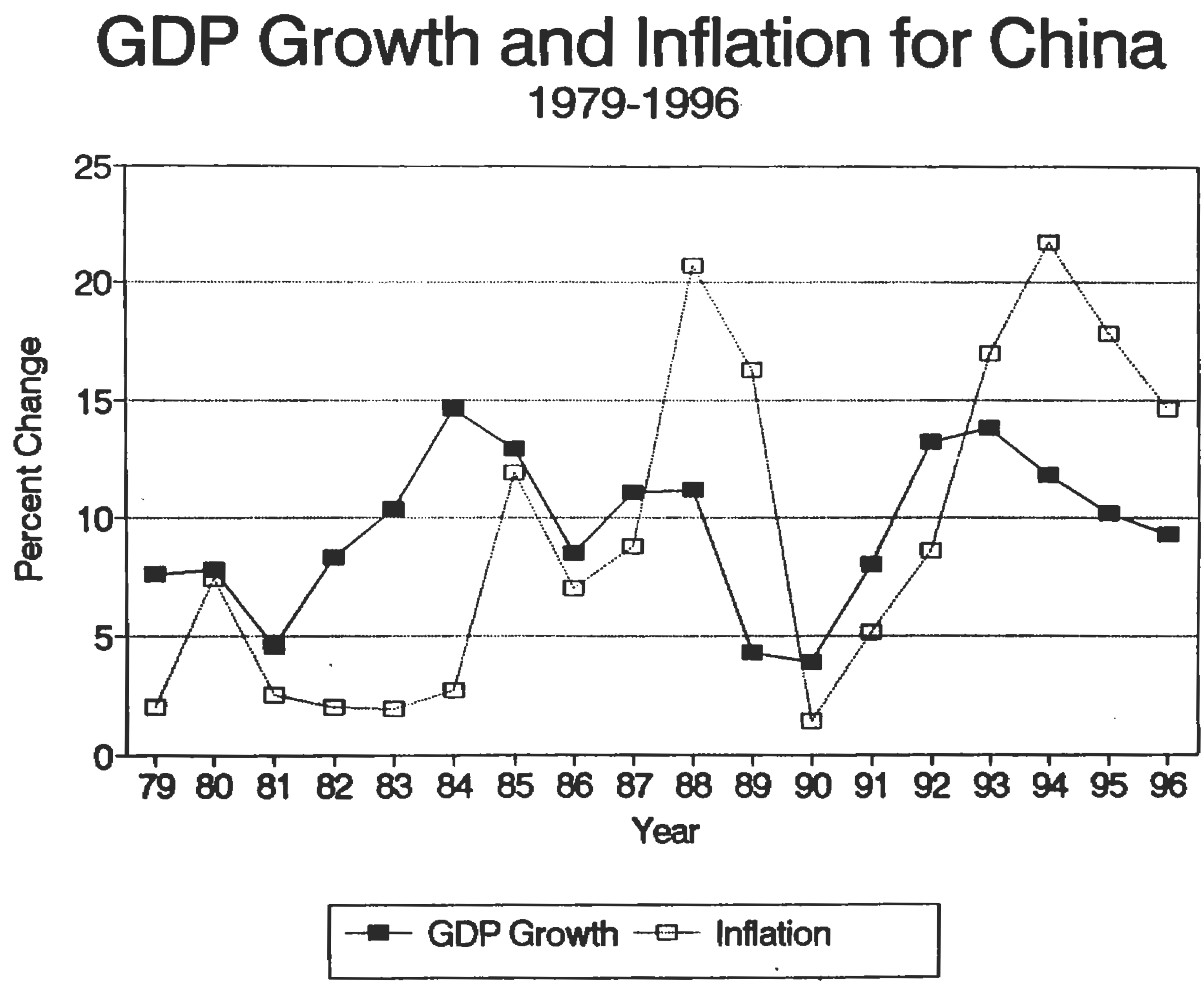
GDP Growth and Inflation for China
1979-1996
25
20
15
10
5
0
Percent Change
79
80
81
82
83
84
85
86
87
88
89
90
91
92
93
94
95
96
Year
GDP Growth
Inflation

Table 7. Population and Gross Domestic Product of China

Year	Population	Purchasing Power Parity Estimates:		Market Exchange Rate Estimates:	
		GDP	Per Capita GDP	GDP	Per Capita GDP
	(millions)	(US$ bill)	(US$)	(US$ bill)	(US$)
1979	969	595	577	271	280
1980	981	733	719	275	280
1981	994	798	793	288	290
1982	1009	847	854	282	280
1983	1023	935	957	287	280
1984	1037	1067	1106	321	310
1985	1051	1262	1326	368	350
1986	1067	1229	1311	405	360
1987	1084	1296	1405	423	390
1988	1102	1410	1553	441	400
1989	1119	1495	1672	436	390
1990	1134	1536	1741	465	410
1991	1150	1659	1907	508	440
1992	1162	1838	2136	546	470

Sources: Population and PPP GDP figures from PENN World Tables (Mark 5.6a).
Market Exchange Rate based figures from World Bank, World Tables 1995.

Note: All GDP figures are in current dollars.

Per-Capita GDP for China
PPP and Market Exchange Rates (1979-92)

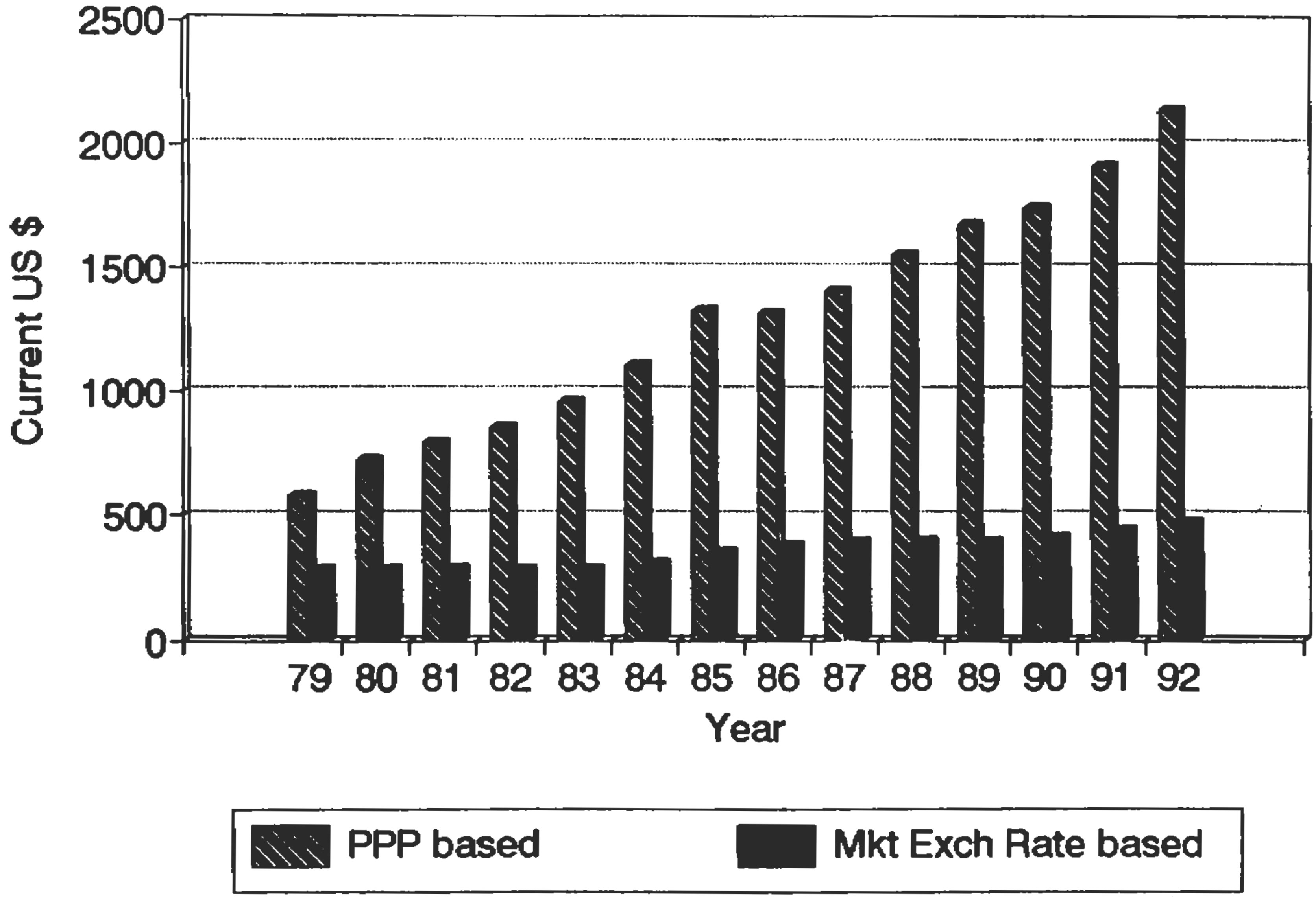

Table 8a. China's Merchandise Trade Balance with Major Trading Partners

Year	Hong Kong	US	Japan	EU	World
	China's Trade Balance (in US$ billions) with*:				
1980	3.8	-2.6	-0.8	0.3	-1.4
1981	4.0	-1.5	0.2	0.5	-0.2
1982	3.9	-0.4	1.8	0.3	2.9
1983	4.1	0.3	0.2	-0.1	0.8
1984	3.8	0.4	-1.3	-0.3	-1.1
1985	2.4	0.4	-6.1	-2.5	-15.2
1986	4.2	2.1	-4.2	-2.3	-11.9
1987	5.3	3.4	-0.9	-0.5	-3.8
1988	6.2	4.2	0.4	0.9	-7.7
1989	9.4	7.1	2.6	2.3	-6.2
1990	12.6	11.5	5.9	5.6	10.1
1991	14.7	14.0	5.6	10.0	8.0
1992	17.0	19.9	5.0	10.8	4.5
1993	11.6	22.4	3.3	8.1	-11.9
1994	22.9	32.1	8.9	10.4	5.2

*Data for China-Taiwan and China-Korea unavailable.

Source: IMF, Direction of Trade Statistics, various issues.

Table 8b. Greater China* Merchandise Trade Balance with Major Trading Partners

Year	US	Japan	EU	World
	Greater China's Trade Balance (in US$ billions) with:			
1982	8.3	-4.1	2.8	3.6
1983	12.0	-6.9	2.9	3.6
1984	17.3	-9.7	2.5	7.0
1985	19.6	-13.5	-0.6	-4.2
1986	24.3	-13.5	1.8	3.8
1987	28.9	-12.5	5.6	15.3
1988	23.6	-14.8	7.5	2.5
1989	25.3	-13.1	8.3	8.8
1990	27.0	-12.0	12.7	21.4
1991	26.7	-17.4	18.6	19.3
1992	31.7	-25.4	16.7	8.9
1993	35.1	-30.0	9.9	-7.7
1994	41.6	-27.8	9.1	1.8

*"Greater China" refers to China, Taiwan, and Hong Kong taken together.

Source: IMF, Direction of Trade Statistics, various issues.