

# EE363 Chinese Economy

Important Reforms





# How did the reforms start?

- Where to have the initial breakthrough?
  - SOE?
  - Price system?
  - FDI?
  - Agriculture?
  - .....

# Initial breakthrough in the countryside

- Procurement target and price
- Agriculture collectives
- Procurement and tax grain after the harvest

# Impact of rural reform

- Higher prices and supply of modern inputs such as chemical fertilizer
- Production climbed rapidly through 1984
- Enough food for entire population
- Freed to allocate labor
- Township and village enterprises (TVE)



# 1<sup>st</sup> phase of reform (before 1993)

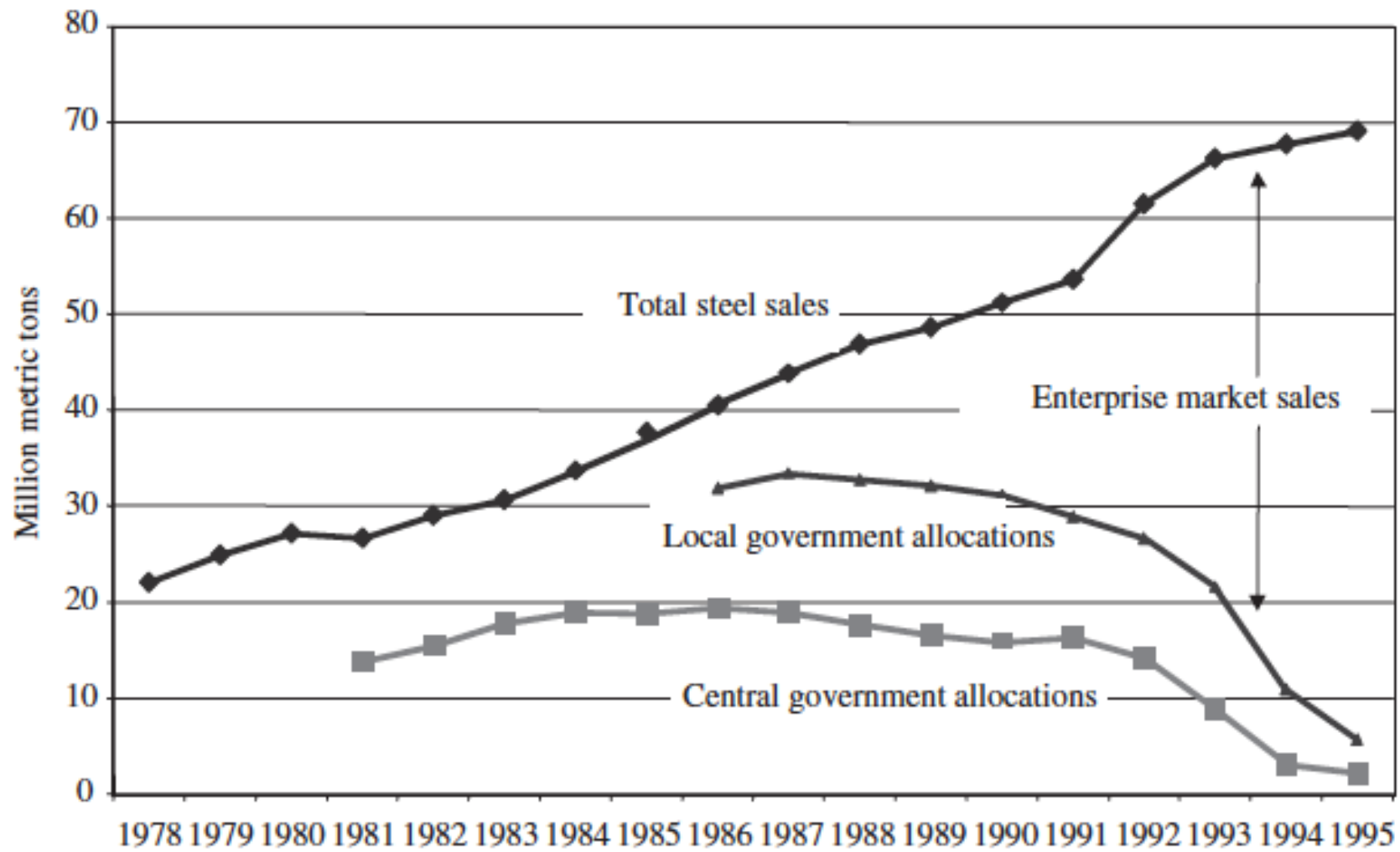
- Gradualist, dual-track, decentralizing reforms developed directly out of the rural successes
- Dismantling of the command economy while maintaining economic growth

# Dual Track System (*Shuangguizhi*)

- Coexistence of a traditional plan and a market channel for the allocation of a given good
- => coexistence of two coordination systems
- => two-tier pricing system for most goods:
  - State-set planned price < market price
- State-owned firms
  - A compulsory plan for some output
  - Additional capacity available for production of above-plan, market goods

# Dual Track System

- Particularistic contracts
  - Individual contracts with every state-owned enterprises
    - Specified tax payments
    - Specified contributions to the material-balance plan
  - => no regular tax system



**Figure 4.1**  
Steel production and planned allocation

# Market Reunification

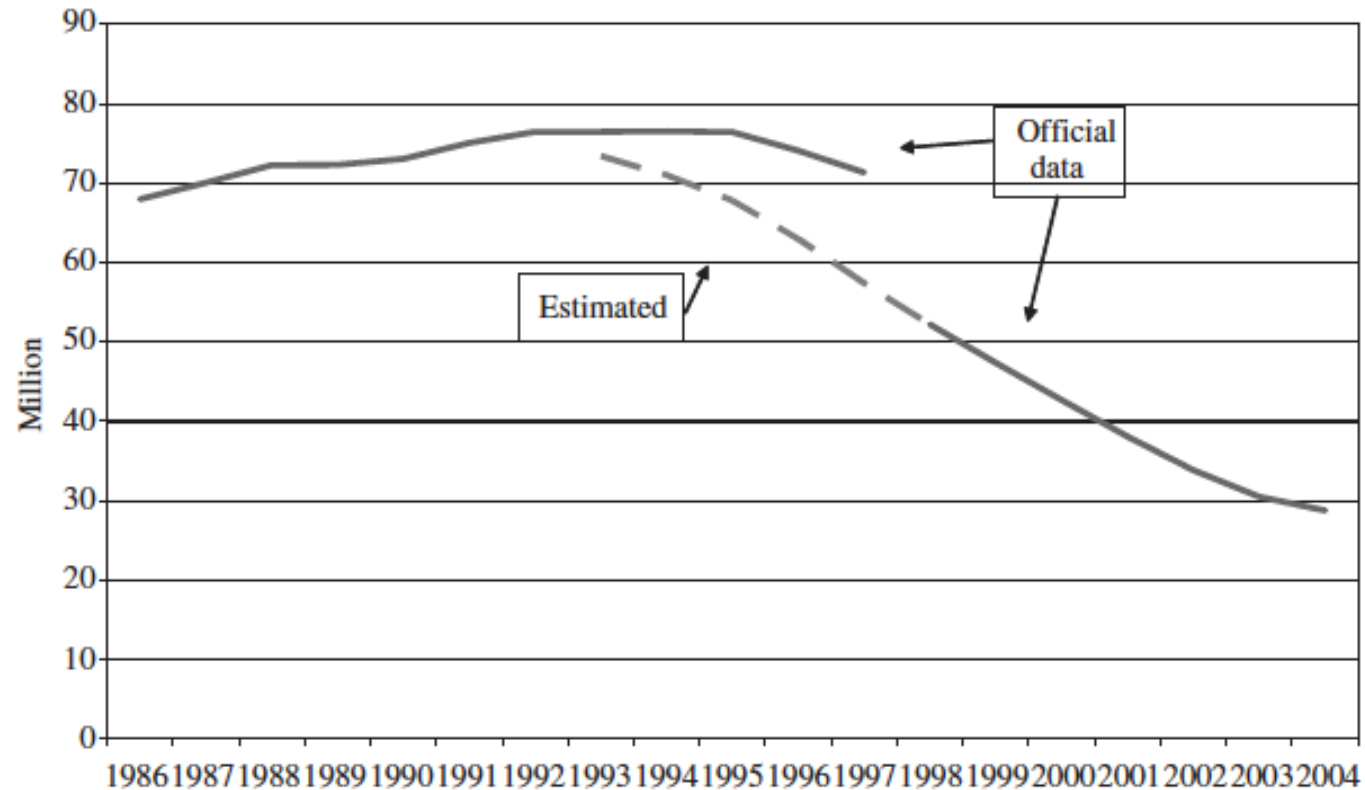
- Material-balance planning abolished altogether
- Orthodox planning system disappeared scarcely noticed
  
- => fiscal and tax reforms

# Other changes

- Banking and financial system
  - People's Bank of China (PBoC) nominally established a central bank in 1983
    - Given a workable organizational structure in late 1998
- Corporate governance
  - Company Law 1993
- Membership in the WTO

# Outcomes

- From inflation to price stability
- State enterprise restructuring and downsizing



**Figure 4.3**  
SOE workers

## 2<sup>nd</sup> phase --- after about 1993

- Remaking of the institutional setup to make it compatible with a market economy
- Dramatic shrinkage of the state sector
- Creation of conditions enabling fair competition among all market participants
- ongoing