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The Chairman's Summing Up at the Conclusion
of the 1983 Article IV Consultation with the
People's Republic of China
Executive Board Meeting 83/157 - November 21, 1983

Directors noted the impressive success of the adjustment program implemented by China over recent years. It had brought about a remarkably strong balance of payments position and had allowed the restoration of price stability. Even more commendable was the fact that this stabilization had been achieved while preserving a strong rate of growth, even though the world economic situation continued to be unfavorable. The substantial economic growth and the increases in the living standards of the population over recent years had been broadly based, including agriculture, a vitally important sector for the improvement of living standards.

Directors noted that, despite the price stability and the large balance of payments surplus, there were signs that demand pressures had recently intensified. These included various shortages, in particular of energy, construction materials, transportation facilities, and certain consumer goods. In these circumstances, they recommended the continued prudent demand management measures of the authorities. The pressures of demand on resources were being fueled by decentralized investment expenditures and unplanned bonus payments to workers, and Directors noted the additional steps taken to control these expenditures.

There were signs of ample liquidity in the economy, particularly in the enterprise sector, and the monetary aggregates, especially currency in circulation, had increased relatively rapidly. Directors generally believed that there was need for additional measures to contain this expansion.

Many Directors commented favorably on the substantial progress made toward strengthening China's public finances. In particular, they welcomed the stabilization of expenditures on subsidies. However, weaknesses in the revenue base continue, and measures were required to increase the efficiency of state enterprises and to raise their profitability.

Directors recalled that centrally financed investment expenditures had borne the brunt of the adjustment efforts of recent years, and said that it was now timely to shift the balance between decentralized and centralized investment in favor of the latter in order to allow urgently needed investment in infrastructure and energy projects to take place.

The measures taken by the Chinese authorities to reform their economic system are being followed with the greatest interest by Directors. They noted the success of measures to decentralize management and improve the incentive structure, particularly in agriculture. The reform of the economic system was not an easy task and has perhaps made macroeconomic management more complicated. Directors welcomed the authorities' determination not to return to an overcentralized system and to rely increasingly on economic and market-oriented criteria. In addition, there was a need to develop macroeconomic fiscal and monetary instruments to complement the decentralization of economic decision making. The recent changes in the system of enterprise taxation and the separation of the central and commercial banking functions of the People's Bank of China were welcomed and should be important steps to achieving this. Directors stressed the hope that the establishment of a separate Central Bank would soon lead to improved control over the monetary aggregates, and noted that the rapidly improving economic and financial data base should assist the authorities in their decision making in these fields.

Directors emphasized that the reform of the domestic pricing system, with a view to reflecting more realistically relative scarcities and supply and demand conditions, should be considered as an urgent matter to complement the other reform measures and to facilitate the taking of decisions in the more decentralized environment now emerging. In particular, correct pricing was considered important to ensure a proper functioning of the profit incentives and to provide the right macroeconomic signals to policy and decision makers.

The stabilization measures, in particular the cutback in centrally financed investment projects, had resulted in an exceptionally strong balance of payments position. Exports were weathering the recession in export markets with ease, and the improvement in the terms of trade, combined with a very cautious import policy, had further strengthened the trade balance. While commending the prudent borrowing policy of the Chinese authorities, several Directors felt that China, given its growth needs and potential, should not permanently run balance of payments surpluses. Indeed, the strong balance of payments had led to considerable reserve growth, which has given the authorities more leeway to pursue with determination their policy of opening up China's economy to the external world and to step up, albeit prudently, imports which could assist in raising the technological level of the Chinese economy and in supplementing domestic demand management.

The internal settlement price system for foreign trade transactions introduced by China in 1981 remains a temporary one, and the authorities are actively studying the introduction of a system which would fully correspond to China's evolving needs. Directors endorsed the views expressed on this point in the staff appraisal and welcomed the studies. Several Directors urged that these studies be conducted in close association with the study of the price system.

Directors noted Mr. Zhang's suggestion with regard to the description of the exchange system in the proposed decision. The staff has no objection to this proposal, which appears to be acceptable to Executive Directors.

The rapidly developing contacts between Chinese officials and various Fund departments and the IMF Institute, and the range of technical assistance provided through these contacts were warmly welcomed.

The next Article IV consultation with China will be held on the standard 12-month cycle.