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To: Members of the Executive Board

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This paper provides background information to the staff report on the 1983 Article IV consultation discussions with the People's Republic of China, which was circulated as SM/83/213 on October 25, 1983.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Allen (ext. (5)8381) or Mr. De Wulf (ext. (5)7343).

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INTERNATIONAL MONETARY FUND

PEOPLE'S REPUBLIC OF CHINA

Recent Economic Developments

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Fiscal Affairs, and Research Departments

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CHINA

Basic Data

<u>Area:</u>	3,748,800 sq. miles (9,597,000 sq. km.)			
<u>Population (end 1982):</u>	1,015.4 million			
<u>Rate of population increase in 1983:</u>	1.45 per cent			
	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
<u>National income 1/ (in billions of yuan)</u>				
At current prices	335.0	368.8	394.0	424.7
At 1975 prices	316.4	341.0	351.2	...
<u>GDP (in billions of yuan, at current prices)</u>	390.3	429.5	458.7	493.0
<u>GDP per capita (US\$)</u>	260	292	271	259
<u>Annual percentage changes in selected economic indicators</u>				
National income (in real terms)	7.0	6.1	4.8	7.4
Gross industrial output	8.5	8.8	4.1	7.7
Gross agricultural output	8.6	3.9	6.6	11.0
Gross fixed investment	8.7	7.1	-9.2	18.7
Budgetary revenue (GFS)	2.4	4.2	5.6	2.8
Budgetary expenditure (GFS)	19.9	--	-1.2	3.6
Currency in circulation	26.3	29.1	14.5	10.9
Domestic credit	15.1	26.8	13.5	11.9
Retail price index	2.0	6.0	2.4	2.1
Agricultural procurement prices	22.1	7.1	5.9	2.2
Value of imports (balance of payments basis in dollars)	45.4	36.0	-4.5	-15.0
Value of exports (balance of payments basis in dollars)	42.2	35.4	19.1	2.0
Total international reserves (minus gold)	38.3	18.1	98.3	124.6

CHINA

Basic Data (concluded)

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
<u>Ratios to GDP (in per cent)</u>				
Agricultural production	33.8	34.1	36.1	38.4
Industrial production	39.3	39.3	37.2	36.3
Total investment	34.9	32.2	29.2	29.7
Budgetary expenditure (GFS)	37.6	34.1	31.5	30.3
Budgetary revenue (GFS)	32.3	30.6	30.3	28.9
Imports of goods and services (balance of payments basis)	6.5	7.7	7.8	6.8
Exports of goods and services (balance of payments basis)	5.4	6.4	8.2	8.6
Currency in circulation	6.9	8.1	8.7	9.6
Domestic credit	51.1	58.9	62.6	65.0
<u>Balance of payments (US\$ mn.)</u>				
Exports, f.o.b.	13,658	18,492	22,027	22,476
Imports, f.o.b.	-16,212	-22,049	-21,047	-17,830
Trade balance	-2,554	-3,557	980	4,646
Current account balance	-2,227	-3,281	1,347	5,667
Capital account	2,830	3,507	854	1,697
Overall balance (deficit -)	603	372	1,924	6,264
<u>International reserves</u>				
(In months of imports)	2.744	3.116	5.564	11.830
	2.0	1.7	3.2	8.0
<u>Debt service payments</u>				
(Per cent of current account receipts)	2.3	5.8	5.4	6.6
			(8.6) <u>2/</u>	(10.9) <u>2/</u>
<u>Official exchange rate</u>				
(Yuan per U.S. dollar, average during the year)	1.550	1.498	1.705	1.889

1/ Excludes nonmaterial services.

2/ Includes early repayments.

I. Introduction and Summary

Since the late 1970s, China has undertaken reforms of its economic system stressing decentralization and greater material incentives. Strict central control of economic activity has been modified, market forces have been allowed to play a greater role, and the autarkic interpretation of self-reliance has given way to more open external policies. At the same time, China has adjusted its policy orientation from rapid economic growth based on high investment and low consumption rates to more balanced growth with lower investment and higher consumption rates. Emphasis has also been shifted from rapid expansion of heavy industries to agriculture and light industries. The Sixth Five-Year Plan (6FYP 1981-85) incorporates the adjusted policy strategies, setting growth targets at an annual rate of 4 percent for national income, as well as for agricultural and heavy and light industrial output (see Appendix Table I for a summary of reform measures, Chart 1 for selected indicators of the impact of the reforms, and Appendix Table II for selected 6FYP targets).

During 1979 and 1980, the authorities implemented extensive reforms and introduced a new economic strategy, with particular emphasis on improving living standards. However, inflation picked up and the external current account deficit increased, as a large budget deficit emerged and monetary expansion accelerated. This deterioration in the overall economic situation was arrested when in late 1980, a stabilization program was launched. This program was supported in 1981 by the use of Fund resources in the first credit tranche. Inflation as measured by the cost-of-living index slowed from 8 percent in 1980 to 3 percent in 1981, although the growth of national income also declined slightly from 6 percent to 5 percent, largely on account of restrained investment (especially the budget-financed component) as well as reduced heavy industrial growth. The external current account turned from deficit to surplus and international reserves more than doubled.

In 1982 and during the first half of 1983, the period on which this report focuses, the favorable overall economic trends continued. The growth of national income rose to 7 percent, with agricultural output reaching a record level, and inflation further slowed to 2 percent. The growth of import volume remained sluggish, the growth of export volume continued to grow, and the terms of trade improved considerably. Consequently, the external current account surplus widened, and international reserves rose to \$12 billion, equivalent to about eight months' imports.

Despite these favorable trends, economic developments in 1982 deviated from target in some important respects, and underlying economic imbalances became more apparent. First, the growth of investment, as well as of heavy industrial output, again accelerated; the growth of consumption (and real disposable income) remained high, while that of light industrial output slowed. These developments caused substantial shortages of energy and other industrial inputs,

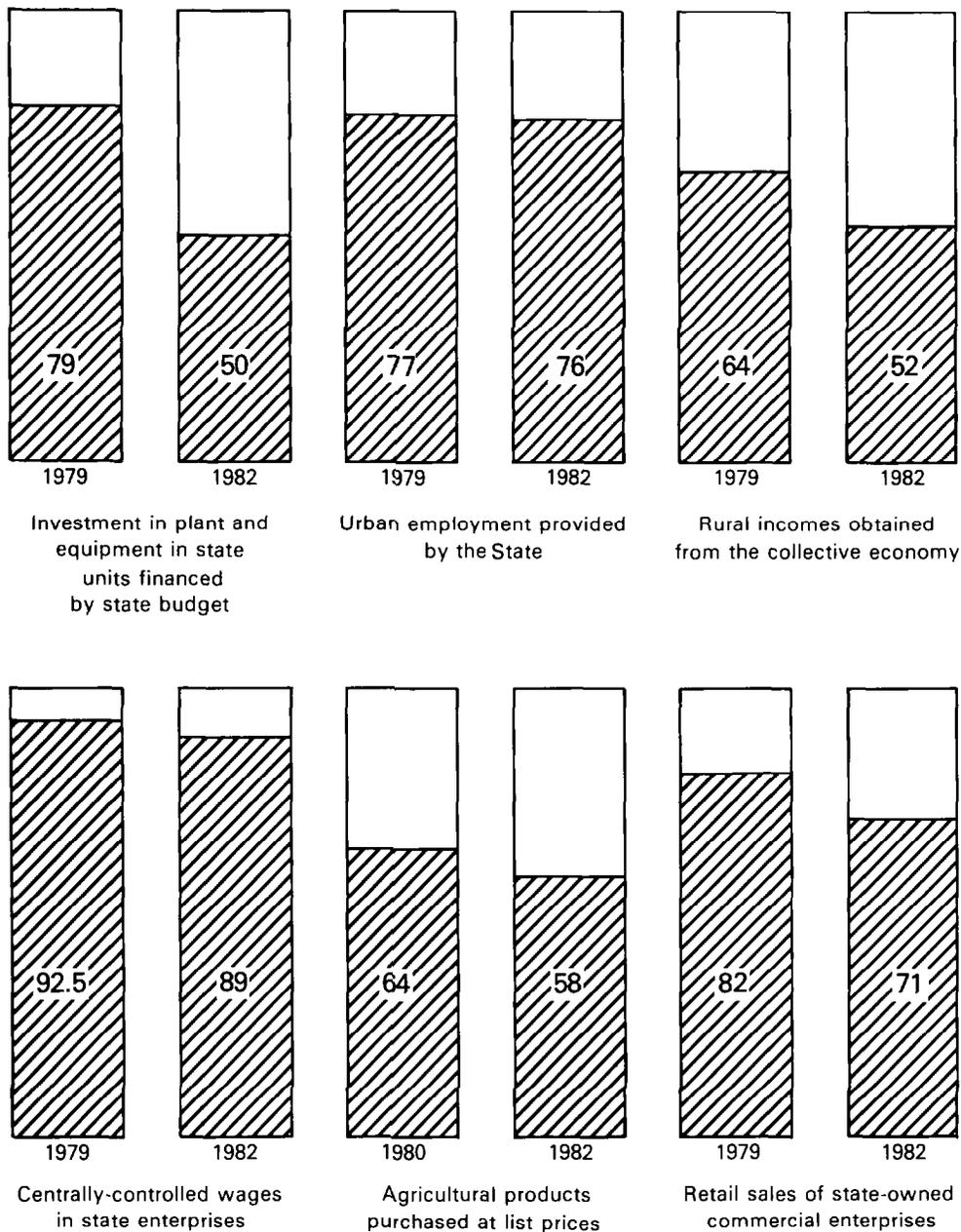
construction materials, and certain manufactured consumer goods. Second, although the shortages were not reflected in a faster increase in the cost-of-living index or imports, they caused delays in the completion of budget-financed key investment projects (particularly in energy, transportation, and communication); the share of these projects in total investment further declined, while that of housing and other projects financed from outside the budget rose. Also, unauthorized transactions and price increases of commodities in short supply apparently increased. Third, the growth of budgetary receipts remained weak, largely on account of low profit remittances by state economic enterprises--a combined result of sluggish productivity growth and the greater profit retention by enterprises allowed under the reforms.

The authorities have responded to these developments with a number of policy adjustments, including some modification of the economic reforms. They now stress stricter control of investment (especially extrabudgetary projects) and to this end have adopted measures to restore some of the controlling functions of the Central Government. In the fiscal and monetary areas, measures have been taken to raise state budget revenue, in order to accelerate budget-financed key investment projects, while keeping the overall budgetary deficit at about 1 percent of GDP as in 1982. The authorities have also adjusted credit policies to support stricter investment controls, and are continuing their efforts to promote individual time and savings deposits mainly through moral suasion; in 1982, these deposits rose by almost 30 percent, which helped limit the growth of currency to about 11 percent, or only slightly faster than the increase in retail sales. On the external side, the authorities are continuing the decentralization measures--the shares of exports and imports handled by trading units outside the jurisdiction of the Ministry of Foreign Economic Relations and Trade have risen further. The official exchange rate (which is pegged to a currency basket) depreciated against the U.S. dollar, narrowing the gap between the official rate and the internal settlement rate (pegged to the U.S. dollar); in nominal effective terms, the official rate changed little during 1982 and the first half of 1983, while the internal settlement rate appreciated considerably during that period.

The following Sections II and III discuss domestic economic and financial developments; Section IV discusses external sector developments. Annex I explains the derivation of the standardized budgetary and monetary data used in this report, as well as the methods used in preparing the balance of payments. Annex II presents a quantitative study of household savings and Annex III a study of the determinants of external trade.

CHART 1
CHINA
ECONOMIC REFORM: SELECTED INDICATORS

(Percent shares in total)



Source: Data provided by the Chinese authorities.



II. Domestic Economic Developments

1. Aggregate incomes and expenditures

a. Overview

The growth of real national income declined steadily during the three years 1979-81, as the authorities concentrated on restructuring the economy. This decline was particularly notable in 1981 when a cut-back in investment expenditures was combined with a decline in the output of heavy industry (Table 1). The growth rate picked up again in 1982, with a 7 percent increase, primarily because of a large increase in agricultural production and a resumption of rapid growth in output of heavy industry, linked to renewed growth in investment expenditures. This trend continued in the first half of 1983, when a further sharp increase in investment expenditures contributed to growth in heavy industry output at an annual rate of over 12 percent, while light industry output grew much more slowly (5 percent). The rapid growth of investment and heavy industry output resulted in increasing shortages of energy and raw materials, and in 1983 the authorities introduced further measures aimed at slowing investment activity and at ensuring adequate supplies of raw materials and financing for key investment projects.

The reorientation of economic strategy underway since 1979 has had a significant impact on the pattern of China's economic growth. The average annual growth in real national income during 1979-82 was 5.6 percent, only slightly below the 6 percent average growth achieved during the entire period 1953-78. The composition of this growth, however, was very different. Gross output in agriculture grew at an annual rate of 7 percent during 1979-82, more than twice as fast as the growth rate achieved in 1953-78, while the growth of industrial output slowed markedly to an average rate of some 7 percent compared with over 11 percent in 1953-78. The sharpest slowdown was in the output of heavy industry, which grew at a rate of only 3.5 percent during 1979-82, compared with over 13 percent for the earlier period. By contrast, the growth of light industrial output accelerated to a rate of almost 12 percent, compared with some 9 percent for the earlier period. As a result of these changes, and because of substantial increases in procurement prices for agricultural products initiated in 1979, the share of agriculture in total output has increased in recent years, accounting

Table 1. China: National Income and GDP, 1979-83

	1979	1980	1981	1982	1983 (First half) ^{1/}
(In billions of yuan)					
National income (net material product) at current prices	335.0	368.8	394.0	424.7	...
GDP(SNA concept) at current prices ^{2/}	390.3	429.5	458.7	493.0	...
(In percent)					
Growth of national income					
At current prices	11.3	10.1	6.8	7.8	...
At constant prices	7.0	6.1	4.8	7.4	7.2
National income deflator	4.0	3.8	1.9	0.4	...
Gross value of industrial output ^{3/}	8.5	8.8	4.1	7.7	8.8
Heavy industry	7.7	1.4	-4.7	9.9	12.2
Light industry	9.6	18.4	14.1	5.7	5.4
Gross value of agricultural output ^{3/}	8.6	3.9	6.6	11.0	7.0
(In yuan)					
Per capita national income	347.3	375.9	396.4	421.2	...
Per capita GDP	404.7	437.7	461.5	489.0	...
Population (mid-year) in millions	964.5	981.2	993.9	1,008.2 ^{4/}	1,022.0
(In U.S. dollars) ^{5/}					
Per capita national income	223.3	250.9	232.5	223.0	...
Per capita GDP	260.3	292.1	270.7	258.9	...
(In percent of available national income) ^{6/}					
Consumption	65.4	68.4	71.5	71.0	...
Accumulation	34.6	31.6	28.5	29.0	...
Fixed assets (net)	(25.0)	(24.2)	(20.1)	(22.6)	(...)
Stockbuilding and work-in-progress ^{7/}	(9.6)	(7.4)	(8.4)	(6.4)	(...)

Sources: State Statistical Bureau; and staff estimates.

^{1/} Provisional actuals and staff estimates at annual rates.

^{2/} Staff estimates. See Appendix Table III for details of estimation methods.

^{3/} In constant prices.

^{4/} Data are from the census of July 1, 1982 and are not entirely compatible with the figures of previous years.

^{5/} Conversion is made at the following yuan per dollar rates for the years 1979 through 1982: 1.5550, 1.4984, 1.7050, and 1.8887.

^{6/} Available national income is obtained by subtracting trade balance and statistical discrepancy from national income.

^{7/} Includes expenditures on equipment not yet installed.

for 38 percent of GDP in 1982, compared with some 31 percent in 1978 (Appendix Table III).^{1/}

b. Investment and saving

The share of investment ("accumulation") in national income and GDP increased in 1982, reversing the declining trend which had been underway since 1979 (Table 1 and Chart 2). Investment grew by over 11 percent in current price terms, compared with a decline of some 5 percent in 1981 (Table 2 and Appendix Table IV).^{2/} The investment recovery in 1982 occurred largely on account of a sharp increase in fixed investment by state enterprises and local entities which are not directly controlled by the Central Government (i.e., "extrabudgetary capital construction" and investments by these units for technical transformation). Fixed investment of the Central Government increased, but relatively moderately. New net additions to stocks and work-in-progress (i.e., "accumulation of circulating assets")^{3/} declined in 1982, as the authorities made efforts to reduce inventories of unsalable goods held by the distribution network through selective price reductions and as the sharp increase in investment led to a rundown of inventories in machinery and building supplies.

The sharp recovery in investment and a larger surplus on merchandise trade were accompanied by a reversal in the declining trend in the savings ratio.^{4/} The growth of consumption in current price terms grew by under 9 percent in 1982, less than two thirds the average rate achieved in the three previous years (Appendix Table IV).

^{1/} Estimates of national accounts in China are made according to the Material Product System (MPS), which differs from the United Nations' System of National Accounts (SNA) (SM/81/43, 2/18/81). The basic difference between the two systems is that the MPS does not include the value of nonmaterial services, depreciation, and rent on housing, other than costs of maintenance. The value of nonmaterial services is estimated at 7 percent of national income in the MPS definition while excluded rent on housing is estimated at 3 percent of GDP. In this paper, the terms national income and accumulation refer to the MPS definition. For details, see IBRD, "Statistical System and Basic Data" in China: Socialist Economic Development (1981).

^{2/} Components of national income are only available at current prices.

^{3/} "Accumulation of circulating assets" includes expenditures on equipment that has not yet been installed and on building materials that have not yet been used.

^{4/} Since the output and expenditure components of China's national accounts are estimated independently, there is a considerable statistical discrepancy which makes it difficult to estimate savings ratios (ratios of national savings to national income). However, given the large increase in the trade surplus, the savings ratio is likely to have risen by more than the investment ratio in 1982.

Table 2. China: Gross Capital Accumulation, 1979-82

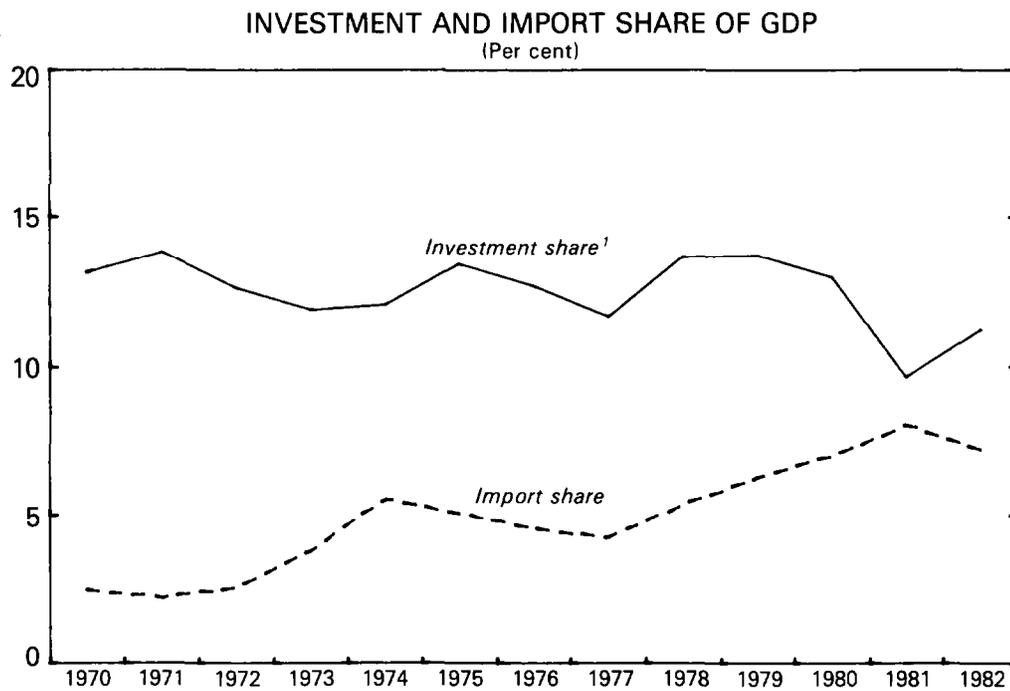
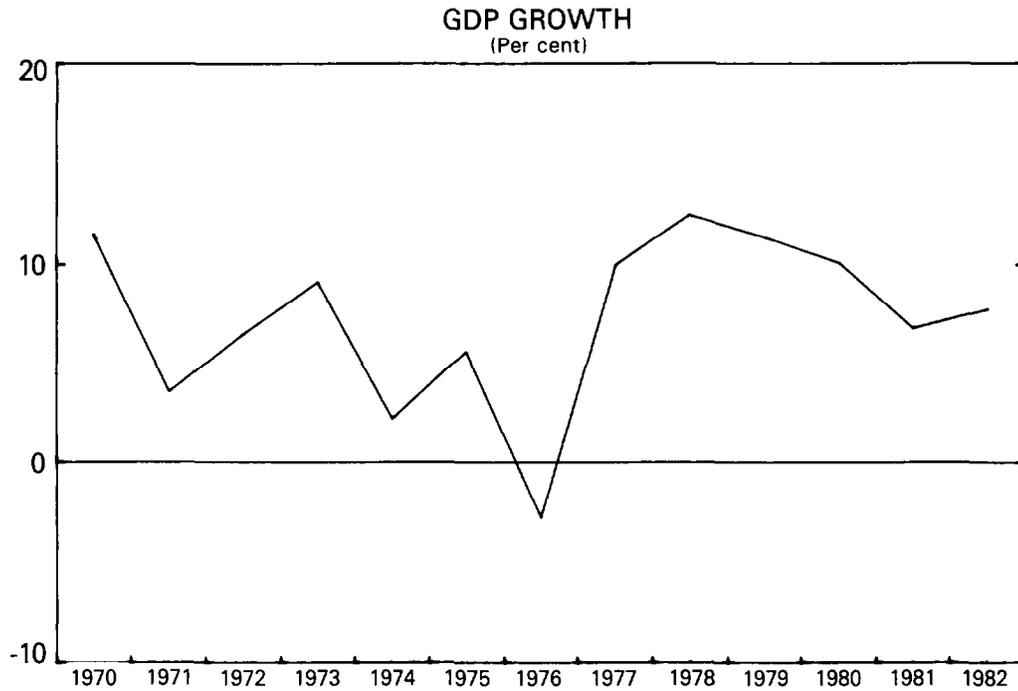
(In billions of yuan)

	1979	1980	1981	1982
Gross fixed capital accumulation	<u>103.9</u>	<u>111.3</u>	<u>101.1</u>	<u>120.0</u>
Investment in plant and equipment by state-owned units	<u>52.3</u>	<u>55.9</u>	<u>44.3</u>	<u>55.5</u>
Budget financed	<u>41.9</u>	<u>34.9</u>	<u>25.2</u>	<u>27.7</u>
Extrabudgetary	10.4	21.0	19.1	27.8
Other fixed capital investment	<u>51.6</u>	<u>55.4</u>	<u>56.8</u>	<u>64.5</u>
Equipment renewal and technical transformation by state-owned units	...	...	22.5	29.0
Collectively-owned units	...	...	...	17.4
Construction by households	...	...	...	18.1
Stockbuilding and work-in-progress ^{1/}	<u>32.3</u>	<u>27.2</u>	<u>32.8</u>	<u>27.1</u>
Total gross accumulation	<u>136.2</u>	<u>138.5</u>	<u>133.9</u>	<u>147.1</u>
Depreciation	20.1	22.0	23.3	23.8
Total net accumulation	<u>116.1</u>	<u>116.5</u>	<u>110.6</u>	<u>123.3</u>
Memorandum items:				
Share of plant and equipment investment by state-owned units in gross fixed capital accumulation (percent)	50.3	50.2	43.8	46.3
Proportion of plant and equipment investment by state-owned units financed through the budget (percent)	80.1	62.4	56.9	49.9

Sources: State Statistical Bureau; and staff estimates.

^{1/} Includes expenditures on equipment not yet installed.

CHART 2
CHINA
GDP, INVESTMENT AND IMPORTS, 1970-82



Source: Chinese authorities and staff estimates.

¹Fixed asset investment in state-owned units ("capital construction").



(1) Investment

The economic reforms that have been implemented since 1979, granting greater decision-making authority and financial autonomy to enterprises and provincial and local governments, have reduced the Central Government's direct control over investment activity. The effect of these reforms on investment was already felt in 1981, when the authorities' efforts to cut back investment had a disproportionate impact on those sectors where central government control was more directly asserted: investment in plant and equipment by state-owned units ("capital construction") financed through the budget fell by some 28 percent, while that financed from various extrabudgetary sources fell by only 9 percent and other fixed investment continued to increase (Table 2).

In 1982, investment in plant and equipment financed through the budget increased by 10 percent, but this increase was much smaller than the increase in total investment in plant and equipment by state-owned units (25 percent) or in total gross fixed investment (19 percent). As a result, the share of budget financed plant and equipment investment in total gross fixed capital formation declined further to 23 percent--this share was over 40 percent in 1979 (Chart 3). Most of the substantial increase in gross fixed investment in 1982 was financed by retained earnings of state-owned enterprises, local and provincial governments' own funds and bank credit, or consisted of investment by collectively-owned units and households. Furthermore, these "extrabudgetary funds" were mainly responsible for the excess over planned investment in plant and equipment by state-owned units (i.e., Y 55.5 billion as against Y 44.5 billion); of the Y 11 billion excess, Y 5.2 billion was financed from enterprises' or local and provincial governments' own funds and Y 3.7 billion from bank credit.

The investment trend was partially reversed in the first half of 1983 when budget-financed plant and equipment investment rose by 26 percent, as the authorities attempted to implement a number of key projects whose development had been slowed by a shortage of construction materials and financing during 1982. This upswing was combined with continued increase in plant and equipment investment financed from extrabudgetary sources, which rose by more than 12 percent over the first half of 1982. As a result, total plant and equipment investment by state-owned units continued to grow strongly, increasing by 17.5 percent over the first half of 1982.

The shift in financial resources toward enterprises and local and provincial governments has also affected the composition of investment expenditures. The share of directly productive investment in total plant and equipment investment declined steadily between 1979 and 1982 (from 73 percent to 55 percent), while the share of investment in

social infrastructure (i.e., "nonproductive purposes") 1/, in particular housing, has steadily increased (Table 3). In addition, most of the directly productive investment financed from extrabudgetary sources in 1982 was concentrated in various processing industries. Consequently, key projects in the energy and transportation sectors were sometimes constrained by shortages of construction materials or financing, and the share of the energy, transport and communications sectors in total plant and equipment investment continued to decline in 1982. However, their share increased sharply in the first half of 1983, as a result of larger budget-financed expenditures on key projects.

The authorities have recently adopted a number of measures to restrain investment expenditures financed from extrabudgetary sources including administrative controls and changes in tax and credit policy. A number of these measures involve a more rigorous application of already-existing regulations. Beginning in 1983 a 10 percent annual levy has been imposed on the extrabudgetary funds, of state-owned enterprises and local and provincial governments, 2/ with the proceeds (estimated at Y 6 billion in 1983) to be used to finance key energy and transportation projects. In addition, a 30 percent surcharge is to be levied on any self-financed plant and equipment investment by local and provincial governments that exceeds plan targets, with the proceeds also to be devoted to the key projects. Following the further rapid increase in investment in the first half of 1983, all levels of government were instructed to re-examine investment projects with a view to halting those projects not approved by the State Planning Commission, or where pre-investment preparation or expected economic returns were inadequate. Special inspection teams are to be established for this purpose, and local authorities and enterprise managers are to be held responsible for any excessive investments. At the same time, credit restrictions were tightened by the People's Bank of China (PBC) and the Capital Construction Bank of China (CCBC). In 1983, the Government also established a separate company to supply construction materials to a number of key state projects, in an attempt to prevent a recurrence of the material shortages that have slowed their implementation.

(2) Savings

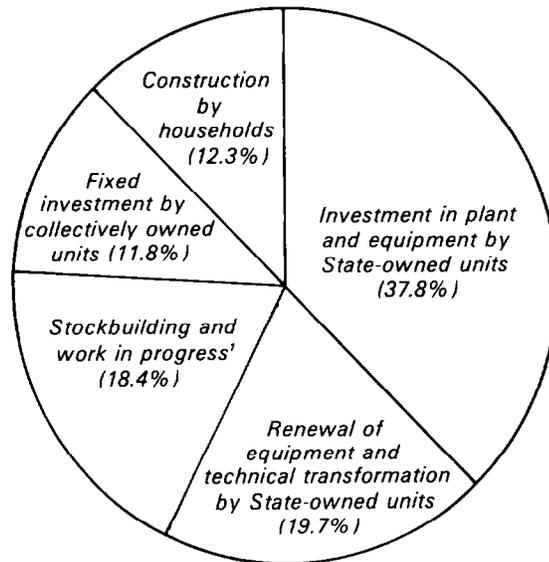
The shift in the sources of savings which has been underway since 1979 continued in 1982. There was a further absolute decline in the level of savings generated through the budget, while savings by households and enterprises, either in the form of financial savings or self-financed investment, seem to have increased. The slow growth of budgetary revenues since 1979, partly due to the financial reforms of

1/ Includes investment in housing, health, public utilities, education, and cultural and administrative facilities.

2/ A detailed description of the various extrabudgetary funds is contained in SM/82/150 (7/27/82), pp. 44-45.

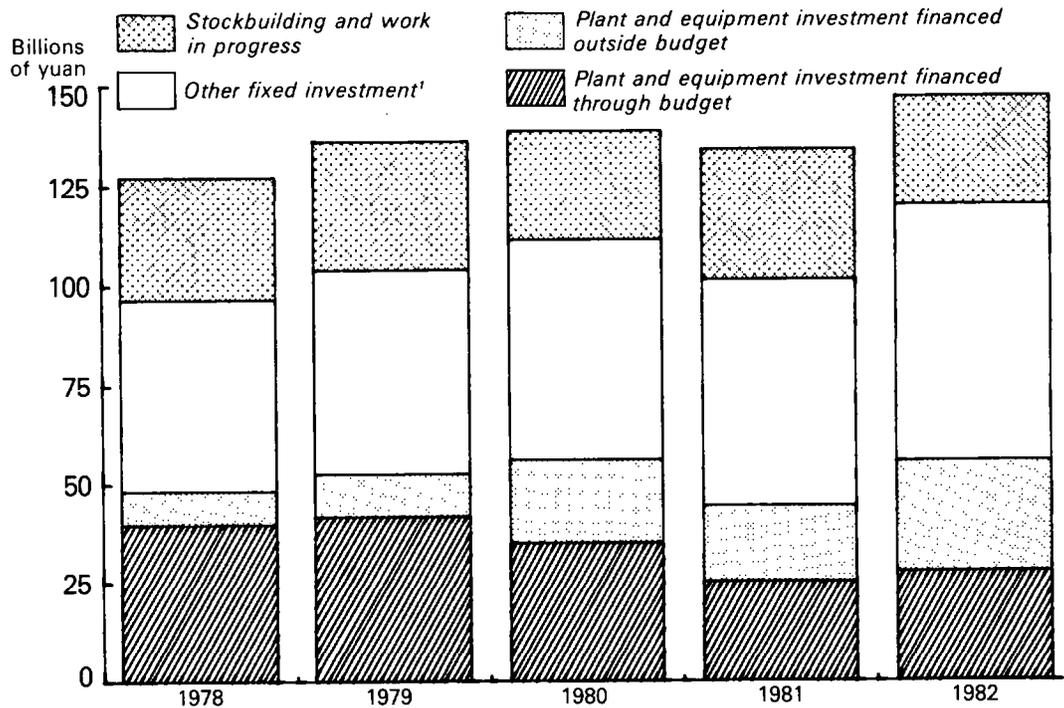
CHART 3
CHINA
GROSS CAPITAL ACCUMULATION AND
ITS COMPONENTS, 1978-82

A. COMPONENTS OF GROSS CAPITAL ACCUMULATION, 1982



¹Including expenditures on uninstalled equipment.

B. TRENDS IN GROSS CAPITAL ACCUMULATION



¹Includes renewal of equipment and technical transformation, fixed investment by collectively-owned units and construction by households.



Table 3. China: Investment in Plant and Equipment
by State-owned Units, 1979-83

(In billions of yuan)

	1979	1980	1981	1982	<u>First Half</u> <u>1983</u>
Total investment in plant and equipment by state-owned units	<u>50.0</u>	<u>55.9</u>	<u>44.3</u>	<u>55.5</u>	<u>19.9</u>
Breakdown by financing:					
State budget <u>1/</u>	39.5	34.9	25.2	27.7	10.2
Extrabudgetary	10.5	21.0	19.1	27.8	7.7
Breakdown by purpose:					
Directly productive	36.5	35.9	25.2	30.3	12.5
Social infrastructure	13.5	20.0	19.1	25.2	7.4
Of which: housing	(7.4)	(11.2)	(11.1)	(14.1)	(...)
Breakdown by sector:					
Industry	25.7	27.6	21.6	26.1	10.2
Heavy industry	22.6	22.5	17.3	21.4	8.9
Of which: energy	(11.0)	(11.5)	(9.1)	(10.1)	(4.6)
Light industry	3.1	5.1	4.3	4.7	1.3
Agriculture	5.8	5.2	2.9	3.4	1.6
Transport and communications	6.4	6.2	4.1	5.7	2.9
Others	12.1	16.9	15.7	20.3	5.2
Memorandum item:					
Share of energy and transport and communications in total plant and equipment investment (percent)	34.8	31.7	29.8	28.5	37.7

Source: State Statistical Bureau.

1/ These data are not comparable to the budgetary data for investment by state-owned units, because of differences in recording method and coverage.

the enterprise sector, together with a sharp increase in subsidy payments on basic consumption goods, contributed to a decline in the current account surplus of the budget from 12 percent of national income in 1979 to some 7 percent in 1982. Household financial savings increased sharply in 1979 and 1980 and more moderately thereafter, rising from the equivalent of about 1 percent of national income prior to 1979 to 3.5 percent in 1982. ^{1/} Although there are no precise data for the years prior to 1982, there are indications that housing construction by individuals has also increased sharply in recent years, particularly in the rural areas. In 1982, such construction, which was mainly self-financed, amounted to Y 18.1 billion (4.3 percent of national income). The increased importance of household savings in recent years has occurred despite strong growth in private consumption (Appendix Table IV) partly because this consumption was supported by high subsidy payments, but primarily because of continued substantial growth in household incomes, both in absolute terms and as a share of national income, particularly in rural areas. Per capita disposable income in rural areas is estimated to have increased by around 60 percent between 1979 and 1982, compared with an increase of some 36 percent in per capita national income in current price terms. ^{2/}

Unlike in most other developing countries, foreign savings have not played a major role in China in financing an excess of domestic expenditures over domestic output. The external balance on goods and non-factor services (resource gap) has in fact shifted from small deficits equivalent to less than 1 percent of GDP in 1979 and 1980, to surpluses equivalent to around 1 and 3 percent of GDP in 1981 and 1982, respectively.

2. Household incomes, wages, and employment

a. Household incomes and wages

In 1982, per capita incomes continued to grow rapidly and income differentials between rural and urban areas narrowed further. Based on a sample survey, real per capita income in the rural areas, where 86 percent of the population resides, rose by 15 percent as against 5 percent in the urban areas (Table 4). At an average Y 535 per capita, urban incomes are still about twice as large as rural incomes, although the faster growth in rural incomes since 1978, has narrowed this gap somewhat. Living standards between these two areas differ more if the subsidies granted to the urban population are taken into account.

^{1/} A more detailed discussion of household savings behavior is given in Annex II.

^{2/} Estimated on a comparable basis. Developments in household incomes are discussed at greater length in the following section.

Table 4. China: Urban and Rural Incomes and Wages, 1979-82

	1979	1980	1981	1982
<u>(In yuan per person)</u>				
Urban				
Average annual wage	668	762	772	798
State enterprises	703	803	812	836
Collective enterprises	542	624	642	671
Income per capita <u>1/</u>			500.4	535.4
Expenditure	...	...	(456.8)	(471.0)
Savings	...	...	(43.6)	(64.4)
Rural				
Income per capita <u>1/</u>	160.2	191.3	223.4	270.1
Expenditure	(134.5)	(162.2)	(190.8)	(220.2)
Savings	(25.7)	(29.1)	(32.6)	(49.9)
<u>(In percent)</u>				
Source of rural income				
Collective economy	63.7	56.6	52.0	51.9
Family sideline production	27.5	32.7	37.8	38.1
Other	8.9	10.7	10.2	10.0

Source: Data supplied by the Chinese authorities.

1/ Sample surveys.

Between 1979 and 1981, average subsidies to urban areas amounted to an annual Y 164 per resident, while no such subsidies for consumption were provided in the rural areas. ^{1/}

Average incomes in the urban areas rose in 1982, reflecting higher wages and increased employment (more family members are now working as shown by a decline in the dependency ratio to 1.73 in 1982 from 1.77 in 1981 and 2.06 in 1978). Average annual wages of staff and workers in the urban areas rose by about 3 percent (to Y 798) in 1982: for staff and workers in state enterprises, average annual wages rose slightly less (to Y 836); for those in collective units, average annual wages rose by about 5 percent (to Y 671), but still remained at about 80 percent of the average wages in state enterprises. In recent years, the wage system has been reformed so as to permit a larger share of the total wage bill to be paid in accordance to work performed (e.g. piece rate wages and bonuses). In 1982 such payments in the state sector rose by 22 percent and amounted to about 20 percent of the total wage bill.

Incomes in the rural areas continue to benefit from the spread of the production responsibility system and the allocation of private plots, which now amount to about 15 percent of the total arable land. Also the rural population has been given greater opportunity to specialize in nonagricultural activities, including livestock breeding, fishing, commerce and construction, and in aspects of farming such as plowing and sowing. In addition, the dependency ratio fell considerably in recent years to 2.17 in 1981 from 2.53 in 1978, although it is still higher than in urban areas. The sources of rural income underwent considerable change, as a result of the structural changes brought about by the introduction of new agricultural policies since 1979. The share of collective income in the total fell from 64 percent in 1979 to 52 percent in 1982, whereas the share of income from family sideline production, such as animal husbandry, private plot activity and some handicrafts, rose from 27 percent in 1979 to 40 percent in 1982.

With the continued increases in incomes, income distribution has improved. Survey data show that in rural areas the proportion of households earnings less than Y 200 dropped from 72 percent in 1978 to 27 percent in 1982 (Appendix Table V). In urban areas, the number of families earning less than Y 300 fell from 7 percent of the total in 1981 to 4 percent in 1982. The differences in average household incomes

^{1/} In 1979-81 subsidies to urban areas totaled Y 62.8 billion, or Y 164 per year per resident. Y 41.6 billion was used to offset price increases in grain, crude oil, nonstaple foodstuffs and related industrial products. Subsidies for rent amounted to Y 3.5 billion, while social welfare funds amounted to Y 17.7 billion, including Y 11.7 billion for medical care for workers of enterprises and institutions and civil servants.

is greatly affected by the family size and the number of income earners per family. For instance, in urban areas, households with average incomes in excess of Y 720 have a dependency ratio of 1.19 against a ratio of 3.44 for households with incomes below Y 240. Interprovincial income differences are much larger in the rural areas than in the urban areas; in the rural areas, incomes are more directly dependent on local productivity, while in the urban areas they are largely determined by a national wage structure.

b. Employment

The urban unemployment rate (the ratio of the number of people waiting for jobs to the total urban labor force) fell from about 5 percent in 1979 to 4 percent in 1981, and further to 3 percent in 1982, while restrictions on rural-urban migration continued (Table 5). Although the rate of creation of new jobs fell, the numbers of people newly seeking jobs fell faster. The smaller increase in new entrants suggests that most of the people who lost their jobs during the Cultural Revolution have been reinstated, and that the young people returning from rural areas to their native cities have been absorbed gradually into the labor force.

In the urban areas, the industrial sector accounts for about 45 percent of total employment, 70 percent of which is in the state-owned enterprises and the remainder in collective enterprises. The commercial sector employs 14 percent of the urban labor force, and the government agencies and people's organizations, 7 percent. Employment in both the state and collective sectors rose by about 3 percent in 1982, considerably less than in 1979-81 when, responding to policy initiatives, employment rose by 12 percent in the state sector and by 25 percent in the collective sector. Despite this slowdown, the collective sector, rather than the state sector, is slated to absorb most future additions to the labor force. To give force to this policy, the State Council recently issued regulations pertaining to the organization and operation of urban collectively owned enterprises. Individual economic activity and small scale privately owned enterprises also provide employment to an increasing share of job seekers. This independent activity grew rapidly in the last few years, and by 1982 it employed 1.5 million people (1.2 percent of the urban labor force). Most of these private enterprises engage in trade and catering, followed by other service activities and handicraft production.

In the rural areas, the employment situation was affected by the introduction of the production responsibility system, which replaced a system of virtually equal pay to all members of each team with a system in which the remuneration is geared to individual work effort, or work performed by smaller work units. As a result, the redundancy of part of the rural labor force became more apparent at the same time that the growth in employment in brigade and commune enterprises began to slow down. A partial solution to this problem was found by granting

Table 5. China: Labor Force, 1978-82

(In millions)

	1978	1979	1980	1981	1982
Labor force (end-year)	<u>403.86</u>	<u>411.49</u>	<u>424.38</u>	<u>437.20</u>	<u>450.85</u>
Urban	<u>100.45</u>	<u>105.67</u>	<u>110.67</u>	<u>114.93</u>	<u>118.07</u>
Public sector	<u>94.99</u>	<u>99.67</u>	<u>104.44</u>	<u>109.40</u>	<u>112.81</u>
In State units	(74.51)	(76.93)	(80.19)	(83.72)	(86.30)
In collective	(20.48)	(22.74)	(24.25)	(25.68)	(26.51)
Individual workers	0.15	0.32	0.81	1.13	1.47
Unemployed (people waiting for jobs)	5.30	5.68	5.42	4.40	3.79
Rural	303.42	305.82	313.71	322.27	332.78
Of which: Employees of brigade- and commune-run enterprises	(28.0)	(29.0)	(30.0)	(29.7)	(...)
Addendum:					
Number of people newly employed	<u>5.44</u>	<u>9.03</u>	<u>9.00</u>	<u>8.20</u>	<u>6.65</u>
In State units	(3.92)	(5.68)	(5.72)	(5.21)	(4.09)
In collective units in cities and towns	(1.52)	(3.18)	(2.78)	(2.67)	(2.22)
In individual businesses	(--)	(0.17)	(0.50)	(0.32)	(0.33)
By sources of people who obtained jobs					
Urban unemployed and educated urban youth in rural areas	...	...	(6.22)	(5.34)	(4.75)
Persons from rural areas	...	...	(1.27)	(0.92)	
Graduates	...	...	(0.80)	(1.08)	(1.90)
Other	...	...	(0.70)	(0.86)	...
Memorandum item:					
Year-end percentage of people waiting for jobs in the total urban labor force	5.3	5.4	4.9	3.9	3.2

Source: State Statistical Bureau.

greater latitude to individuals and households to engage in nonagricultural activity. These activities now provide a living to about 10 percent of all households, while 1.27 million rural families are engaged in industry and commerce, aided considerably by the revival of rural free markets.

3. Prices

a. Types of prices

All prices in China fall in one of three categories: prices fixed by the State; prices fixed by the enterprises with the range set by state stipulations; and free market prices. The prices of commodities and services of primary importance are fixed by the State Price Bureau and by the departments responsible for these products. The prices of the commodities of secondary importance are set by the commodity price offices and responsible departments of the provinces, municipalities, and counties or at least approved by them. Commodities for which the State fixes the price account for more than 80 percent of the total volume of retail sales, but for a much smaller share of the number of commodities transacted. Industrial and commercial enterprises have the right to fix prices of other industrial and agricultural products and charges for services within the framework of state policy. Negotiated and floating prices belong to this category of prices. Negotiated prices are prices agreed upon between producers and state commercial corporations and apply mainly to above-quota agricultural and handicrafts production and products for which there is no procurement target. Floating prices apply to specified industrial products. These can rise 5 to 10 percent above state-fixed prices or fall 15 to 20 percent below them. As they are used mainly to dispose of overstocked commodities, floating prices have tended to be lower than the state-fixed prices. Free market prices apply to commodities sold at rural and urban peasant markets and are set in consultation between sellers and buyers within the framework of state policies. At times, state commercial departments buy or sell commodities in order to regulate free market prices.

b. Price indices

The State Statistical Bureau compiles many detailed indices, including those pertaining to developments in the cost of living, retail prices, prices of services and agricultural procurement, and ex-factory prices of industrial production. All these price indices are based on data gathered and processed at the provincial, municipal, and county level and take the particularities of the different regions into account, both with respect to the products for which the price observations are made and the weights accorded to these various products. With the exception of the retail price index and the urban consumer price indices which are calculated every three months, all price indices are at present calculated on an annual basis. Only annual price indices have so far been published.

c. Price developments in 1982 and 1983

Prices of both consumer and producer goods increased only slightly in 1982 and in early 1983 (Table 6). In 1982, the cost of living in urban areas rose by about 2 percent, while retail prices in the rural areas rose slightly less. Food prices rose by 2.8 percent, but clothing prices fell by 2.1 percent. Consumer price developments were generally uniform throughout the country, reflecting the large share of retail sales that are supplied at state-fixed prices and which change only in accordance with nationwide policies. ^{1/} Free market prices, which had risen by 6-7 percent in 1981 rose less rapidly in 1982; 3.3 percent in urban free markets and 3.9 percent in rural free markets.

Ex-factory prices of industrial products did not change much in the 1978-82 period, reflecting the policy of adhering to fixed prices in that sector. Agricultural procurement prices, which rose by 22 percent in 1979, and again by 6-7 percent in 1980 and 1981, rose by only 2 percent in 1982. However, average procurement costs rose more than these prices, because larger quantities were procured at above quota prices; for example, the average procurement cost of beef, poultry, and fish rose by 29, 12, and 6 percent, respectively.

The basic stability in the various price indices, in part, reflects vigorous price control. However, a number of irregularities in the implementation of the price policy were experienced prompting the authorities to issue "Provisional Regulations Governing Price Control" in August 1982. This circular restates which of the three types of prices apply to which commodities, and outlines the scope of state guidance for the establishment of prices other than those fixed by the State. A May 1983 circular re-emphasized the main theme of price control, while in mid-1983 new sanctions were issued against unauthorized price increases, mainly in the building material industry.

d. Price system and administrative price changes

The price structure in China has changed little since the early 1950s, at which time most ex-factory prices were set by applying specific profit markup and tax rates to an average industry-wide production cost; most other prices were set taking into account the then prevailing free market prices. Adjustments made since then to both agricultural procurement and consumer prices and to the prices of selected industrial inputs did not fully reflect productivity developments in different sectors. These developments, combined with relatively low indirect taxes, enabled efficient producers to make large profit transfers to the budget and helped smaller less efficient enterprises to continue operating (encouraging greater local self-sufficiency).

^{1/} However, in 1981, retail prices rose by 9.3 percent in Guangdong, compared with an increase of only 2.4 percent nationwide. No similar data are yet available for 1982.

Table 6. China: Prices, 1978-82

(Average annual change in percent)

	Cost- of- Living <u>1/</u>	Retail Prices <u>2/</u>	State Commercial Prices	Rural Market Prices	Services	Industrial Products Sold in Rural Areas	State Procurement Prices for Agricultural Products	Terms of Trade of Agriculture vis-a-vis Industry <u>3/</u>	Negotiated Prices for Agricultural Products <u>4/</u>
1978	0.7	0.7	0.2	-6.6	-0.4	--	3.9	3.9	...
1979	2.1	2.0	1.5	-4.5	0.4	0.1	22.1	22.0	...
1980	7.3	6.0	4.4	2.0	0.8	0.8	7.1	6.3	10.6
1981	2.5	2.4	1.3	6.7	0.8	1.0	5.9	4.9	3.5
1982	2.0	1.9	1.3	3.9	1.5	1.6	2.2	0.6	...

Source: State Statistical Bureau.

1/ A weighted average of the retail and service price indices in urban areas. The respective weights are about 90 percent and 10 percent.

2/ A weighted average of the indices for prices of State commerce, rural market prices, and negotiated prices for agricultural products.

3/ Ratio of the index of State procurement prices for agricultural products to the price index for industrial products sold in rural areas.

4/ Introduced in 1979.

Also, these cost-price developments resulted in a price structure which entails widely different profit margins amongst enterprises 1/ and which is not related to international prices.

At times adjustments to the prices of particular goods have been implemented to correct clearly identifiable problems. For instance, the substantial increase of agricultural procurement prices in 1979 was intended both to increase rural incomes and stimulate agricultural production. An adjustment to textile prices was made in early 1983, since it had become necessary to counter excess stocks of synthetic fiber and cloth and shortages of cotton goods, the prices of which had not been changed since the procurement price of cotton was increased in 1979. In fact, the producer price of the cotton incorporated in yarn exceeded the ex-factory price of yarn, requiring large state subsidies (Y 3.66 billion in 1981). As a result of the 1983 adjustments, the average prices of cotton products were increased by 20 percent while synthetic fiber cloth prices were reduced by an average 28 percent. Consumer reaction to these changes was rapid: retail sales of pure cotton cloth fell 9 percent in the first quarter of 1983, compared with a year earlier, while sales of cotton polyester cloth and fabrics made from medium- and long-staple chemical fibers rose 40 percent and 100 percent, respectively. To alleviate the negative impact of these price adjustments on selected consumers, subsidies totaling Y 100 million were granted to China's poorest areas, where most people use only cotton clothing; also prices of a few consumer goods were reduced simultaneously (e.g., wristwatches, 12 percent; rubber-soled cloth shoes, 9 percent).

4. Sectoral output developments

a. Agriculture

Agricultural output has responded favorably to the various reform measures introduced in recent years. Output of industrial crops, the livestock sector, and other agricultural sideline activities grew strongly during the period 1979-81, and grain output remained at levels close to the record achieved in 1979, despite less favorable weather conditions in 1980 and 1981 (Table 7). In 1982, the continued spread of policy measures emphasizing greater incentives to producers and a further shift to greater specialization in production, combined with good weather in most parts of the country, led to a substantial and broad-based increase in agricultural production. Gross agricultural output increased by some 11 percent, as production of grain, livestock

1/ Appendix Table VI gives the ratio of profits and indirect taxes to total capital and to total production cost for state enterprises in a number of sectors. It was not possible to separate the data on taxes from those on profits. In 1981 the average rate of profit to total capital was 15 percent, while the average consolidated commercial and industrial tax was 8.9 percent.

Table 7. China: Agricultural Output, 1979-82

	1979	1980	1981	1982
(In billions of 1980 yuan) 1/				
Gross value of agricultural output	216.4	222.3	236.9	262.9
Farming	143.2	141.5	149.8	165.0
Animal husbandry	32.7	34.0	36.0	40.7
Fishery	3.5	3.9	4.1	4.5
Forestry	8.3	9.4	9.8	10.7
Sideline production	28.7	33.5	37.2	42.0
Of which:				
Brigade and team-run industrial enterprises	(20.8)	(24.8)	(27.8)	(30.4)
(In millions of tons except where specified)				
Grain crops 2/	332.1	320.6	325.0	353.4
Of which:				
Paddy	143.8	139.9	144.0	161.2
Wheat	62.7	55.2	59.6	68.4
Corn	60.0	62.6	59.2	60.3
Soybeans	7.5	7.9	9.3	9.0
Industrial crops				
Cotton	2.2	2.7	3.0	3.6
Oil-bearing crops	6.4	7.7	10.2	11.8
Jute and ambarry hemp	1.1	1.1	1.3	1.1
Sugarcane	21.5	22.8	29.7	36.9
Sugarbeets	3.1	6.3	6.4	6.7
Tea ('000 tons)	277.0	304.0	343.0	397.0
Tobacco	0.8	0.7	1.3	1.8
Output of pork, beef, and mutton	10.6	12.1	12.6	13.5
Aquatic products	4.3	4.5	4.6	5.2

Sources: State Statistical Bureau; and staff estimates.

1/ Figures for 1979 are staff estimates based on data in 1970 constant prices.

2/ Includes the grain equivalent of tubers.

products, and most industrial crops reached record levels. The good agricultural performance continued in the first half of 1983, with preliminary estimates for the summer grain crop at 82 million tons, more than 10 percent above the 1982 level. However, total output for the year may be adversely affected by heavy flooding in southern and central China.

The principal elements of the agricultural policy reforms are a measure of decentralization over production decisions and a greater emphasis on material incentives. The role of lower level planning units in setting local production targets was increased, and production teams were given greater autonomy in their planting decision. The past overemphasis on grain acreage was reversed as areas unsuitable to grain crops were returned to other crops, and multiple cropping practices were reduced in areas where it proved to be uneconomic. The shift to a greater use of local comparative advantage was also encouraged by government guarantees of grain supplies to production teams and regions which increased their specialization in cash crops.

The greater use of material incentives has involved increases in agricultural procurement prices, the implementation of the "production responsibility system" to strengthen the links between work performance and income, and reduced restrictions on private plots and household sideline activities. Following the major increases in procurement prices in 1979, further price increases were adopted for individual crops, including cotton and tobacco in 1980 and 1981. ^{1/} These increases improved agriculture's terms of trade vis-a-vis industry by some 36 percent between 1978 and 1981 (Appendix Table VII). There were no further increases in procurement prices for any of the major crops in 1982 or the first half of 1983, but agriculture's terms of trade continued to improve moderately because of higher prices received for above-quota output, including sales on free markets. The production responsibility system, which now covers around 98 percent of all production teams, involves the assignment of production tasks under contract to smaller groups within the team. By the end of 1982, most teams had begun to use the "full household responsibility" system, under which households agree to raise specific quantities of crops or animal products on a given land area, and to return a proportion of this contracted output to the team as payment. Households are thereby free to allocate their own labor resources and to retain any excess output for their own self-consumption or for sale on rural markets.

Grain production in 1980 and 1981 did not reach the record levels achieved in 1979, but then increased by almost 9 percent in 1982 to a new record level of 353.4 million tons, well above the target of 333.5 million tons (Table 7). Output of wheat and rice showed the largest increases. Total acreage sown to grain declined steadily

^{1/} See SM/82/150 (7/27/82), Table 14, p. 31.

from 1979 to 1982, with a total decline of about 5 percent over the period, as land was switched to the production of industrial crops, and as the incidence of multiple cropping declined (Appendix Table VIII). Except during 1980, when yields were affected by poor weather conditions, the decrease in acreage was partially offset by improved yields, due partly to the policy reforms and a steady increase in agricultural inputs and partly to the removal of land unsuitable for grain production. One additional factor accounting for the good performance in recent years was the rapid adoption of high-yielding hybrid rice varieties, which now account for almost one fifth of the total area sown to rice. To ensure fulfillment of the 1983 grain target of 342.5 million tons, the Government's intention is to stabilize the total area sown to grain at 113.3 million hectares.

Total demand for grain has been rising because of population growth, a rise in per capita incomes, and increased requirements for grain as animal feed for a growing livestock herd. As a result, net imports of grain grew rapidly through 1982, when they were more than double their 1978 levels, despite the large domestic harvest. They accounted for only about 5 percent of total grain consumption in 1982 but for a much more significant share (around one quarter) of off-farm consumption. To increase the proportion of domestic grain available for off-farm consumption, the Government is promoting the development of specialized grain production centers in areas with a strong comparative advantage. These areas will receive priority allocation of inputs such as chemical fertilizer and fuel. The Central Government has also entered into a number of pilot joint investment projects in these grain centers in partnership with the provinces, in return for an increased share of the grain produced.

The output of most industrial crops has increased substantially in each year since 1979, and this trend continued in 1982. The greater flexibility in production decisions at the local level, remunerative procurement prices, and an improved supply of inputs led to further significant increases in both sown area and yields for cotton, oil-bearing, and sugar crops (Appendix Table VIII). The output of oil-bearing crops grew by some 16 percent in 1982, following even larger increases in the previous two years. Most of the increase was due to a sharp rise in the acreage and yields of rapeseed: total acreage sown to that crop is estimated to have increased by some 20 percent during the year. Cotton output increased by almost two thirds between 1979 and 1982, so that cotton imports for the textile industry, which reached a peak of 900 thousand tons in 1980, declined steadily thereafter to only 470 thousand tons in 1982. Production of tea and tobacco also regularly showed large increases since 1979. Jute was the only major cash crop to show no significant increase in production over the period. As part of the Government's aim of stabilizing the acreage devoted to grain, the total cotton cropping area is to be reduced in 1983, compensated by further efforts to improve yields. Similarly, the acreage sown to rapeseed and tobacco is to be controlled.

The gross value of livestock output increased by some 13 percent in constant price terms in 1982, following significant increases in the two previous years. Total meat (mainly pork) production continued to increase rapidly in response to the greater emphasis on the raising of livestock by households on expanded private plots and the 1979 increase in procurement prices. Per capita meat availability was 13.4 kg. in 1982, some 50 percent above the level of 1978.

Recent trends in the use of agricultural inputs reflect the shift towards the organization of production based on smaller-scale units within the production team. The use of small tractors increased more rapidly than that of large and medium tractors since 1979, while the share of total farmland which is machine-plowed fell steadily between 1979 and 1982 (Appendix Table VIII). Application of fertilizer increased sharply in 1982, so that fertilizer use per hectare was some 40 percent higher than in 1979. Total rural employment, including those employed in industrial enterprises owned by communes and brigades, is estimated to have increased by some 3 percent in 1982; overall labor productivity improved markedly, with gross agricultural output per worker increasing by about 8 percent.

State farms, which occupy about 5 percent of the total cultivated area, are mainly engaged in large-scale, machine-intensive farming, mostly in the border areas of the northeast and far northwest. Although they account for only about 5 percent of total agricultural output, including that from state farm industrial enterprises (which have expanded significantly in recent years), they account for a larger share of the marketed surplus, since the share of their grain production sold to the State (some 35 percent) is larger than that of the communes (about 20 percent). Many state farms are being developed as specialized grain production centers. Production gains on state farms in 1982 were similar to those of agriculture in general, and state farm profits increased sharply in 1982, to around Y 700 million, compared with Y 200 million in 1981.

The output of industrial enterprises run by production brigades and teams, included in the statistics on gross agricultural output, ^{1/} was the fastest growing component of this output in recent years; it grew by almost one half between 1979 and 1982, and now accounts for some 12 percent of agricultural production (in 1980 prices). The growth of these enterprises reflects the general trend toward greater specialization of labor in rural areas and has been further stimulated by favorable tax treatment and by a cost-price structure which encourages the transformation of relatively low-priced agricultural products into high-priced industrial goods. The enterprises employed an estimated 16 million workers in 1982, or around 5 percent of the rural labor force, although many shut down during the peak period of agricultural activity.

^{1/} Output of commune-run industrial enterprises is included in gross industrial output.

b. Industry

The gross value of industrial output rose by 7.7 percent during 1982, and by 8.8 percent during the first half of 1983, considerably faster than in 1981 (4.1 percent). This outcome was largely the result of an unplanned sharp rebound, starting early in 1982, of heavy industrial growth from its 4.7 percent drop in 1981, to a growth rate of about 10 percent. Light industrial output rose by 5.7 percent. Heavy industry continued to grow faster than light industry in the first half of 1983, (12.2 percent against 5.4 percent). These developments in industrial production represent a reversal of the trend observable from 1979 through 1981, when light industry grew more rapidly than heavy industry, in response to readjustments in the industrial structure. The output of the light industrial sector amounted to more than half the total industrial output in 1981 for the first time since 1949, but this ratio fell below the 50 percent level in 1982 and in the first half of 1983 (Appendix Table IX).

The large increase in heavy industrial production reflected mainly a sharp and unplanned increase in capital construction and a greater demand for agricultural means of production. Fixed capital investment expenditures in 1982 rose about 20 percent and resulted in sharply increased demand for the products of the machine building, mining and power-generating equipment, and building materials sectors. Heavy industrial production responded to the increased demand by attracting the necessary physical and financial inputs. Despite the rapid growth of heavy industry, serious shortages persisted, mainly of building materials, hampering the implementation of many investment projects. Fixed asset investment along with heavy industrial activity, continued to increase sharply in the first half of 1983.

The output of the machine-building sector, which accounts for 45 percent of total heavy industrial output, rose by 15.2 percent, while the output of the building materials sector rose by 14.1 percent (Appendix Table X). Production of crude steel recovered to its 1980 level, up 4.4 percent from 1981, and was about 3 million tons above target (Table 8). The production of steel products rose somewhat faster, especially steel sheets, pipe and band steel. Energy production rose by 5.5 percent, primarily because of increased coal output. ^{1/} Electricity output rose by 5.9 percent, exceeding the target growth rate of 1.2 percent. Despite the relatively rapid growth in energy output, shortages apparently remain substantial, resulting in an estimated 20 percent underutilization of industrial capacity.

Production of some inputs for agriculture rose rapidly in 1983, largely responding to the further implementation of the production responsibility system, which led to a greater demand for fertilizer

^{1/} Subsection d below deals more comprehensively with the energy sector.

Table 8. China: Output of Major Industrial Commodities, 1980-83

	1980	1981	1982	1983 Plan
Energy				
Coal (mn. tons)	620.0	622.0	666.0	670.0
Crude oil (mn. tons)	106.0	101.2	102.1	100.0
Electricity (bn. kwh)	300.6	309.3	327.7	338.0
Of which hydro:	(58.2)	(65.5)	(74.4)	...
Raw and semi-finished materials				
Steel (mn. tons)	37.1	35.6	37.1	35.5
Pig iron (mn. tons)	38.0	34.2	35.5	...
Rolled steel (mn. tons)	27.2	26.7	29.0	...
Cement (mn. tons)	79.9	82.9	95.2	92.0
Plate glass (mn. standard tons)	27.7	30.6	35.5	...
Chemical fertilizers (mn. tons)	12.3	12.4	12.8	12.6
Chemical pesticides ('000 tons)	537.0	484.0	457.0	...
Machine building				
Mining equipment ('000 tons)	162.5	114.9	158.2	...
Machine tools ('000)	133.6	102.6	99.8	...
Tractors ('000)	97.7	52.8	40.3	...
Motor vehicles ('000)	222.3	175.6	196.3	...
Light industry				
Chemical fibers ('000 tons)	450.3	527.3	517.0	...
Cotton yarn (mn. tons)	2.9	3.1	3.3	...
Cloth (cotton and chemical fiber; bn. meters)	13.5	14.3	15.4	...
Wristwatches (mn.)	22.2	28.7	33.0	...
Radios (mn.)	30.0	40.6	17.2	...
Bicycles (mn.)	13.0	17.5	24.2	...
Sewing machines (mn.)	7.7	10.4	12.9	...

Sources: State Statistical Bureau; and People's Daily, December 20, 1982.

and small farm implements. Production of handheld tractors rose by nearly 50 percent, while the production of large tractors previously bought by communes, brigades and teams fell by 25 percent. Chemical fertilizer production, which had stagnated in 1981, rose by 3.2 percent, while the production of insecticides, which had dropped 11 percent in 1981, fell again in 1982 (5.6 percent).

Although light industry experienced a general slowdown in 1982, the growth performance among the subsectors differed considerably. In the textile sector, which accounts for about one third of total light industrial production, output grew by only 1.3 percent in 1982, compared with 18 percent in 1981. The slowdown reflects in part the restriction imposed on the production of chemical fibers and production cuts in overstocked lower quality cottons, for which there was little demand. Production of some consumer goods that were in great demand increased sharply, albeit from a low base, e.g., household refrigerators (80 percent), household washing machines (98 percent), and cassette recorders (125 percent). Radios, on the other hand, were overstocked and their production was more than halved. Competition from the heavy industry sector for scarce materials such as energy, imported inputs, transportation and financial resources also led to severe shortages in the light industry sector further hampering its growth.

The light industry sector suffers from overstocking of some products and shortages of others, in part the result of a price system that provides small profit margins for some commodities and large profit margins for others, combined with the emphasis enterprises place on the production of high profit items. The many-layered distribution system and the insufficient matching of production to consumer demand also contribute to the excess inventories and shortages, specially in the past few years as rising consumer incomes have led to more discriminating buying patterns.

Total industrial profits amounted to Y 60 billion in 1982 and losses amounted to Y 14.2 billion. The largest shares of total profits were realized in the machine-building sector (19 percent) and in the petroleum, chemicals, and textile sectors (10-15 percent each). Some 20 percent of all state industrial enterprises operated at a loss. About one third of total losses were accounted for by other branches of the machine-building sector, 15 percent in the food industry, and 8 to 10 percent each in the coal, chemical and construction materials industries. Among the factors causing the losses are inefficiency, poor management, operation below capacity and the prevailing price structure.

The industrial growth achieved in 1979-82 appears to have been based not on the more efficient use of inputs, but rather on the application of larger amounts of them. Whereas total industrial output rose by 16 percent between 1979 and 1982, the net value of fixed assets rose by 22.5 percent and industrial employment rose by 12.7 percent. Hence, output per worker rose by 3 percent, while fixed assets per worker rose

faster (8.8 percent). When both capital and labor are taken into account, total factor productivity appears to have stagnated at best, and possibly dropped by as much as 2 percent ^{1/} (Appendix Table X). Efforts to upgrade industrial management were strengthened in 1982, and some positive results were achieved, although many problems still remain. Of the 99 major indices for unit consumption of materials, 43 fell, 26 remained at their 1981 level, and the remaining 30 rose. Unit consumption of most inputs, and particularly of energy, still remains high compared with international standards.

c. Commerce

After growing at an average of 15 percent in 1980-81, the total value of retail sales rose by 9.3 percent in 1982 and at an annual rate of about 10 percent during the first half of 1983 (Table 9). The slowdown since 1982 is largely accounted for by the fact that the very rapid growth (averaging an annual 16 percent) experienced by light industry in 1980-81 also slowed. In every year since 1979, retail sales in rural areas--which include sales of capital goods for agriculture ^{2/}--rose more rapidly than in urban areas (11.3 percent on average against 6.2 percent). This differential reflects the more rapid increase in rural purchasing power and the special effort made by the Government to supply rural areas with necessary consumer and producer goods.

During the last several years, the retail sector has been plagued by the dual problem of growing inventories and shortages. ^{3/} Because of high prices and quality and design problems, inventories of some commodities have accumulated while their production has continued. At the same time, production of popular goods and low-priced commodities has fallen behind demand, leading to frequent shortages.

The distribution costs in the state and cooperative sectors rose slightly in 1982, while the gross profits fell sharply. Unit distribution costs in the state sector rose from 7.8 percent in the previous year to 9 percent, and in the cooperative sector, from 9.9 percent to 10.5 percent. Profits fell by 34.2 percent and 14.2 percent respectively in these sectors.

Reforms were initiated in the distribution sector in 1979, which emphasize the opening of new distribution channels and the increased

^{1/} A similar conclusion was arrived at for the period 1975-79. IBRD, China: Socialist Economic Development, Main Report, p. 88 (Washington, D.C., June 1, 1981).

^{2/} In 1982 these sales accounted for about 23 percent of total rural retail sales.

^{3/} A survey of 228 consumer items conducted in September-October 1982 shows that about 32 per cent of the goods surveyed were in short supply, while excessive inventories existed for 28 percent.

Table 9. China: Retail Sales, 1979-82

	1979	1980	1981	1982
	(In billions of yuan)			
Total retail sales	193.6	230.6	255.0	278.7
To urban residents	81.5	95.0	102.6	109.0
Of which: On urban and rural free markets	(4.7)	(6.9)	(8.7)	(11.1)
To rural residents	112.1	135.6	152.4	169.7
Of which: on free markets	(17.6)	(16.6)	(20.0)	(21.7)
Of which: means of production	(32.4)	(34.6)	(34.7)	(38.8)
Free market sales by type of market				
Total	<u>18.3</u>	<u>23.5</u>	<u>28.7</u>	<u>32.8</u>
Urban	1.2	2.4	3.4	4.1
Rural	17.1	21.1	25.3	28.7
	(Share of total, in percent)			
State-owned outlets	82.2	78.2	73.8	70.7
Collectively-owned outlets	7.8	11.0	13.4	14.8
Individually-owned	0.3	0.6	1.5	2.7
Free markets	9.7	10.2	11.3	11.8

Source: Data provided by the Chinese authorities.

involvement of producers in the distribution process, so as to reduce the discrepancies between supply and demand. As a result, the relative importance of the state-owned commercial enterprises has been reduced and that of the collectively and individually owned enterprises and of the free market enhanced. The share of retail sales transacted by the state enterprises fell from 82 percent in 1979 to 71 percent in 1982, while that of the collectively owned enterprises rose from 8 percent to 15 percent, and of the free markets, from 10 percent to 12 percent. ^{1/} The rapid rise of the collectively owned sector, which in urban areas is owned by young people and urban neighborhood committees, has also provided employment for youths whom the state sector or the collective industrial sector could not absorb. The number of individually run shops, which were nearly nonexistent before 1979, has risen rapidly. In 1982 there were 2.6 million such businesses, up from 1.7 million in 1981, employing 3.2 million people (1.3 million in urban areas or 0.66 percent of the urban population). They often operate on a small scale and cater to local needs such as food service, handicrafts, and repair shops.

Several new regulations have recently been promulgated to give more freedom of operation to the non-state commercial sector and to reform some operational aspects of state commerce. First, the number of agricultural commodities whose purchase and sale are controlled by the state sector have been reduced from 46 to 22 kinds, thereby permitting producers to sell through other commercial channels all other kinds of produce and what remains of the 22 products after delivery of the quota to the State, (except cotton, cigarettes, and liquor). Grain, which traditionally was closely controlled by the State, can now also be sold and traded, even over long distances, by non-state-owned units and individuals, as long as sales come from above-quota production. With respect to industrial commodities, the state sector has reduced the number of commodities it sells at fixed prices to 11 (e.g. cotton yarn, synthetic fiber, kerosene, coal), while for another 23 items (e.g., sugar, cigarettes, matches) it supervises the distribution, but permits more flexible prices.

Second, administrative trade barriers which separated the urban from the rural markets and gave certain department exclusive rights to sell specific commodities within certain regions are being abolished by permitting greater competition among supplying and purchasing departments.

Third, several new features are being introduced in the commercial sector enabling the distribution system to provide better guidance

^{1/} In 1955, the share was about 22 percent, Wang Ping, "The Scope of the Free Market and the Changes in China," Statistical Work, (in Chinese) No. 11 (June 14, 1957), pp. 28-29, quoted by Nai-Ruenn Chen, Chinese Economic Statistics, Aldine Publishing Company, Chicago, 1967, p. 392.

to the production sector: (a) commercial departments are being permitted to buy more products on the basis of prior orders rather than according to administrative assignments, and have been given greater power to reject products that do not meet standards; (b) sales agents and price reductions are to be used more extensively to stimulate the sale of slow-moving items; (c) the producer is to be more directly involved in the distribution process; (d) agricultural supply and marketing cooperatives are being changed from de facto outlets of the state-owned commercial enterprises into real cooperatives, responsible to their membership; and (e) managers are to be given greater accountability in the distribution sector, and bonuses for staff and workers are being introduced.

Fourth, the system of supplying materials and equipment to industry is also being reformed. The cumbersome industrial supply system involving inventories held by bodies at several levels and transport detours is to be replaced by a streamlined supply network centering on about 200 cities. In addition, the number and variety of materials controlled by the State is being reduced, permitting enterprises to sell a larger number of products independently.

d. Energy

(1) Production and investment

The energy sector is important as one of the key supply constraints on China's economic growth, as one of the major users of investment funds, and also as one of the principal sources of foreign exchange earnings. In 1982 the sector accounted for over 12 percent of gross value of industrial output and for around 18 percent of plant and equipment investment by state-owned units. After stagnating during 1980-81, total commercial production ^{1/} of primary energy increased by almost 6 percent in 1982, considerably faster than the target growth rate of 1 percent (Table 10). Most of the increase was due to higher coal production. The more favorable growth continued in the first half of 1983, with total primary energy output more than 5 percent above that of the same period in 1982. Coal again accounted for most of the increase, but all sectors showed positive growth.

Coal is the major source of energy, accounting for 71 percent of commercial energy production in 1982. China has large coal reserves, amounting to some 700 billion tons, and substantial coal deposits occur in all regions, although the largest and highest quality deposits are in the north. After growing rapidly in the 1970s, output was below earlier levels in 1980 and 1981 as a result of an overemphasis on short-term production goals at the expense of longer-term development work.

^{1/} Excluding primary energy produced and consumed by rural households on a very small scale (e.g. firewood).

Table 10. China: Energy Production, Consumption,
and Exports, 1979-83

	1979	1980	1981	1982	1st Half 1983
Production					
Coal (mn. tons)	635.0	620.0	622.0	666.0	336.6
Crude oil (mn. tons)	106.2	106.0	101.2	102.1	52.2
Natural gas (bn. cubic meters)					
Electricity (bn. kwh.)					
Of which:					
Hydroelectricity	(50.1)	(58.2)	(64.4)	(74.4)	(39.7)
Total primary energy <u>1/</u> (mn. tons of coal equivalent)	645.6	637.2	632.2	667.7	349.1
Exports <u>2/</u>					
Coal (mn. tons)	4.6	6.3	6.9	6.6	...
Crude oil (mn. tons)	13.4	13.3	13.3	14.7	...
Oil products (mn. tons)	3.8	5.0	5.3	5.1	...
Total (mn. tons of coal equivalent) <u>1/</u>	29.1	32.0	32.9	34.5	...
Consumption					
Total (mn. tons of coal equivalent) <u>1/</u>	616.5	605.2	598.8	633.2	...
Per capita (tons of coal equivalent) <u>1/</u>	0.64	0.62	0.61	0.63	...

Sources: State Energy Commission; Ministry of Petroleum; and staff estimates.

1/ In terms of tons of standard coal with thermal equivalent of 7 million kilocalories (kcal). Calorific values of Chinese output are assumed as follows: Coal 5,000 kcal/kg.; crude oil 10,200 kcal/kg.; refined oil products 11,400 kcal/kg.; natural gas, 9,310 kcal/m³; and hydroelectric power 2,954 kcal/kwh. Excludes bio-energy and solar and nuclear energy.

2/ Export figures are compiled on a different basis than, and differ slightly from, those of Appendix Table XVII.

Production then grew by 7 percent in 1982 to reach 666 million tons, well above the target of 625 million tons. Small, locally-controlled mines contributed the largest increases in output, following several years of decline, and now account for almost half the total. Future emphasis will be on the upgrading and mechanization of existing mines and the development of small and medium-size mines and several large open-pit mines, all with relatively short construction periods, together with the phased development of larger underground mines. The aim is to increase output to 720 million tons by 1985. Transportation remains a major constraint on increased output, and a number of new and expanded rail links are under construction between the major producing and consuming areas.

Oil and natural gas account for some 24 percent of total commercial production of primary energy. After reaching a peak in 1979, oil production has declined slightly and amounted to 102.1 million tons (2.1 million barrels per day) in 1982. Output in the first half of 1983 showed a slight increase (2.7 percent) over the first half of 1982. The major fields, including the large Daqing Field in the northeast, which accounts for one half of total production, have reached maturity and their output is expected to decline gradually. There have been no major new oilfields opened since 1975 to offset this expected decline, and the present strategy is to sustain annual output at around 100 million tons through 1985 by a combination of improved recovery techniques on existing fields and rapid development of small new discoveries. About one half of natural gas output is produced from associated oil fields and about one half from independent fields. Gas production also reached a peak in 1979 and by 1982 had declined by some 20 percent.

The development of China's offshore oil and gas resources is being assisted by foreign oil companies, which between 1979 and 1982 invested around \$500 million in geophysical exploration and exploratory drilling in several cooperation zones in the South China, Yellow, and Bohai Seas. Exploration rights to five contract areas, covering 50,000 square kilometers in the Tonkin Gulf and Bohai Sea, were awarded between 1980 and 1982, and, at the end of 1982, 24 exploratory wells had been drilled, of which 12 reported high or fairly high gas and oil yields. In August 1982 the China National Offshore Oil Corporation (CNOOC) invited foreign oil companies to bid for tracts covering 150,000 square kilometers in the South China and Yellow Seas. A total of 25 companies in 12 consortia submitted bids and detailed negotiations on exploration and development contracts are now underway. The first contracts were signed in May and August 1983, and exploratory drilling is expected to begin in late 1983. In addition, China is conducting an exploration program in the East China Sea, without the participation of foreign companies. No significant production from any of these prospective offshore structures is expected before at least 1987.

Hydroelectric power output has grown rapidly--by an average of 14 percent per annum between 1979 and 1982 and by almost 19 percent in the first half of 1983--but still accounts for less than 5 percent of total commercial primary energy production. Output is expected to continue to grow rapidly, and the construction of 15 large hydroelectric plants (of 400,000 kw. or more) is included in the sixth Five-Year Plan.

(2) Consumption and exports

China's annual per capita consumption of commercial energy, at about 0.6 tons of coal equivalent, is over three times that of other low-income developing countries. In recent years, however, there has been substantial progress in energy conservation, and since 1979 consumption has grown more slowly than national income or industrial output. ^{1/} The Government estimates that total energy savings amounted to 26.5 million tons of coal equivalent in 1981 and a further 20 million tons in 1982 (4.4 percent and 3.2 percent, respectively, of actual consumption). A major explanation for the lower growth in consumption is the switch away from heavy industry, which is estimated to consume four times as much energy per unit of output as light industry, but there have also been energy savings within sectors. However, the renewed rapid growth of output of heavy industry in 1982 and the first half of 1983 contributed to increased energy shortages, and the availability of adequate energy supplies remains one of the key constraints on industrial growth. During 1983, the Government aims to make further savings of 15 million tons of coal equivalent, primarily through a reduction of 2.5 percent in energy consumption per unit of output in industry.

The policies used to promote energy savings have mainly involved quantitative targets on energy consumption per unit of output, administrative control over the allocation of energy inputs, and the provision of funds for energy-saving investments. Pricing policy has not played a large role in the allocation of energy resources and, although the prices of coal and natural gas to nonhousehold users were raised in 1979 by 29 percent and 25 percent, respectively, the prices of most forms of energy are still well below prices set on world markets. More recently, however, pricing measures have been used to supplement administrative controls over energy use. A special tax of Y 40 to Y 70 per ton was imposed in 1982 on enterprises which consume oil as fuel (on top of a base price for crude oil of around Y 135 per ton). As of January 1, 1983, fuel for industrial boilers (excluding power stations, locomotives, and ships) has been rationed, and any fuel used in excess of the fixed consumption quota must be purchased at a higher price, while any

^{1/} In 1979-82, total primary energy consumption rose by 11 percent a year, against 5.6 percent for real national income and 7.2 percent for the gross value of industrial output.

fuel saved from the quota may be retained for future use. A switch to the individual metering of household and commercial consumption of electricity is also under way in 15 major cities.

About 5 percent of total commercial energy production is exported, mainly in the form of crude oil and refined products. Despite tight energy supplies, total energy exports have increased at an average annual rate of about 6 percent between 1979 and 1982: in the latter year they accounted for some 22 percent of total exports. Many of the oil exports are covered by long-term agreements.

III. State Finances, Money, and Credit

1. State finances

a. Institutional framework

The public sector consists of the local, provincial, and Central Governments, and state enterprises, both financial and nonfinancial. The state budget incorporates the budgets of all levels of Government. The gross financial operations of the state enterprises are, however, not included in the state budget, which shows only the net flow of revenue from those enterprises to the government budget and flows of expenditure (state budgetary outlays for capital construction, provision of new working capital, etc.) from the state budget to the enterprises. Also excluded from the state budget are the extrabudgetary funds of the local and provincial governmental units, administrative agencies, and state enterprises, which accounted for about 45 percent of state revenues in 1982. The budget has been presented according to the format of Government Financial Statistics (GFS). The reconciliation between the national and GFS formats is given in Annex I and also SM/82/50 (7/27/82), Appendix I.

b. Overall budgetary operations

In the late 1970s, the Government attempted to improve living standards by granting wage increases and increasing procurement prices, while maintaining an ambitious investment program. At the same time, economic reforms were initiated which gave a freer hand to enterprises and local governments, allowing them to retain more receipts and giving them more scope for expenditure. This new policy led to burgeoning fiscal deficits as state budget revenues fell by more than expenditure could be contained. From an approximate equilibrium in 1978, a deficit of Y 20.6 billion (5.3 percent of GDP) emerged in 1979 and Y 15.0 billion (3.5 percent of GDP) in 1980 (Table 11 and Chart 4). The deficits were financed almost entirely by the domestic banking system.

Table 11. China: Overall Budgetary Operation, 1979-83 ^{1/}

(In billions of yuan)

	1979	1980	1981	Revised Budget 1982	Outcome 1982	Budget 1983
Total expenditure and net lending	<u>146.9</u>	<u>146.6</u>	<u>144.8</u>	<u>147.6</u>	<u>150.1</u>	<u>160.5</u>
Of which: Capital construction investment	(51.5)	(41.9)	(33.1)	(30.3)	(30.9)	(36.2)
Subsidies	(19.6)	(27.4)	(37.3)	(38.2)	(39.0)	(38.6)
Total revenue	<u>126.3</u>	<u>131.6</u>	<u>139.0</u>	<u>140.0</u>	<u>143.0</u>	<u>152.4</u>
Tax revenue	53.8	57.2	63.0	68.0	70.0	73.0
Nontax revenue	72.5	74.4	76.0	72.0	73.0	79.4
Overall surplus (+) or deficit (-)	<u>-20.6</u>	<u>-15.0</u>	<u>-5.8</u>	<u>-7.6</u>	<u>-7.1</u>	<u>-8.1</u>
Financing	<u>20.6</u>	<u>15.0</u>	<u>5.8</u>	<u>7.6</u>	<u>7.1</u>	<u>8.1</u>
Domestic	<u>17.0</u>	<u>12.8</u>	<u>2.6</u>	<u>7.2</u>	<u>7.3</u>	<u>7.1</u>
People's Bank of China	<u>17.0</u>	<u>12.8</u>	<u>-2.3</u>	<u>3.0</u>	<u>2.9</u>	<u>3.1</u>
Use of deposits	8.0	4.8	-2.3	--	--	--
Loans (net)	9.0	8.0	--	3.0	2.9	3.1
Nonbank ^{2/}	--	--	<u>4.9</u>	<u>4.2</u>	<u>4.4</u>	<u>4.0</u>
Foreign ^{3/}	<u>3.6</u>	<u>2.2</u>	<u>3.2</u>	<u>0.4</u>	<u>-0.2</u>	<u>1.0</u>
Gross foreign borrowing	<u>3.6</u>	<u>4.3</u>	<u>7.3</u>	<u>4.4</u>	<u>4.0</u>	<u>5.4</u>
Amortization	--	2.1	4.1	4.0	4.2	4.4

(As a percentage of GDP)

Expenditure	37.6	34.1	31.6	30.5	30.4	29.9
Revenue	32.3	30.6	30.3	29.0	29.0	28.4
Surplus (+) or deficit (-)	-5.3	-3.5	-1.3	-1.5	-1.4	-1.5
Bank financing	(4.3)	(3.0)	(0.3)	(0.6)	(0.5)	(0.6)

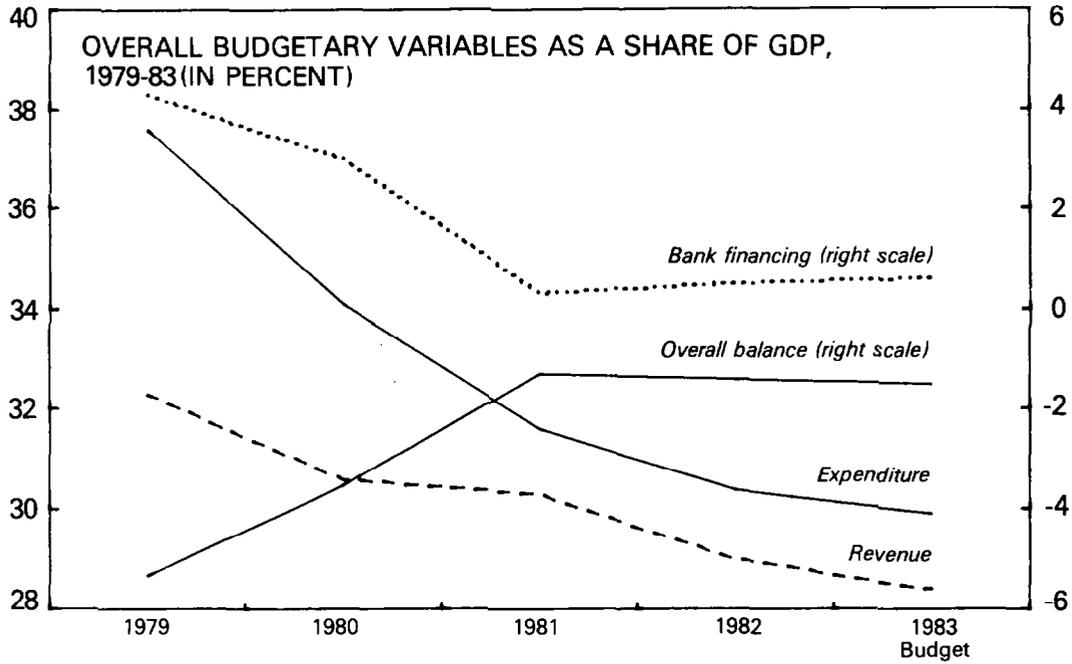
Sources: Ministry of Finance; and staff estimates; see Annex I for a reconciliation of these numbers with those found in the national presentation of the budget.

^{1/} These budgetary statistics represent a consolidation of the budget of the Central Government, provinces, countries, and municipal governments. Intergovernmental transfers are netted out. Omitted are extrabudgetary expenditure and revenue of the provinces and local governments.

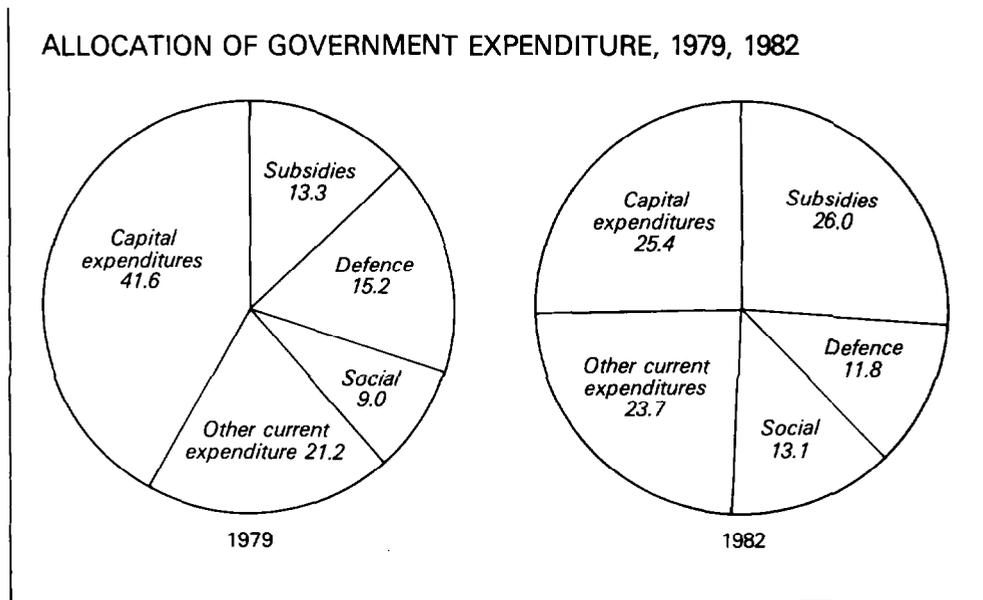
^{2/} Treasury bonds.

^{3/} Gross foreign borrowing and amortization are given by, respectively, lending by and repayments to the Bank of China to or from the Ministry of Finance, denominated in foreign currency. They are thus not necessarily shown in the balance of payments and some could be considered domestic financing.

CHART 4
CHINA
STATE BUDGET, 1979-83



ALLOCATION OF GOVERNMENT EXPENDITURE, 1979, 1982



Sources: Data submitted by the Chinese authorities and staff estimates.

¹Expenditure on culture, education, public health and science.



In order to counteract this trend of growing deficits, investments in plant and equipment in state enterprises (capital construction) were reduced by almost 25 percent in 1981. Thus, although total subsidies rose by about Y 10 billion, compared to 1980, there was a decline of approximately Y 2 billion in total state expenditure. At the same time, total state revenues rose by almost Y 8 billion; tax revenues from consumer goods, the production of which increased sharply in 1981, rose rapidly; improvements in tax administration made possible the collection of overdue taxes. As a result, the overall budget deficit declined to only Y 5.8 billion (1.3 percent of GDP) in 1981.

In 1982, the overall state deficit is estimated to have increased to only Y 7.1 billion (1.4 percent of GDP), slightly less than the Y 7.6 billion projected in the state budget. Although the deficits were roughly the same in 1981 and 1982, the underlying developments were quite different. In 1981 the reduction was brought about primarily through a drastic curtailment in expenditure, while in 1982 the result was achieved despite a Y 5 billion increase in expenditure. Total subsidies, which had increased sharply in 1981, stabilized in 1982, and capital construction declined by about Y 2 billion, thereby allowing some growth in other current expenditures, most items of which had stagnated for several years. Total revenues rose by about Y 4 billion in 1982, with tax revenues rising by approximately Y 7 billion and nontax revenues falling by approximately Y 3 billion, as profit remittances from state enterprises continued the decline that had begun in 1980. Only about one third of the 1982 budget deficit was financed by the domestic banking system, with the remainder being covered by the sale of Treasury bills.

As in the previous two years, the 1983 budget reflects the intention of controlling the deficit. Both expenditures and revenue are expected to rise by about 7 percent. The increase in expenditures reflects an increase of almost Y 6 billion in expenditures on capital construction, while the increase in revenues is largely due to collections of the newly-instituted 10 percent tax on extrabudgetary funds. The resulting deficit of Y 8.1 billion (1.5 percent of GDP) is only slightly higher than in 1982.

c. Revenue developments, 1979-83

Approximately 90 percent of state budgetary revenue is derived from a turnover tax on the sale of goods and services and from gross profits remitted by state enterprises (Table 12). Other revenues, including the agricultural tax, an income tax on collective enterprises, customs duties, and depreciation funds, account for most of the residual. The first two sources of revenue reflect the output and profitability of the industrial and commercial sectors and, hence, are directly affected by any change in input or output prices. Over the period 1979 to 1982, the share of revenue as a percentage of GDP fell from 32.3 percent to 29.0 percent and is projected to decline further

Table 12. China: Composition of Total Revenue, 1979-83

(In per cent)

	1979	1980	1981	Revised Budget 1981	Outcome 1982	Budget 1983
Tax revenue	<u>42.6</u>	<u>43.5</u>	<u>45.3</u>	<u>48.6</u>	<u>49.0</u>	<u>47.9</u>
Tax on income and profits	6.1	5.7	5.5	5.6	5.9	...
Taxes on goods and services	34.4	35.2	36.0	39.5	39.8	...
Taxes on international trade	2.1	2.6	3.8	3.5	3.3	...
Nontax revenue	<u>57.4</u>	<u>56.5</u>	<u>54.7</u>	<u>51.4</u>	<u>51.0</u>	<u>52.1</u>
Gross profit remittances from state enterprises	54.6	53.9	52.3	49.5	48.0	46.6
Depreciation funds	2.0	2.0	1.9	1.6	1.8	1.4
Other	0.8	0.6	0.5	0.3	1.2	4.1
Total revenue	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Appendix Table XI.

in 1983. Gross profit remittances of state enterprises, which remained unchanged between 1979 and 1982, are budgeted to increase slightly in 1983, while tax revenues, which between 1979 and 1982 rose by 30 percent are in line with GDP, are projected to increase slightly in 1983.

(1) Nontax revenues

Gross profit remittances of state enterprises, which account for the major portion of state nontax revenue, fell slightly in 1982 to about their 1979 level. The lack of growth of these revenues resulted largely from the decentralization policy accompanying the economic reforms, which granted greater financial autonomy to enterprises and local governments and permitted them to retain larger shares of their profits. Because of the declining contribution of gross profit remittances, the rapid economic growth experienced in recent years did not lead to an increase in nontax revenue. Aside from the effects of the reforms, which let enterprises and local governments retain a larger share of profits, inefficient production, excess capacity, and shortages of various inputs caused the profitability of most enterprises to stagnate. In addition, price increases for agricultural products, which were mostly unmatched by price increase for outputs, together with wage increases, pushed up production costs.

In 1983, the system of remitting enterprise profits to the Government was replaced by an income tax. The new system, which had already been introduced on an experimental basis in selected enterprises, was officially announced on June 1, 1983 with retroactive nationwide application from January 1, 1983. Enterprises involved in industrial, commercial, transportation, building, insurance, and catering businesses are subject to the new system, as are state enterprises in the fields of culture, education, public health, and urban public utilities. The new system does not apply to enterprises involved in foreign trade, grain trading, or military production. The profit retention scheme will eventually be completely abolished.

In general, all large- and medium-sized state enterprises that realize profits will pay income taxes on their profits at a rate of 55 percent. Part of the after-tax profit of an enterprise will be turned over to the State and part will be retained by the enterprise according to an adjustment factor set by the State. On average, however, the adjustment tax will be such that a typical large enterprise will pay an 80 percent total tax on its profits. Those enterprises whose after-tax profits are lower than the revenue they would have retained under their previous profit retention scheme may request that they be permitted to maintain a share of their profits. Those enterprises for which the income tax plus the adjustment factor provides for higher retained earnings than under the old system are assessed with the extra tax. These adjustments are transitional provisions. Small state enterprises that show a profit are also expected to pay income taxes on their profits, but their rates are calculated according

to an eight level progressive tax rate schedule. 1/ For enterprises with very large after-tax profits, some additional transfer to the budget may be requested by the State.

The authorities hope that once this income tax system is in place and transitional problems are worked out, enterprises will be more confident about the level of their retained profits, which will enable them to take fuller responsibility for their profits and losses. The state budget will also benefit as profit taxes are to be forwarded regularly during the course of the year, thereby avoiding some of the long delays that have been generated by the profit retention system.

Depreciation funds remitted by enterprises to the budget are the other main source of nontax revenue. Approximately 30 percent of these funds goes to the Central Government and 20 percent to the local government. The remainder is retained by the enterprises, although a significant share is collected by the agencies supervising the enterprises in a given sector. Depreciation funds remitted to the budget are intended for the improvement of enterprise productivity.

The 1983 budget introduced a 10 percent levy on extrabudgetary funds which is expected to raise Y 6 billion during the year, of which approximately Y 1 billion was collected by July 1983. The new surcharge is designed to divert extrabudgetary revenue to the state budget, in order to provide the necessary financing for key investment projects in the transport, communications, and energy sectors.

(2) Tax revenues

Tax revenues rose by somewhat less than 10 percent per year between 1979 and 1982, and are estimated to continue to increase in 1983, although at a slower pace. These increases are due almost entirely to the consolidated industrial and commercial tax, a turn-over tax levied at varying rates at the enterprise or distribution levels 2/, and which contributes about 40 percent of total tax revenue. Customs duties, about 3 percent of total tax revenues, have increased only moderately, while tax revenues from other sources, namely, the individual income tax, the salt tax, and the agricultural and transport tax, have remained approximately constant.

Tax revenues in 1981 rose by 5.3 percent and, at Y 63 billion, were 8.5 percent over the budget target, mainly because of the increase in revenue from the tax levied on consumer goods. In 1982, improvements in tax collection and additional increases in production resulted in

1/ Income less than Y 300 is taxed at 7 percent; income in excess of Y 301 but less than Y 600, is taxed at 10 percent. Taxes for the third and higher brackets are calculated in similar ways. Incomes higher than Y 80,000 fall into the eighth, or highest bracket and are taxed at 55 percent.

2/ See Tax Summary, SM/81/43 (12/18/81), Appendix IV.

a further increase of 11 percent. Income taxes on collective enterprises rose sharply, but still account for only a small share of total tax revenues. Receipts from the agricultural tax, which represents only 3 percent of the value of agricultural production, stagnated as the tax base has been held constant since 1979. For 1983, a small increase in tax revenues is anticipated (4 percent), because of continued growth in production and a further strengthening of financial and tax administration.

The tax regime pertaining to joint ventures was recently changed; tax cuts were granted, and machinery and other material inputs to be incorporated in exports will be exempted from paying either the import duties or the industrial and commercial tax. In addition, exemptions or reductions of the industrial and commercial taxes will be granted to joint ventures that suffer a loss from manufacturing export products. As discussed on page 74 below the income tax holiday for joint ventures is being extended. For foreign partners reinvesting their profits in China, a rebate of 40 percent on the taxes paid will be allowed.

Two other important new taxes have recently been introduced. A value-added tax, which had been applied experimentally in previous years, was formally introduced on January 1, 1983. Initially, the tax applies to the machine-building and agricultural machinery industries and selected products of the light industrial sector, such as sewing machines, bicycles, and electric fans; its coverage will gradually be expanded. A tax on the use of crude oil, designed to stimulate enterprises to burn coal rather than oil, was introduced in July 1982 and will continue. The tax is levied at Y 40 to Y 70 on each ton of crude or heavy oil that is burned.^{1/}

d. Expenditure developments, 1979-83

Policies implemented during the past four years, aimed at improving living conditions for both farmers and workers and at reducing investment outlays, have resulted in a major shift in the expenditure structure, while the total level of expenditure has remained unchanged. Subsidies for living necessities and agricultural inputs more than doubled between 1979 and 1982, while the value of budgetary capital construction fell by approximately 41 percent (Table 13). Aside from the subsidies, allocation for only two other expenditure categories (culture and education, and administration), were increased.

Current expenditures in 1982 rose by 6.5 percent, accounting for 75 percent of total expenditure against 72 percent in 1981 and 58 percent in 1979. As expenditures for economic services fell slightly, the increase was due solely to increased outlays for administration, defense, and social expenditure.

^{1/} About 40 percent of China's output of crude oil is burned as fuel.

Table 13. China: State Budget Expenditure and Net Lending, 1979-83

(In billions of yuan)

	1979	1980	1981	Revised Budget 1982	Outcome 1982	Budget 1983
Total expenditure and net lending	<u>146.9</u>	<u>146.6</u>	<u>144.8</u>	<u>147.6</u>	<u>150.1</u>	<u>160.5</u>
Current expenditure	<u>86.2</u>	<u>96.9</u>	<u>105.0</u>	<u>111.6</u>	<u>111.9</u>	<u>118.3</u>
Administration	5.7	6.7	7.1	8.0	8.2	8.5
Defense	22.3	19.4	16.8	17.9	17.7	17.9
Culture, education, public health, science and broad- casting	13.2	15.6	17.1	19.0	19.7	20.4
Economic services	<u>18.7</u>	<u>17.2</u>	<u>14.9</u>	<u>14.7</u>	<u>15.8</u>	<u>16.5</u>
Geological survey	(2.2)	(2.3)	(2.2)	(2.3)	(2.3)	(2.4)
Agriculture	(6.4)	(6.2)	(5.6)	(5.8)	(6.1)	(5.9)
Operational expenditure for industry						
Communications and commerce	(2.1)	(2.3)	(2.4)	(2.2)	(2.4)	(2.4)
Development of new products	(2.8)	(2.7)	(2.4)	(2.1)	(2.6)	(3.5)
Working capital for state enterprises	(5.2)	(3.7)	(2.3)	(2.3)	(2.4)	(2.3)
Subsidies on:	<u>19.6</u>	<u>27.4</u>	<u>37.3</u>	<u>38.2</u>	<u>39.0</u>	<u>38.6</u> ^{1/}
Daily living necessities and imported agricultural inputs	(13.9)	(22.0)	(29.4)	(30.8)	(29.9)	(30.0)
Domestically produced agricultural inputs	(2.1)	(2.0)	(2.1)	(2.2)	(2.1)	(2.2)
Operation of internal settle- ment account	(--)	(--)	(1.6)	(1.6)	(2.8) ^{1/}	(2.4)
Operating losses of state- owned enterprises	(3.6)	(3.4)	(4.2)	(3.6)	(4.2)	(4.0)
Other	<u>6.7</u>	<u>10.6</u>	<u>11.8</u>	<u>13.8</u>	<u>11.5</u>	<u>16.4</u>
Capital expenditure	<u>60.7</u>	<u>49.7</u>	<u>39.8</u>	<u>36.0</u>	<u>38.2</u>	<u>42.2</u>
Capital construction	51.5	41.9	33.1	30.3	30.9	36.2
Agriculture	2.6	2.0	1.8	1.9	1.9	1.9
Development of the productive capacity of existing enter- prises	4.4	5.3	4.2	3.3	4.3	3.1
Foreign aid	0.9	0.5	0.7	0.5	1.1	1.0
Other	1.3	--	--	--	--	--

Source: Ministry of Finance.

^{1/} Staff estimates.

Capital expenditures fell slightly below their 1981 level, mainly owing to a 7 percent fall in investment in plant and equipment in state enterprises. Shortages in building materials caused delayed implementation and sharp cost increases in most projects. Among projects that were completed, the most important were the first-stage construction of a steel mill in Shanghai, the installation of part of a hydroelectric power station in Hubei Province, and the construction of a coal-washing plant in Jiangsu Province.

In 1983, total expenditures are budgeted to rise by Y 10.4 billion over 1982, with most of the increase going for capital expenditure, primarily for investment in energy, transport, and other key fields. Funds for the development of productive capacity of existing enterprises are to decline by Y 1.2 billion. Among the major categories of current expenditures, operating expenditures for agriculture are estimated to total Y 5.9 billion, a slight decline from 1982. These state funds will be used mainly to develop grain production, encourage construction of forestry projects, conduct agricultural research, and popularize new farming techniques. Most other expenditure categories are budgeted to increase slightly or to remain unchanged. Subsidy expenditures are to remain at their 1981 level.

e. Subsidies

The increase in subsidies since 1979 has been almost entirely due to increases in subsidies for essential consumer goods, which rose from Y 14 billion in 1979 to an estimated Y 30 billion in 1982, or 20 percent of total expenditure. Subsidies paid to cover the operating losses of state enterprises (Y 4.2 billion) rose only slightly during the period 1979-82, and those related to the operation of the internal settlement account (Y 2.8 billion) have also not increased much. Subsidies for domestically-produced agricultural inputs were maintained at about Y 2 billion. The rapid rise in essential consumer goods subsidies arose because the increase in procurement prices for agricultural and related products granted in 1979 was not fully translated into higher consumer prices. These subsidies, most of which pertain to grain, cotton, and edible oil, increased more slowly in 1982, and at Y 17 billion were only Y 0.4 billion higher than in 1981. Subsidies to keep the price of vegetables down in urban areas amounted to Y 0.5 billion. In past years, the subsidy cost had risen because of increases in the volume of procurement in rural areas and sales in urban areas, and because a growing share of procurement was at above-quota prices. The demand for fertilizers, farm machinery, and electricity for agriculture, all of which are subsidized, has also risen. In order to keep the subsidies from increasing too rapidly, priority has been given to improving the productivity of agriculture, so as to reduce the need for future increases in procurement prices. Except for the recent increase in the retail prices of cotton goods, no other prices of subsidized goods have been raised.

f. Financing

In contrast to the 1979-80 deficit (averaging Y 15 billion), which was financed largely by banks, the 1981 deficit was financed mainly by the issuing of Treasury bonds; foreign financing was also stepped up. In 1982, foreign financing of the deficit was eliminated; Treasury bonds, totaling Y 4.0 billion, were issued and a PBC loan was obtained. The 1983 deficit is budgeted at Y 8.1 billion, half of which will again be financed by a new issue of Treasury bonds; the remainder will be financed by bank loans totaling Y 3 billion and foreign borrowing of Y 1 billion. Although budgetary deposits with the PBC are large, they represent a large number of accounts belonging to provinces, municipalities, autonomous regions and enterprises, and are no longer available to finance the state budget, as they were in 1979 and 1980.

When they were first issued in 1981, more than half of the Treasury bonds were purchased by state and collective enterprises, with the remainder purchased by provinces and local governments. Purchase quotas were issued in light of each organization's after-tax profits or liquidity. Only in 1982 did individuals buy substantial amounts of Treasury bonds, totaling Y 2.0 billion, of which purchases from the urban areas accounted for Y 1.5 billion. The sale of Treasury bonds to individuals is organized according to place of work. The bonds have a ten-year maturity, with an interest rate (not compounded) of 4 percent to enterprises and governmental units and 8 percent to individuals. Based on a lottery, 20 percent of the bonds are to be repaid in each of the sixth through tenth years after issue. The bonds are not negotiable.

Of the Y 4.0 billion in Treasury bonds to be issued in 1983, Y 1.8 billion will be sold to enterprises and government institutions, and Y 2.2 billion to individuals. The target for individuals was increased in light of the recent increases in wages and incomes.

State foreign borrowing in 1982 amounted to Y 4.0 billion, (\$1.5 billion), but repayments amounted to Y 4.2 billion, resulting in a negative net foreign financing. Two thirds of the borrowing was in convertible currencies at floating interest rates, with smaller amounts of buyers' credit, borrowing from the Japanese Overseas Economic Cooperation Fund, the Japanese Import-Export Bank and the World Bank. These figures are not comparable with the balance of payments data on foreign borrowing, since the "State foreign borrowing" includes certain transactions with the Bank of China, a resident organization, and these transactions are therefore not included in the latter source. In 1983, borrowings will amount to Y 5.4 billion; the share of borrowing from the World Bank will increase. Repayments are planned at Y 4.4 billion.

g. Extrabudgetary funds

The increased financial autonomy provided to enterprises and provincial and local governments has caused extrabudgetary finances to become increasingly important in recent years. More than half of such funds are generated at the enterprise level and are derived from retained profits and depreciation charges, while the next largest share is generated by administrative organizations and other agencies. The remaining funds are raised by local governments through the agricultural surtax, the local surtax on the consolidated industrial and commercial tax, and fees for urban public utilities.

The main function of extrabudgetary funds is to satisfy the need for funds in certain specialized undertakings. Each unit and department may make arrangements to suit its own needs, and this flexibility helps, in principle, to expedite the process of technological transformation of enterprises, as well as mobilizing initiative and a sense of responsibility in financial management. There are certain restrictions placed on the management of extrabudgetary funds, which should conform to the policies set out by the central authorities. Yet the rapid increase in extrabudgetary funds in recent years has permitted the equally rapid increase in extrabudgetary capital construction. Such capital construction amounted to about one fifth of total capital construction in 1979, a share that rose to 50 percent in 1982. This development corresponds to the growth of extrabudgetary revenue from Y 37.1 billion in 1978 (no 1979 data are available) to Y 65.0 billion in 1982. Many localities used retained profits to develop processing industries, some of which were excessively energy intensive and duplicated already existing processing capacity. For 1983, extrabudgetary expenditures in plant and equipment in state enterprises were expected to drop because of stricter administrative controls, a 30 percent surcharge on investments not approved by the appropriate authorities, and the 10 percent tax on extrabudgetary funds. However, the reduction was not realized during the first half of 1983, when extrabudgetary capital construction expenditure rose by 12 percent.

h. Fiscal relations between the Central Government and provincial and local authorities

The system under which revenues and expenditures are divided between central and local authorities was introduced in 1980. Slightly less than two thirds of total expenditure is collected at the local and provincial level, although the local authorities account for only 43 percent of total expenditures (Table 14). About three fourths of consumer subsidies have been financed by the Central Government during this time period, as were the operating losses of state enterprises and the subsidy on the internal settlement account. The Center is also responsible for financing expenditure on defense, foreign aid, scientific research, and the geological survey, and accounts for a large share of the spending on capital construction, education, public health, and agriculture.

Table 14. China: Revenue Sharing and Expenditure Allocation
Between the Central Government and the Local
Governments, 1979-82 1/

	1979	1980	1981	1982 Est.
	(In per cent of total)			
Total revenue	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Central Government	21.7	34.2	36.1	36.1
Provincial and local governments	78.3	65.8	63.9	63.9
Total expenditure	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Central Government	52.2	55.7	56.9	56.9
Provincial and local governments	47.8	44.3	43.1	43.1
	(In billions of yuan)			
Total revenue	<u>126.3</u>	<u>131.6</u>	<u>139.0</u>	<u>143.0</u>
Central Government	27.4	45.0	50.2	51.6
Provincial and local governments	99.0	86.7	88.8	91.4
Total expenditure	<u>146.9</u>	<u>146.6</u>	<u>144.8</u>	<u>150.1</u>
Central Government	76.7	81.6	82.4	85.4
Provincial and local governments	70.2	65.0	62.4	64.7

Sources: Ministry of Finance; and staff estimates.

1/ Total revenue and expenditure as defined according to the GFS definitions. It has been assumed that (a) all foreign borrowing and loan repayments as defined by the authorities have been undertaken by the Central Government and excluded from public sector revenue; (b) that all subsidies on edible oils, cotton, and grain as well as those on the internal settlement account are financed by the Central Government, with the remaining subsidies financed by local governmental units; (c) that 30 per cent of the operating losses of industrial enterprises are assigned to the Central Government; and (d) that principal repayments are assumed to have been made by the Central Government and are excluded from public expenditure.

Detailed information on the specific mechanisms by which funds are distributed between higher and lower levels of Government is lacking, although the currently available information is given in SM/81/43 (2/18/81), pp. 33-34, and SM/82/150 (7/27/82), Appendix Table V. Table 14 gives the most recent aggregate data on the overall distribution of tax collection and total expenditure. The apparent surpluses in the local and provincial governments are actually only a reflection of the tax collection mechanism. Much of these revenues are transferred to the Central Government; in addition, in 1981 the provincial and local governments were required to transfer an additional Y 7 billion above that required by the revenue-sharing system.

2. Money and credit

a. Institutional setting and monetary policy

A major reform of China's banking system became effective on October 1, 1983, following a decision of the State Council. ^{1/} Under this reform, the central banking functions of the People's Bank of China (PBC) have been separated from its commercial banking functions. To perform the latter, an Industrial and Commercial Bank (ICB) has been established.

The PBC will act exclusively as China's central bank. It will prepare and administer the implementation of the credit and currency plans, authorize the establishment of specialized banks and regulate their functioning, issue currency, manage China's gold and foreign exchange reserves, act as State Treasury, and represent the Government in international banking activities. The PBC will establish branches to conduct the detailed supervision of the specialized banks. In addition to the administration of the cash and credit plans, the PBC will control credit and liquidity through indirect economic means, primarily by using a redeposit requirement. Specialized banks will be required to keep deposits with the PBC equal to a certain proportion of their loans outstanding, and this proportion may be adjusted periodically by the PBC in response to macroeconomic considerations. The PBC may also lend to the specialized banks.

The commercial banking activities that were previously managed by the PBC, including the management of enterprise and local and provincial government accounts, the granting of credit to these bodies, and the management of individual savings accounts, will become the responsibility of the new ICB. The assets, liabilities, and personnel of the PBC will be divided between the PBC and the ICB.

^{1/} A full description of the banking system as it was before the recent changes is included in Appendix VI of SM/81/43 (2/18/81).

The new structure of China's banking system is shown in Chart 5. In addition to the organizations directly under the jurisdiction of the PBC, there are also financial institutions for which the Ministry of Finance (MOF) is primarily responsible.

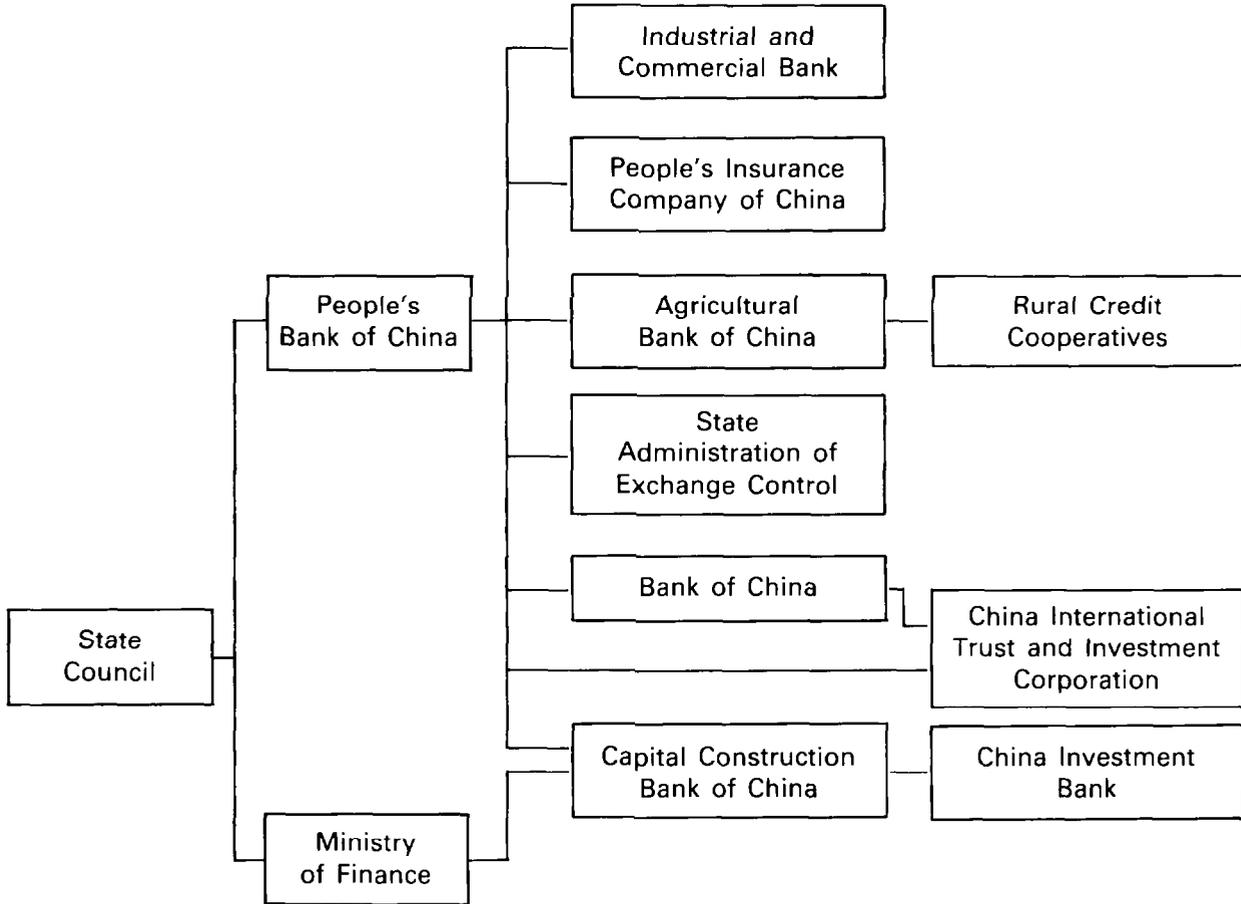
Under the PBC comes the new ICB, which is in charge of implementing the cash and credit plans in urban areas. In the rural areas, these responsibilities are discharged by the Agricultural Bank of China (ABC), which in turn supervises the activities of the Rural Credit Cooperatives (RCCs). These cooperatives handle the loans and deposits of rural collectives and of the rural population.

The Bank of China (BOC) also operates under the guidance of the PBC and is responsible for external financial transactions and supervising the implementation of the foreign exchange plan. Its responsibilities remain unchanged following the reform. The State Administration of Exchange Control is also supervised directly by the PBC, and is in charge of controlling all foreign exchange transactions. This includes the setting and administering of exchange control regulations and the management of the exchange rate. The China International Trust and Investment Corporation (CITIC) was established to help attract private foreign investment and bring together would-be foreign investors and potential Chinese partners to form joint ventures. Its activities are broadly supervised by both the PBC and the BOC.

The other part of China's financial system falls primarily under the jurisdiction of the MOF. The CCBC supervises the disbursement of budgetary funds for investment in plant and equipment in state-owned enterprises. The banking functions of the CCBC are also supervised by the PBC, however. The CCBC issues some loans for fixed asset investment in the state sector, and provides banking services for organizations directly involved in the execution of fixed asset investment. The China Investment Bank (CIB) was established in 1982, and is under the supervision of the CCBC; it provides loans for relatively small-scale modernization projects in industry and is funded by foreign loans, initially from the World Bank.

Monetary policy in China consists mainly in ensuring that the issuance of credit and use of enterprise deposits follow state plans, and in attempting to keep the growth in currency in circulation in proportion to the growth of consumer goods on the market, so as to forestall the emergence of inflationary pressures. In implementing this policy, the monetary authorities closely watch the financial operations of state and collective enterprises and government entities in both the urban and the rural sectors. Cash wage payments, payments for procurement of agricultural commodities, receipts of state stores from retail sales, as well as the level of inventories of enterprises are checked on a weekly and monthly basis against past performance and plan norms. This close surveillance enables them to detect potential

CHART 5 CHINA: BANKING SYSTEM



Source: Data provided by the Chinese authorities.



problems. To the extent that the monetary authorities cannot correct these problems directly, they inform the government organizations directly responsible for the units where deviations occur and try to ensure that new instructions are issued for correcting the root causes of the deviations (e.g., production of unsalable commodities, excessive wage and bonus payments). The monetary authorities can influence the mobilization of savings from the household sector directly, through the use of interest rate policy and by improving services to savers. They can also use interest rate policy to influence the cost of capital to the enterprise sector. However, they have little control over the demand for credit by enterprises, which are required to give priority to plan implementation in quantitative terms, and this in turn determines their credit requirements.

Some decentralization of the banking sector was introduced in 1980, permitting bank branches to increase their lending operations above the planned amounts whenever their deposits exceed the planned level or whenever they can economize in their lending operations. In the future, the RCCs are also to be given greater operational autonomy, as discussed below (p. 51).

b. Credit developments

The moderation in domestic credit expansion that began in 1981 continued in 1982 when credit grew by 11.9 percent (Table 15), slightly faster than planned (10 percent); in the first quarter of 1983, it grew at an annual seasonally adjusted rate of about 8 percent, slightly less than the rate planned for the whole year (also 10 percent). In 1982, net credit to the budget, which amounts to only 1.3 percent of total outstanding credit, approximately tripled as a result of the extension of an overdraft of Y 2.9 billion to the state budget. Total credit to the industrial, commercial and agricultural sectors rose by only 10.9 percent, against 14.6 percent in 1981.

(1) Industrial credit

Industrial credit--one third of the total credit outstanding--rose at about the same rate in 1982 as overall credit (13 percent) (Table 16). Industrial credit consists of working capital supplied to the industrial enterprises (50 percent of the total) and to the industrial supply organizations (23 percent), investment loans to industrial enterprises (14 percent), and working capital supplied to the collective and individual enterprises (13 percent of the total). 1/

1/ To give a complete picture of credit developments, the lending operations of the CCBC, about Y 22 billion of loans at the end of 1982, should be added. However, the data available are not sufficiently detailed to allow this to be done.

Table 15. China: Monetary Survey, 1979-82 ^{1/}

(In billions of yuan; levels at end of year)

	1979	1980	1981	1982
Net foreign assets	-1.6	-2.8	2.7	16.1
Domestic credit	199.8	253.3	287.5	321.6
State budget (net)	-9.0	3.7	1.4	4.3
Other	208.8	249.6	286.1	317.3
People's Bank ^{2/}	(204.0)	(241.4)	(276.5)	(305.2)
Rural Credit				
Cooperatives ^{3/}	(4.8)	(8.2)	(9.6)	(12.1)
Total assets	<u>198.2</u>	<u>250.5</u>	<u>290.2</u>	<u>337.7</u>
Money	33.9	45.2	53.3	60.4
Demand deposits	7.1	10.6	13.7	16.4
Urban	(3.6)	(5.4)	(6.5)	(8.2)
Rural	(3.5)	(5.2)	(7.2)	(8.3)
Cash	26.8	34.6	39.6	43.9
Quasi-money	111.7	147.9	177.9	205.3
Time deposits	22.7	32.1	41.1	53.7
Urban	(16.6)	(22.9)	(28.9)	(36.5)
Rural	(6.1)	(9.2)	(12.2)	(17.2)
Enterprise deposits	58.9	70.8	81.7	87.3
Urban	(46.9)	(57.3)	(67.4)	(71.8)
Rural	(12.0)	(13.5)	(14.3)	(15.5)
Other deposits	30.1	45.0	55.0	64.3
Other budgetary				
deposits ^{5/}	(-3.2)	(2.9)	(3.9)	(2.0)
Capital construction				
deposits ^{6/}	(13.1)	(17.2)	(22.9)	(28.5)
Government units ^{7/}	(18.5)	(22.9)	(27.5)	(33.1)
Other rural ^{8/}	(1.7)	(2.0)	(0.7)	(0.7)
Total liquidity	145.6	193.1	231.2	265.7
Other liabilities (net)	52.6	57.4	59.0	72.0
Total liabilities	<u>198.2</u>	<u>250.5</u>	<u>290.2</u>	<u>337.7</u>

Sources: Annex I, based on the balance sheets of the PBC (Appendix Table XII) and of the RCCs (Appendix Table XIII); and staff estimates.

^{1/} Includes the balance sheets of the PBC, RCCs, ABC, and the RMB operations of the BOC. Excludes some banking activities of the CCBC.

^{2/} Credit to the industrial and commercial enterprises and credit to agricultural production units.

^{3/} Agricultural loans to communes and production brigades and loans to commune- and brigade-run enterprises extended by the RCCs.

^{4/} Deposits of communes and production brigades and commune and production brigade-run enterprises with the RCCs.

^{5/} Extrabudgetary deposits.

^{6/} Deposits of localities and enterprises with the CCBC earmarked for investment and redeposited by the CCBC in the PBC.

^{7/} Deposits of government units, organizations, armed forces, and schools.

^{8/} "Other" deposits with the RCCs.

Table 16. China: Loans and Deposits, 1979-82

(In billions of yuan)

	1979	1980	1981	1982
	<u>(End of period)</u>			
Total loans	217.7	266.6	303.1	337.2
Industry <u>1/</u>	68.5	83.3	96.9	109.4
Commerce	123.2	143.7	164.2	178.8
Agriculture	17.0	22.6	25.1	29.1
Ministry of Finance	9.0	17.0	17.0	19.9
Total deposits	137.0	171.8	207.1	237.4
Individual	29.8	42.7	54.8	70.2
Demand	(7.1)	(10.6)	(13.7)	(16.5)
Time	(22.7)	(32.1)	(41.1)	(53.7)
Enterprise	58.9	70.8	81.7	87.3
Other deposits	48.2	58.3	70.6	79.9
Budget <u>2/</u>	(14.9)	(16.2)	(19.5)	(17.6)
Capital construction	(13.1)	(17.2)	(22.9)	(28.5)
Other	(20.2)	(24.9)	(28.2)	(33.8)
	<u>(Annual percent changes)</u>			
Total loans	15.1	22.5	13.7	11.3
Industry	8.7	21.6	16.3	12.9
Commerce	10.2	16.6	14.3	8.9
Total deposits	19.8	25.4	20.5	14.6
Individual	32.4	43.3	28.3	28.1
Enterprises	27.7	20.2	15.4	6.9

Sources: Table 15 and Appendix Tables XII and XIII.

1/ Includes loans of the Rural Credit Cooperatives to commune and brigade industrial enterprises.

2/ Includes both budgetary and extrabudgetary deposits.

Bank-supplied working capital for industrial enterprises rose by only 3.5 percent in 1982, and credit to the industrial supply organizations fell slightly, even though the gross value of industrial output (GVIO) rose by 7.7 percent. As a result, GVIO, which in 1981 was 6.8 times as large as the bank-supplied working capital to industrial enterprises, stood at 7.2 times that amount in 1982. This development in part follows from the fact that many enterprises in a highly liquid position financed some of their expenditures by drawing down their deposits rather than by having recourse to extra credit. In addition, the large increases in investment have led to a decrease in the inventories of building materials and machinery held by the industrial supply and marketing enterprises, although the inventories of many products for which there is less demand are still excessive. The reform of the industrial supply and marketing system (pp. 26-28) may permit the maintenance of lower inventories.

Loans for investment purposes, which were nearly nonexistent in 1979, grew rapidly in both 1980 and 1981, and rose by 82 percent in 1982. These loans are extended for one to five years and carry interest rates of 5.0 to 6.5 percent. The credit expansion was in line with the general government policy under which the PBC was to assume a greater role in the financing of industrial investment. However, in 1982, these loans exceeded the planned amount by Y 3.7 billion or 50 percent. The lending operations of the local trust and investment corporations, whose activities were less closely supervised than those of the PBC branches, accounted for Y 1.2 billion of the total, and the CCBC was responsible for the remainder. Along with the tightening of control over investment expenditures, all trust and investment corporations were recently abolished except CITIC and a corporation in Shanghai, and their assets were transferred to the trust departments of the PBC. 1/ As a further step to contain bank lending for investment purposes, a set of measures was introduced in July 1983, prohibiting PBC 2/ from lending for extra-plan investments, for projects other than technical innovation, or to collective or individual enterprises. All projects that obtain investment credit must be screened by the local State Planning Commission and by the PBC's 2/ head office.

Loans for urban collectives and individual enterprises rose by 10 percent in 1982, compared with 55 percent in 1981. These loans are mainly for small amounts and of short maturity. Hence, the growth in the gross volume of these loans is considerably larger than the growth in the net outstanding amounts.

1/ Presumably these departments have since been taken over by the ICB.

2/ Presumably these functions have since been taken over by the ICB.

(2) Commercial credit

Credit to the commercial sector, which amounted to 53 percent of total credit, rose by 8.9 percent in 1982. This rate was considerably slower than in 1981 (14 percent), but still about 2 percentage points higher than the 7.2 percent growth in the combined value of retail sales of state-owned commercial departments and cooperative commercial units. As a result, the ratio between bank-supplied working capital and turnover in the state and cooperative commercial sectors increased slightly.^{1/} Management problems and the policy that required the commercial sector to absorb the total output of the production sector, whether or no such output is already in excessive supply, were largely responsible for this unfavorable development. The reforms introduced into the commercial sector in pp. 26-28 are designed in part to remedy these problems.

(3) Agricultural credit

Outstanding credit to the agricultural sector at the end of 1982, which accounted for 9 percent of total outstanding credit, was 16 percent higher than a year earlier. The ABC supplies about 70 percent of the rural credit, with the remainder being extended by the RCCs. Small amounts of the ABC's credit are used as advance payments for agricultural procurement and state farms, but the bulk is extended to rural communes and production brigades. The RCCs finance their credit with the 20 percent share of their members' deposits that is not redeposited with the ABC.

The structure of the RCCs' agricultural loans has changed sharply in recent years with the general adoption of the production responsibility system. While at the end of 1981, 58 percent of total RCC agricultural loans outstanding were to communes and production brigades, this share fell to 41 percent by the end of 1982 (Appendix Table XIII). This shift has permitted greater support for specialized household activities such as livestock breeding, fisheries, and agricultural operations other than grain production. In addition to the changes in the structure of their loans, the role of the RCCs in extending credit is being enhanced, and they will now operate less as subsidiaries of the ABC and more as genuine local cooperatives responsible mainly to their local membership. The major result of this reform--to be carried out on an experimental basis in one or two counties in each province--will be that the RCCs will forward a smaller share of their deposits to the ABC and will hence be able to provide larger amounts of credit locally.

^{1/} From 73.7 percent in 1981 to 75.4 percent in 1982. For enterprises formerly under the Ministry of Commerce, the turnover period for circulating funds in 1982 was 15 days longer; for enterprises under the All China Federation of Supply and Marketing Cooperatives, the turnover period rose by 5 days.

c. Cash in circulation

The slowdown in the growth of cash in circulation, which began in 1981, continued in 1982. The rate of increase fell to 11 percent from 15 percent, against an average increase of 28 percent in 1979-80 and a target of 12 percent.

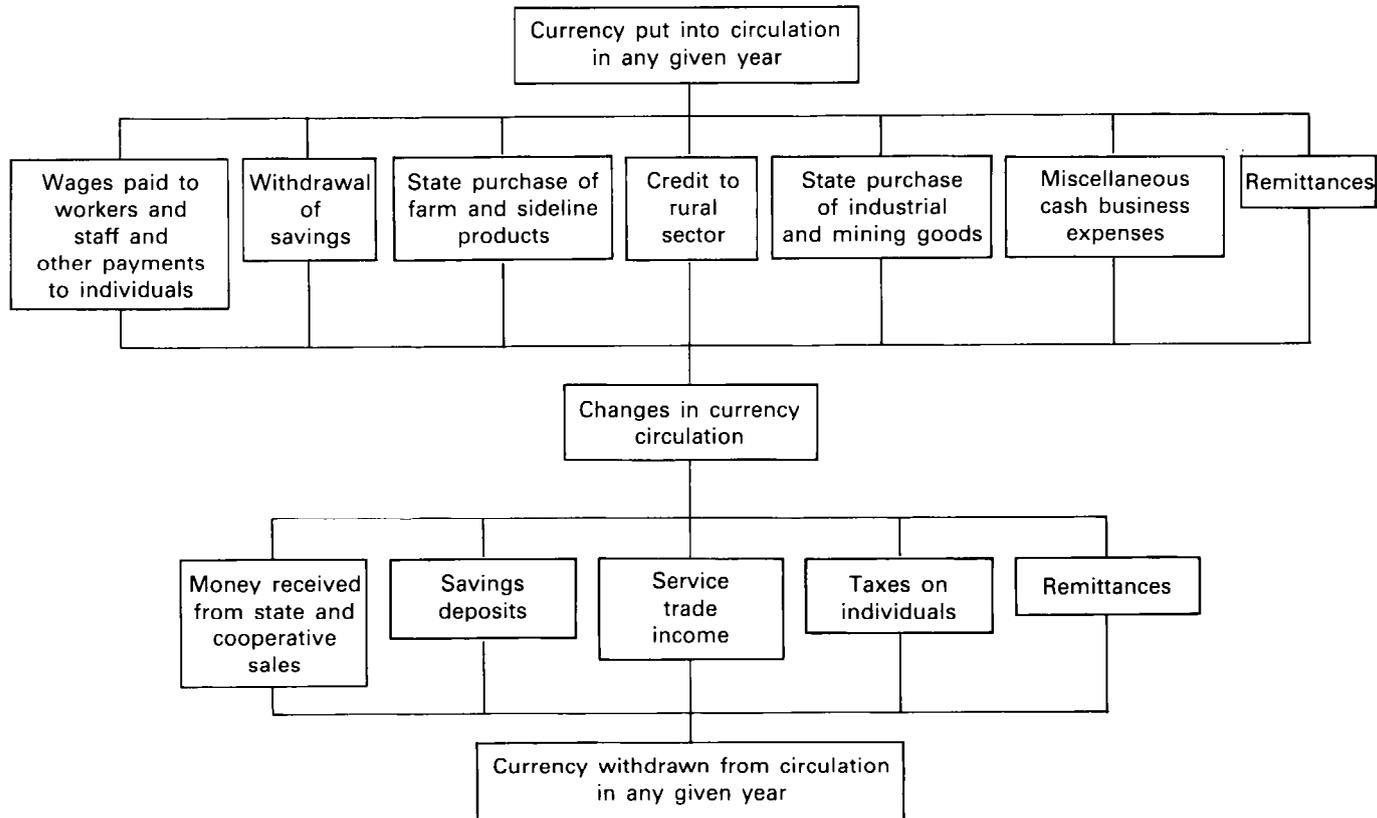
The increase in cash in circulation is the net result of the cash injection and withdrawal in the economy (Chart 6). In the absence of detailed data, it is difficult to provide a complete analysis of the factors that have caused cash in circulation to increase. However, the slowdown in the growth in cash in circulation begun in 1981 appears to have resulted largely from the more moderate increases in the wage bill and in the value of agricultural procurement. This moderation occurred at a time when retail sales of state and collectively owned commercial enterprises--by far the most important source of cash withdrawal--and household savings were rising at a rapid, albeit decreasing, pace (Table 17). In 1982, the increase in the value of agricultural procurement was 11.9 percent, against 13.0 percent a year earlier, but the wage bill for staff and workers increased slightly faster (7.6 percent against 6.1 percent). Retail sales of state and cooperative commercial enterprises rose by 8.7 percent, against 9.3 percent a year earlier. The total stock of household savings grew by 27.4 percent, only slightly less than in 1981 (29.0 percent). The residual net inflow of currency, for which no details are available, again rose in 1982.

d. Individual and other deposits

Individual deposits rose by 28.1 percent in 1982. Time deposits rose more rapidly than demand deposits (30.7 percent against 20.4 percent) and now account for about 76 percent of total household deposits. The Government's policy of favoring time deposits is reflected in appeals to the public to increase such deposits and in the 1982 upward adjustment of interest rates for time deposits and the creation of longer-term deposit categories. The improvements in the time deposit scheme, which includes a lottery repayment system, contributed to the rapid rise of these deposits. Rural time and demand deposits rose somewhat faster than urban deposits (31 percent versus 26 percent), as the more rapid increase of income in the rural than in the urban areas (estimated real rates of 15 and 5 percent, respectively) was less than fully offset by the faster rise of retail sales to residents in rural areas (11.3 percent versus 6.2 percent).

In Annex II an econometric analysis of household savings in China for the years 1952-81 and subperiods is presented. The results of this study show that consumer behavior in China is similar to that of other planned economies as well as more market-oriented developing countries. However, the results appear sensitive to the period chosen; if the years before 1979 are included in the analysis, Chinese households appear as moderately high savers (long-term marginal propensity to save (MPS) of 0.05), but they appear as low savers if the pre-1979 years are excluded (MPS of 0.01 to 0.03).

CHART 6
CHINA:
CURRENCY FLOWS



Source: People's Bank of China, "A Financial Survey of the People's Republic of China,"
Zhongguo Jinrong, June 1981, p. 13



2
:



Table 17. China: Major Factors Affecting the Level of
Currency in Circulation,^{1/} 1979-82

(In billions of yuan; per cent increase in brackets)

	1979	1980	1981	1982
<u>Inflows of currency</u>				
Wage bill of staff and workers	64.7 (13.7)	77.3 (19.5)	82.0 (6.1)	88.2 (7.6)
Agricultural procurement	58.7 (27.6)	67.7 (15.4)	76.5 (13.0)	85.6 (11.9)
Sum of identified inflows	123.4 (19.9)	145.0 (17.5)	158.5 (9.3)	173.8 (9.7)
<u>Withdrawals of currency</u>				
Retail sales of State and cooperative commercial enterprises ^{2/}	175.3 (14.7)	207.1 (18.1)	226.3 (9.3)	245.9 (8.7)
Increase in individual savings deposits ^{3/}	7.3 (33.0)	12.9 (76.7)	12.4 (-3.9)	15.1 (21.8)
Sum of identified outflows	182.6 (15.4)	220.0 (20.5)	238.7 (8.5)	261.0 (9.3)
Residual net inflow ^{4/}	64.8 (13.5)	82.9 (27.9)	85.2 (2.8)	91.5 (7.4)
Increase in currency in circulation	5.6	7.9	5.0	4.3

Sources: Data provided by the Chinese authorities; and staff estimates.

^{1/} Mainly held by households.

^{2/} See Table 9.

^{3/} Assuming all increases in savings deposits are cash transactions, which is somewhat of an overstatement in the rural sector.

^{4/} The difference between identified outflows and inflows plus the increase in currency in circulation. Mainly the difference between other household cash incomes, cash purchases of some mining and handicraft products, cash business expenses of enterprises and administrative units, cash credit in the rural areas, and cash revenue of the public service sector.

Household purchasing power at any point in time consists of cash in circulation in the household sector--about 80 per cent of the total--plus household deposits. Because such deposits have grown rapidly in recent years, the rise in household purchasing power has exceeded that of cash in circulation. Whereas the latter rose at an average of 13 percent in 1981 and 1982, M1 (i.e. cash plus individual demand deposits) rose by an average of 16 percent and M2 (i.e. M1 plus individual time deposits) rose by 21 percent. Total liquidity comprises M2 plus all deposits of enterprises, the budgets and other official organizations. Its growth has declined steadily from 33 percent in 1980 to 15 percent in 1982, partly as enterprises increased the use of their own deposits to finance some of their needs for more working capital. Enterprise deposits with the PBC, which rose at about 20 percent in 1980 and 15 percent in 1981, increased by only 7 percent in 1982. The slowdown in 1982 is also explained by the approximately 25 percent rise in the deposits of enterprises with the CCBC for investment purposes (and not included in the monetary survey), the disbursement of which was delayed by shortages of building materials and machinery.

Budgetary deposits--as defined in the PBC's balance sheet--fell by about Y 2.0 billion, or by 10 percent. These deposits are composed of deposits of the state budget, the budgets of some of the provincial, municipal, and autonomous regions, and deposits of extrabudgetary accounts, which constitute about 20 percent of the total. The budgetary accounts are numerous and each has only a small credit balance, which makes it difficult to mobilize these deposits to finance a budget deficit. As a result, the 1982 budget deficit had to be financed through an overdraft of Y 2.9 billion from the PBC.

e. Interest rates

In mid-1982, the interest rate structure on deposits and loans was adjusted (Table 18). Until the 1982 changes in interest rates, the RCCs obtained interest rate subsidies from the ABC, which compensated them for the differential between the interest rate received on their deposits with the ABC and on most of their lending and the interest rates paid to their own depositors. These subsidies amounted to Y 170 million in 1980, but have been much lower since the 1982 interest rate change, because a larger share of their credit portfolio is now made up of loans to the household sector, which pays higher rates than communes and brigades.

In early July 1983, the PBC introduced floating interest rates for working capital. Interest rates up to a fifth higher than normal can be applied to enterprises whose working capital exceeds the target and rates up to a fifth lower applied to those enterprises whose working capital is less than the target. The cost of interest payments in excess of the normal rates will be taken out of enterprise profits, while savings on interest rate costs because of the operation of the floating rate system will be added to enterprise profits. The ABC and RCCs also introduced a floating rate system that is similar to the one introduced by the PBC.

Table 18. China: Annual Interest Rates on Deposits and Loans

(In percent)

	Before the 1980 increases	After the 1980 increases	After the 1982 increases	Loans	After the 1980 increases	After the 1982 increases
Deposits						
Individual				Industrial and commercial		
On sight	2.10	2.88	2.88	Working capital	5.04	7.2
Six months	3.60	4.32	4.32	Short- and medium-term		
One year	3.96	5.40	5.76	One year or less	5.04	5.04
Three years	4.50	6.12	6.84	One to three years	5.04	5.76
Five years	5.00	6.84	7.20	Three to five years	5.04	6.48
Eight years	...	...	9.00	Additional interest for overdue loans <u>1/</u>	20.00	20.00
Institutional				Additional interest on bank loans diverted from their authorized purpose <u>1/</u>	50.00	50.00
Sight deposit	...	1.8	1.8	Agricultural bank loans		
One year	...	...	3.6	Working capital loans	4.30	5.76
Two years	...	...	4.32	Equipment loans		
Three years	...	...	5.04	State farms	4.30	5.04
				Communes	2.16	4.30
				Rural credit cooperatives		
				Households		5.76-10.8
				Preferential		2.52

Source: People's Bank of China.

1/ Surcharges on the rate of interest.

IV. External Sector

1. Balance of payments

a. Overview

Developments in China's balance of payments have been dominated by movements in the current account, which in turn was dominated by the trade account. ^{1/} The substantial improvement in the trade balance in 1981, and again in 1982, as a result mainly of the impact of the stabilization measures, was reflected in large increases in the overall balance of payments surplus in both these years (Table 19). For analytical purposes, the most important overall balance is that excluding exceptional finance. This has been in surplus over the entire period 1978-82, but the surplus was only modest until 1981, when it started to grow substantially, reaching \$2.2 billion in 1981 and more than tripling to \$7.4 billion in 1982.

The trade balance recorded a growing deficit up to 1980, when it reached \$3.6 billion. The stabilization measures introduced that year stopped import growth and caused a sharp decline in imports in 1982; exports continued to grow in value terms during 1981, but leveled off in 1982. These developments moved the trade account into a surplus of \$1.0 billion in 1981 and \$4.6 billion in 1982. Invisibles, previously a relatively small positive net item in the balance of payments, recorded a sharply increased surplus in 1982 as a result of increased net investment income. This followed from higher earnings on the enlarged holdings of foreign exchange reserves and the reduction in the stock of debt at market terms. The current account moved from a deficit of \$3.3 billion in 1980 to a surplus of \$5.7 billion in 1982.

The capital account, both including and excluding exceptional financing, has been a continuous contributor to the overall surplus. In 1979 and 1980, moderately large capital account surpluses were recorded, mainly because of borrowings from international financial markets. The surplus was reduced in 1981 as short-term flows were reversed and borrowing was partly shifted from commercial markets to concessional sources. In addition, part of the market borrowing was repaid ahead of schedule, both in 1981 and 1982. Estimates for the amount of such early repayment have been placed in the category "Exceptional finance."

The overall balance of payments surplus, after accounting for exceptional finance items, has been reflected in a rise in holdings of foreign exchange. The increase in gross reserves, which was the largest in the world in 1982, has continued in the first few months of

^{1/} There are some differences in the balance of payments shown in Table 19 and that in SM/82/150 (7/27/82), Sup. 1. The differences are discussed in Annex I to the present report.

Table 19. China: Balance of Payments, 1979-82

(In millions of U.S. dollars)

	1979	1980	1981	1982
Exports, f.o.b.	13,658	18,492	22,027	22,476
Imports, f.o.b.	-16,212	-22,049	-21,047	17,830
Trade balance	-2,554	-3,557	980	4,646
Services credit	1,693	2,409	3,130	3,513
Services debit	-1,992	-2,703	-3,333	-2,963
Services net	-299	-294	-203	550
Net unrequited transfers	626	570	572	471
Net invisibles	327	276	369	1,021
Current account	-2,227	-3,281	1,349	5,667
Long term capital inflow	1,435	2,716	1,985	2,884
Long term capital outflow	-613	-956	-933	-1,662
Short term capital net	1,554	76	-959	-56
Errors and omissions	454	1,671	761	531
Capital account	2,830	3,507	854	1,697
Overall balance <u>1/</u>	603	226	2,203	7,364
Exceptional finance				
Early repayment	--	--	-800	-1,100
Trust Fund	--	--	379	--
Allocation of SDRs	--	146	142	--
Overall balance <u>2/</u>	603	372	1,924	6,264
Reserves and related items <u>3/</u>	-603	-372	-1,924	-6,264
Gold	-6	19	55	27
Foreign exchange	-597	-108	-2,511	-6,352
Reserve position in Fund	--	-191	191	--
SDRs	--	-92	-183	61
Use of Fund credit	--	--	524	--

Sources: Bank of China; and Fund staff estimates.

1/ Excluding exceptional finance and counterpart items.

2/ Including exceptional finance and counterpart items.

3/ (-) indicates increase.

1983. By the end of April 1983, reserves amounted to \$13.7 billion or nine months of 1982 imports. The 1981 first credit tranche drawing of SDR 450 million was repurchased in 1983 under the Fund's early repurchase policy.

b. Trade

(1) Overview

China's exports have grown steadily over recent years (Table 20). There has been some decline in the rate of growth of export volume from the 23 percent recorded in 1979, but the increase of 11 percent in 1981 and 9 percent in 1982 still represent a substantial achievement in the light of the international recession. Even these figures somewhat understate the true increase in exports, since those conducted by foreign trade bodies outside the purview of the Ministry of Foreign Economic Relations and Trade have grown even faster. ^{1/}

Imports have been much less dynamic over this period. Volume in 1982 was only fractionally above the 1980 level, and about 5 percent above the lower volume of 1981. The stagnation of imports reflects the authorities' stabilization policies, and in particular their efforts to hold back investment expenditure and reduce the rate of growth of heavy industry. The sharp rises in import prices in 1979 and 1980 tailed off in 1981, and the 15 percent decline in import prices in 1982, combined with the modest increase in volume, meant that imports declined by 10 percent in value terms. The abrupt fall in import prices in 1982 also allowed a substantial improvement in China's terms of trade for the first time in several years.

^{1/} As discussed in SM/82/150, Sup. 1, Chinese trade data are available from three different sources: the Ministry of Foreign Economic Relations and Trade, the Customs Administration, and the Bank of China (or State Administration for Exchange Control). While the customs data are the most comprehensive, they have only been collected and published in a usable form from the first quarter of 1981. Since the available Bank of China data are not broken down by country, commodity or quarter, for the analysis of trade developments over an extended period, the data of the Ministry of Foreign Relations and Economic Trade must be used for the time being, even though the coverage is somewhat narrower (see SM/82/150 (7/27/82), Sup. 1, and note Appendix Table XXIX). In the main text of the present report, primary use will be made of these data, although at times reference will be made to the customs data shown in the Appendix. As mentioned in Annex I, further adjustments have to be made to the trade data before they can be used as the basis for a comprehensive balance of payments presentation.

(2) Exports

Exports grew at an annual rate of about 40 percent in 1979 and early 1980 (Chart 7 and Appendix Table XIV). Since then, growth in U.S. dollar terms has fallen off, reflecting in part less buoyant external market conditions and China's increasing difficulty in penetrating these markets further. Exports leveled off in the second quarter of 1982, as indicated by the zero rate of growth over the second quarter of 1981. According to customs data (Appendix Table XV), exports in U.S. dollar terms declined by 5.5 percent in the first half of 1983.

Table 20. China: Export and Import Behavior, 1979-82

(1978 = 100)

	1979	1980	1981	1982
Exports				
Value	140.2	187.5	214.4	223.9
Volume	123.3	142.8	158.9	172.8
Price	113.7	131.3	134.9	129.6
Imports				
Value	143.9	179.5	178.8	160.5
Volume	120.5	129.0	122.9	129.3
Price	119.4	139.2	145.5	124.1
Terms of trade	95.2	94.3	92.7	104.5

Source: Ministry of Foreign Economic Relations and Trade.

The growth in exports over the period 1979-82 occurred primarily in exports of industrial and mining products; exports of processed and unprocessed agricultural products have been stagnant in value terms, and fell slightly in 1982 (Table 21 and Chart 8). Exports of foodstuffs, beverages, tobacco, and animal oils and fats have shown no growth since 1980 (Table 22 and Appendix Table XVI). The volume of cereal exports has declined over this period, although exports of some other items have increased (e.g., peanut oil and kernels, live hogs, frozen pork) (Appendix Tables XVII and XVIII). The volume of exports of some other important foodstuff items, such as fresh and canned fruit, eggs, aquatic products, and tea has been stagnant. Exports of

Table 21. China: Broad Composition of Foreign Trade, 1979-82

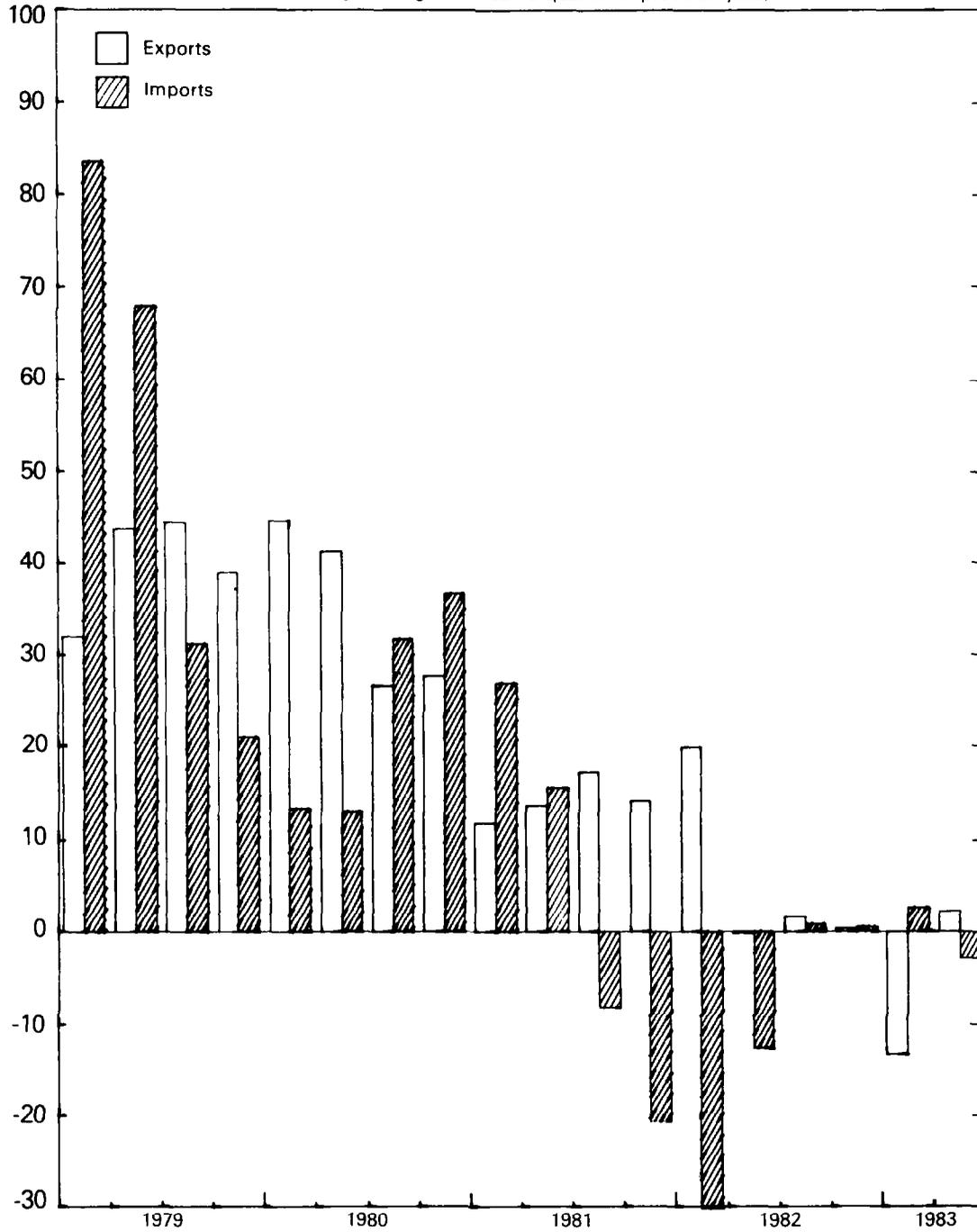
(In millions of U.S. dollars)

	1979	1980	1981	1982
Exports				
Industrial and mining products	6,015	9,455	11,750	13,211
Processed agricultural goods	4,486	5,397	5,462	5,361
Unprocessed agricultural goods	<u>3,157</u>	<u>3,419</u>	<u>3,681</u>	<u>3,247</u>
Total	13,658	18,271	20,893	21,819
Imports				
Machinery and equipment (Of which: complete plant)	3,957 (1,189)	5,375 (2,521)	5,103 (3,213)	3,394 (1,658)
Raw and intermediate materials	8,790	10,045	9,039	8,977
(For heavy industry)	(5,159)	(3,872)	(2,244)	(3,381)
(For light industry)	(2,708)	(4,748)	(5,398)	(4,214)
(For agriculture)	(923)	(1,425)	(1,397)	(1,382)
Consumer goods	<u>2,928</u>	<u>4,130</u>	<u>5,340</u>	<u>5,107</u>
Total	15,675	19,550	19,482	17,478

Source: Ministry of Foreign Economic Relations and Trade.

CHART 7
CHINA
QUARTERLY EXPORTS AND IMPORTS, 1979-83

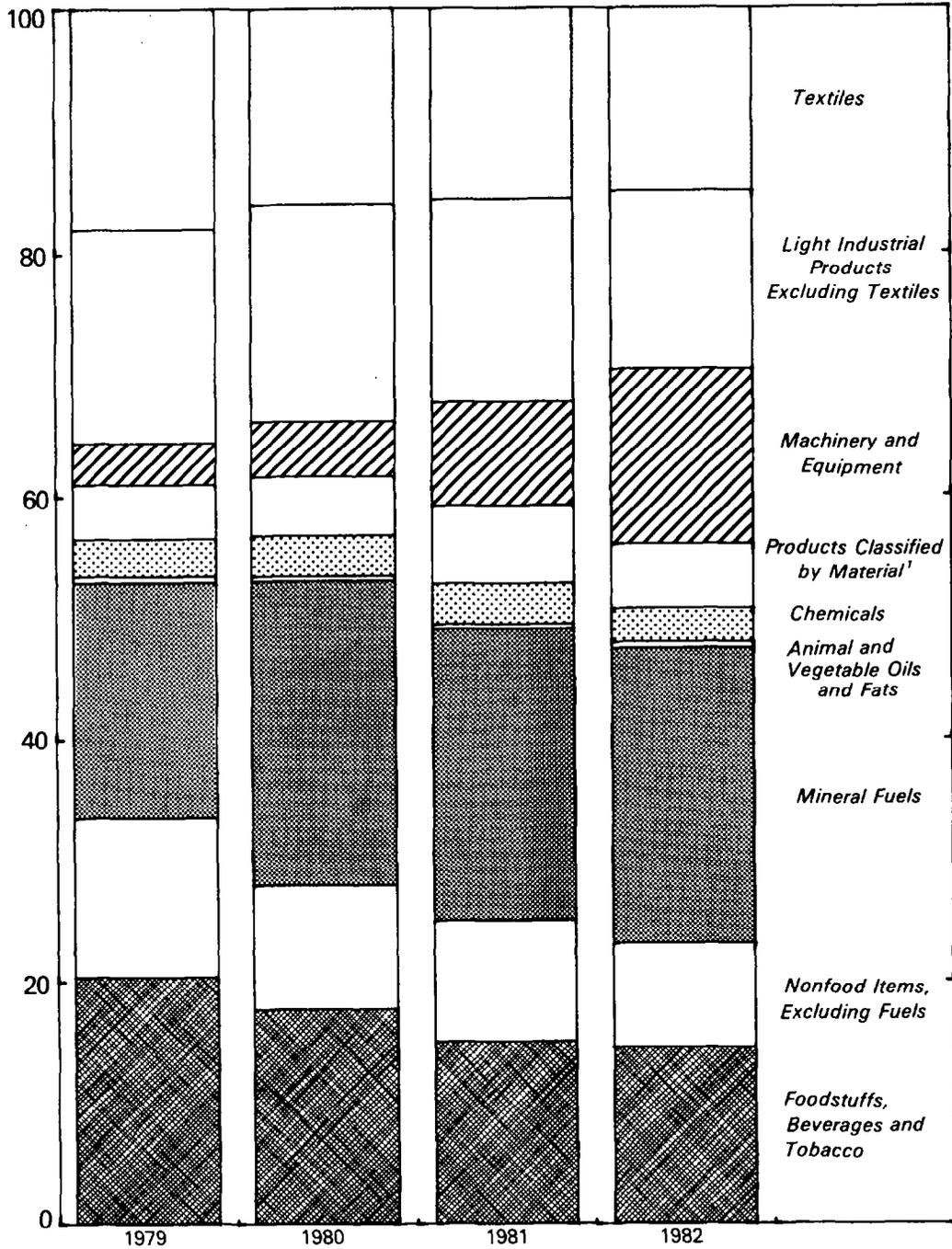
(Percentage change over same quarter in previous year)



Source: Ministry of Foreign Economic Relations and Trade, and Customs Administrations.



CHART 8
CHINA
COMMODITY COMPOSITION OF EXPORTS, 1979-82
(Per cent of total exports)



Source: Ministry of Foreign Economic Relations and Trade.
¹ Excluding textiles.



Table 22. China: Exports by SITC Commodity Group, 1979-82

(In millions of U.S. dollars)

	1979	1980	1981	1982
Primary products	7,315	9,772	10,360	10,463
Foodstuffs	2,701	3,154	3,071	3,094
Beverages and tobacco	86	92	85	93
Nonfood items, excluding				
fuels	1,804	1,878	2,062	1,845
Mineral fuels and oils	2,654	4,588	5,054	5,353
Animal and vegetable oils				
and fats	70	60	88	78
Manufactured items	6,343	8,499	10,533	11,356
Chemicals	424	630	699	624
Products classified by				
material ^{1/}	609	865	1,322	1,153
Machinery and equipment	464	851	1,777	3,134
Light industrial and				
textile products	4,846	6,153	6,735	6,445
Of which: textiles	(2,450)	(2,908)	(3,230)	(3,244)
Total	13,658	18,271	20,893	21,819

Source: Ministry of Foreign Economic Relations and Trade.

^{1/} Excludes textiles, which are properly included here in the SITC system.

nonfood primary products peaked in 1981, and world prices for most items in this group, which includes minerals, textile materials, resins, furs, and bristles, have been increasingly weak since 1980.

Exports of mineral fuels and oils, in particular petroleum, grew sharply in 1980 and somewhat less fast in 1981, reflecting price developments, as volume changed little during these years. However, the continued moderate (5 percent) growth in earnings in 1982 was due to an increased volume of petroleum exports, since prices declined. The volume of crude oil exports increased by about 10 percent and that of refined products by about 5 percent, as domestic energy conservation prevented rising domestic demand from preempting an increasing share of stagnant production, albeit at the cost of domestic energy shortages. About 60 percent of petroleum exports are in the form of crude oil, and most of the remainder are miscellaneous refined products. In 1981, China received an average price of \$236 per ton for crude oil and \$294 for refined products. At the start of 1982, prices fell by about 5 percent, and by a further 10 percent in early 1983 (Appendix Table XIX). Coal exports expanded in 1980, but have since been constrained by domestic demand and port capacity. Coal prices strengthened until 1981, but have weakened in 1983, and China recently cut its price on exports to Japan. There is a further discussion of energy trade earlier in this report (pp. 31-32).

Exports of machinery and equipment have shown remarkable growth, rising by 83 percent in 1980, 109 percent in 1981, and a further 76 percent in 1982. They now constitute almost 15 percent of China's exports. Among machinery and equipment exported are specialized industrial machinery, particularly for the textile industry, and transport equipment, largely ships. Exports of chemicals have shown little change since 1980. Iron and steel exports, a major item in the group "Products classified by material," fell in 1982 and again in the first quarter of 1983, possibly because of higher domestic construction activity.

Textiles and clothing account for about half of the light industrial products exported, but it is becoming increasingly difficult to penetrate textile markets further. Domestic textile production has recently stagnated, and voluntary export restraint agreements have been signed with many important market countries, including the United States and the European Communities, and China has become an observer under the GATT Multifibre Arrangement. The difficulty of increasing textile exports was demonstrated when the textile agreement with the United States expired at the end of 1982, and in the absence of a new agreement, import quotas were introduced for additional products. In retaliation, China announced on January 19, 1983 it would cease to import cotton, synthetic fibers and soybeans from the U.S. and would limit its purchases of agricultural commodities. The new bilateral agreement signed in August 1983 subjected the import of more items to restricted growth rates than its predecessor. On September 6, China announced the elimination of its retaliatory measures.

Regarding the direction of trade, in 1982 the growth in the value of exports was almost entirely accounted for by increased exports to non-oil developing countries (Table 23). Exports to industrial countries declined slightly, because of a fall in exports to Europe, which slightly outweighed increased exports to the United States and Japan. Exports to the group "U.S.S.R., Eastern Europe, etc." rose fastest, although exports in 1982 remained well below 1979 and 1980 levels. This development reflected the more ambitious bilateral trade agreements signed for 1982, ^{1/} although the actual growth rates of this trade generally remained well below planned rates. Exports to other markets either stagnated or declined, although because China's export prices declined, volumes may have increased.

(3) Imports

After growing rapidly in 1979 and 1980, imports began to decline in 1981 following the introduction of stabilization measures. Throughout the second half of 1981 and the first half of 1982 imports were about 18 percent below the level of a year earlier (Chart 7 and Appendix Table XIV). Since then the decline has stopped, with the last two quarters of 1982 recording the same level as a year earlier. Data for the half quarter of 1983 show a slight (0.4 percent) decrease in U.S. dollar terms over the first half of 1982 (Appendix Table XV).

Developments in imports reflect recent shifts in the composition of domestic production and aggregate expenditures. In 1981, imports of consumer goods rose by 29 percent and imports of raw materials for light industry increased by 14 percent (Tables 21 and 24 and Chart 9). There was a slight decline in imports of raw materials for agriculture, but the sharpest declines were in imports of raw materials for heavy industry (down 42 percent) and machinery and equipment, excluding complete plant (down 34 percent). Imports of complete plant continued to rise in 1981, as equipment ordered in earlier years was delivered. Because of the lag between orders and deliveries, the cancellation of a large number of new orders during 1981 only affected imports in 1982.

In 1982 the decline in the value of imports was more widespread. Imports of machinery and equipment, excluding complete plant, fell by 8 percent, and a decline was also recorded in imports of consumer goods. There was a small decrease in imports of raw materials for agriculture and a large fall (22 percent) in raw materials for light industry.

^{1/} For example, the agreement signed with the U.S.S.R. on April 16, 1982 provided for a 50 percent increase in trade, that signed with Poland on January 29, 1982 for a 83 percent increase, etc. Similar increases were planned in 1983, when for example both the agreement with Czechoslovakia and Poland called for an increase in trade of 50 percent, and that with the U.S.S.R. for an increase of 130 percent.

Table 23. China: Direction of Trade, 1979-82

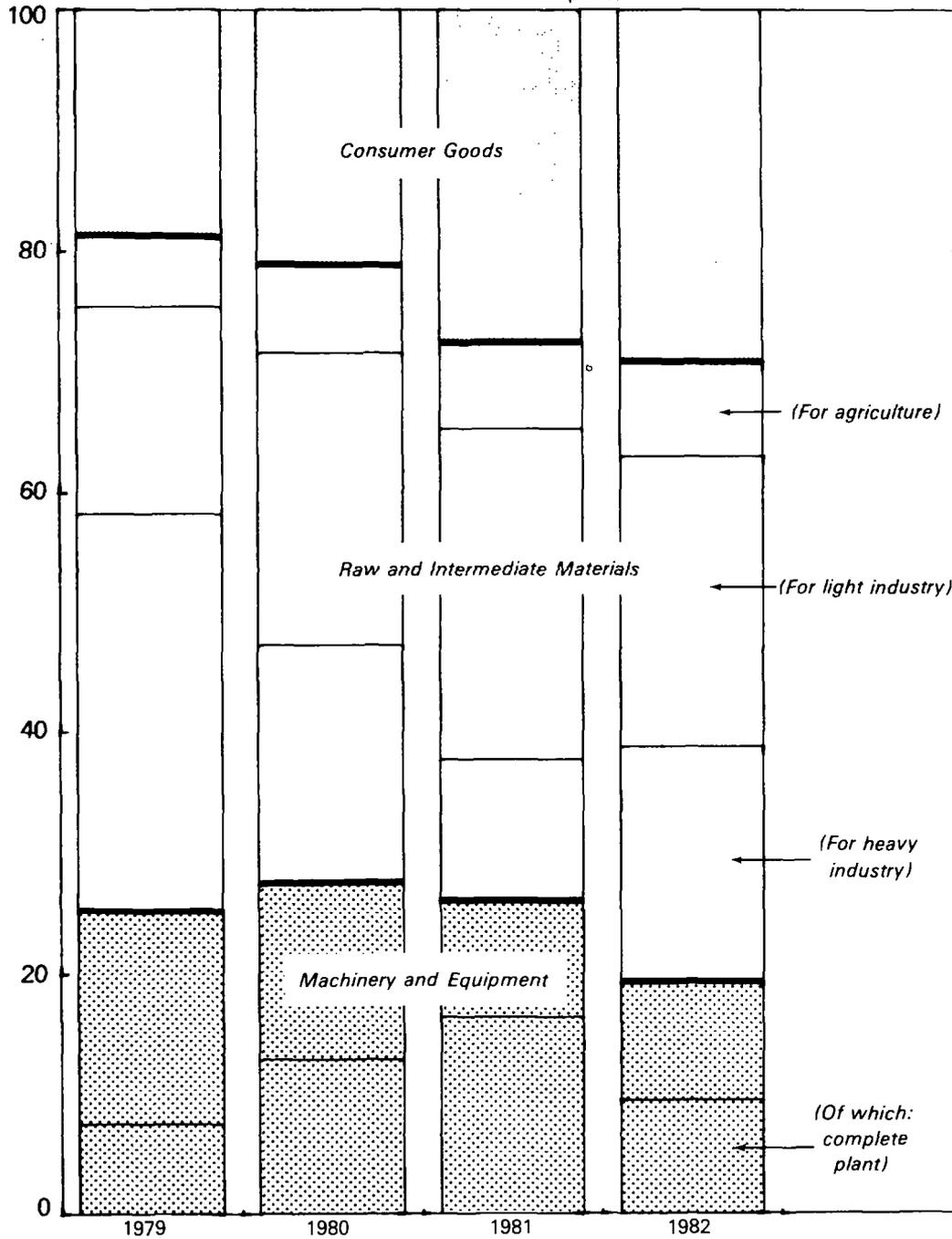
(In millions of yuan)

	Exports				Imports			
	1979	1980	1981	1982	1979	1980	1981	1982
Total	13,657.0	18,139.2	21,476.0	21,864.9	15,675.0	19,505.0	21,630.5	18,920.4
Industrial Countries	5,751.0	8,109.8	9,439.1	9,370.9	11,332.8	14,355.5	16,087.8	13,029.4
United States	595.0	982.6	1,505.1	1,764.7	1,856.6	3,830.2	4,682.4	4,304.6
Canada	145.1	137.4	182.2	171.6	622.4	816.8	1,171.0	1,239.3
Australia	156.1	223.6	173.5	223.5	985.2	1,063.0	558.9	914.0
Japan	2,764.1	4,032.2	4,746.6	4,806.4	3,944.0	5,168.9	6,183.0	3,901.7
New Zealand	...	30.3	28.5	31.8	...	156.5	173.9	129.2
Austria	...	14.7	79.8	8.9	...	90.9	232.3	48.2
European communities	1,711.7	2,313.7	2,425.7	2,100.2	3,324.9	2,743.9	2,633.6	2,079.5
Belgium	66.4	97.2	117.6	142.6	106.7	82.6	134.2	163.7
France	234.0	340.5	285.1	280.6	406.2	314.7	394.7	231.1
Germany	459.2	710.5	834.9	773.2	1,739.4	1,332.9	1,336.5	966.6
Italy	302.8	351.1	258.2	236.2	308.7	248.8	344.0	320.0
Netherlands	136.9	196.8	458.9	293.7	200.0	157.0	120.1	87.1
United Kingdom	478.9	563.7	412.5	307.9	501.2	540.0	233.9	259.8
Spain	56.0	49.6	73.2	64.4	91.7	69.9	74.0	90.8
Sweden	75.0	86.0	74.7	62.2	112.6	99.0	104.0	71.7
Switzerland	169.3	205.4	117.6	108.3	207.6	235.2	181.2	168.7
Developing Countries and Areas	6,695.0	8,838.1	11,252.1	11,596.2	3,004.6	3,839.5	4,196.9	4,265.4
Oil Exporting Countries	571.8	831.7	1,116.0	998.7	159.7	306.3	122.2	358.7
Algeria	...	44.0	88.4	175.4	...	...	...	3.6
Indonesia	...	20.6	54.4	45.7	...	14.2	62.5	151.0
Iran, Islamic Republic	36.5	120.6	162.5	41.0	31.4	58.6	1.7	88.8
Iraq	134.7	124.4	190.2	121.7	48.6	128.0	4.2	7.5
Kuwait	136.2	157.0	121.6	110.5	38.7	42.1	10.1	22.7
Libya	36.9	50.0	125.6	168.3	...	1.5	...	20.9
Saudi Arabia	68.0	136.1	219.9	182.7	8.4	15.5	12.2	10.0
United Arab Emirates	...	91.7	46.8	79.3	...	...	...	...
Non-oil Developing Countries and Areas	6,123.2	8,006.4	10,136.1	10,597.5	2,844.9	3,533.2	4,074.7	3,906.7
Africa	461.5	385.9	520.5	545.5	312.0	280.2	225.4	253.3
Zambia	1.6	16.0	4.8	2.8	59.5	90.2	22.9	43.7
Asia	4,708.9	6,124.7	7,375.5	7,176.6	813.7	1,602.8	2,301.4	2,389.1
Bangladesh	...	67.5	103.8	89.6	...	36.7	22.3	27.9
Hong Kong	3,328.3	4,353.2	5,262.7	5,180.6	214.4	569.8	1,236.3	1,314.2
India	...	37.8	80.6	100.7	...	65.3	80.6	74.9
Macao	219.5	250.6	288.0	260.2	...	...	8.9	10.3
Malaysia	171.4	184.4	190.6	181.2	189.1	239.9	119.6	156.4
Pakistan	121.8	139.8	210.9	203.1	30.2	175.5	333.1	143.0
Philippines	134.7	258.1	254.7	236.0	47.2	70.0	116.9	136.8
Singapore	296.5	420.9	657.5	647.8	104.7	189.8	113.1	103.1
Sri Lanka	95.0	60.8	30.8	37.3	62.4	72.0	55.4	6.9
Thailand	211.9	311.5	228.3	168.3	83.4	139.6	154.0	346.9
Europe	624.1	629.4	490.6	360.8	767.6	801.6	668.0	595.1
Romania	490.1	513.0	375.8	280.2	603.7	524.6	489.7	426.0
Yugoslavia	48.4	46.3	21.4	14.2	50.3	150.1	61.8	56.7
Middle East	172.2	482.7	1,230.1	2,002.4	57.2	133.1	174.2	72.5
Egypt	69.4	215.2	172.9	256.4	56.5	97.4	126.1	61.4
Jordan	...	30.9	434.5	1,262.8	...	11.2	6.8	5.4
Lebanon	...	...	96.2	29.9	...	...	...	...
Syria	...	...	89.1	71.5	...	21.7	34.7	3.7
Yemen Arab Republic	...	...	380.5	328.2	...	...	2.7	2.0
Western Hemisphere	156.5	383.7	519.4	512.2	894.4	715.5	705.7	596.7
Brazil	93.5	246.6	341.1	376.4	122.4	63.2	117.5	132.5
Argentina	16.2	30.2	24.6	5.5	271.2	159.7	118.0	150.4
Chile	10.7	19.6	37.7	13.2	86.4	121.6	62.6	76.8
Guatemala	1.1	1.5	3.1	1.6	85.7	107.3	103.9	38.8
Mexico	9.0	22.7	34.7	14.1	102.5	80.0	138.0	53.6
Peru	1.4	11.0	9.7	11.1	59.3	104.5	80.2	102.9
U.S.S.R., Eastern Europe, etc.	1,211.0	1,191.3	781.6	893.8	1,337.7	1,310.0	810.8	1,251.4
Cuba	93.6	92.8	76.7	117.1	117.8	127.3	189.0	268.1
Czechoslovakia	112.6	147.3	68.0	71.8	161.6	131.4	56.2	187.2
German Dem. Rep.	197.9	169.2	99.8	69.4	197.6	259.8	91.6	136.0
Korean Dem. Peoples Rep.	317.0	374.2	299.9	281.4	330.2	303.3	231.5	304.3
Poland	142.9	141.4	83.3	187.2	166.5	189.5	64.7	65.8
U.S.S.R.	242.2	228.3	122.6	142.5	250.4	264.1	154.0	243.1

Source: IMF, Direction of Trade: 1979 and 1980 from Ministry of Foreign Economic Relations and Trade; 1981 and 1982 General Administration of Customs.

CHART 9
CHINA
COMMODITY COMPOSITION OF IMPORTS, 1979-82

(Per cent of total imports)



Source: Ministry of Foreign Economic Relations and Trade.

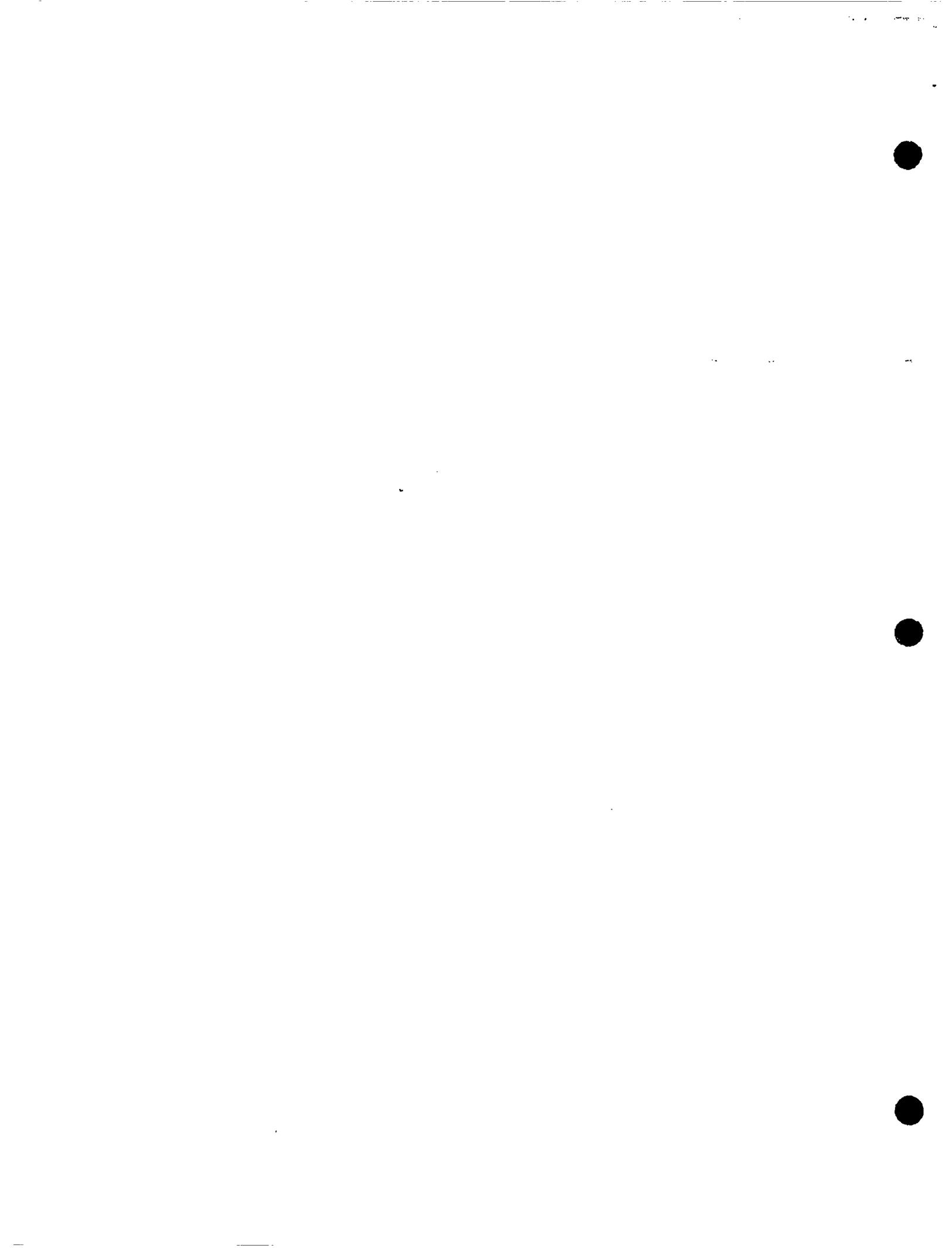


Table 24. China: Imports by SITC Commodity Group, 1979-82

(In millions of U.S. dollars)

	1979	1980	1981	1982
Primary products	4,422	6,920	7,885	7,326
Foodstuffs	2,264	3,141	3,846	3,907
Beverages and tobacco	22	31	87	84
Nonfood items, excluding fuels	1,849	3,370	3,769	3,032
Mineral fuels and oils	99	167	71	207
Animal and vegetable oils and fats	188	211	121	96
Manufactured items	11,253	12,630	11,597	10,152
Chemicals	1,627	2,465	2,473	2,788
Products classified by material <u>1/</u>	4,862	3,340	2,277	2,599
Machinery and equipment	4,053	5,253	4,918	3,405
Light industrial and textile products	711	1,572	1,929	1,360
Of which: textiles	(178)	(383)	(658)	(922)
Total	15,675	19,550	19,482	17,478

Source: Ministry of Foreign Economic Relations and Trade.

1/ Excluding textiles, which are properly included here in the SITC system.

While imports of complete plant were halved, the rapid growth of domestic heavy industry was associated with a 51 percent increase in imports of raw materials for this sector, although the value of such imports was still well below that of 1979 and 1980. By mid-1982, the decision had been taken to relaunch a number of the major projects cancelled or suspended in 1981, and further suspensions were lifted in the course of 1983. The effect of these decisions on machinery imports will take some time to be felt.

The decline in imports in 1982 took place primarily in the first two quarters, and was accounted for mainly by reduced imports of machinery and equipment (mainly machinery specialized for particular industries), textile fibers, and iron and steel (Appendix Table XX). At the same time, some categories of imports continued to increase, among them foodstuffs, mainly cereals and sugar, and chemicals, particularly plastics and organics. In the last two quarters of 1982 and the first quarter of 1983, there were sharp increases in imports of foodstuffs, again cereals and sugar, and both ferrous and nonferrous metals. Imports of fertilizers continued to grow steadily, but there were sharp declines in imports of textile yarns and fabrics. The growth in imports of machinery and equipment (measured in yuan terms) only resumed in the first quarter of 1983, but was still 27 percent below the level of the same period of 1981 (see also Appendix Tables XXI and XXII).

Some of the decline in imports in 1982 was specifically related to restrictions imposed during the year (Table 25). In the case of consumer goods and trucks, these restrictions were introduced chiefly to protect domestic producers whose products were not sufficiently competitive against imports. While the official announcement of the restrictions was made in early 1982, the reduction in imports seems to have occurred before that date for TV sets, wristwatches, and trucks, and somewhat later for tape recorders. Additional duties on personal imports of tape recorders were levied in August 1982. Imports of trucks in 1981 were 55 percent below their 1980 level (Appendix Table XXI). In all cases except automobiles, for which a sharp increase in imports was recorded in the second quarter of 1983, the restrictions appear to have become increasingly effective with time.

As far as the regional origin of imports is concerned, the fall in imports in 1982 was entirely associated with the industrial countries (Table 23). The brunt of the import decline was felt by Japan, whose exports to China declined by 37 percent. Machinery imports from Japan were halved and textile and fiber imports fell by a third; imports of steel, however, rose by a quarter, making China Japan's third largest customer for steel after the United States and Saudi Arabia. Imports from the European Communities fell 21 percent, and those from the United States by 8 percent. Imports from non-oil developing countries fell only slightly, with declines in imports from Egypt, Guatemala, Mexico, Pakistan, and Romania (in some of these

Table 25. China: Imports of Some Restricted Items, 1981-83

	1981				1982				1983	
	I	II	III	IV	I	II	III	IV	I	II
TV sets (thousand)	1,250	1,194	663	878	487	205	194	148	120	130
Tape recorders (thousand)	296	196	410	618	560	740	163	382	151	286
Wristwatches (thousand)	2,400	2,050	1,590	1,400	570	470	220	240	140	230
Polyester staple (thousand tons)	58	133	38	95	70	31	15	5	9	5
Automobiles (no.)	285	631	129	239	200	150	299	452	337	1,190
Trucks (no.)	7,665	8,210	2,907	1,574	2,516	2,500	509	1,843	1,115	1,630

Source: Customs Statistics.

cases because of reduced textile fiber shipments) and increases in imports from Hong Kong, Indonesia, Iran, and Thailand. In line with new bilateral trade agreements, China increased its imports from the group, "U.S.S.R., Eastern Europe, etc." by 50 percent. Since exports to this group fell in 1982, the trade deficit with the group widened from \$30 million to \$360 million, although this was not associated with a reduction in China's bilateral payments assets vis-a-vis these countries (Appendix Table XXX).

c. Invisibles

As a result of the reduced level of foreign trade, invisible receipts and expenditures related to trade fell in 1982 (Appendix Table XXIII). Receipts under "Bank interest and charges," rose from \$697 million in 1981 to \$998 million in 1982, in part reflecting the increase in China's foreign exchange holdings. Payments fell from \$821 million to \$641 million, as China reduced its stock of market-related debt. One invisible item that has grown rapidly in recent years has been labor services, classified under "Other services." A number of Chinese companies have signed construction contracts, especially in the Middle East, and this has involved the sending abroad of 30-40,000 people. Invisible earnings in the form of processing fees are included in the trade account. Income from tourism, shown in both "Other transportation" and "Travel" receipts, rose by 7.4 percent in 1982, as the number of visitor's increased by 2 percent to 7.92 million, a much slower rate than previous years. Remittances (the credit item under "Private unrequited transfers") rose from \$484 million to \$544 million, but still failed to regain the 1979 and 1980 level of \$650 million a year. There was also an increase in the debit item for "Public unrequited transfers," reflecting a higher amount of external assistance given by China in the form of grants.

d. Capital account

Data on the capital account, although becoming more accurate, are still the weakest part of the balance of payments, and care should be taken in drawing conclusions about trends (Appendix Table XXIV).

With the current account surpluses of 1981 and 1982, net inflows of long-term capital virtually ceased. This was not due to a reduction in gross borrowing, but because China took advantage of the surplus to repay market borrowings. Interbank loans, both long-term and short-term, accounted for net inflows of \$2.6 billion in 1979. This was reduced to \$0.3 billion in 1980 and was replaced by net outflows of \$1.3 billion in 1981 and \$1.0 billion in 1982. Most of the repayment of the long-term component was made ahead of schedule.

While reliance on bank finance has been reduced, borrowing from concessional and longer-term sources has increased, mostly from Japan in the form of Japan Eximbank financing of port, transport, and energy

production facilities. Concessional loans at low interest rates have also been made by the Japanese OECF, Belgium, Denmark, and Kuwait. A number of loans have been contracted from international organizations, in particular the IBRD, but disbursements have so far been small. China has also continued to make use of buyers' credit backed by official export credit agencies. In 1982, China issued bonds for the first time since 1949, floating an issue of J ¥ 10 billion on the Japanese market. Both new borrowing and amortization in the form of deferred payments, a relatively costly form of borrowing, increased sharply in 1982. It is unclear why borrowing in this form in 1982 was so much higher than in earlier years, but a change in statistical methodology may be a factor.

China has continued to attract increasing amounts of capital in the form of direct investment, mainly related to the establishment of various cooperative production schemes in the special economic zones. Net inflows of direct investment amounted to around \$350 million in 1982, an increase of over one third over the 1981 level. China's aid program, which was sharply reduced in 1980 and 1981, expanded somewhat in 1982 to around \$400 million.

While no data are available on the stock of China's short-term debt, there was a large short-term capital outflow in 1981, as a result of the measures to reduce the more expensive debt. By 1982, movement in this item was small, possibly because the amount of short-term debt had already been reduced to the minimum working level. However, errors and omissions in the balance of payments are positive in each year, possibly reflecting unrecorded capital inflows.

e. External debt

China's external debt remains small. Medium- and long-term debt at end-1982 was around \$6 billion (Table 26) or 2.3 percent of GDP. In addition, there is some short-term debt, on which data are not available, but it is not believed to be very substantial. While external debt grew slightly in 1982, external reserves grew even faster. At the end of 1981, total medium- and long-term debt (including debt to the Fund) was 103 percent of external reserves; by end-1982 the ratio was only 50 percent.

Debt service figures need to be interpreted in the light of the early repayment of debt in 1981 and 1982. As discussed above, commercial bank debt amounting to some \$0.8 billion in 1981 and \$1.1 billion in 1982 is estimated to have been repaid ahead of schedule. This led to an increase in the debt service ratio from 5.8 percent in 1980 to 8.6 percent in 1981 and 10.9 percent in 1982 (Table 27). When the influence of these early repayments is eliminated, the underlying debt service ratio rose only slightly to 6.6 percent in 1982. Even this may be an overestimate, since the figures for early repurchase given above may be understated.

Table 26. China: External Medium- and Long-term Debt by
Type of Credit, 1980-82

(In millions of U.S. dollars)

	Outstanding at the End of the Year		
	1980	1981	1982
Bonds	--	--	40
International organizations	--	--	3
Intergovernmental loans	446	926	1,476
Of which:			
Energy credit	(435)	(895)	(1,109)
Japanese commodity loans	(--)	(--)	(223)
Buyers' credit	142	343	638
Deferred payments	1,038	1,108	1,590
Borrowing from banks	3,612 <u>1/</u>	2,277 <u>1/</u>	1,232 <u>1/</u>
Nonbank borrowing	<u>195</u>	<u>200</u>	<u>144</u>
Total disbursements	5,433	4,854	5,123
Borrowing from the Fund:			
Credit tranche	--	524	496
Trust Fund	<u>--</u>	<u>360</u>	<u>341</u>
Overall total	5,433	5,738	5,960

Sources: State Administration for Exchange Control; and Fund staff estimates.

1/ Including some short-term debt.

Table 27. China: Debt Service, 1979-82

(In millions of U.S. dollars)

	1979	1980	1981	1982
Interest	350	612	821	641
Principal				
Buyers credit	--	--	9	42)
Interbank loans	--	201	844	1,089)
Deferred payments	--	400	376	952)
Nonbank borrowing	--	--	120	97)
Total	--	601	1,349	2,180
Estimated early repayment	--	--	800	1,100
Total excluding early repayment	--	601	549	1,080
Debt service				
Excluding early repayment	350	1,213	1,370	1,721
Including early repayment	350	1,213	2,170	2,821
Exports				
Goods	13,658	18,492	22,027	22,476
Services	1,693	2,409	3,130	3,513
Total	15,351	20,901	25,157	25,989
Debt service ratio (in percent) ^{1/}	2.3	5.8	5.4 (8.6)	6.6 (10.9)

Source: Table 19 and Appendix Tables XXIII and XXIV.

^{1/} Figures in parentheses include early repayment.

According to the amortization schedule for debt outstanding as of December 31, 1982 (Appendix Table XXV) there is no bunching of repurchases, indicating that debt service on existing debt is unlikely to pose a problem in the future. However, the figures are staff estimates and need to be treated with caution.

Responsibility for approving the contracting of new debt is shared by a number of bodies in China, and no single body has a full overview of all China's external liabilities. In principle, the State Planning Commission is responsible for giving specific or general approval for most forms of borrowing, but in practice the operational details and indeed the decision to borrow rest with other bodies, whose activities are only now being fully coordinated.

Loans from international financial institutions and foreign governments require the sanction of the State Planning Commission and, being obligations of the Chinese Government, need the approval of the State Council. Loans from the World Bank are the operational responsibility of the MOF, or of the CIB (an organization subordinate to the MOF). Loans and purchases from the Fund are the responsibility of the PBC, and intergovernmental loans are the responsibility of the Ministry of Foreign Economic Relations and Trade. Loans contracted by government departments, local governments, and enterprises are usually made through the BOC or with its guarantee. There is an annual limit on such borrowing, set by the State Planning Commission. Since China's external reserves began to rise rapidly, the above organizations have normally been required to borrow the foreign exchange they need directly from the BOC.

The BOC's own foreign borrowing is subject to supervision in general terms by the State Planning Commission. In practice, the BOC acts independently in its external financial operations, including the contracting of buyers' credit. Foreign borrowing in the form of deferred payments is not subject to the approval of the Planning Commission, as this is considered a normal foreign trade operation. Responsibility for this borrowing thus belongs to the Ministry of Foreign Economic Relations and Trade and the BOC.

Data on foreign borrowing are collected by the Statistics Bureau of the Ministry of Foreign Economic Relations and Trade, except for those borrowings for which the BOC is responsible. This is a new role for the Ministry's Statistics Bureau, and a complete analysis of external debt data is not yet available.

f. Reserves

As a result of the balance of payments surplus, China's international reserves doubled during 1982 to \$11.8 billion, representing eight months of 1982 imports (Appendix Tables XXVI and XXVII). The

increase has continued in 1983, reaching \$13.1 billion at the end of the first quarter. By end-August 1983, China had repaid the first credit tranche, amounting to SDR 450 million, that it drew from the Fund in 1981.

2. Exchange and trade system

a. Exchange arrangements

There has been no change in China's exchange rate arrangements since January 1981, when the internal settlement rate was introduced, nor has the composition of the basket used to determine the official exchange rate been altered. As a result, the effective rate for the official exchange rate has undergone little change (Appendix Table XXVIII and Chart 10).

While the official exchange rate is pegged to a basket of currencies, the internal settlement rate, which applies to all trade transactions, has remained pegged to the U.S. dollar. Thus, with the appreciation of the dollar, the effective internal settlement rate has also appreciated, eroding the premium implicit in this rate. When the internal settlement rate was introduced in January 1981, the premium over the official rate was 83 percent: by the end of June 1983, it had been reduced to 41 percent.

There have been no changes in the scope of the transactions to which the internal settlement rate applies. As discussed in SM/82/150, Sup. 1, for imports and exports conducted through foreign trade corporations under the Ministry of Foreign Economic Relations and Trade, the internal settlement rate only affects the trading corporations' profits and losses and has no effect on the accounts of those producing exports or consuming imports. However, with the increase in the amount of foreign trade conducted by bodies outside the jurisdiction of the Ministry of Foreign Economic Relations and Trade (Appendix Table XXIX), the real impact of the internal settlement rate on China's foreign trade has gradually increased.

b. The exchange and trade restrictions

A full description of China's exchange and trade restrictions is given in the Annual Report on Exchange Arrangements and Exchange Restrictions, 1983. Other aspects are discussed in SM/82/150, Sup. 1. Some changes are noted in the chronological listing in Subsection c. below.

There have been some changes in trade restrictions in the recent period. An import licensing system for a number of goods, particularly consumer durables, (e.g., T.V. sets, refrigerators, and cars) was

introduced in August 1982. The main purpose of this measure was to protect domestic producers who were unable to compete with imports (see above p. 64). There have been no changes in import duties.

In early 1982, certain export restrictions were introduced on goods in short supply domestically, such as energy, steel, and cement products. A system of export licenses was introduced for those goods for whose markets Chinese exporters tended to compete with each other. An export quota administration system also applies to textiles, allowing the authorities to ensure the fulfillment of bilateral export restraint agreements. Finally, on June 1, 1982 export duties were reintroduced for some 34 items, mainly to raise tax revenues.

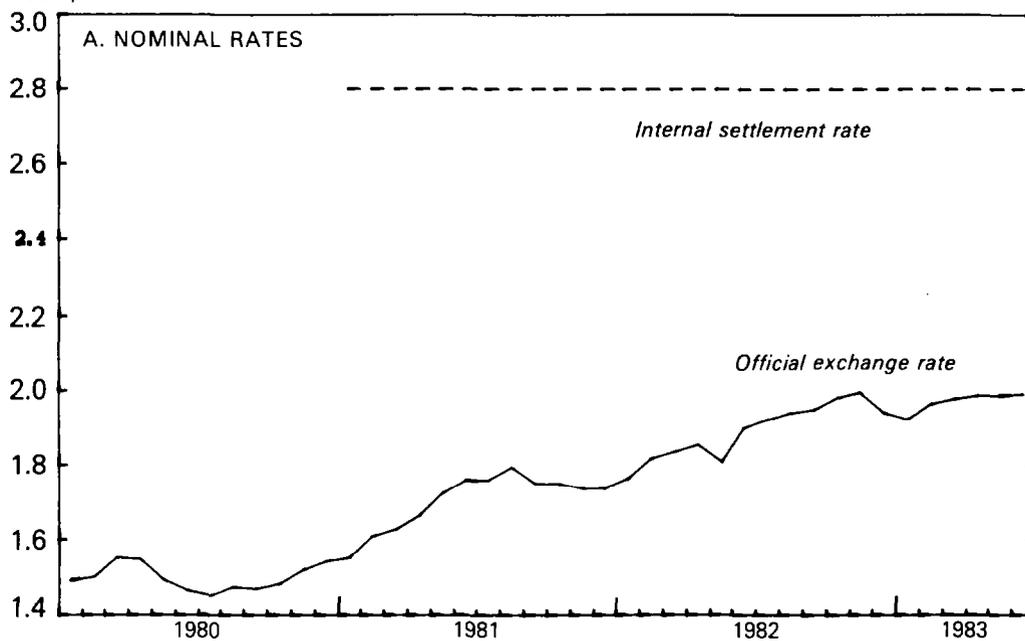
There has been no change in the system for allocating foreign exchange. As before, an importer may obtain the foreign exchange he needs in the form of a direct allocation, from retained export earnings, by applying to use the foreign exchange quota distributed on the basis of past exports, or by obtaining such a quota from the foreign exchange coordination system (SM/82/150, 7/27/82, Sup. 1). Full information is not available on the relative importance of the various methods of obtaining foreign exchange.

The outstanding amount of foreign exchange quotas, which came to \$2 billion at end-1980 and just under \$4 billion at end-1981, reached \$6 billion at end-1982, of which about \$1 billion derived from invisible transactions. During the course of 1982 about \$3.7 billion of these foreign exchange quotas was used by the holders directly and some \$650 million was transferred through the foreign exchange coordination system. About \$340 million of this amount was transferred in some 854 bilateral transactions, and the remaining \$310 billion was used in transactions in which the BOC acted as an intermediary, buying and reselling the foreign exchange.

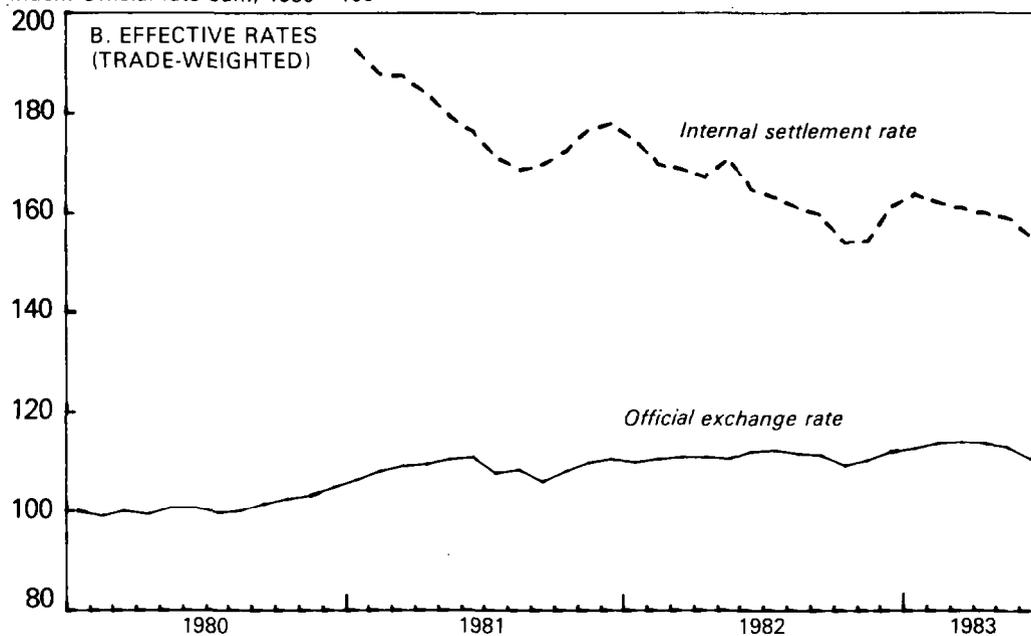
Some changes were made in the regulations governing joint ventures in October 1982. Machinery and equipment imported by joint ventures in the special economic zones were exempted from customs duties and the commercial and industrial tax was levied at the most favorable applicable rate. Greater flexibility was given to joint ventures to sell products domestically, and not all were required to earn a foreign exchange surplus. Goods purchased by joint ventures within China (excluding precious metals, coal and timber, but including water, gas and electricity) could be paid for in Chinese currency at domestic prices. In April 1983, the income tax holiday for newly established ventures was extended from one to two years, while the period for which the tax was to be levied at half the normal rate was changed from the second and third years to the third and fourth years. If profits are reinvested in China, 40 percent of the tax paid will be rebated after five years, provided the venture remains in operation at that time. The 10 percent additional tax on remitted profits remain unchanged under the new regulations.

CHART 10
CHINA
EXCHANGE RATES, 1979-83

Yuan per U.S. dollar



Index: Official rate Jan., 1980 = 100¹



Sources: Information provided by the Chinese authorities and staff estimates.
¹Higher figures indicate more depreciated rate.



China has continued to reduce its reliance on bilateral payments agreements. By the end of June 1983, China maintained arrangements with fifteen Fund members and nine nonmembers. Four of these arrangements, three with Fund members (Indonesia, Kampuchea, and Viet Nam) and one with a nonmember (Albania), are at present inoperative. Since the last Article XIV consultation, the arrangements with Finland and Syria have been terminated. Balances also remained to be settled at the end of 1982 under the expired arrangements with Nepal and Somalia (Appendix Table XXX).

China is a creditor on most of its bilateral accounts, including all those with CMEA member countries. The largest credit has been extended to the Korean Democratic People's Republic, followed by Romania. During 1982, Iran repaid \$140 million of its clearing liabilities to China. Other large movements were with Cuba, which increased its liabilities by \$60 million, and Czechoslovakia, which reduced its liabilities by a similar amount.

c. Changes in the restrictive system since June 30, 1982

1982

August. The ban on trade with South Africa, South Korea, and Israel was reaffirmed.

August. Higher duties were levied on personal imports of tape recorders.

August 23. By a decision of the Standing Committee of the National People's Congress, the State General Administration for Exchange Control was renamed the State Administration of Exchange Control and placed under the leadership of the People's Bank of China. No changes in its functions were involved.

September 15. Gold bullion coins were issued for sale abroad, initially in Japan and in Hong Kong.

October 4. New incentives for investors in the Shenzhen special economic zone were introduced, including possible exemption from the consolidated commercial and industrial tax.

November. Changes were made in the regulations governing foreign currency and convertible renminbi bank accounts.

December. An agreement on the settlement of accounts in border trade was signed with the U.S.S.R.

December 31. The bilateral payments agreement with Finland was terminated, with outstanding balances to be settled by April 1983.

December 31. The textile agreement between China and the United States expired.

1983

January 19. Following the imposition of restrictions on Chinese textile exports by the United States, China announced it would stop imports of cotton, synthetic fibers, and soybeans from the United States and would reduce its planned imports of agricultural products.

February 1. New regulations governing the operation of foreign bank branches in China were issued by the People's Bank of China.

February 7. The State Administration of Exchange Control announced that foreign workers and employees, and those from Hong Kong and Macao, could remit 100 percent of their post-tax earnings, as opposed to 50 percent hitherto.

March. The withholding tax on dividends, interest, rentals, royalties, and other sources of income in China was reduced from 20 percent to 10 percent.

April. Taxes on joint ventures were reduced.

June 29. Pursuant to the agreement of March 16, 1982, the bilateral payments agreement with Syria was terminated.

July 30. Guangdong province announced new rules strengthening controls over imports and exports between the province and Hong Kong and Macao.

August 1. By-laws governing overseas Chinese and foreign investment in joint ventures were issued.

August 1. New rules for implementing exchange control for enterprises with foreign and overseas Chinese capital and joint ventures, approved by the State Council on July 19, 1983, were promulgated.

August 19. The second China-U.S. Textile Trade Agreement was signed.

September 2. The Standing Committee of the National People's Congress approved certain changes in the income tax law for joint ventures.

September 6. An agreement was signed with Japan for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income.

September 6. China lifted the ban on certain imports from the United States introduced on January 19, 1983.

September 14. New regulations were introduced by the Customs Administration exempting raw materials imported for further processing from customs duties and commercial taxes, providing the products are all exported within a certain period.

Table I. China: Economic Reforms--Principal Measures and Outcomes by Sectors

<u>Sector</u>	<u>Structural Features (1982 data)</u>	<u>Principal Reform Measures</u>	<u>Major Outcomes and Subsequent Modification</u>
Rural collectives and individuals	<p>1. The sector employs 330 million people (three fourths of the labor force) organized under some 55,000 communes (each employing on average, 6,000 people), which are divided into brigades (450 people on average) and subdivided into production teams (55 people); about 30 million of this labor force are assigned to commune- and brigade-run enterprises.</p> <p>2. Contributes most of China's agricultural output (a small part comes from state farms) and considerable parts of rural industrial and commercial activities, especially through enterprises.</p>	<p>1. Under a "production responsibility system," greater autonomy in production and financial decisions and greater material incentives have been given to lower units, including households and individuals. Also, some non-commune sideline activities (including some industry and commerce) have been allowed.</p> <p>2. Certain transactions involving rural products have been exempted from price controls, partly restoring market mechanisms.</p>	<p>1. Both output and productivity of this sector rose considerably. The size of production units has been effectively reduced, in some cases, to households and individuals.</p> <p>2. The share of incomes from sideline and other non-commune sources has increased substantially.</p>
Urban collectives and individuals	<p>1. Consists of 28 million workers (6 percent of labor force) mostly in large- and medium-sized collectives, but including 1.5 million self-employed. Of this total, 15 million are in industry, and about 5 million (including most of the self-employed), in domestic trade and catering.</p> <p>2. Contributes about 16 percent of total industrial output, as well as of retail trade. Provides a substantial part of urban services, especially catering.</p>	<p>1. Collectives have been given greater production and financial autonomy.</p> <p>2. Individual and partnership businesses have been allowed (but hiring of workers other than apprentices is prohibited).</p> <p>3. A bonus/penalty scheme (including piece-rate wages) has been implemented in many collectives.</p>	<p>1. Output and employment of this sector have risen markedly, especially with regard to the self-employed.</p> <p>2. Regulations regarding the operation of urban collectives have recently been formalized. There have been no other significant changes in the reform measures.</p>
State sector	<p>1. Consists of 86 million workers (almost 20 percent of labor force) in central and local government departments and agencies, some 2,000 state farms, 84,000 industrial enterprises, and numerous trading and service units. Of the total, about 20 million are in general government services (including utilities, education, and public health) and banking; 35 million in industries, and 10 million in commerce and catering services.</p> <p>2. The sector is responsible for general government services, international trade, banking, and communication. It also carries major portions of China's industrial and domestic trade activities, as well as construction, transportation, and other services.</p>	<p>1. Local government units have been given greater autonomy, as well as a larger share of revenues</p> <p>2. Enterprises have been given greater operational flexibility (e.g., to choose what to produce once plan quotas are met, what to buy and from whom). Also, under a "profit retention scheme," enterprises are allowed to retain a share of profits (initially, the scheme was applied to some 6,000 enterprises, but later expanded to all enterprises).</p> <p>3. A bonus/penalty scheme (including piece-rate wages) has been implemented in many enterprises.</p>	<p>1. Employment rose in line with output; productivity growth has not accelerated. The bonus/penalty scheme did not have as much impact on the pattern of household incomes as in the rural sector.</p> <p>2. Retained profits by enterprises (and, also retained revenues by localities) rose, as well as investment by these enterprises and localities. In contrast state budget receipts, as well as investment in key projects, stagnated.</p> <p>3. An income tax reform is being implemented to strengthen state budget receipts; measures have also been taken to restore the power of the central authorities to control investment.</p>

Sources: Information provided by the Chinese authorities, IMF, China--Recent Economic Developments for 1980 and 1981 (SM/81/43 and SM/82/150), and IBRD, China--Recent Economic Trends and Policy Developments (March 1983).

Table II. China: Sixth Five-Year Plan--Selected Targets, 1980-85

	1980 (Actual)	1982 (Actual)	1985 (Plan)	Average Annual Change	
				1980-82 (Actual)	1980-85 (Plan)
	<u>(In billions of 1980 yuan)</u>			<u>(In per cent)</u>	
National income	369	408	445	5.2	4.0
Gross value of industrial and agricultural output	716	815	871	6.7	4.0
(Industry)	(497)	(556)	(605)	(5.9)	(4.0)
(Agriculture)	(219)	(259)	(266)	(8.8)	(4.0)
	<u>(In millions of tons)</u>				
Foodgrain	321	353	360	4.8	2.4
Fertilizer	12	13	13	2.0	1.5
Energy ^{1/} (Crude oil)	637 (106)	668 (102)	683 (100)	2.4 (-2.1)	1.4 (-1.1)
Steel	37	37	39	--	1.0
Cement	80	95	98	9.0	4.2
Cotton yarn	2	3	4	8.9	11.4
	<u>(Millions of sets)</u>				
Bicycles	13	24	33	35.4	20.4
Television sets	3	6	7	53.4	22.8

Source: State Statistical Bureau.

^{1/} Total output of energy (coal, petroleum, natural gas, and hydropower) in equivalent of standard coal.

Table III. China: Sources of National Income, 1979-82

(in billions of current yuan)

	1979	1980	1981	1982
Industry	153.6	168.8	170.9	179.2
Agriculture <u>1/</u>	131.8	146.7	165.8	189.3
Commerce <u>2/</u>	24.5	24.7	27.8	23.5
Transport and communications	12.1	11.7	12.0	13.3
Construction	13.0	16.9	17.5	19.4
National income	<u>335.0</u>	<u>368.8</u>	<u>394.0</u>	<u>424.7</u>
Nonmaterial services <u>3/</u>	23.5	25.8	27.6	29.7
Depreciation	20.1	22.0	23.3	23.8
Rent <u>4/</u>	11.7	12.9	13.8	14.8
GDP	<u>390.3</u>	<u>429.5</u>	<u>458.7</u>	<u>493.0</u>

Sources: State Statistical Bureau; and staff estimates.

1/ Includes industrial enterprises of brigades and teams.2/ Estimate for 1982 is not directly comparable with that for earlier years.3/ Estimated at 7 percent of national income.4/ Imputed rents from owner-occupied dwellings (net of maintenance costs). Estimated at 3 percent of GDP.

Table IV. China: Uses of National Income, 1979-82

	1979	1980	1981	1982
(In billions of current yuan)				
National income produced	<u>335.0</u>	<u>368.8</u>	<u>394.0</u>	<u>424.7</u>
Trade balance and statistical discrepancy	-0.6	-0.2	-5.3	0.7
Available national income	<u>335.6</u>	<u>368.6</u>	<u>388.7</u>	<u>425.4</u>
Consumption	<u>219.5</u>	<u>252.1</u>	<u>278.1</u>	<u>302.1</u>
Private	(191.0)	(222.3)	(247.3)	(268.4)
Public	(28.5)	(29.8)	(30.8)	(33.7)
Accumulation	116.1	116.5	110.6	123.3
By purpose				
Directly productive	(74.4)	(63.5)	(51.8)	(61.2)
Social infrastructure	(41.7)	(53.0)	(58.8)	(62.1)
By type of asset				
Fixed assets (net)	(83.8)	(89.3)	(77.8)	(96.2)
Stockbuilding and work-in-progress <u>1/</u>	(32.3)	(27.2)	(32.8)	(27.1)
(Percent changes over previous year)				
Available national income	<u>12.8</u>	<u>9.8</u>	<u>5.5</u>	<u>9.4</u>
Consumption	<u>16.3</u>	<u>14.9</u>	<u>10.3</u>	<u>8.6</u>
Accumulation	6.8	0.3	-5.1	11.5
Of which:				
Fixed assets (net)	6.8	6.6	-12.9	23.7
Stockbuilding and work-in-progress <u>1/</u>	5.9	-15.8	20.6	-13.4

Sources: State Statistical Bureau; and staff estimates.

1/ Includes expenditures on equipment not yet installed.

Table V. China: Income Distribution, 1978-82

(In per cent of total number of households)

Average Per Capita Income	1978	1981	1982
Rural household income			
Over Y 500	0.6	3.2	6.7
Over Y 300	2.4	22.6	...
Over Y 200	27.5	...	73.2
Over Y 150	35.0	80.3	...
Over Y 100	67.0	95.3	...
Urban households			
Over Y 720	...	6.5	...
Over Y 600	...	18.4	24.4
Over Y 420	...	60.7	...
Over Y 300	...	92.5	95.6
Over Y 240	...	98.0	...

Sources: China China Daily, March 2, 1983, p. 1; Beijing Review, May 16, 1983, pp. 7-8; China Daily, March 9, 1983; and State Statistical Yearbook, 1981, p. 438.

Table VI. China: Tax Plus Profit Ratios of Selected Sectors of State Industrial Enterprises with Independent Accounting, 1981

	Ratio of Profits and Taxes to Total Fixed and Working Capital	Ratio of Profits and Taxes to Total Production Cost
All branches	23.8	33.4
Light industry	53.5	34.3
Heavy industry	16.1	32.6
Metallurgical industry	16.4	29.8
Power industry	23.3	87.1
Of which: Hydropower	12.7	112.9
Coal and coke industry	3.8	7.6
Of which: Coal	3.5	7.2
Petroleum industry	62.6	79.7
Chemical industry	26.1	31.4
Of which:		
Chemical fertilizer	7.7	14.7
Chemical pesticides	14.0	12.1
Machine building industry	10.7	23.7
Of which:		
Agricultural machinery	2.5	5.8
Industrial machinery	8.6	21.4
Building materials industry	15.0	27.0
Food industry	63.9	35.8
Of which:		
Canned food	27.6	16.9
Tobacco manufactures	340.6	184.6
Textile industry	63.6	33.0
Of which:		
Chemical fibers	32.9	39.0
Cotton textiles	81.5	33.2

Source: State Statistical Yearbook, 1981, pp. 268-9.

Table VII. China: Index of Internal Terms of Trade, 1978-82
(1978 = 100)

	1978	1979	1980	1981	1982
General purchasing prices for farm and sideline products	100.0	122.1	130.8	138.5	141.6
Retail prices of industrial products sold in rural areas	100.0	100.1	100.9	101.9	103.6
Purchasing power of agricultural products in terms of industrial products	100.0	122.0	129.5	135.8	136.9

Source: State Statistical Bureau.

Table VIII. China: Inputs in Agriculture and Average Yields of Major Crops, 1979-82

	1979	1980	1981	1982
Total sown area (mn.ha.)	148.5	146.4	145.2	144.7
Grain crops	119.3	117.2	115.0	113.4
Of which:				
Paddy	(33.9)	(33.9)	(33.3)	(33.1)
Wheat	(29.4)	(29.2)	(28.3)	(27.9)
Corn	(20.1)	(20.4)	(19.4)	(18.5)
Soybeans	(7.2)	(7.2)	(8.0)	(8.4)
Industrial crops	14.8	15.9	17.6	18.8
Of which:				
Cotton	(4.5)	(4.9)	(5.2)	(5.8)
Oil-bearing crops	(7.1)	(7.9)	(9.1)	(9.3)
Sugar crops	(0.8)	(0.9)	(1.0)	(1.1)
Tobacco	(0.5)	(0.4)	(0.6)	(0.9)
Machine-plowed farmland (percent of total)	42.2	41.0	36.5	35.1
Chemical fertilizer (kg. per ha; 100 percent effectiveness)	109	128	135	153
Large and medium tractors <u>1/</u> (1,000)	666.8	744.7	792.0	812.4
Small tractors (mn.)	1.7	1.9	2.0	2.3
Power-driven drainage and irrigation equipment (mn.hp.)	71.2	74.6	75.0	76.7
Average yields (tons/sown ha.)				
Paddy	4.25	4.13	4.32	4.88
Wheat	2.14	1.89	2.11	2.45
Corn	2.99	3.08	3.05	3.26
Soybeans	1.03	1.10	1.16	1.07
Cotton	0.49	0.55	0.57	0.62
Peanuts	1.36	1.54	1.55	1.62
Rapeseed	0.87	0.84	1.07	1.37
Sesame	0.50	0.33	0.62	0.36
Sugarcane	42.0	47.6	53.8	56.5
Sugarbeets	9.6	14.2	14.6	14.5

Source: State Statistical Bureau.

1/ Tractors with capacity of 10 hp. and more.

Table IX. China: Gross Value of Industrial Output
by Sector, 1980-82 1/

(In billions of yuan)

	1980	1981	1982
		<u>(1980 prices)</u>	
Total	497.4	517.8	557.7
Heavy	263.9	251.5	276.5
Light	233.4	266.3	281.5
Metallurgy	43.0	45.7	48.5
Power	18.8	19.5	20.7
Coal and coke	12.4	15.7	16.6
Petroleum	25.2	28.2	28.8
Chemicals	62.2	59.1	65.9
Machine building	127.4	108.0	122.5
Building materials	18.1	19.5	22.5
Forestry products	8.7	10.5	11.2
Food	56.8	69.0	75.5
Textiles	73.5	85.6	86.7
Leather	5.1	5.9	5.6
Paper	6.4	6.9	7.4

Source: State Statistical Bureau.

1/ The data are in constant prices of 1980; there were few price changes during the 1979-82 period. Average 1980 industrial prices are only 0.5 percent lower than the average 1970 prices (State Statistical Yearbook, 1981, p. 17).

Table X. China: Trends in Gross Output, Fixed Assets and Labor Force in Industry, 1979-82 1/

	1979	1980	1981	1982
Net fixed assets (Y billion)	23.78	25.28	27.09	29.14
Workers (millions)	31.09	32.46	34.07	35.03
Gross output (Y billion)	35.71	37.73	38.75	41.47
Output per worker (1979=100)	100.0	101.2	98.6	103.1
Fixed asset per worker (1979=100)	100.0	101.8	103.9	108.8
Labor per unit output (1979=100)	100.0	98.8	101.4	97.0
Fixed assets per unit output (1979=100)	100.0	100.6	105.0	105.5
Total factor inputs per unit of gross output (1979=100)				
(Based on weights of 0.6 for fixed assets and 0.4 for labor)	100.0	99.9	103.6	102.1
(Based on reversed weights)	100.0	99.5	102.8	100.4

Sources: Data provided by the Chinese authorities; and staff estimates.

1/ State-owned industrial enterprises using independent accounting.

Table XI. China: Budgetary Revenue, 1979-83 ^{1/}

(In billions of yuan)

	1979	1980	1981	Revised Budget 1982	Outcome 1982	Budget 1983
Tax revenue	<u>53.8</u>	<u>57.2</u>	<u>63.0</u>	<u>68.0</u>	<u>70.0</u>	<u>73.0</u>
1. Taxes on net income and profits	<u>7.7</u>	<u>7.5</u>	<u>7.6</u>	<u>8.2</u>	<u>8.4</u>	<u>10.1</u>
1.1 Enterprises ^{2/}	(4.5)	(4.5)	(4.4)	(4.7)	(5.2)	(6.3)
1.2 Agricultural tax	(2.9)	(2.8)	(2.8)	(...)	(2.9)	(2.9)
1.3 Other	(0.3)	(0.2)	(0.4)	(...)	(0.3)	(0.9)
2. Taxes on goods and services	<u>43.5</u>	<u>46.3</u>	<u>50.0</u>	<u>55.3</u>	<u>56.9</u>	<u>58.4</u>
2.1 General sales taxes ^{3/}	(42.5)	(45.4)	(49.1)	(54.4)	(55.9)	(57.5)
2.2 Sales tax	(1.0)	(0.9)	(0.9)	(0.9)	(1.0)	(0.9)
3. Taxes on international trade	<u>2.6</u>	<u>3.4</u>	<u>5.4</u>	<u>4.5</u>	<u>4.7</u>	<u>4.5</u>
3.1 Customs duties	(2.6)	(3.4)	(5.4)	(4.5)	(4.7)	(4.5)
Nontax revenue	<u>72.5</u>	<u>74.4</u>	<u>76.0</u>	<u>72.0</u>	<u>73.0</u>	<u>79.4</u>
1. Gross profit remittances from state enterprises	68.9	70.9	72.7	69.3	68.6	71.0
2. Depreciation funds	2.5	2.7	2.6	2.2	2.6	2.2
3. Other	1.1	0.8	0.7	0.5	1.8	6.2 ^{4/}
3.1 Foreign aid grants	(--)	(--)	(0.4)	(0.3)	(0.3)	...
Total revenue ^{5/}	<u>126.3</u>	<u>131.6</u>	<u>139.0</u>	<u>140.0</u>	<u>143.0</u>	<u>152.4</u>
Memorandum items:						
Tax revenue as a percentage of gross domestic product	13.8	13.3	13.7	14.1	14.2	13.6
Total revenue as a percentage of gross domestic product	32.3	30.6	30.3	29.0	29.0	28.4

Sources: Ministry of Finance; and staff estimates.

^{1/} This includes all revenue, with the exception of extrabudgetary revenue received by the Central Government, provinces, local governments, and municipalities.^{2/} Collective enterprises.^{3/} The consolidated industrial and commercial tax.^{4/} Includes the revenue of the 10 percent tax on extrabudgetary receipts (Y 6.0 billion).^{5/} According to the definition contained in the IMF, Draft Manual on Government Finance Statistics (Washington, D.C., 1976)--See Annex I.

Table XII: China: Balance Sheet of the People's Bank of China, 1/ 1980-83

(In billions of yuan)

	December 31			March 31,
	1980	1981	1982	1983
Assets				
Loans	258.43	293.48	322.21	310.71
Industry	80.14	93.32	105.15	104.33
Industrial production enterprises	(43.16)	(48.73)	(52.67)	(52.23)
Industrial supply and marketing enterprises and material supply departments	(23.60)	(24.12)	(23.99)	(23.50)
Short- and medium-term loans for purchase of equipment	(5.55)	(8.34)	(15.20)	(15.13)
Loans to urban collective and individual enterprises	(7.83)	(12.13)	(13.30)	(13.47)
Commerce	143.70	164.17	178.80	164.74
Agriculture	17.59	18.97	21.24	24.62
Advance payment for procurement	(0.79)	(0.74)	(0.74)	(0.75)
State farms	(0.94)	(1.39)	(1.98)	(2.25)
Rural communes and production brigades	(15.86)	(16.84)	(18.52)	(21.62)
Ministry of Finance	17.02	17.02	17.02	17.02
Gold and foreign exchange ^{2/}	0.37	7.42	15.48	17.27
Gold	1.22	1.20	1.20	1.20
Foreign exchange	-0.85	6.22	14.28	16.07
Other assets	3.63	3.88	3.79	3.78
Total	262.43	304.79	341.52	331.77
Liabilities				
Deposits	165.87	200.56	228.71	224.21
State deposits	56.33	69.90	79.19	82.78
Budgetary	(16.20)	(19.49)	(17.57)	(20.64)
Capital construction ^{3/}	(17.18)	(22.92)	(28.48)	(27.83)
Government department and organizations	(22.95)	(27.49)	(33.14)	(34.32)
Enterprise deposits	57.31	67.41	71.79	69.78
Individual deposits in cities and towns	28.25	35.41	44.73	47.94
Rural area deposits ^{4/}	23.98	27.84	32.99	23.70
International organizations	3.43	5.16	5.24	5.24
Currency in circulation	34.62	39.63	43.91	43.33
Self-owned funds	47.73	49.71	51.83	55.50
Other liabilities	10.78	9.72	11.83	3.49
Total	262.43	304.78	341.52	331.77

Source: People's Bank of China.

^{1/} Includes balance sheets of the Bank of Agriculture (ABC) and the RMB operations of the Bank of China (BOC).

^{2/} Valued at acquisition costs, includes assets under bilateral payments agreements.

^{3/} Deposits of the Capital Construction Bank (CCBC) with the People's Bank of China (PBC), reflecting the deposits of enterprises and provincial and local governments with the CCBC pending their use for financing investment expenditure.

^{4/} Deposits of the ABC reflecting individual and rural enterprise deposits with the Rural Credit Cooperations (RCC) in excess of RCC loans, plus some individual deposits of rural workers directly with the ABC.

Table XIII. China: Balance Sheet of China's Rural Credit Cooperatives, 1979-82

(In millions of yuan; end of year)

	1979	1980	1981	1982
<u>Assets</u>	<u>23,313</u>	<u>29,409</u>	<u>35,038</u>	<u>42,402</u>
Loans	4,754	8,164	9,638	12,115
Agricultural loans to communes and production brigades	(2,254)	(3,454)	(3,571)	3,476
Loans to commune- and brigade- run enterprises	(1,415)	(3,111)	(3,546)	4,230
Loans to individual commune members	(1,085)	(1,599)	(2,521)	4,409
Deposits with the Agricultural Bank of China	18,559	21,245	25,400	30,287
<u>Liabilities</u>	<u>23,313</u>	<u>29,409</u>	<u>35,038</u>	<u>42,402</u>
Deposits by communes and pro- duction brigades	9,833	10,548	11,324	12,106
Deposits by commune- and brigade-run enterprises	2,193	2,947	2,973	3,366
Deposits by commune members	7,843	11,703	16,955	22,811
Other deposits	1,719	2,036	709	705
Other liabilities (net)	1,725	2,175	3,077	3,414

Sources: Data supplied by the Chinese authorities.

Table XIV. China: Quarterly Exports and Imports, by Value,
(Ministry of Foreign Trade), 1979-82

(In millions of U.S. dollars)

	1979	1980	1981	1982
Exports				
Total	<u>13,658</u>	<u>18,271</u>	<u>20,893</u>	<u>21,819</u>
1st quarter	2,528	3,654	4,086	4,901
2nd quarter	3,320	4,687	5,325	5,322
3rd quarter	3,667	4,641	5,445	5,532
4th quarter	4,143	5,289	6,037	6,064
Imports				
Total	<u>15,675</u>	<u>19,550</u>	<u>19,482</u>	<u>17,478</u>
1st quarter	3,289	3,723	4,723	3,302
2nd quarter	3,950	4,464	5,160	4,504
3rd quarter	3,566	4,695	4,304	4,344
4th quarter	4,870	6,668	5,295	5,328

Source: Ministry of Foreign Economic Relations and Trade.

Table XV. China: Foreign Trade (Customs Data), 1980-83

(In billions of yuan)

	Exports, f.o.b.	Imports, c.i.f.	Balance
1980	27.12	29.88	-2.76
1981	36.76	36.77	-0.01
1982	41.43	35.77	5.66
1981			
I	6.93	9.35	-2.42
II	8.82	10.67	-1.85
III	9.98	8.14	1.84
IV	11.04	8.62	2.42
1982			
I	9.38	8.01	1.37
II	9.99	9.39	0.60
III	10.44	8.68	1.76
IV	11.54	9.66	1.88
1983			
I	8.79	8.89	-0.10
II	10.94	9.77	1.17
1982			
January	3.06	2.54	0.52
February	2.91	2.70	0.21
March	3.42	2.78	0.64
April	3.07	3.36	-0.29
May	3.35	2.94	0.41
June	3.58	3.09	0.49
July	3.33	2.82	0.51
August	3.30	2.81	0.49
September	3.80	3.05	0.75
October	3.55	3.12	0.43
November	3.44	3.08	0.36
December	4.55	3.47	1.08
1983			
January	2.93	3.04	-0.11
February	2.45	2.72	-0.27
March	3.41	3.13	0.28

Source: IMF, International Financial Statistics, from State Statistical Bureau, General Administration of Customs.

Table XVI. China: Exports by SITC Group, 1981-83

(In millions of yuan)

	1981				1982				1983	
	I	II	III	IV	I	II	III	IV	I	II
Total	6,932	8,822	9,984	11,041	9,371	9,991	10,436	11,538	8,795	10,941
Primary products										
Foodstuffs	1,058	1,141	1,228	1,458	1,237	1,233	1,330	1,594	1,225	1,293
Beverages	26	20	21	32	40	46	43	51	56	41
Nonfood items	744	963	801	749	700	760	773	831	754	935
Mineral fuels	1,559	2,088	2,532	2,553	2,196	2,504	2,513	2,624	2,073	2,183
Oils and fats	24	33	50	34	15	40	57	39	28	54
Manufactured items										
Chemicals	421	528	590	702	520	559	535	608	513	585
Products classified by material	1,535	1,981	2,113	2,233	1,989	1,972	1,859	2,157	1,724	1,949
Of which: textiles (65)	(897)	(1,174)	(1,164)	(1,242)	(1,086)	(1,134)	(1,059)	(1,348)	(1,093)	(1,234)
Machinery and equipment	388	451	464	517	726	442	506	704	440	663
Miscellaneous manufactures	1,172	1,520	1,762	1,767	1,401	1,739	1,801	1,927	1,472	1,873
Of which: Clothing (84)	(553)	(742)	(944)	(874)	(685)	(935)	(979)	(1,015)	(754)	(1,044)
Other	6	96	416	995	548	695	1,029	1,005	511	1,366

Source: Customs Statistics.

Table XVII. China: Major Export Products, by Volume, 1979-82

	1979	1980	1981	1982
Cereals (thousand tons)	<u>1,542.1</u>	<u>1,618.3</u>	<u>1,260.8</u>	<u>1,251.2</u>
Rice (thousand tons)	1,053.1	1,116.4	583.3	457.1
Soybeans (thousand tons)	305.9	113.5	136.0	126.9
Beans (thousand tons)	67.2	56.1	76.4	75.6
Other cereals (thousand tons)	115.9	151.2	281.8	362.7
Peanut oil (thousand tons)	17.4	19.8	56.4	54.7
Peanut kernel (thousand tons)	35.2	75.6	238.7	114.0
Fresh eggs (thousand cattles)	99,510	105,630	110,240	108,560
Live hogs (thousands)	2,422.1	2,468.2	2,574.2	2,649.6
Frozen pork (thousand tons)	44.9	63.8	67.2	96.8
Frozen rabbit meat (thousand tons)	43.5	38.6	31.5	40.4
Aquatic products (thousand tons)	97.8	105.7	102.2	101.1
Fruit (thousand tons)	259.1	260.5	204.8	222.3
Canned fruit (thousand tons)	286.3	352.8	369.8	401.3
Beer (thousand tons)	19.2	25.9	31.1	35.5
Cotton yarns (thousand bales)	133.7	171.1	185.5	229.3
Cotton cloth (million meters)	1,108.83	1,086.30	1,173.94	1,123.84
Filature silk (tons)	9,040	7,731	5,198	10,340
Silk and satin materials (million meters)	145.75	132.25	142.66	115.49
Woolen materials (million meters)	12.65	15.63	14.36	12.20
Tea (thousand tons)	106.8	108.0	89.50	103.20
Resin (thousand tons)	183.9	137.2	114.60	99.30
Jute bags (thousands)	52,850	109,510	130,650	177,120
Bristles (thousand cases)	174.7	152.2	140.7	136.9
Bristle brushes (thousand dozens)	5,770	6,781	9,232	9,371
Camel hair (tons)	1,019	538	322	491
Rabbit hair (tons)	2,675	4,242	4,566	3,407
Carpets, superior quality, handmade (thousand square meters)	850.4	846.9	1,150.6	1,011.7
Goat skin (thousand hides)	11,010	9,675	15,102	16,949
Fur mattresses (thousand pieces)	6,350	6,872	4,810.6	2,590
Paper (thousand tons)	161.2	173.9	188.8	197.9
Sewing machines (thousands)	496.7	621.0	562.2	546.2
Bicycles (thousands)	642.1	839.0	1,119.3	1,091.3
Porcelain (million pieces)	740.33	803.16	788.29	680.2
Tin (tons)	4,611	4,156	3,437	2,890
Antimony (tons)	12,496	8,899	7,169	10,107
Tungsten (tons)	21,338	20,352	22,078	10,607
Coal (thousand tons)	4,630	6,317	6,573	6,444
Crude oil (thousand tons)	13,430	13,309	13,754	15,204
Paraffin wax (thousand tons)	66.0	71.8	59.3	84.4
Tires (thousand sets)	414.8	542.6	388.5	464.0
Machine tools (pieces)	6,556	7,656	7,968	5,940

Source: Ministry of Foreign Economic Relations and Trade.

Table XVIII. China: Major Export Products, by Value, 1979-82

(In millions of U.S. dollars)

	1979	1980	1981	1982
Total exports	<u>13,658</u>	<u>18,271</u>	<u>20,893</u>	<u>21,819</u>
Cereals	489	527	456	392
Rice	338	391	240	175
Soybeans	98	39	53	37
Beans	31	25	48	48
Other cereals	22	72	115	64
Peanut oil	17	19	56	33
Peanut kernel	36	68	326	93
Fresh eggs	46	50	59	59
Live hogs	197	214	229	240
Frozen pork	72	111	111	197
Frozen rabbit meat	53	49	43	62
Aquatic products	348	356	343	313
Fruit	95	100	75	79
Canned fruit	273	336	336	366
Beer	6	8	11	14
Cotton yarns	68	86	91	105
Cotton cloth	699	712	745	690
Filature silk	271	267	152	285
Silk and satin materials	263	253	287	239
Woolen materials	47	65	64	57
Tea	229	254	196	217
Resin	78	89	96	66
Jute bags	23	52	57	66
Bristles	80	68	58	55
Bristle brushes	18	22	26	25
Camel hair	6	3	2	2
Rabbit hair	60	114	147	108
Carpets, superior quality, handmade	83	90	114	95
Goat skin	53	53	62	63
Fur mattresses	88	100	73	38
Paper	78	94	103	94
Sewing machines	21	26	29	28
Bicycles	26	35	51	53
Porcelain	117	140	157	143
Tin	67	67	50	40
Antimony	37	29	20	22
Tungsten	203	195	208	74
Coal	177	265	327	335
Crude oil	1,750	3,012	3,287	3,398
Paraffin wax	31	52	41	42
Tires	23	31	22	27
Machine tools	31	37	32	24

Source: Ministry of Foreign Economic Relations and Trade.

Table XIX. China: Exports of Oil and Oil Products, 1981-83

(In millions of yuan)

	1981				1982				1983	
	I	II	III	IV	I	II	III	IV	I	II
Crude oil										
Volume (thousand tons)	2,640	3,370	3,920	3,930	3,390	3,880	3,770	3,640	3,070	3,420
Value (million yuan)	992.1	1,345.6	1,615.2	1,650.6	1,368.9	1,599.5	1,574.6	1,619.6	1,256.9	1,295.7
Unit value (yuan/ton)	376	399	412	420	404	412	417	445	409	379
(USdollar/ton)	236	232	233	241	224	222	215	226	20	191
Petroleum products, refined										
Volume (thousand tons)	920	1,090	1,380	1,280	1,250	1,140	1,200	1,320	1,130	1,320
Value (million yuan)	430.6	542.5	708.5	677.2	638.3	580.5	651.3	762.4	590.3	685.7
Unit value (yuan/ton)	468	498	513	529	511	509	543	578	522	519
(USdollar/ton)	293	290	290	304	283	275	280	293	267	261
Paraffin wax										
Volume (thousand tons)	13	14	20	21	16	22	23	28	32	27
Value (million yuan)	13.9	15.9	23.6	23.3	14.8	20.1	20.2	26.8	27.0	24.3
Unit value (yuan/ton)	1,074	1,130	1,158	1,086	920	913	866	968	844	909
(USdollar/ton)	673	658	655	624	510	493	447	491		457
Petroleum										
Volume (thousand tons)	49	39	39	41	29	26	37	47	29	32
Value (million yuan)	7.4	7.1	7.3	7.8	5.5	4.6	6.1	7.9	4.8	4.6
Unit value (yuan/ton)	152	181	189	193	186	180	165	167	164	144
(USdollar/ton)	95	105	107	111	103	97	85	85	84	72
Memorandum items:										
Middle East Light										
Spot market price										
(US\$/barrel)	37.7	33.7	32.1	33.7	31.0	32.3	32.0	31.8	29.0	28.6
(US\$/ton)	278	248	237	248	228	238	236	234	214	211
OPEC marker price										
(US\$/barrel)	32.0	32.0	32.0	34.0	34.0	34.0	34.0	34.0	31.0	29.0
(US\$/ton)	236	236	236	251	251	251	251	251	228	214

Sources: Customs Statistics; and SM/83/87.

Table XX. China: Imports by SITC Group, 1981-83

(In millions of yuan)

	1981				1982				1983	
	I	II	III	IV	I	II	III	IV	I	II
Total	9,348	10,669	8,137	8,619	8,030	9,386	8,677	9,663	8,895	9,770
Primary Products										
Foodstuffs	1,311	1,746	1,385	1,607	1,473	2,157	2,217	1,938	1,681	1,847
Of which: cereals	(1,165)	(1,485)	(1,155)	(1,265)	(1,198)	(1,677)	(1,644)	(1,539)	(1,296)	(1,412)
Beverages	69	82	110	94	102	91	29	19	28	19
Nonfood items	1,941	2,381	1,053	1,335	1,327	1,761	1,208	1,267	1,036	977
Mineral fuels	23	35	22	59	200	36	48	56	37	48
Oils and fats	63	37	30	36	43	55	72	30	17	42
Manufactures										
Chemicals	1,098	1,113	1,033	1,128	1,287	1,455	1,285	1,440	1,522	1,503
Products classified by materials	1,878	1,729	1,443	1,691	1,478	1,590	1,634	2,539	2,030	2,431
Machinery	2,430	2,903	2,441	2,025	1,499	1,512	1,360	1,572	1,770	1,840
Miscellaneous manufactures	223	254	230	224	221	204	215	262	293	360
Others	313	391	390	420	400	527	608	540	481	704

Source: Customs Statistics.

Table XXI. China: Major Import Products, by Volume, 1979-82

	1979	1980	1981	1982
Trucks <u>1/</u> (units)	24,768	22,015	9,896	7,282
Ships and vessels (units)	47	43	19	49
Airplanes (units)	14	28	7	65
Steel products (million tons)	8.473	5.006	3.332	4,137
Copper (thousand tons)	134	128	46	152
Aluminum (thousand tons)	146	110	46	209
Pig iron (million tons)	0.726	0.353	0.012	--
Iron ore (million tons)	7.162	7.253	3.336	3.452
Natural rubber (thousand tons)	246	263	131	169
Chemical fertilizer (million tons)	8.395	10.017	9.306	11.108
Chemicals (million U.S. dollars)	635	950	991	1,325
Agriculture chemicals (thousand tons)	82	50	133	...
Wood pulp (thousand tons)	239	420	654	520
Paper (thousand tons)	487	752	762	530
Watches (million units)	1.876	3.127	5.447	0.964
Televisions (thousand units)	784	1,605	1,710.8	...
Tape recorders (thousand units)	201	361	662	...
Cotton (thousand tons)	549	898	766	474
Acrylic fibers (thousand tons)	26	52	115	112
Polyester fibers (thousand tons)	126	251	425	169
Polyamide fibers (thousand tons)	15	6	32	9
Cereals (million tons)	11.776	12.895	14.251	15.787
Soybeans (thousand tons)	579	534	565	330
Animal fats and oilseeds (thousand tons) <u>2/</u>	298	355	183	180
Sugar (million tons)	1.096	0.912	1.028	2.177
Timber <u>3/</u> (thousand cubic meters)	554	1,804	1,464	4,838
Cocoa (thousand tons)	17	15	5	18
Coffee (thousand tons)	4	5	6	14

Source: Ministry of Foreign Economic Relations and Trade.

1/ Trucks include chassis, driving trucks, jeeps, trailers, cabs, etc.

2/ In oil equivalent.

3/ Timber refers to lumber only and does not include other kinds of wood.

Table XXII. China: Major Import Products, by Value, 1979-82

(In millions of U.S. dollars)

	1979	1980	1981	1982
Total imports	15,675	19,550	19,482	17,478
Trucks <u>1/</u>	450	323	85	64
Ships and vessels	231	230	40	406
Airplanes	25	60	8	106
Steel products	3,522	2,240	1,362	1,705
Copper	234	273	84	226
Aluminum	183	183	70	209
Pig iron	97	50	2	--
Iron ore	101	102	55	56
Natural rubber	280	331	143	137
Chemical fertilizer	655	1,065	1,095	1,034
Chemicals	635	950	991	1,325
Agriculture chemicals	110	78	72	99
Wood pulp	78	195	291	175
Paper	173	300	340	224
Watches	31	52	78	18
Televisions	82	102	159	136
Tape recorders	6	11	13	71
Cotton	815	1,420	1,456	680
Acrylic fibers	32	82	190	173
Polyester fibers	160	396	702	361
Polyamide fibers	54	22	136	14
Cereals	1,485	2,118	2,577	2,540
Soybeans	159	141	159	85
Animal fats and oilseeds	194	213	112	95
Sugar	219	294	485	649
Timber <u>2/</u>	47	204	267	467
Cocoa	61	46	11	41
Coffee	11	17	8	14

Source: Ministry of Foreign Economic Relations and Trade.

1/ Trucks include chassis, driving trucks, jeeps, trailers, cabs, etc.2/ Timber refers to lumber only and does not include other kinds of wood.

Table XXIII. China: Invisibles, 1979-82

(In millions of U.S. dollars)

	1979	1980	1981	1982
Shipment of freight				
Credit	348	553	848	784
Debit	-906	-1,187	-1,181	-1,011
Other transportation				
Credit	33	106	113	140
Debit	-12	--	--	--
Insurance				
Credit	68	127	255	202
Debit	-32	-66	-176	-89
Port dues, ship chand- lering, etc.				
Credit	316	385	422	389
Debit	-376	-566	-710	-612
Travel receipts				
Credit	413	511	672	703
Debit	--	--	-69	-66
Bank interest and charges				
Credit	305	512	697	998
Debit	-350	-612	-821	-641
Other services				
Credit	210	215	123	297
Debit	-316	-272	-376	-544
Total services				
Credit	1,693	2,409	3,130	3,513
Debit	-1,992	-2,703	-3,333	-2,963
Net	-299	-294	-203	550
Private unrequited transfers				
Credit	656	668	484	544
Debit	--	-28	-20	-14
Public unrequited transfers				
Credit	--	21	156	115
Debit	-30	-91	-48	-174
Net unrequited transfers	626	570	572	471
Net invisibles	327	276	369	1,021

Sources: State Administration for Exchange Control; and Fund staff estimates.

Table XXIV. China: Capital Account, 1979-82

(In millions of U.S. dollars)

	1979	1980			1981			1982		
		Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net
Long-term capital										
Direct investment	--	92	-35	57	283	-18	265	384	-25	359
Stocks and bonds	--	--	--	--	--	-9	-9	40	-20	20
Official loans	--	11	--	11	19	--	19	333	--	333
Energy loans	--	435	--	435	460	--	460	225	--	225
Buyers credit	36	106	--	106	207	-9	198	335	-42	293
Interbank loans	1,330	349	-201	148	44	-844	-797	--	-1,089	-1,089
Deferred payments	--	200	-400	-200	447	-376	71	1,434	-952	482
Nonbank borrowing	--	195	--	195	125	-120	5	55	-97	-42
Due payments for processing, etc.	--	294	-57	237	85	-66	19	106	-59	47
Foreign aid: Extension	-613	--	-253	-253	--	-284	-284	--	-413	-413
Repayment	69	35	--	35	34	--	34	18	--	18
Others	--	999	-10	989	280	-10	270	-46	-65	-111
Total credit	1,435	2,716	--	2,716	1,985	--	1,985	2,884	--	2,884
Total debit	-613	--	-956	-956	--	-1,733	-1,733	--	-2,762	-2,762
Long-term capital (net)	822			1,760			252			122
Short-term capital										
Deferred payments (net)	447			174			121			177
Deferred receipts (net)	--			-156			-662			-318
Short-term bank borrowing (net)	1,234			138			-528			43
Bilateral payments assets	-127			-80			110			56
Short-term capital (net)	1,554			76			-959			-56
Total capital	2,376			1,836			-707			66

Sources: State Administration of Exchange Control; and Fund staff estimates.

Table XXV. China: Debt Amortization Schedule, 1982-89

(In millions of U.S. dollars)

Type of Loan	Outstanding Dec. 31, 1982	Amortization Due In						
		1983	1984	1985	1986	1987	1988	1989 and beyond
Bonds	40	--	--	--	--	--	--	40
International organizations	3	--	--	--	--	--	--	3
Energy credit	1,109	--	--	72	149	184	184	520
Japanese commodity loans	223	--	--	--	--	--	--	223
Other intergovern- mental loans	144	--	--	--	--	--	--	144
Buyers' credit	638	87	170	161	134	86	--	--
Deferred payments	1,590	485	407	293	233	172	--	--
Borrowing from banks	1,232	142	223	212	211	211	151	82
Non-bank borrowing	144	36	36	36	26	10	--	--
	5,123	750	836	774	753	663	335	1,012
Trust Fund	341	--	--	--	68	68	68	137
Total <u>1/</u>	5,464	750	836	774	821	731	403	1,149

Sources: Staff estimates partly based on data obtained from the Bank of China and Ministry of Foreign Economic Relations and Trade.

1/ Excluding the first credit tranche drawing from Fund.

Table XXVI. China: International Reserves, 1978-83

(In millions of U.S. dollars, end of year)

	1978	1979	1980	1981	1982	End March 1983
Foreign exchange						
Foreign exchange balance total	868	1,668	-388	3,506	7,728	8,734
Minus bilateral payments assets (net)	<u>701</u>	<u>828</u>	<u>908</u>	<u>798</u>	<u>742</u>	<u>708</u>
State foreign exchange	<u>167</u>	<u>840</u>	<u>-1,296</u>	<u>2,708</u>	<u>6,986</u>	<u>8,026</u>
Plus Bank of China borrowed reserves	<u>1,390</u>	<u>1,314</u>	<u>3,558</u>	<u>2,065</u>	<u>4,139</u>	<u>4,382</u>
Total foreign exchange reserves	1,557	2,154	2,262	4,773	11,125	12,408
Gold (People's Bank of China holdings) ^{1/}	584	590	571	516	491	478
Reserve position in the Fund SDRs	--	--	191	--	--	--
	<u>--</u>	<u>--</u>	<u>92</u>	<u>275</u>	<u>214</u>	<u>201</u>
Total reserves	2,141	2,744	3,116	5,564	11,830	13,087

Source: Bank of China.

^{1/} Valued at SDR 35 per fine troy ounce.

Table XXVII. China: State Foreign Exchange Balance, 1979-83

(In billions of U.S. dollars)

	1979	1980	1981	1982	1983 1st Qtr.
<u>Sources of foreign exchange</u>					
Total	<u>19.250</u>	<u>24.988</u>	<u>29.643</u>	<u>31.334</u>	<u>13.907</u>
Balance at start of year <u>1/</u>	0.868	1.668	-0.388	3.506	7.728
Exports	13.079	17.508	20.558	21.101	4.899
Remittances and nontrade receipts	2.703	3.651	4.685	4.722	1.034
Borrowed from Bank of China	2.600	2.161	3.857	2.005	0.246
(Of which: Ministry of Finance borrowings)	(...)	(1.802)	(2.574)	(1.556)	(0.121)
Borrowed from IMF <u>2/</u>	--	--	0.931	--	--
<u>Uses of foreign exchange</u>					
Total	<u>17.582</u>	<u>25.376</u>	<u>26.137</u>	<u>23.606</u>	<u>5.173</u>
Imports	16.125	21.675	19.998	18.067	4.459
Nontrade payments	0.853	2.059	3.171	3.338	0.609
Repayment to Bank of China	0.604	1.642	2.968	2.201	0.105
(Of which: Ministry of Finance repayments)	(...)	(1.300)	(2.601)	(2.000)	(--)
Balance at end of year <u>1/</u>	1.668	-0.388	3.506	7.728	8.734
(Of which: foreign exchange)	(0.840)	(-1.296)	(2.708)	(6.986)	(8.026)

Sources: State Administration for Exchange Control; and Fund staff estimates.

1/ Includes net bilateral payments assets.

2/ Valued at the time of drawing.

Table XXVIII. China: Exchange Rate, 1977-83

(In yuan per U.S. dollar)

	End of Period			Period Average		
	Buying	Selling	Midpoint	Buying	Selling	Midpoint
1977	1.7257	1.7343	1.7300	1.8532	1.8625	1.8578
1978	1.5732	1.5810	1.5771	1.6794	1.6878	1.6836
1979	1.4925	1.4999	1.4962	1.5510	1.5588	1.5549
1980	1.5265	1.5341	1.5303	1.4947	1.5021	1.4984
1981	1.7411	1.7499	1.7455	1.7008	1.7093	1.7051
1982	1.9179	1.9275	1.9227	1.8878	1.8972	1.8925
1981						
January	1.6028	1.6108	1.6068	1.5448	1.5525	1.5487
February	1.6211	1.6293	1.6252	1.6065	1.6146	1.6106
March	1.6095	1.6175	1.6135	1.6239	1.6321	1.6280
April	1.6798	1.6882	1.6840	1.6578	1.6661	1.6620
May	1.7392	1.7480	1.7436	1.7184	1.7270	1.7227
June	1.7423	1.7511	1.7467	1.7561	1.7649	1.7605
July	1.7755	1.7845	1.7800	1.7554	1.7642	1.7598
August	1.7639	1.7727	1.7683	1.7907	1.7997	1.7952
September	1.7631	1.7719	1.7675	1.7457	1.7544	1.7501
October	1.7414	1.7502	1.7458	1.7461	1.7548	1.7505
November	1.7085	1.7171	1.7128	1.7303	1.7389	1.7346
December	1.7411	1.7499	1.7455	1.7334	1.7421	1.7378
1982						
January	1.7885	1.7975	1.7930	1.7632	1.7721	1.7617
February	1.8355	1.8447	1.8401	1.8128	1.8219	1.8174
March	1.8628	1.8722	1.8675	1.8333	1.8425	1.8379
April	1.8132	1.8222	1.8177	1.8473	1.8565	1.8519
May	1.8239	1.8331	1.8285	1.8052	1.8142	1.8097
June	1.9262	1.9358	1.9310	1.8922	1.9017	1.8970
July	1.9216	1.9312	1.9264	1.9188	1.9284	1.9236
August	1.9403	1.9501	1.9452	1.9339	1.9436	1.9387
September	1.9635	1.9733	1.9684	1.9455	1.9553	1.9504
October	1.9946	2.0046	1.9996	1.9772	1.9871	1.9822
November	1.9708	1.9806	1.9757	1.9891	1.9991	1.9941
December	1.9179	1.9275	1.9227	1.9351	1.9448	1.9399
1983						
January	1.9366	1.9464	1.9415	1.9153	1.9250	1.9201
February	1.9638	1.9736	1.9687	1.9554	1.9652	1.9603
March	1.9891	1.9991	1.9941	1.9731	1.9830	1.9780
April	1.9809	1.9909	1.9859	1.9822	1.9922	1.9872
May	1.9889	1.9989	1.9939	1.9802	1.9901	1.9852
June	1.9788	1.9888	1.9838	1.9845	1.9945	1.9895

Source: State Administration of Exchange Control.

Table XXIX. China: Percentage of Total Imports and Exports
By Type of Trading Corporation, 1980-82

	1980		1981		1982	
	Export	Import	Export	Import	Export	Import
Import and Export Corporations under the Ministry of Foreign Economic Relations and Trade	97.7	91.7	90.6	87.1	80.2	79.3
Cereals, oils and foodstuff	14.7	16.9	13.8	19.8	12.2	21.7
Textiles	18.0	13.1	16.7	15.1	13.2	8.9
Native produce and animal by-products	14.2	2.0	11.9	2.8	11.1	3.6
Light industrial products	7.2	4.2	6.8	5.2	6.0	3.2
Arts and crafts	6.4	0.5	6.1	0.2	5.0	0.2
Metals and minerals	7.5	16.5	7.3	8.9	4.9	11.9
Chemical	28.3	14.5	26.5	13.1	26.4	16.3
Machinery	1.4	9.3	1.5	3.9	1.4	2.6
Instrument	--	1.8	--	1.4	--	1.3
Technical	--	12.9	--	16.5	--	9.3
Packing	--	--	--	0.2	--	0.3
Other trading corporations	2.3	8.3	9.4	12.9	18.8	20.7
Total	100	100	100	100	100	100

Source: Ministry of Foreign Economic Relations and Trade.

Table XXX. China: Bilateral Payments Agreements, 1978-82

(In millions of U.S. dollars) ^{1/}

	Status ^{2/}	Balance Outstanding as of December 31,				
		1978	1979	1980	1981	1982
Afghanistan		-0.56	-1.55	2.10	2.26	-0.40
Bangladesh		2.66	7.24	0.98	3.28	0.65
Congo	T	0.31	--	--	--	--
Cyprus	T	0.20	0.87	-0.09	--	--
Egypt		23.04	22.62	16.74	-25.01	-3.22
Finland	T	-4.90	-21.13	-30.32	-18.79	-4.58
Ghana		3.41	6.74	-15.08	-1.57	-1.67
Greece	T	-5.35	5.91	5.82	--	--
Guinea		2.09	3.01	2.54	1.24	2.79
Hungary		23.82	20.48	5.04	10.86	2.42
Indonesia	I	7.36	8.88	9.13	7.66	6.95
Iran		31.91	51.29	100.24	172.85	32.17
Kampuchea	I	29.22	31.22	25.44	21.35	19.62
Mali	T	-2.56	--	--	--	--
Nepal	T	1.77	5.43	8.17	9.83	11.98
Pakistan		0.37	-3.86	-12.93	-6.28	-15.03
Romania		186.71	189.33	296.51	153.74	184.42
Sierra Leone		4.21	4.79	9.66	14.98	10.38
Somalia		0.44	2.76	5.51	2.72	0.03
Sri Lanka	T	4.51	39.80	17.28	-4.59	--
Syria	T	16.61	17.70	12.78	12.01	37.19
Viet Nam	I	<u>17.15</u>	<u>17.89</u>	<u>18.60</u>	<u>15.61</u>	<u>14.41</u>
Fund member countries		342.42	409.42	478.12	372.15	298.11
Albania	I	-1.93	0.37	0.37	0.36	0.36
Bulgaria		-1.21	-1.32	13.26	14.99	21.46
Cuba		26.50	46.81	39.66	4.80	62.12
Czechoslovakia		59.96	33.24	66.52	61.57	0.28
German Democratic Republic		37.19	47.62	0.99	21.19	3.98
Mongolia		6.77	7.30	5.96	4.23	4.07
Korean Dem. Peoples Rep.		96.56	172.70	273.19	279.36	295.88
Poland		42.76	30.49	6.14	17.30	24.78
U.S.S.R.		<u>91.96</u>	<u>81.57</u>	<u>23.88</u>	<u>22.30</u>	<u>31.24</u>
Nonmember countries		358.56	418.78	429.97	426.10	444.17
Total		700.98	828.20	908.09	798.25	742.28

Source: Bank of China.

^{1/} Positive figures indicate Chinese assets, negative figures liabilities.^{2/} Status as of June 30, 1983: T indicates terminated, I indicates inoperative, all others are operative.

Data Presentation

1. Fiscal data

In last year's recent economic developments paper (SM/82/150, Sup. 1, 7/27/82, pp. 1-5), a detailed description was given of the methods used to convert the official Chinese budgetary data to the format used by the Fund in its Draft Manual on Government Finance Statistics. Table 1 shows the way this conversion was performed this year.

2. Monetary survey

SM/82/150 (7/27/82), Sup. 1, Annex II gave a detailed report on the construction of the monetary survey, using the balance sheets of the PBC, the RCCs, information provided by the Chinese authorities, and staff estimates. This methodology has been used also in this report to update the monetary survey. The survey is still incomplete because of the absence of detailed information on the banking activities of the CCBC. Table 2 shows the method used to arrive at rural individual and enterprise deposits, Table 3 shows the data published in IMF, International Financial Statistics, while Table 4 shows how the monetary survey in the text (Table 15) is derived.

3. Balance of payments data

The methods used in preparing the Chinese balance of payments were described in detail in Annex III to the 1982 Article IV consultation report (SM/82/150, Sup. 1, 7/27/82, pp. 15-28). Certain changes and corrections have been made this year and are discussed below.

The series for "Imports (f.o.b.)" contained in this year's paper (Table 19) differs from that contained in last year's report. The method of calculation is shown in Table 5. The figures shown in the Annex to last year's recent economic developments paper as "Imports, c.i.f. (customs basis)" excluded freight and insurance payments to residents. For 1981 and 1982, for which customs data are available, the amount of such payments have been added before the total is reduced by the 8.3 percent c.i.f. factor in order to reach f.o.b. imports. For 1979 and 1980, for which "customs data" have to be reconstructed using Bank of China data, the adjusted total is increased by 6.7 percent, compared with the 2.8 percent figure used last year, to give c.i.f. imports. The result of these changes is to increase f.o.b. imports by about \$700 million each year, which leads to a corresponding adjustment primarily in the figure for "Errors and omissions."

Table 1. China: Reconciliation of Chinese and GFS ^{1/} Definitions
of State Budgetary Operations, 1979-83

(In billions of yuan)

	1979	1980	1981	Outcome 1982	Budget 1983
Total revenue: Chinese definition	<u>110.3</u>	<u>108.5</u>	<u>109.0</u>	<u>112.4</u>	<u>123.2</u>
Of which: net profit remittances from state enterprises	(49.3)	(43.5)	(35.4)	(29.6)	(32.4)
Less: foreign loan receipts	3.5	4.3	7.3	4.0	5.4
Less: loan repayments received	0.1	--	--	--	--
Less: Treasury bonds	--	--	--	4.4	4.0
Plus: subsidies for peoples' living necessities and agricultural inputs	16.0	24.0	31.5	32.0	32.2
Plus: subsidy to BOC for internal settlement account	--	--	1.6	2.8	2.4
Plus: operating losses of state- owned industrial enterprises	3.6	3.4	4.2	4.2	4.0
Equals: total revenue: GFS format	<u>126.3</u>	<u>131.6</u>	<u>139.0</u>	<u>143.0</u>	<u>152.4</u>
Of which: gross profit remittances ^{2/}	(68.9)	(70.9)	(72.7)	(68.6)	(71.0)
Total expenditure and net lending:					
Chinese definition	<u>127.4</u>	<u>121.3</u>	<u>111.6</u>	<u>115.3</u>	<u>126.3</u>
Less: loan repayments	0.1	--	--	--	--
Less: repayments of principal	--	2.1	4.1	4.2	4.4
Plus: subsidies for peoples' living necessities and agricultural inputs	16.0	24.0	31.5	32.0	32.2
Plus: subsidy to BOC for internal settlement account	--	--	1.6	2.8	2.4
Plus: operating losses of state- owned industrial enterprises	3.6	3.4	4.2	4.2	4.0
Equals: total expenditure and net lending: GFS format	<u>146.9</u>	<u>146.6</u>	<u>144.8</u>	<u>150.1</u>	<u>160.5</u>
Overall surplus (+) or deficit (-):					
Chinese definition	<u>-17.1</u>	<u>-12.8</u>	<u>-2.6</u>	<u>-2.9</u>	<u>-3.1</u>
Less: foreign loans received	3.5	4.3	7.3	4.0	5.4
Less: Treasury bonds	--	--	--	4.4	4.0
Plus: loan repayments	--	2.1	4.1	4.2	4.4
Overall surplus (+) or deficit (-): GFS format	<u>-20.6</u>	<u>-15.0</u>	<u>-5.8</u>	<u>-7.1</u>	<u>-8.1</u>
Financing: GFS format	<u>20.6</u>	<u>15.0</u>	<u>5.8</u>	<u>7.1</u>	<u>8.1</u>
Domestic bank	17.0	12.8	1.4	2.9	3.1
Domestic nonbank	--	--	1.2	4.4	4.0
Foreign borrowing (net)	3.6	2.2	3.2	-0.2	1.0

Sources: Ministry of Finance; and staff estimates.

^{1/} Definitions contained in IMF, Draft Manual on Government Finance Statistics (Washington, D.C., 1976)

^{2/} The sum of net profit remittances, subsidies for peoples' living necessities and agricultural inputs, subsidy to the BOC for the internal settlement account, and losses of state-owned industrial enterprises.

Table 2. China: Rural Deposits in Monetary Survey, 1979-82

(In millions of yuan)

	1979	1980	1981	1982
1. Deposits with RCCs	21,588	27,234	31,961	38,989
a. Communes and production brigades	(9,833)	(10,548)	(11,324)	(12,106)
b. Commune and brigade-run enterprises	(2,193)	(2,947)	(2,973)	(3,366)
c. Commune members	(7,843)	(11,703)	(16,955)	(22,811)
d. "Other" deposits	(1,719)	(2,036)	(709)	(705)
2. RCC deposits with ABC	18,558	21,243	25,400	30,287
3. Rural deposits in PBC consolidated balance sheet	20,370	23,980	27,840	32,994
4. Individual deposits with ABC (3-2)	1,812	2,737	2,440	2,700
5. Total rural deposits (1 + (4))	23,400	29,971	34,401	41,689
Individual (4 + 1.c.)	9,655	14,440	19,395	25,511
Sight deposits <u>1/</u>	(3,505)	(5,230)	(7,158)	(8,279)
Fixed term deposits <u>1/</u>	(6,150)	(9,210)	(12,236)	(17,231)
Rural enterprise deposits <u>2/</u>	12,026	13,495	14,297	15,472
Other deposits	1,719	2,036	709	705

Sources: People's Bank of China; Rural Credit Cooperatives; and staff estimates.

1/ At the end of 1981, time deposits amounted to 63.9 percent of total deposits with the RCCs. This share, which had increased in recent years, was assumed to be 60 percent in both 1979 and 1980. Twenty percent of the deposits with the ABC are sight deposits.

2/ Deposits of communes and production brigades and commune and brigade-run enterprises.

Table 3. China: Monetary Survey in IFS, 1978-82

(In billions of yuan)

	1978	1979	1980	1981	1982
Net foreign assets	0.54	-1.64	-2.78	2.67	16.14
Claims on government	--	9.02	17.02	17.02	17.02
Claims on nongovernment	185.00	203.96	241.43	276.47	305.23
Money	58.04	73.66	91.93	107.04	115.70
(Of which currency in circulation)	(21.20)	(26.77)	(34.62)	(39.63)	(43.91)
Quasi-money	30.93	40.63	52.23	63.25	77.73
Government deposits	45.69	46.49	56.32	69.90	79.20
Other items, net	50.88	50.56	55.19	55.97	65.76

Source: IMF, International Financial Statistics.

Table 4. China: Reconciliation of Monetary Survey in Text 1/ and Monetary Survey in International Financial Statistics, 1979-82

(In billions of yuan)

	Source	1979	1980	1981	1982
Foreign assets (net)	IFS and Table 15	-1.6	-2.8	2.7	16.1
Claims on Government	IFS	9.0	17.0	17.0	17.0
- State budgetary deposits <u>2/</u>		-18.1	-13.3	-15.6	-15.6
+ Overdraft		--	--	--	+2.9
State budget (net)	Table 15	-9.1	3.7	1.1	4.3
Claims on Nongovernment	IFS	204.0	241.4	276.5	305.2
+ Loans by RCCs		+4.8	+8.2	+9.6	+12.1
Other credit	Table 15	208.8	249.6	286.1	317.3
Money	IFS	73.7	91.9	107.0	115.7
- Enterprise deposits		-46.9	-57.3	-67.4	-71.8
+ Demand deposits (urban) <u>2/</u>		+3.6	+5.4	+6.5	+8.2
+ Demand deposits (rural) <u>2/</u>		+3.5	+5.2	+7.2	+8.3
Money	Table 15	33.9	45.2	53.3	60.4
Quasi-money	IFS	40.6	52.2	63.3	77.7
- Demand deposits (urban) <u>2/</u>		-3.6	-5.4	-6.5	-8.2
- Demand deposits (rural) <u>2/</u>		-3.5	-5.2	-7.2	-8.3
+ Deposits of brigades, etc. (RCCs)		+19.9	+25.2	+31.3	+38.3
+ Other deposits (RCCs)		+1.7	+2.0	+0.7	+0.7
- RCCs' deposits with ABC		-18.6	-21.2	-25.4	-30.3
+ Other budgetary deposits <u>2/</u>		(-3.2)	+2.9	+3.9	+2.0
+ Capital construction deposits		+13.1	+17.2	+22.9	+28.5
+ Deposits of government departments		+18.5	+23.0	+27.5	+33.1
+ Enterprise deposits (PBC)		+46.9	+57.3	+67.4	+71.8
Quasi-money	Table 15	111.7	147.9	177.9	205.3
Government deposits	IFS	46.5	56.3	69.9	79.2
- State budgetary deposit <u>2/</u>		-18.1	-13.3	-15.6	-15.6
- Other budgetary deposit <u>2/</u>		(+3.2)	-2.9	-3.9	-2.0
- Capital construction deposits		-13.1	-17.2	-22.9	-28.5
- Deposits of government depart- ments		-18.5	-23.0	-27.5	-33.1
Entry eliminated	Table 15	--	--	--	--
Other items (net)	IFS	50.6	55.2	56.0	65.8
+ Other (net)		+1.8	+2.2	+3.1	+3.4
+ Counterentry for overdraft		...	...	...	+2.9
Other liabilities (net)	Table 15	52.4	57.4	59.0	72.0

Sources: Annex I, Tables 2 and 3, and Appendix Tables XII and XIII.

1/ Text Table 15.2/ Estimates.

Table 5. China: Reconciliation of Import Data, 1979-82

(In millions of U.S. dollars)

	1979	1980	1981	1982
Bank of China basis <u>1/</u>	16,125	21,675	19,998	18,067
Processing trade	400	800	1,250	...
Joint ventures and grants	—	60	272	...
Bank of China basis, adjusted	16,525	22,535	21,520	...
Adjustment, 6.7 per cent	<u>1,154</u>	<u>1,510</u>	<u>1,432</u>	...
Customs basis, c.i.f.	17,679	24,045	22,952	19,444
C.i.f. factor, 8.3 percent (Of which, paid to nonresidents)	1,467 <u>(778)</u>	1,996 <u>(1,036)</u>	1,905 <u>(1,014)</u>	1,614 <u>(832)</u>
Customs basis, f.o.b.	16,212	22,049	21,047	17,830

Source: Staff estimates.

1/ From foreign exchange balance.

On the invisibles account, the item "Other services" contains some unexplained entries, particularly on the debit side. In 1982, the total "Other services" debit of \$544 million can be divided into telecommunications payments (\$5.9 million), books, stamps, and films, etc. (\$30.5 million), intergovernmental transfers (\$207.4 million), and "Other" (\$300.5 million). The other "Other services" include payments in foreign exchange for net balances on barter agreements. Compared with last year's presentation, the debit item for "Private unrequited transfers" in 1981 was increased by \$3 million of cancellation fees on a number of projects, rather than treating these fees as an "Other service."

The debit item for "Stocks and bonds" on the capital account consists mainly of purchases of IBRD bonds. The item "Borrowing from international institutions" is included in official loans before 1982. The data for "Deferred payments," both credit and debit, show a sharp increase in 1982, because the presentation had been changed that year from a net to a gross basis. Using the same basis as in last year's report, the 1982 deferred figures would have been: credit \$886 million, debit \$403 million. Rather arbitrarily, the credit and debit items have been increased by \$200 million in 1980 and \$300 million in 1981, in order to have a more consistent series.

Household Savings Behavior in China, 1955-81 ^{1/}I. Introduction

Household savings in China have risen rapidly in recent years, from 2.4 percent of total domestic savings in 1978 to 12.1 percent by 1982.

In light of both this expanded role of the household sector as a source of domestic savings and the more general objective of mobilizing household savings to promote economic development and financial stability, even a preliminary empirical investigation of household savings behavior may be useful. To that end, this note reports the results of estimating several well-known savings functions on (recently published) data for household savings in China over the 1955-81 period. Wherever possible, the results for China are compared with those for some other developing countries as well as with those for other centrally-planned economies.

The plan of the note is as follows. Section II briefly describes the measures of "saving" and of "income" that are to be used in the empirical work. Section III then provides an account of how savings and income have behaved over the 1955-81 period, including the evolution of the average propensity to save (APS) for the household sector as a whole and for its urban and rural components. In Section IV, main characteristics of four popular savings functions are outlined. Section V contains the results of estimating those savings functions on the Chinese data for the 1955-81 period, and for various sub-periods. Finally, some tentative conclusions are presented in Section VI.

II. The Data

All simple savings functions such as those considered here require at a minimum that time-series data be available on four variables--savings, income, population, and prices. This data requirement is now partly satisfied following the publication in October 1982 of the Statistical Yearbook of China 1981 (by the State Statistical Bureau).

The measure of "savings" used in this note is the change in the annual stock of urban and rural household savings deposits as reported in the Statistical Yearbook of China 1981 (p. 410) (hereafter referred to as the Yearbook). These savings data underestimate true household savings because they exclude: rural savings deposits

^{1/} Prepared by Luc De Wulf and Morris Goldstein.

made directly with the PBC, 1/ institutional savings in the form of pension plans, savings in the form of cash held outside banks, and purchases of consumer durables.

"Income" data are obtained from the uses (rather than the sources) side of income because comprehensive wage data are not available for a sufficiently long time period. More specifically, two measures of income were tried. The first one estimates household (nominal) income by taking the sum of household expenditure and household savings. Data on retail sales were used as a proxy for household expenditure. In the absence of significant personal income taxes, such a procedure essentially yields an estimate of household "cash" income. The second measure of income represented an attempt to get closer to "full" household income by adding to cash income estimates of income in kind and of expenditure on services. 2/ Since, however, only benchmark estimates are available for both income in kind and services expenditure, uniform percentage increases were applied to cash income to obtain estimates of full income. However, even when full income is used, the qualitative nature of the results--not reported here--are very similar.

Nominal savings and income data are deflated by using the retail price index (Yearbook, p. 411). Suffice to say that because most prices in China are administratively set and are changed infrequently, changes in this price index will not convey the same information as in market economies.

Finally, in order to put our savings functions into the familiar per capita form, annual population estimates are derived from benchmark data published in the Yearbook and from other official sources. These estimates were then adjusted to be consistent with the results of the 1982 population census.

III. Trends in Income and Savings

The growth of real national income in China over the 1955-81 period was, by international standards, very high but also quite variable. Real national income grew at an annual average (compound) rate of 6.6 percent; on a per capita basis, the corresponding figure was 3.4 percent. However, periods with rapid growth (e.g., the First Five-Year Plan, 1953-57 and the Readjustment Period, 1963-65) alternated

1/ The rural savings reported in the Yearbook refer only to those made with the RCCs. In 1979-81, the rural deposits not reported in the RCCs amounted to 18.5 of total rural savings.

2/ Full income should also include any investment expenditure made by households. These do not appear to be very substantial, however, until quite recently when household housing investment increased sharply.

with periods of more modest growth (e.g., the Fourth Five-Year Plan, 1971-75) and even with one period (the Second Five-Year Plan, 1958-62) of negative growth.

Data on household income used in this note also shows significant variability over time (Table 1). The high average growth rate (4.07 percent for real per capita household income) for the 1955-81 period as a whole is the result of a slow growth period during 1955-69 and a high growth period from 1970-81, with unusually fast growth recorded in 1979-81. Furthermore, despite the high growth rates of personal income, the absolute level of such income was low during the whole period. Nominal per capita household income was Y 57 in 1953 and Y 215 in 1981; estimated per capita GDP were Y 124 (\$53) for 1952 and Y 461 (\$271) for 1981.

Table 1. China: Growth Rates of Real per Capita Savings and Income

(Annual compound growth rates)

	Income			Savings		
	Total	Urban	Rural	Total	Urban	Rural
1955-81	4.07	3.63	4.11	10.71	8.96	15.75
1955-69	1.98	2.89	1.04	8.10	7.31	13.02
1970-81	6.92	4.65	8.04	14.05	11.04	19.75
1979-81	12.4	3.12	18.30	29.28	20.90	39.58

Table 1 also shows that the growth of financial household savings has been both high and variable over the 1955-81 period, with savings growing most rapidly during the periods when incomes were growing most rapidly. This suggests that one of the reasons why savings growth rates were so high over 1955-81 was because the level of household savings was so low in 1952. In a similar vein, it was only when household incomes rose to a certain level that savings became a realistic option for most households. Of special interest in this regard is the almost 30 percent per annum average growth rate for real per capita savings over the recent 1979-81 period.

Table 2 shows the average propensity to save (APS) in the household sector. ^{1/} For the whole 1955-81 period, the mean APS is a very low 1.5 percent--perhaps not a surprising result given the low level of income during this period. By sub-periods, the APS rises steadily over time, from less than 1 percent (0.7 percent) for 1955-69, to 2.5 percent for 1970-81, and to 5.5 percent for 1979-81. Further, and in accord with the higher level of per capita real income in the urban sector, ^{2/} Table 2 also shows that the APS in the urban sector is consistently higher than in the rural sector.

Table 2. China: Average Propensity to Save

	Total	Urban	Rural
1955-81	1.5	1.9	1.0
1955-69	0.7	1.0	0.3
1970-81	2.5	3.0	1.8
1979-81	5.5	6.6	4.3

IV. Models of Savings Behavior

The four models used in this note are the absolute income model, the permanent income model, the asset-adjustment model, and the general distributed lag model. ^{3/} The last three models can all be classified as "dynamic" in the sense that they allow the short-run response of savings to income to differ from the long-run response. A brief characterization of each of these models follows.

^{1/} The APS is defined as S/Y where S is household savings and Y is household cash income.

^{2/} Our estimates suggest that per capita real cash income was about six times higher on average in the urban sector than in the rural sector during 1955-81. If "full" income is used, the corresponding figure is three times (because income in kind is a much larger percentage of full income in the rural sector than in the urban sector).

^{3/} Time series data are not available on the age distribution of the population or on the wealth or assets of the household sector, or on interest rates paid on savings deposits. Also, the type of disequilibrium savings function proposed by Howard (1976) for a centrally planned economy is difficult to implement here because the quantity of consumer goods already enters our definition of income.

1. The absolute income hypothesis

The simple Keynesian model can be written as

$$(1) S_t = a_0 + a_1 Y_t$$

where S is savings, Y is income, a_0 is the level of saving at zero income, and a_1 is the constant marginal propensity to save (MPS). Normally, $a_0 < 0$ and $0 < a_1 < 1$ so that: (i) the MPS exceeds the average propensity to save (APS); and (ii) the APS rises with higher levels of income. Only the current period's income affects the current period's savings.

2. The permanent income hypothesis

This model, popularized by Friedman, is often expressed as:

$$(2) S_t = a_0 + a_1 YP_t + a_2 YT_t$$

where S_t and a_0 are defined as before and where YP is permanent income, YT is transitory income, and a_1 and a_2 are the MPS's out of permanent and transitory income, respectively. "Permanent income" is best thought of as average expected income over the (individual's) lifetime and "transitory income" is just the difference between actual income in that period and permanent income. The expectation is that the MPS out of transitory income (a_2) will exceed the MPS out of permanent income (a_1). ^{1/} In this model, savings act as a buffer against short-run fluctuations in income so that the individual can attain a smoother long-run consumption path. With $a_2 > a_1$, the model is also consistent with the observed empirical regularity that the marginal propensity to consume out of actual income is higher in the long run than in the short run.

3. The asset-adjustment model

This model, associated with a group of writers, ^{2/} rests on the proposition that savings should depend not only on income but also on the individual's wealth or stock of assets (including the stock of existing savings and/or the stock of goods the individual consumes). Its most important implications are that: (i) when wealth is changing over time, it is likely that observed savings will differ from that implied by income alone; and (ii) the long-run savings response to income can differ from the short-run response because savers use

^{1/} Indeed, in the strong form of the model proposed by Friedman, individuals consume none of their transitory income so that $a_2 = 1$. Friedman also expects savings to be proportional to permanent income so that the intercept in equation 2 (a_0) should be zero.

^{2/} See, for example, Houthakker and Taylor [1966], Swamy [1968], Modigliani and Brumberg [1954], Modigliani and Ando [1963], Leff and Sato [1975].

some of their income to restore desired ratios of assets to income. Because data on assets or wealth are typically not available, at least in most developing countries, the estimating equation used for the asset-adjustment model usually takes the following form:

$$(3) \quad S_t = \alpha_1 S_{t-1} + \alpha_2 \Delta Y_t$$

where ΔY_t is the change of income between period t and period $t-1$ and α_1 and α_2 are reduced-form coefficients that are combinations of the structural coefficients for the MPS's out of income and assets.^{1/}

^{1/} One way to derive equation (3) is from the following two-equation system:

$$(3a) \quad S_t = c_0 + c_1 W_t + c_2 Y_t$$

$$(3b) \quad \dot{W}_t = S_t - \lambda W$$

where S is savings, Y is income, W is the individual's existing stock of wealth, and λ is the rate of depreciation. By writing (3a) in changes, setting $\lambda = 0$, and substituting (3b) into (3a), one can obtain equation (3) in the text. Also note that (as a discrete time approximation) $\alpha_1 = (1 + 1/2 c_1) / (1 - 1/2 c_1)$ and $\alpha_2 = c_2 / (1 - 1/2 c_1)$. A second way to obtain equation (3) is to derive the savings function from the demand for assets. In this case, let S^* be desired savings, K be the adjustment parameter relating actual savings (S) to desired savings, and γ be the desired ratio of assets (A) to income, i.e., $\gamma = A/Y = \Delta A/\Delta Y = S^*/\Delta Y$. We can then write:

$$(3c) \quad \Delta S_t = K(S^* - S_{t-1}) \quad 1 > K > 0$$

that is

$$(3d) \quad S_t = S_{t-1} + K(S^* - S_{t-1})$$

$$(3e) \quad S_t = S_{t-1} - K S_{t-1} + K S^*$$

Then by rewriting (3e) with the substitution of γ for $S^*/\Delta Y$, we obtain

$$(3f) \quad S_t = (1-K)S_{t-1} + K\gamma\Delta Y$$

which is equivalent to equation (3) in the text with $\alpha_1 = (1-K)$ and $\alpha_2 = K\gamma$. The structural parameters K and γ in equation (3f) can be estimated from estimating the coefficients of equation (3).

Another important feature of the asset-adjustment model is that it can be solved for the long-run saving ratio (S/Y) consistent with any constant growth rate of income. ^{1/}

4. The general distributed lag model

This model is also consistent with a variety of savings hypotheses. ^{2/} It is most conveniently written as:

$$(4) \quad S_t = b_0 + b_1 Y_t + b_2 Y_{t-1} + b_3 Y_{t-2}$$

where Y_{t-1} and Y_{t-2} are income levels in the two previous periods. This model's most relevant feature for the present exercise is that the long-run MPS (given by $b_1 + b_2 + b_3$) can differ from the short-run MPS (given by b_1 alone). The normal expectation is that the long-run MPS lies below the short-run one, i.e. $(b_2 + b_3) < 0$.

V. Empirical Results

The results of estimating the four savings models outlined in Section IV are shown in Tables 3-6. In order to make these results more comparable to other studies, both savings and income were defined on a real per capita basis. Permanent income was alternatively calculated as a three-year or two-year moving average of actual income; only the three-year results are reported here. All the savings equations were estimated over the whole 1955-81 period as well as for the following three sub-periods 1955-78, 1955-69, and 1970-81. The 1955 starting year was dictated by the availability of data and by the loss of two annual observations to calculate the three-year measure of permanent income. In any case, however, the early 1950s were unusual in that they witnessed the reconstruction of the economy. The 1955-78 sub-period was used to determine whether the unusually high savings years of 1979-81 (see Section II) exerted a dominant influence on the results, while the 1955-69 and 1970-81 sub-periods were employed to test for structural shifts in the savings functions over time. All equations were estimated by ordinary least squares.

^{1/} In terms of the model represented in equations (3a) and (3b),

$$S/Y = c_2 g / (g - c_1) \text{ where } g \text{ is the constant growth rate of income.}$$

Similarly, in terms of the model represented by equations (3c)-(3f),

$$S/Y = [K g / g] + K$$

^{2/} See Sundararajan and Thakur [1980].

1. Absolute-income model

The results for the absolute-income model are given in Table 3. As expected, $a_0 < 0$ and $0 < a_1 < 1$. For the whole 1955-81 period, the estimated MPS is 0.086--a figure slightly higher but still remarkably close to those obtained for five East European centrally planned economies in an earlier period. At the same time, the estimated MPS at 0.086 is much below the 0.203 MPS obtained for a sample of Asian countries (some of which had significantly higher levels of real per capita income than China). The explanatory power of the absolute-income model is respectable ($R^2 = 0.77$) but the low Durbin-Watson statistic suggests some misspecification problem.

Table 3. China: Absolute Income Hypothesis 1/

Time Period	Constant	Y_t	\bar{R}^2	DW
1955-81	-5.10 (7.01)	0.086 (9.48)	0.773	0.63
1955-78	-1.72 (2.01)	0.036 (2.97)	0.254	0.92
1955-69	-2.28 (0.88)	0.045 (1.08)	0.011	0.88
1970-81	-8.40 (7.68)	0.117 (10.47)	0.908	0.67
<u>Comparable Estimates</u>	<u>Y_t</u>	<u>Country</u>	<u>Investigator</u>	
1955-71	0.066	USSR	Pickersgill	
1955-73	0.073	Czechoslovakia	Portes and Winter	
1955-73	0.065	GDR	"	
1955-73	0.063	Hungary	"	
1955-73	0.077	Poland	"	
1950-64	0.203	Asian countries	Williamson	

1/ Figures in brackets are t-values.

Attention to the sub-period results reveals a number of interesting findings. One is that the 0.086 whole-period MPS is heavily influenced by the 1979-81 high saving years. Whenever they are excluded, both the MPS and the explanatory power of the model itself drop markedly; for example, for the 1955-78 period, the MPS falls to 0.036 and the R^2 drops to 0.25. Also, perhaps because of the small increases in income realized during this period, the model is not able to explain savings behavior during the 1955-69 period. In contrast, the model does much better and suggests an MPS of nearly 0.12 for the higher-income 1970-81 period. Finally, the 1955-81 function suggests that the minimum level of real per capita cash income necessary to generate positive savings is Y 89 (in 1950 prices)--a level that was reached only in 1976. 1/

2. Permanent-income model

Table 4 provides the corresponding results for the permanent income model. Five points are worth mentioning. First, in line with expectations, the MPS out of transitory income is consistently higher than that out of permanent income--albeit far short of the unitary MPS out of transitory income predicted by Friedman. Second, again the results for China (over the whole 1955-81 period) are quite close to those obtained for some other countries, particularly the results for the U.S.S.R. found by Pickersgill [1976]. Third, we again find that the estimated MPS (out of both types of income) and the explanatory power of the model fall off appreciably when the 1979-81 high savings years are excluded. Fourth, the permanent income model has consistently higher explanatory power than the (static) absolute-income model--a finding that makes sense given the high variability of income movements in China. Fifth, and again in accord with expectations, the MPS is much higher for the 1970-81 period than for the 1955-69 period.

3. The asset-adjustment model

The estimates for the asset-adjustment model, shown in Table 5, indicate that current savings is significantly related to both the change in income and the past level of savings. For the whole 1955-81 period, the estimates imply a long-run savings ratio of about 0.05 at a constant growth rate of real per capita income of 4 percent. Reference to the comparable estimates for other countries, shown at the bottom of Table 5, indicates that such a savings ratio would be somewhat higher than the 0.02-0.04 range obtained for other centrally planned economies and for other developing countries. Once again, however, the results are heavily dependent on the 1979-81 observations. With these excluded from the sample, the long-run savings ratio falls to almost zero (0.004)--yet another indication of the past difficulty of generating positive (per capita) savings at very low income levels.

1/ This can be calculated from equation (1) via the expression $Y_{\min} = -a_0/a_1$.

The fits for the asset-adjustment model are quite good--on a par with those for the permanent income hypothesis. Also, the H-statistic (for use in equations with a lagged dependent variable) rejects the presence of autocorrelation (which was a problem with the earlier models).

Table 4. China: Permanent Income Hypothesis 1/

Time Period	Constant	Y_p	Y_t	R^2	DW
1955-81	-3.14 (3.92)	0.052 (4.36)	0.250 (5.50)	0.848	1.23
1955-78	-0.497 (0.72)	0.014 (1.33)	0.180 (5.35)	0.597	2.00
1955-69	-1.99 (0.97)	-0.027 (0.81)	0.166 (4.01)	0.544	2.12
1970-81	-5.01 (4.43)	0.062 (3.89)	0.360 (5.67)	0.962	1.12
<u>Comparable Estimates</u>	<u>Country</u>	<u>Y_p</u>	<u>Y_t</u>	<u>Investigator</u>	
1955-71	USSR	0.058	0.340	Pickersgill	
1953-60	22 countries <u>2/</u>	0.058	0.357	Friend and	
1950-64	6 Asian countries	0.205	0.324	Taubman Williamson	

1/ Figures in brackets are t-values.

2/ Eight industrial countries and 14 developing countries.

Table 5. China: Asset Adjustment Model 1/

Period	S_{t-1}	Y_t	\bar{R}^2	H-Statistics	Long-Run APS With 4 Percent Per Capita Income Growth
1955-81	0.981 (9.96)	0.075 (2.96)	0.835	0.61	0.051
1955-78	0.487 (2.97)	0.058 (2.92)	0.518	-0.34	0.004
1955-69	0.466 (2.49)	0.056 (2.46)	0.476	0.98	0.004
1970-81	0.874 (9.19)	0.178 (4.83)	0.946	1.20	

<u>Comparable Estimates</u>	S_{t-1}	Y_t	\bar{R}^2	<u>Country</u>	<u>Investigator</u>	<u>Long-Run APS With 4 Percent Per Capita Income Growth</u>
1955-73	0.881	0.179	0.745	Czechoslovakia	Portes and Winter	0.026
1957-73	0.725	0.340	0.733	GDR	"	0.043
1958-73	0.367	0.482	0.970	Hungary	"	0.029
1954-70	0.673	0.167	0.810	Poland	"	0.018
1950-64	0.778	0.199	0.661	6 LDCs	Swamy	0.030
1950-64	0.936	0.365	0.790	13 DCs	Swamy	0.140

1/ Figures in brackets are t-values.

4. General distributed lag model

Table 6 presents the estimates for the general distributed lag model and provides strong support for our expectation that the long-run MPS would be much smaller than the short-run MPS. More specifically, negative MPS in periods $t-1$ and $t-2$ have the effect of lowering the MPS from 0.161 for the current year to 0.047 for a three-year period. In other words, it seems that Chinese households initially respond to an increase in income by saving a rather high proportion of it. Over time, however, this saving is drawn down so that over a three-year period, the MPS is about 0.05. Once again, exclusion of the 1979-81 period leads to dramatic fall in the MPS, particularly the long-run MPS which falls to only 0.013. Also, the MPS is, as before, much higher for the 1970-81 period than for the 1955-69 period.

Table 6. China: Dynamic Savings Functions:
Distributed Lag Model

Period	Constant	Y_t	Y_{t-1}	Y_{t-2}	\bar{R}^2	DW	Long-Run MPS
1955-81	-2.88 (3.49)	0.161 (4.82)	-0.005 (0.08)	-0.109 (2.68)	0.857	1.19	0.047
1955-78	-0.43 (0.61)	0.113 (4.35)	-0.024 (0.61)	-0.076 (2.73)	0.592	1.92	0.013
1955-69	2.52 (1.20)	0.079 (2.13)	-0.016 (0.36)	-0.099 (2.87)	0.554	2.03	negative
1970-81	-3.75 (3.59)	0.213 (5.83)	0.052 (0.79)	-0.222 (4.06)	0.975	2.28	0.043

1/ Figures in brackets are t-values.

VI. Conclusions

This paper has explored the determinants of household savings behavior in China over the past 30 years. While the empirical results ought to be regarded as preliminary until more information become available, there are a number of encouraging findings. One is that the same types of savings models that have produced reasonable explanations of the time series behavior of households savings in other countries also seem to produce reasonable results for China. A second one is that the key parameters of such savings functions, such as the marginal propensity to save and the long-run average savings ratio, appear to be comparable to those found for some other developing countries, and in particular to those for some other centrally planned economies. A third finding of interest is that the estimated marginal propensity to save in China is very sensitive to the time period selected for estimation. For the whole 1955-81 period, the long-run MPS seems to lie in the neighborhood of 0.05 but if three recent high-income, high-savings years (1979-81) are excluded, this MPS drops to the 0.01-0.03 range. Similarly, savings behavior is very different in the 1955-69 period (when real per capita income was so low that little positive savings took place) than in the 1970-81 period. Indeed, one of the tasks for future research will be to identify the nature of such temporal shifts in the household savings function in China.

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An Investigation of Factors Affecting
China's Foreign Trade, 1954-82 ^{1/}

I. Introduction and Summary

This note reports on some initial estimates of aggregate import and export trade equations, and attempts to illustrate the major underlying trends in China's foreign trade. The demand for imports and supply of exports are shown to be determined principally by developments in domestic production in the sectors that are major users of imports or major suppliers of exportables. Neither the changes in the external terms of trade nor the shifts in relative prices of domestic to foreign goods have had an important influence on import demand and export supply. However, there does seem to be some evidence (although fairly weak) that, even at this level of aggregation, the demand for China's exports has been influenced by their relative prices vis-a-vis world market prices, as well as by the growth of income in its export markets. Finally, there appears to have been a significant shift in the relationship between domestic production and foreign trade flows. The adoption of more outward-oriented economic policies in the latter half of the 1970s led to a marked increase in the responsiveness of both export supply and import demand to changes in the level of domestic production.

II. Developments in China's Foreign Trade, 1954-82

The trend and composition of China's foreign trade have shown marked shifts during the 1954-82 period. These changes corresponded to the varying pace of economic development and to reorientations of economic policy. After rapid growth during the 1950s, the volume of trade fell following the break with the Soviet Union and then, as a result of the adoption of more inward-looking economic policies, recovered only slowly. Trade volumes increased at an average annual rate of only around 2 percent over the period 1960-70 (Table 1). However, the growth of foreign trade accelerated sharply in the early 1970s, and again after 1977 as the authorities pursued more open economic policies. ^{2/}

The share of primary products (mainly agricultural) in total exports fell notably, from some three quarters in the mid-1950s to less than one quarter in the late 1970s, while the share of manufactures and, after 1973, oil exports increased sharply. In recent years, there has also been a substantial increase in exports of heavy industry output (particularly of machinery and equipment), while exports of light

^{1/} Prepared by D. Goldsbrough.

^{2/} These later trends are discussed in more detail in SM/82/150, (7/27/82), pp. 57-66, and in Section IV of the main text of this report.

industry output (including textiles) have declined somewhat in relative importance. These shifts in the composition of exports are of major importance for the model developed below, since they imply that developments in the supply of exportables, once largely determined by trends in agricultural production, now depend principally on changes in industrial and crude oil output. A similar, but less marked, shift has occurred in the composition of imports, with the share of primary product imports (mainly raw materials for industry, but also grain) increasing steadily, while imports of manufactures have declined in relative importance.

Table 1. China: Growth of Exports and Imports, 1954-82

(Average annual growth rates in percent; in terms of constant prices)

	1954-82	1954-60	1960-70	1970-76	1976-82
Exports	6.7	10.3	1.9	20.3	11.6
Imports	5.9	6.7	1.8	18.9	11.6

Sources: Ministry of Foreign Economic Relations and Trade; State Statistical Bureau.

III. The Model

For most of the period 1954-82, the bulk of China's foreign trade was conducted through centralized foreign trade corporations, while domestic prices of traded goods were set according to the prevailing internal price structure and were generally not affected by changes in world relative prices.^{1/} The introduction of more decentralized management systems for foreign trade ^{2/} since 1978 has increased the exposure of domestic economic agents to the world market, but in 1982 the centralized trading corporations still accounted for 80 percent of China's foreign trade. ^{3/} Consequently, the traditional model of

^{1/} The major exception was for imported goods for which there was no equivalent domestic production and consequently no prevailing domestic price (e.g., specialized machinery and equipment).

^{2/} See SM/82/150 (7/27/82), Sup. 1, pp. 29-33 for details of the new systems.

^{3/} See Appendix Table I to the main body of this report.

foreign trade, in which demand for imports and supply of exports are influenced by relative prices of foreign and domestic goods, is less appropriate for China. However, prices should still play a role in determining the volume of trade flows, to the extent that central planners are influenced by the opportunity costs of foreign trade (i.e., the external terms of trade), while demand for China's exports will still depend on their competitiveness vis-à-vis other suppliers. Therefore, the model tested is as follows:

Import demand

$$\ln(M/PM) = \alpha_0 + \alpha_1 \ln(YM) + \alpha_2 \ln(PX/PM); \alpha_1 > 0, \alpha_2 \geq 0.$$

Export Supply

$$\ln(X/PX) = \beta_0 + \beta_1 \ln(YX) + \beta_2 \ln(PX/PM); \beta_1 > 0, \beta_2 < 0.$$

Export Demand

$$\ln(X/PX) = \gamma_0 + \gamma_1 + \ln(\text{WORLDY}) + \gamma_2 \ln(PX/PW); \gamma_1 > 0, \gamma_2 < 0.$$

Where YM and YX are indices of domestic production, weighted by the composition of exports and imports, PX/PM is the terms of trade, WORLDY is a weighted index of partner countries' GDPs, and PX/PW is an index of China's export prices relative to corresponding world market prices. (See Section V for exact definitions and sources of the data.) The demand for imports would normally be expected to increase or remain unchanged as the terms of trade improve (i.e., $\alpha_2 \geq 0$), but the supply of exports could decline (e.g., if planners have a target level of imports and only make available sufficient exports to earn the necessary foreign exchange to purchase these imports).

China can be regarded as a price-taker for imports (i.e., PM is determined exogenously) since it accounted for 1 percent or less of world trade throughout the period covered and its imports are relatively diversified. However, China's exports account for a relatively important share of world trade in certain geographic markets (e.g., Hong Kong 21 percent, and Japan 4 percent in 1980) and for certain commodities (e.g., textiles, some 6 percent in 1980). Therefore, its export prices are treated as endogenous and export supply and demand equations estimated simultaneously.

IV. Results

Estimated parameters are given in Table 2. The import demand equation was estimated using ordinary least squares and the export equations using two-stage least squares. The export equation could be

Table 2. China: Results of Estimated Trade Equations

<u>Period of estimation</u>	<u>Trade-weighted production variable (YM or YX)</u>	<u>Terms of trade variable (PX/PM)</u>	R^2	<u>Standard error of estimate (SEE)</u>	ρ
<u>Import demand</u>					
1954-82	0.86** (5.76)	0.02 (0.04)	.638	.124	0.77
1954-60	0.75 (2.78)	1.68 (1.34)	.824	.103	-0.51
1961-75	0.79** (5.88)	1.21 (1.67)	.818	.106	0.43
1976-82	1.11** (3.08)	-1.32 (2.41)	.831	.072	0.37
<u>Export supply</u>					
1961-82	0.81** (3.94)	-0.04 (0.05)	.762	.090	0.67
1961-75	0.63** (4.98)	0.27 (0.30)	.772	.080	0.42
1976-82	1.53** (21.68)	0.37 (0.84)	.994	.031	-0.17
<u>Period of estimation</u>	<u>Weighted GDP of partner countries (WORLDY)</u>	<u>Relative price of China's exports to world market prices (PX/PW)</u>	R^2	SEE	ρ
<u>Export demand</u>					
1961-82	0.79 ** (3.29)	-0.37 (1.57)	.837	.095	0.50

Note: Figures in brackets are t-statistics. ** and * denote significance at 1 percent and 5 percent levels respectively. ρ is the estimated correction for first order serial correlation using the Cochrane-Orcutt technique.

estimated only for the period 1961-82, because of data limitations in constructing the world income variable. The results indicate that domestic production, weighted by the varying importance of different sectors in export and import trade, was the key determinant of import demand and export supply while the terms of trade variable was not significant.¹ ^{2/} The simple export demand equation also fits the data quite well, although the estimated price elasticity, of 0.37, is not significantly different from zero at the 5 percent level.

When the import demand and export supply equations are estimated over the period 1961-75 and 1976-82 separately, there is strong evidence that the switch to more open economic policies in the early and then again in the later 1970s led to a significant upward shift in the responsiveness of trade flows to changes in domestic production. (The estimated coefficients for the two periods are significantly different at the 1 percent level for both equations.) The simple model in which the parameters are allowed to vary over each period (1954-60, 1961-75 and 1976-82) tracks developments in China's foreign trade quite well (Chart A).

The results show that the sharp acceleration in the growth of exports during the period 1976-82 was due both to a more rapid growth in domestic production of exportables (YX grew at an average annual rate of 8.5 percent during 1976-82, compared with some 6 percent during 1961-75) and to a diversion of a larger proportion of exportables to foreign markets. Using a simulation of the 1976-82 export performance with the export supply parameters estimated for the 1961-75 period, the model indicates that some 60 percent of the higher growth of exports during the later period was due to diversion of a larger share of available exportables to overseas markets, and some 40 percent to faster growth of domestic production.

^{1/} However, these results could be affected by the nature of the export and import price indices used, since there is evidence that trade in manufactures is under-represented in the indices, which therefore probably overstate fluctuations in the terms of trade. Such measurement error would cause estimated elasticities to be biased towards zero.

^{2/} Some variations on the basic model were also tested. For instance, lagged values of the ratio of exports to imports was included in the import demand and export supply equations, to test whether planners compensate for any surplus or deficit on the previous years' trade balance. However, the coefficients were invariably insignificant and the opposite-than-expected sign.

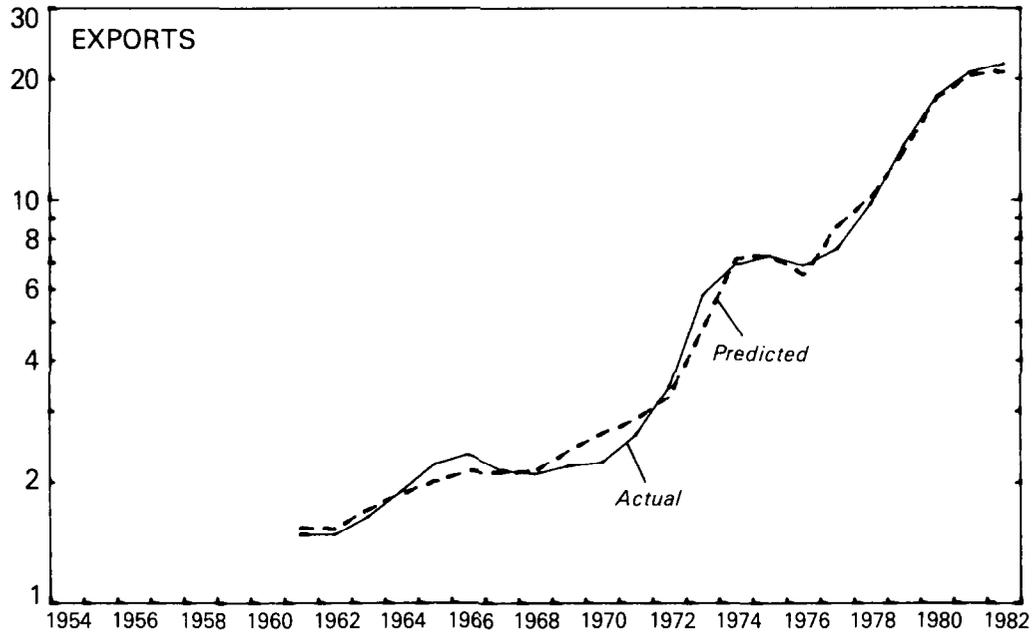
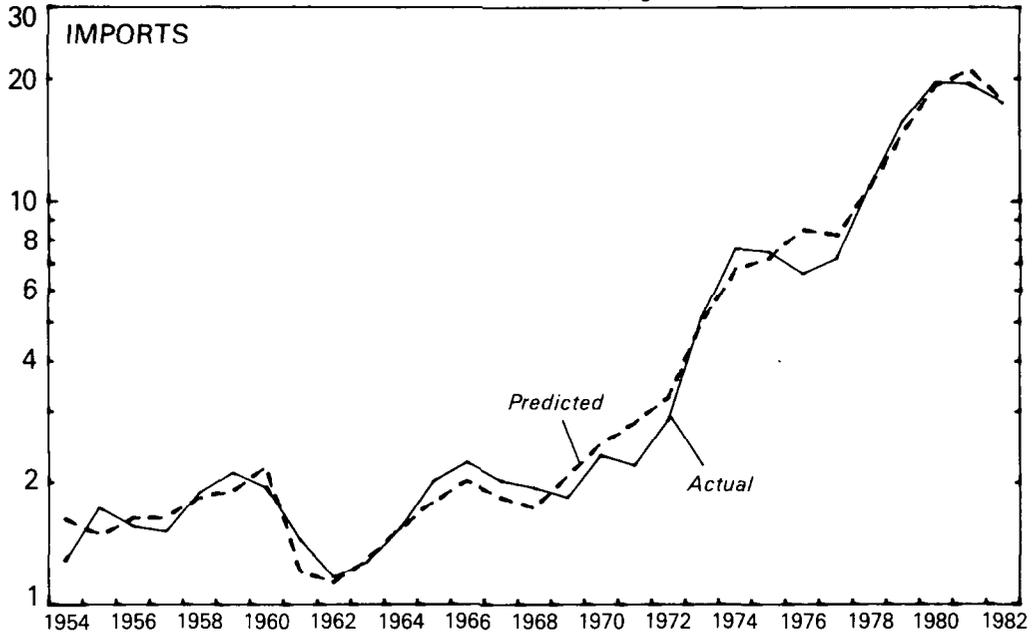
V. Definitions and of Sources of Variables

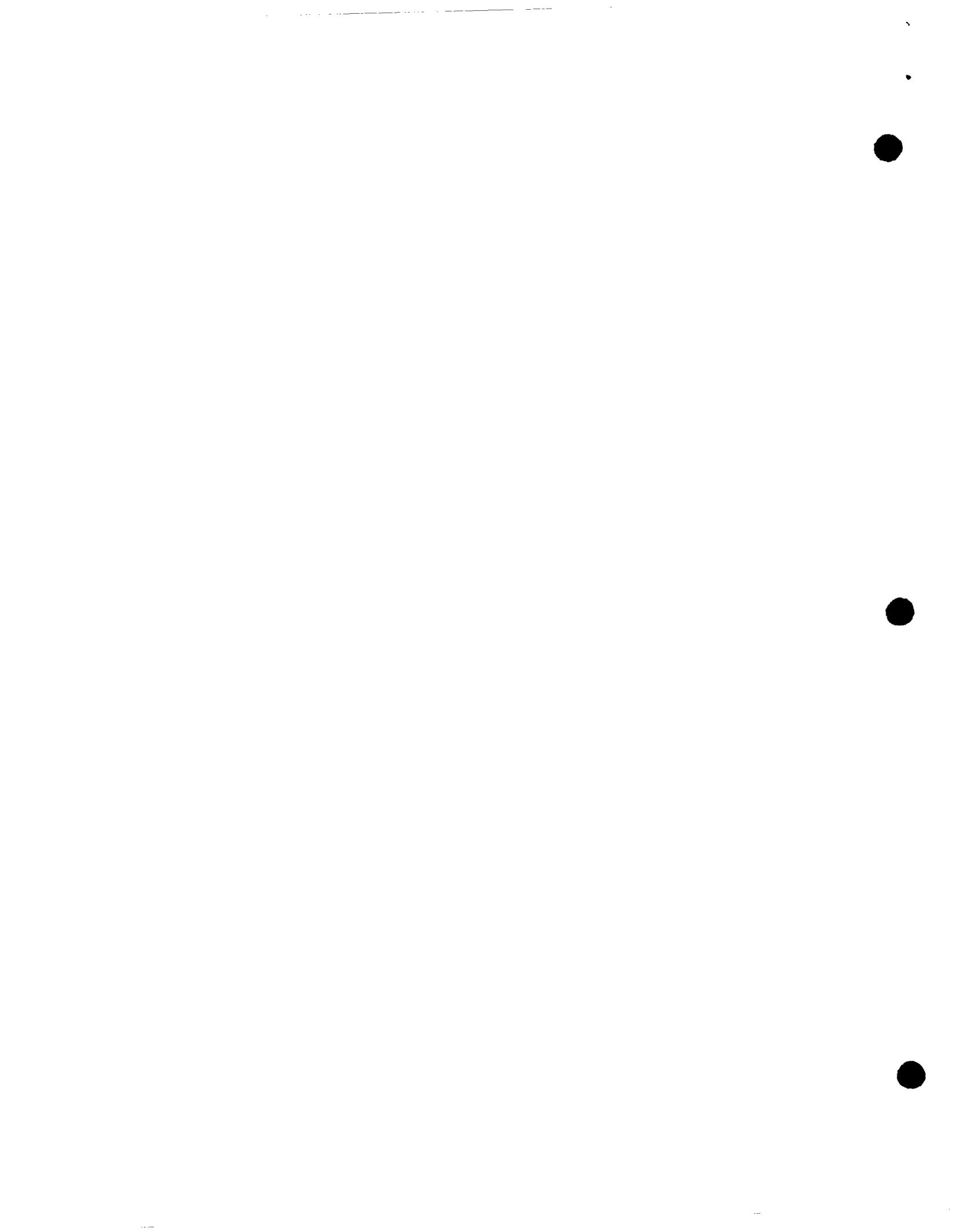
(All value and price data in terms of U.S. dollars)

- X_t, M_t - Value of China's exports and imports, in FOB terms.
- PX_t, PM_t - Price indices of China's exports and imports.
- $YX_t = \sum_i \alpha_i Y_{it}$ - Weighted index of agricultural production, crude oil output, and other heavy and light industrial output, with weights equal to the share of each sector in China's exports. The weights α_i are allowed to vary over time.
- $YM_t = \sum_j \beta_j Y_{jt}$ - A similarly weighted index of agricultural production, chemical output, and other heavy and light industrial output, with weights equal to their relative importance for China's import trade.
- $PW = \sum_{it} \gamma_{it} \cdot P_{it}$ - A weighted index of world market prices of foodstuffs, crude oil, other raw materials, and manufactures, with weights equal to their share in China's total exports.
- $WORDLY_t = \sum_{kt} \theta_{kt} Y_{kt}$ - A weighted index of GDP in constant prices in China's principal export markets, with weights equal to each market's share in China's exports. (The Democratic People's Republic of Korea was not included, because of lack of data on its GDP.)

The source for trade data was the Ministry of Foreign Economic Relations and Trade and Statistical Yearbook of China, 1981; for production data, the State Statistical Bureau; for world price data, International Financial Statistics; and, for world income data, the U.N., Yearbook of National Income Accounts, International Financial Statistics, and staff estimates.

CHART A
CHINA
PREDICTED AND ACTUAL IMPORTS AND EXPORTS, 1954-82
(In billions of U.S. dollars; log-scale)





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