



## Achievements of China's Open-Door Policy and the Socialist Market Economy

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I am truly honoured to be invited to today's Convention which provides a forum for Chinese entrepreneurs from all over the world and from various economic sectors to share their experiences in economic development and together explore opportunities for further cooperation. I would like to extend my heartfelt thanks to the organisers, and wish the Convention every success.

The history of the Chinese can be traced back 5,000 years ago - or more than 7,000 years according to recent archaeological findings at Hemudu. It is a rich ancient civilisation, but for reasons known to many, China has relatively little modern history. Nonetheless, the hard working and clever Chinese never forget their historical mission. The founding of New China, especially with the implementation of reform and the open-door policy, and "socialism with Chinese characteristics", have opened the way for modernisation. Today, the Chinese people are striving to deepen reform, further open up the country, and speed up economic growth. China is facing a great opportunity, and at the same time an unprecedented challenge. To make good use of this opportunity is an important task

for the 1.17 billion mainland Chinese and 55 million overseas Chinese. By taking up the challenge, we will be helping to build a prosperous, strong and democratic China which in turn will make fresh contributions to world peace and development.

It has been 15 years, since 1978, that China introduced economic reform and the open-door policy. Under Deng Xiaoping's guiding thought of "socialism with Chinese characteristics", the Chinese people have made a collective, determined effort to bring about changes of historical significance to Chinese soil.

Due to China's unique conditions, reform began in the countryside. The key feature of rural reform was the household contract responsibility system, which has proven to be a great creation of the Chinese. With the government's full support, the rural household contracted production responsibility system successfully linked the peasants' responsibilities with their rights and benefits. Hence, China's 800 million peasant population is free to choose what crops to grow on their land. Strengthening this system was a series of related reform measures that included abolishing the state's centralised



procurement of agricultural and sideline products, except for a few vital items which are procured on a contract basis. After fulfilling the contracts, the peasants may sell any surplus at the free markets or to the state at negotiated prices. Majority of agricultural and sideline products are now pegged at market prices, and so has the trading of such products. The state no longer dictates mandatory plans to the peasants. These policies have brought out the peasants' initiative and lifted agricultural production out of stagnation. The rural economy has now become increasingly specialised, commodity-based and consumer-oriented.

Another noteworthy development is the rapid growth of rural enterprises which have absorbed a large pool of surplus farm labour brought about by rural economic reform. In 1987, the output value of rural enterprises exceeded agricultural output value. Today, rural enterprises make up 70% of the gross social product of China's countryside. By the end of 1992, there were 20.79 million rural enterprises in China, with a combined output value of RMB¥1,758.4 billion, or 32.1% of the country's gross social product, and employing more than 100 million people. In other words, rural enterprises have carved a one-third share of China's economy. In certain more economically developed areas, rural enterprises play a vital role constituting as much as half of the economy. Rural enterprises are an economic alternative to farming. The peasants no longer have to be tied to the soil while dwelling in the countryside. Their development is the basis of the modernisation process in a leading agricultural country such as China.

While rural reforms were being put in place, directions for urban reforms were actively explored. The emphasis has been on rationalising the relationship between the state and enterprise in order to give the latter autonomy in production and day-to-day operations. Various forms of enterprise reforms have been implemented. Today, 93% of all state-owned industrial and commercial enterprises adopt some type of contract

responsibility system. To promote the rational combination of productive forces and speed up horizontal economic integration, enterprise groups have been formed. The "lease, retool and sell" formula has been applied to some medium-to small-sized state-owned enterprises. Other reforms include the separation of government departments from enterprises. The functions of government departments are being decentralised. Government's role has shifted from that of direct administrative control - that is, direct government management in setting targets, making investments, and approving projects in accordance with state plans - to indirect management through economic and legal means. The ownership structure has also been rationalised, with the publicly-owned sector retaining control, supplemented by other forms of ownership such as state-owned, collectively-owned, private, individual, and foreign-funded. Meanwhile, corresponding reforms have also been introduced in various fields, such as fiscal, taxation, pricing, financial, labour and wages. Reform has changed every facet of the people's lives and is continuing to intensify. Reform has become the guiding force behind the socio-economic structure.

Over the past 15 years of reform, the Chinese economy has expanded rapidly and the country as a whole has become much stronger. Gross domestic product increased 2.31 times between 1978 and 1992, averaging 8.9% a year; while national income increased 2.25 times (or an average 8.8% a year) and gross social product 3.38 times (or an average 11.1% a year). As the economy developed, the standard of living improved significantly. Under reform, China has become self-sufficient in grain production, and is therefore able to feed its 1.1 billion people. Real consumption level rose 1.47 times between 1978 and 1992. The per capita living area increased from 8.1 sq m to 18.9 sq m in the countryside, and from 3.6 sq m to 7.1 sq m in urban areas. Other standard of living indicators have also gone up considerably, including health, level of nutrition, and life expectancy.



In the process of implementing reforms across all sectors, encouraging achievements have also been made in the country's opening up to the outside world. The most significant move was the establishment of the Shenzhen, Zhuhai, Shantou and Xiamen SEZs (special economic zones), and of the largest SEZ of Hainan. These SEZs offer more flexible policies to attract foreign investment and introduce advanced foreign technology and management methods. They have achieved fast-paced growth and open economic zones were set up in the Yangtze River Delta, Pearl River Delta, southeastern Fujian province, and the Bohai Bay. A new, multi-tiered pattern of opening emerged, stretching from SEZs to cities and regions along the coast and the border, and to the inlands. At the same time, more sectors have been opened up to foreign investment, including industry, agriculture, technology, finance, trading, tourism and property.

Opening to the outside world has been a major driving force behind China's reform and development. There are at present 140,000 foreign-funded enterprises in China, with contracted foreign investment of US\$170 billion, of which over US\$50 billion has been actually utilised. The utilisation of foreign funds not only speeded up China's industrial modernisation, but it has also provided the material conditions for the growth of foreign trade. China's world ranking in foreign trade went up from 32nd in 1978 to 11th in 1992, and its foreign trade value increased more than seven fold during this period to US\$165.61 billion in 1992.

China's success in reform and opening up has been praised internationally. Former French Ambassador to China, Mr Malicot, has said, "The reform and open-door policy advocated by Deng Xiaoping has brought about tremendous changes to the country. The people's standard of living has rapidly improved, the countryside in particular has been completely transformed. This is a rare achievement in the world." Some Beijing-based Western correspondents have remarked: "China's achievements in reform are

impressive by any standards. "Because of China's rapid economic growth, most overseas media predict the country will join the ranks of world-class superpowers by the turn of the century. Former US President Richard Nixon once wrote: "If China continues with its economic reform, bringing out the people's enterprising spirit and creativity, the country not only will become the most populous, but also the wealthiest and most prosperous in the world in the 21st century."

Chinese from every corner of the world should take pride in China's achievements.

Reform and economic construction over the past 15 years have greatly contributed to the "socialism with Chinese characteristics" concept. Comrade Deng Xiaoping's key speeches during his south China tour in the spring of 1992, and the 14th National Congress of the Chinese Communist Party, have reaffirmed the establishment of a socialist market economic system as the goal of China's reform, marking a new era in the country's economic construction.

First, over the past 15 years, reform has been centred around bringing markets into greater play, resulting in tremendous changes in China's economy and operating mechanisms, and paving the way towards the concept of "socialism with Chinese characteristics".

- An economic system has been formed by the reforms under which the publicly-owned sector plays a dominant role, supported by entities of different ownership structures. The inefficient and monolithic ownership structure under the old economic system has been eroded. Rural enterprises, foreign-funded enterprises, as well as private and individual businesses have grown rapidly. In 1992, state-owned enterprises constituted 48.8% of China's total industrial output value; collectively-owned enterprises 38.2%, and individual, private and foreign-funded enterprises 13.4%. In retail sales, the shares of the three ownership types were: state-owned, 41.3%; collectively-owned, 27.9%; and foreign-funded, individual and private, 30.9%. The rapid expansion of the non-



state and non-publicly-owned sectors have provided new impetus to China's economic growth.

- Through the reforms, a macro-economic regulatory mechanism composed of various economic and legal means is redirecting economic control. The scope of mandatory planning has been reduced significantly, and the proportion of resources allocated under market forces has increased. The share of mandatory planning in the total industrial output value dropped from over 95% in 1979 to 7%. In 1979, 259 kinds of production materials were centrally allocated by the state; today, the number has fallen to just over 10. At the same time, fiscal and monetary policies are playing an increasingly bigger role.

- In the spirit of separating government bureaucracy from enterprise management, and ownership from management, state-owned enterprises are changing their operating mechanisms. A large number of enterprises have begun to experiment with various forms of share-holding in a bid to establish an efficient public sector and a new system for enterprises. More than 3,700 joint stock companies had been established in China by the end of 1992, and 92 of these were listed on the Shenzhen and Shanghai stock exchanges.

- A commodity market system is taking shape under which prices are primarily determined by market forces and market mechanisms are given full play. Today, the prices of the majority of commodities, including consumer goods and production materials, have been freed. The prices of less than 15% of all agricultural and sideline products procured (in value terms) are dictated by the state. As for consumer goods and production materials, the state-imposed prices make up 10% and 30% respectively of the total procured from factories. Furthermore, various important markets are expanding, including securities, foreign exchange; labour, technology and land.

- A new social security and (income) distribution system is being formed under which remuneration is linked to a person's input, and

different types of (income) distribution are allowed to co-exist. Getting rich through honest work is encouraged. Widening the income gap by appropriate margins has successfully mobilised the workers' initiative.

- China's open-door drive is implemented on all fronts, on multiple levels and in various forms. With the acceleration of reform and open policies, foreign trade reforms are being speeded up to conform with international norms and meet the requirements of GATT (the General Agreement on Tariffs and Trade), and to facilitate the expansion of foreign economic and technological co-operation and the competition in the marketplace. One overall objective of the reform is to speed up the convergence of the domestic and overseas markets.

Today, economic activities in the countryside, special economic zones, economic-technological development zones, and certain coastal regions, are basically conducted in accordance with market economic principles, underscoring the vitality under a socialist market economy.

Second, establishing a socialist market economic system is an unprecedented, complicated and long-term social undertaking for China. Naturally, much difficulty will be encountered in the course of introducing a market economy to a socialist, agricultural country that has a large population and is relatively backward economically; and on the basis of a planned economy that has long been dictated by mandatory plans. Since 1992, China's economic growth has accelerated and reform speeded up significantly. However, new conflicts and problems have emerged, for instance, the excessive growth in fixed assets investment, worsening infrastructure "bottlenecks", and lack of financial discipline. To resolve these problems, a series of macro-economic adjustment measures were introduced, and have achieved initial success. Another problem is the residual influence that the old system commands on the economic front, particularly in certain sectors and government departments. The only way to overcome these



hurdles, and ensure continued, rapid and healthy economic growth, is to deepen reform and speed up the establishment of a socialist market economy. Hence, it is of utmost importance that people should further change their attitude, and be pragmatic and bold in implementing reform. We should continue to learn from other countries' experience in setting up market economic systems, borrow whatever that is applicable to us, while making necessary modifications to fit our unique conditions. At the same time, serious efforts must be made to understand our unique conditions and the basic features of a socialist market economy, and we should insist on "Chinese characteristics". In order to bring the domestic market more in line with the international market, reforms will be introduced to set up an refine the following: a modern enterprise system under which property ownership is clearly defined, and the enterprise is a truly independent entity responsible for its own profits and losses; a unified, regulated and competitive market system; a legal framework guaranteeing the rule of law in economic matters; a market economic system featuring macro-economic management and indirect adjustments; as well as a social security system covering unemployment, retirement and medical benefits. None of these can be achieved overnight. The establishment and improvement of a new system called socialist market economy not only requires the government, the enterprise and individual to make adjustments, but it also calls for corresponding reform measures in the political, economic, education, cultural, technology and other sectors. It also needs the

collective wisdom and experience of all Chinese.

All in all, we have achieved great success in reform, open-door and development. To forge ahead on this relatively high base, we are facing a rare opportunity and challenge in history. To set up a socialist market economic system is our goal. It is true that all kinds of problems await us, but if we are determined and strive for it in the traditional spirit of diligence and wit, we will surely win.

Ladies and Gentlemen,

Today's China is politically stable, united, and making social progress. Its economy is expanding, with industrial and agricultural production on the rise, and markets thriving across the country. People are leading relatively happy lives. The newly published "Selected Works of Deng Xiaoping, Vol 3" is a collection of the most inspiring essays on the theories of building socialism with Chinese characteristics by Deng Xiaoping, the architect of China's modernisation campaign, over the past decade. It summarises the theories drawn from experiences of promoting reform, open-door and modernisation over the past decade. It serves as a scientific guide to the establishment of a socialist market economy in China. Armed with Comrade Deng Xiaoping's grand theory of socialism with Chinese characteristics, we are confident about China's development prospects. It is my hope that Chinese from all over the world work closely, aggressively and steadfastly to build an even more successful and brighter future.

Thank you.