

Bohnet, Armin; Hong, Zhong; Müller, Frank

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Armin Bohnet, Zhong Hong and Frank Müller*

China's Open-Door Policy and its Significance for Transformation of the Economic System

The open-door policy of the People's Republic of China is entering its 14th year in 1993. Petra Pissula and Dieter Lösch¹ presented a report in 1990 in which they took stock of the successes and failures of this policy by taking the special economic zones as an example, and they tended to assess China's future foreign trade activities pessimistically. Further progress has occurred in the open-door policy since that time, so that a revised evaluation is necessary. The aim of the present article is to show the more recent developments and problems and to examine the relationships between reforms and the open-door policy, particularly from the point of view of system transformation.

The policy of opening up China economically to the rest of the world constitutes an essential part of Chinese economic reform. Since this policy was initiated in 1979, the Chinese leadership has attached to it the dual aims of strengthening the country's economic potential by importing foreign capital and know-how and lifting Chinese foreign trade towards a level and structure comparable to that of modern industrialized countries. It was for this reason that efforts were made to create a favourable institutional basis for importing capital. Initially, however, it was feared that an open-door policy of this kind could have disruptive effects on the socialist economic system, and that great damage could be done to domestic economic development if the policy were to fail. Various restrictions, both geographical and with regard to the content, were therefore placed on the open-door policy by taking a variety of measures to avoid these risks.

The regional demarcation of the open-door policy was manifested in the establishment of special economic zones with relatively small areas, which were strongly oriented towards trading with the outside world. In August 1980, the four special economic zones of Shenzhen, Zhuhai and Shantou in the Province of Guangdong and Xiamen in the Province of Fujian were established. The largest of these is Shenzhen with an area of 327.5 sq. km. All of these zones² were situated in economically underdeveloped areas in order that any damage to the economy caused by a possible failure of the open-door

policy, initially conceived as an experiment, would be kept within limits.

The special economic zones exhibit the following characteristics:³

- ☐ economic development is determined primarily by foreign capital;
- ☐ economic activities are mainly carried out according to the principles of a market economy;
- ☐ foreign companies are allowed more leeway and their operating environment is more favourable than in other parts of China;
- ☐ governments in the special economic zones have the same administrative powers in matters of foreign trade as do the provincial governments.

In order to prevent any unfavourable spillover effects on the rest of China, the special economic zones were strictly isolated from the rest of the economy, also as far as the types of economic activity were concerned. In product markets, this meant that the field of activity of the Chinese-foreign companies established in these areas was limited to export-oriented manufacturing and services. At the

¹ Cf. P. Pissula, D. Lösch: Special Economic Zones in the People's Republic of China, in: INTERECONOMICS, Vol. 25, No. 5, September/October 1990, pp. 257-262.

² In 1988, the island of Hainan in the South China Sea was officially declared a special economic zone.

³ Cf. J. Wang, Y. Zhu (eds.): Manual of Reform of the Economic System, Beijing 1987, p. 869.

* Justus Liebig University, Giessen, Germany.

same time, the compulsory export of products manufactured in the special economic zones was decreed. In the foreign exchange market, separation was maintained by an obligation on the part of the special economic zones to generate the foreign currency they needed by themselves. Various measures intended to restrict migratory movements of the population also led to a separation of the special economic zones from the domestic Chinese labour markets.

In spite of these restrictions, Chinese special economic zones made a substantial contribution to attracting foreign capital.⁴ These encouraging results also meant that the initial fear of failure of the open-door policy gradually became less significant. The Chinese leadership made the decision to expand both the scope and the geographical range of its open-door policy.

This commenced, from a geographical point of view, in 1984 as Shanghai, Tianjin and twelve other Chinese ports were officially declared "open cities". In these open cities, favourable environmental conditions were created for foreign investors and city governments received extensive decision-making powers in respect of foreign trade activities. After 1985, the open-door economic policy towards the rest of the world was extended in gradual stages to China's interior. The last step to date was the opening up of eleven provincial capital cities in the interior of China. Consequently, the geographical separation of special economic zones and open cities on the one hand, and the domestic economy on the other, has now largely become a thing of the past. Table 1 outlines the development of the Chinese open-door policy in the period since 1980.

As geographical separation became less strictly enforced, there was also a constant watering down of the restrictions of freedom of action of Chinese-foreign companies in the special economic zones and in the open territories. This was expressed on the selling side by an ever greater opening up of the Chinese domestic market to the products of these companies and by a gradual relaxation of the compulsion to export. This also brought with it a gradual liberalization of foreign currency controls, which means that companies involved in foreign trade are now able to use as they see fit a considerable part of the foreign currencies which they earn. The continuing regional expansion of the open-door policy also facilitated access by Chinese-foreign companies to the Chinese labour market.

⁴ For example, foreign capital totalling US\$ 20.5 billion was pledged between 1979 and 1982. US\$ 12.5 billion was also actually invested. Cf. Table 2.

Table 1

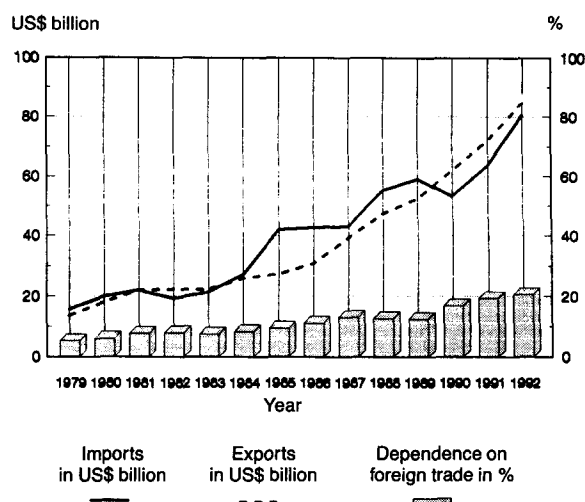
Time Chart of China's Open-Door Policy

Period	Stage of reform	Geographical location
1980	Establishment of the special economic zones of Shenzhen, Zhuhai, Shantou and Xiamen	Provinces of Guangdong and Fujian in the South East
1984	14 ports, including Shanghai and Tianjin, are declared "open cities"	Along the length of the coast from North to South
1985	Various towns in the Pearl River delta, the South Fujian delta and the Yangtze delta, the peninsulas of Liaodong and Jiaodong, and the Bohaiwan district are opened up.	Near the coast in the East and South East
1988	The island of Hainan is elevated to the status of an independent province and declared a special economic zone.	South China Sea
April 1990	The Shanghai district of Pudong is declared a special zone	East coast
1992	5 ports along the Yangtze River are declared "open cities"	Central China
June 1992	13 cities along the Chinese national borders become "open cities"	North East, North West and South West
August 1992	11 provincial cities are declared "open cities"	In the interior

Sources: China's Economic Structure Reform, No. 10, 1992, p. 12; J. Wang, Y. Zhu (eds.): Handbuch der Reform des Wirtschaftssystems, Beijing 1987, p. 870.

Figure 1

Development of Foreign Trade and of Foreign Trade Dependence in China (PRC), 1979-1992



Note: Foreign trade dependence is expressed as the percentage of exports as a proportion of gross national product.

Sources: Statistical Yearbook of China 1992, pp. 31 & 615; Bedeutende Ergebnisse im Aussenhandel, in: Beijing Rundschau, Vol. 30, No. 3-4, 26. 1. 1993; own calculations.

Capital Imports

From 1980, when the first joint venture was set up in China, until the end of 1992, China authorized a total of approx. 84,000 companies which were either exclusively foreign-owned or some form of joint or cooperative venture between Chinese and foreign interests.⁵ Employees of these companies numbered two million in 1990.⁶ The volume of direct investment negotiated with foreign countries reached a level of US\$109.8 billion from 1979-1992; even the level of foreign investment actually realized was valued at around \$ 34.5 billion (cf. Table 2).

The bulk of direct investment was accounted for by Chinese living abroad. Hong Kong, Macao, Taiwan and the ASEAN states alone accounted for 70% of the total foreign investment volume in 1991.⁷ There was no significant change in this situation in 1992.⁸

In regional terms, Chinese-foreign joint ventures are still concentrated along the coastal area in the east and south-east of China. In the meantime, more than 5,000 of these joint ventures exist in each of the provinces of Guangdong, Jiangsu, Fujian and Shandong. In the western provinces, on the other hand, there have only been a few hundred to date.⁹ This clearly shows the effect of the open-door policy's having first been instituted in the coastal regions and only gradually spreading inland.

In the 1980s, the Chinese government also began to procure foreign capital by way of borrowing. As Table 2 shows, China was granted a credit line by foreign lenders of \$64 billion over a 14-year period – from 1979 to 1991. The amount actually borrowed was in the region of \$ 52 billion.

Foreign Trade

Trade and commerce between the People's Republic of China and the rest of the world shot up in the wake of the Chinese open-door policy.¹⁰ In terms of foreign trade

⁵ On the empirical significance of companies with foreign shareholders, cf. F. Müller: Entwicklung und Funktionsweise verschiedener Eigentumsformen in der Volksrepublik China, in: Chinas Weg zur Marktwirtschaft – Muster eines erfolgreichen Reformprogramms?, Münster and Hamburg 1993, forthcoming, pp. 233-300; and Renmin Ribao (overseas edition), 20. 2. 1993, p. 2.

⁶ Cf. C. Ji: Wandlung quantitativer Einfuhr ausländischen Kapitals in qualitative, in: Finance and Trade Economics, No. 7, 1991, p. 3.

⁷ Cf. Statistical Yearbook of China, 1992, p. 642; Chinas Außenwirtschaft im Wandel, in: DIW-Wochenbericht, Vol. 59, No. 51/92, 17. 12. 1992, p. 702-708; also own calculations.

⁸ Cf. Renmin Ribao (overseas edition), 12. 1. 1993, p. 5.

⁹ Cf. Renmin Ribao (overseas edition), 24. 2. 1993, p. 2.

¹⁰ On the development of Chinese foreign trade since the 1980s, see also: VR China: Wandel durch weitoffenen Handel?, in: DIW-Wochenbericht, Vol. 59, No. 23/92, 4. 6. 1992, pp. 296-302; Chinas Außenwirtschaft im Wandel, op. cit.

Table 2

Foreign Capital Authorized and Invested in China, 1979-1992 (in US\$ billion)

Year	Total	Foreign borrowing	Direct foreign investment	Other foreign investment ^a
Foreign capital authorized:				
1979-1982	20.5	13.5	6.0	1.0
1983	3.4	1.5	1.7	0.2
1984	4.8	1.9	2.7	0.2
1985	9.9	3.5	5.9	0.4
1986	11.7	8.4	2.8	0.5
1987	12.1	7.8	3.7	0.6
1988	16.0	9.8	5.3	0.9
1989	11.5	5.2	5.6	0.7
1990	12.3	5.1	6.6	0.4
1991	19.6	7.2	12.0	0.4
1992	68.5	–	57.5	–
1979-1992	190.2	64.0 ^b	109.8	5.3 ^b
Foreign capital invested:				
1979-1982	12.5	10.7	1.2	0.6
1983	2.0	1.1	0.6	0.3
1984	2.7	1.3	1.3	0.2
1985	4.6	2.7	1.7	0.3
1986	7.3	5.0	1.9	0.4
1987	8.5	5.8	2.3	0.3
1988	10.2	6.5	3.2	0.5
1989	10.1	6.3	3.4	0.4
1990	10.3	6.5	3.5	0.3
1991	11.6	6.9	4.4	0.3
1992	18.8	–	11.2	–
1979-1992	98.4	52.7 ^b	34.5	3.5 ^b

^aOther foreign investment consists of plant and equipment obtained by foreign companies on a barter basis for the processing and assembly of imported intermediate products, or leased plant and equipment used in China.

^b1979-1991.

Sources: Statistical Yearbook of China 1992, p. 641; Renmin Ribao (overseas edition), 20. 2. 1993, p. 2.

Table 3

Effects of the Open-Door Policy on Foreign Trade in 1992

	Foreign trade volume		Exports		Imports	
	US\$ bn	%	US\$ bn	%	US\$ bn	%
Total	165.0	100.0	85.0	100.0	80.6	100.0
of which:						
5 Special economic zones (SEZ)	24.3	14.7	12.4	14.6	11.9	14.8
14 Coastal ports	29.2	17.7	16.4	19.3	12.7	15.8
Total joint ventures	43.8	26.5	17.4	20.5	26.4	32.8
of which:						
JVs in the 5 SEZs	11.7	7.1	–	–	–	–
JVs in the 14 ports	10.9	6.6	4.3	5.1	6.6	8.2

Sources: Renmin Ribao (overseas edition), 9. 2. 1993, p. 1; 18. 2. 1993, p. 2; and 19. 2. 1993, p. 1.

volume, China moved up in the world ranking from 34th place in 1978 to 11th place in 1992.¹¹ Its main foreign trading partners in 1992 were Hong Kong, Japan, USA, Taiwan, Germany and Russia.¹² China exported goods the same year to the value of \$85 billion, corresponding to more than 20% of its gross national product. Imports over the same period accounted for \$80.6 billion (cf. Fig. 1). The rise in imports and exports since 1979 has been, on average, in excess of 15% per year. These figures make it clear that foreign trade in the meantime not only makes a significant contribution to the performance of the Chinese economy, but that China is also gradually becoming a factor to be reckoned with in international trade.

As instruments of the open-door policy, the five special economic zones, the fourteen open coastal cities and the Chinese-foreign joint ventures, the number of which has leapt since 1992, are mainly responsible for the positive trend in foreign trade. Table 3 outlines the quantitative significance of these instruments.

¹¹ Cf. N. Li: Warum China den Wiederbeitritt zum GATT beantragte, in: Beijing Rundschau, Vol.30, No. 6, 9. 2. 1993, pp. 14-21.

¹² Cf. Renmin Ribao (overseas edition), 26. 2. 1993, p. 6.

The Process of Transformation

The original aim of the open-door policy was to reinforce China's economic strength through participation in the world economy and through direct foreign investment. As far as its conception is concerned, the open-door policy seemed to have little to do with a policy of reform. Later developments do, however, show remarkable interactions and interdependencies between reform policy and open-door policy.

This reciprocal interaction is partly a consequence of the dual aims of the open-door policy described at the beginning. A basic initial requirement for realizing the aim of attracting foreign capital was the political and ideological recognition of privately owned enterprise forms and therefore of non-state ownership of the means of production. These forms of enterprise had to have sufficient freedom of action economically to allow them to run their businesses in accordance with international practice and, therefore, be attractive to foreign investors. Furthermore, clear and enduring regulations with regard to relations between these companies and the state were required, in order to provide companies with a sound basis for decisions and protect them against arbitrary

Peter Behrens (Ed.)

EEC Competition Rules in National Courts

Les règles de concurrence de la CEE devant les tribunaux nationaux

Part One: United Kingdom and Italy

Première Partie: Royaume Uni et l'Italie

The competition rules of the EEC are directly applicable in the Member States. Therefore, the national courts play an important role in the implementation of European competition law. The editor of this volume has initiated a research project which will analyse the national case law. This volume contains the national reports from the United Kingdom and Italy. Further national reports will follow.

The project is designed to make the national case law accessible to lawyers practicing in the field of European competition law. The Community organs get an overview over the implementation of Community law in Member States. Those interested in research find the materials for further comparative studies.

The authors are competition law experts from the different Member States. The editor is Professor of Law at the University of Hamburg and Member of the Board of Directors of the Institut für Integrationsforschung of the Stiftung EUROPA-KOLLEG Hamburg.

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intervention by state institutions. To avoid any negative effects on the development of the domestic economy such as were feared at the beginning of the reform phase, it was equally necessary to take institutional precautions to keep the open areas and the domestic economy separate from each other as far as possible.

In order to assure the joint venture companies sufficient economic freedom, they were initially granted autonomous powers in respect of price and wage policies. In addition to that, it was necessary to grant the companies additional decision-making powers for the sourcing of capital and labour. On the goods markets, the companies were allowed to import raw materials and semi-finished products as well as export their finished products. For the financial settlement of these transactions, the transfer of foreign currency between the firm and its foreign trading partners was allowed, or else the state itself provided foreign currency at fixed rates.

It then became necessary to create suitable laws and ordinances in order to achieve clarity in the relationship between the Chinese-foreign companies and state agencies and in order to give these companies formal legal recognition. This occurred for the first time on 1st July 1979 with the "Company Law for Chinese-foreign Joint Ventures Involving Participation by Foreign Investors". This law, however, contained a proviso according to which foreign participation was initially limited to 49% and the company manager had to be of Chinese nationality.¹³ The explanation for these rules lies on the one hand in the desire of the Chinese leadership to secure a means of influencing the companies economically. On the other hand, this also satisfied the ideological requirement that state ownership of the means of production should remain the prevailing form of ownership even in the special economic zones. As regards fiscal policy, it became necessary to create a special system of taxation for companies with foreign shareholders, as the usual method of appropriating profits was hardly suited to these companies. The formal regulations then had to be put into practice in the real-life dealings of agencies of the state with these companies. This made it necessary to adapt the methods of the party and state bureaucracy to the principles and modes of behaviour of the market economy.

Actual Developments

Although it was the intention during the initial phase of the open-door policy to avoid integration of the special economic zones into the Chinese domestic economy at all costs, it soon became apparent that such a division could

not be sustained in the longer term. If the success of the open-door policy was not to be endangered, it was necessary to accept its effects on the Chinese economic system. Increasing competition between various forms of enterprise on the one hand, but also between planned economy and market economy structures on the other, was the result.

The intensification of competition between the planned and market economy sectors was promoted as a result of the fact that the Chinese leadership, encouraged by the success of the open-door policy, began to extend the opening of the economy. At the same time, political and ideological reservations held against enterprises subject to foreign influence were gradually put aside. Expansion of the open-door policy initially called for a willingness on the part of foreign companies to make greater commitments in China. As shown by the quantitative gain in significance of Chinese-foreign joint ventures, both from a regional and sectoral view, this requirement would appear to have been satisfied.

Nevertheless, consideration must be given to the fact that such companies are not normally immediately in a position to compete on the world market and, therefore, often have to run at a loss for a transitional period. Among the reasons for this are inferior technical quality of their products, insufficient skill and training levels among their employees and insufficient infrastructure. To avoid a situation in which foreign investors stayed out or pulled out of China in spite of a fundamental willingness to invest, the Chinese government was forced to grant these companies a certain "profit guarantee" for the transitional period, or at least to protect them against devastating losses.

The tax advantages granted to joint ventures with this in mind, which were quite substantial in comparison to those of companies with other forms of ownership, proved to be inadequate. Additional measures of state support were required. On the sales side, state assistance consisted of a cautious opening up of the domestic Chinese market to products from these companies and of certain barter arrangements. On the input side, joint ventures were given easier access to the domestic market as a source of raw materials and semi-finished products in order to improve the competitive situation of these companies by reducing their costs. It was also made easier for companies to hire "cheap" domestic labour and provision was made for the dismissal of employees if necessary.

Official bodies liked to quote the "import substitution" theory to justify the preferential treatment given to Chinese-foreign joint ventures as described above and the gradually increasing penetration of Chinese domestic markets by the activities in the open economic zones.

¹³ These regulations have since been abolished.

According to this theory, it is possible to accelerate a country's development by expanding domestic productive capacity in order that the foreign imports otherwise necessary are rendered superfluous by increased domestic output. In truth, however, "competition between the systems" had long since broken out and that in turn inevitably led to competition between enterprises too (primarily between joint ventures on the one hand and state enterprises on the other). Joint ventures proved to be superior in this competition due to various factors at the level of the enterprises themselves, the national economy and ultimately the world economy.

Competitive Positions

From a business management point of view, it is initially the far greater scope for decision-making or freedom of management which stands out in the comparison with state enterprises. Although state enterprises are also being given greater freedom of action in the wake of the reform process (e.g. as part of the contractually bound system of responsibility), they are still today subject to state planning in many cases and have strong links with and dependencies on administrative bodies. Accordingly, the interests of factory managers in state enterprises are primarily aimed at satisfying planned or contractually agreed targets, whilst managers of joint ventures are responsible to (foreign) shareholders and behave according to market principles. It follows as a result that state enterprises normally (are able to) react less flexibly to developments on product markets than joint ventures with foreign participation.

The superiority of joint ventures is even greater on the input side. Here the companies benefit from the advantages arising from the use of advanced technology, greater flexibility in respect of investment decisions but also with regard to their personnel policy. Joint ventures are less dependent than state enterprises on state wages policy and can therefore pay their employees better than state enterprises do. Furthermore, they can offer their employees better training opportunities and the chance to use the latest technology. It is for this reason that more and more, primarily highly skilled, personnel in state enterprises are prepared to give up their extensive social protection in order to work for joint ventures. There have already been complaints about the shortage of skilled labour in some internal regions bordering on the special economic zones. Quite apart from this, joint ventures are permitted to dismiss employees they no longer require while state enterprises can do this only with difficulty. In some cases, Chinese partner enterprises are even obliged to take on labour no longer required by the joint ventures in which they are involved, in order to prevent unemployment.

From an economic point of view, Chinese state enterprises are disadvantaged in comparison to joint ventures primarily through much higher taxation and other deductions. Joint ventures are, for example, liable for proportional tax on profits of 33%, whereas the profit of large and medium-sized state enterprises is taxed progressively up to 55%. Joint ventures which use advanced technology and modern production plants can also be given a three-year tax holiday following their establishment. Furthermore state enterprises, in contrast to joint ventures, are obliged to perform numerous additional social tasks which give rise to considerable financial expense. These include items such as company pension payments, health insurance benefits and welfare benefits for their employees.

Other advantages arise for joint ventures from the fact that the latter, through their foreign partners, have easier access to the world market than state enterprises. One main reason for this is that foreign partner enterprises are much better known and have more experience of the world market. Apart from that, state enterprises require a licence from the state to be allowed to take part in foreign trade. Not all state enterprises by far are granted such a licence. Those which do not receive one are obliged to arrange their import and export activities through trading agencies which are licensed to participate in foreign trade.

Furthermore, state enterprises are subject to state currency controls, i.e. they have to transfer a portion of the foreign currency obtained from foreign trade to the state. In return, they receive the currency required for imports of raw materials and semi-finished products from the Chinese government. Neither the state's appropriation nor its provision of foreign exchange are governed entirely by economic criteria, as it uses such transactions as an instrument of structural policy. Companies which the state wishes to favour for structural reasons are favoured in comparison to other companies in the form of reduced payments of foreign currencies and/or higher allocations of foreign currency. This type of state influence is not disadvantageous solely to the enterprises suffering from structural policy discrimination. It also means that even the enterprises which are net beneficiaries have very little incentive to behave in an economically efficient manner. Seen on the whole then, involvement in international economic processes is considerably higher among joint ventures than among state enterprises.

The progress of the open-door policy certainly meant a greater penetration of the Chinese domestic economy by market elements. This was coupled with a large number of welfare-enhancing effects for the Chinese people. On the other hand, the competitive disadvantages mentioned

above of state enterprises compared to Chinese-foreign joint ventures led to more and more problems for the former. Of great importance in this context is the fact that joint ventures are increasingly being established outside the special economic zones and, for this reason, there is more direct competition between the various forms of enterprise on the product and factor markets. The originally intended division between "open" areas and the domestic economy has constantly lost significance as a result. Consequently state enterprises increasingly consider themselves unfairly treated in comparison to joint ventures. Political pressure on the government bodies responsible and demands for equal treatment for all types of enterprise have therefore constantly been growing louder during the course of the reform process and the open-door policy.

Inferior Institutional Arrangements

The increasing demands by state enterprises for economic equality of treatment with private companies on the one hand and the increasing burden on state budgets through payments of subsidies to suffering state enterprises on the other will force the Chinese government, sooner or later, to accept such equality of treatment.

Theoretically there are two possibilities: the first alternative consists in cutting back the powers held by, and the freedom of action of, Chinese-foreign joint ventures and thus in worsening their competitive situation through administrative measures. The second alternative consists in further expanding the freedoms of state enterprises, which would result in the end of their existence in their traditional form. The first of these alternatives would presumably put an end to the open-door policy. However, if foreign interest in cooperating with Chinese enterprises and, consequently, the success of the open-door policy hitherto, are not to be jeopardized, only the second alternative is really worthy of consideration. The Chinese leadership does indeed seem to have decided in its favour.

Indications of this are seen at both the microeconomic and the macroeconomic levels. On 24th July 1992, the State Council passed the "Provisions for changing the management mechanisms of state-owned industrial enterprises". Soon afterwards, similar regulations followed for state trading companies. The provisions defined as a "change in the management mechanisms" represented a package of endeavours to give enterprises more decision-making powers and a greater degree of freedom from their supervisory authorities. It is intended in the longer term to grant the same autonomous powers to state enterprises as those already held by joint ventures

and other non-state forms of enterprise. It is worth noting from an economic point of view that the National People's Congress in March 1993 passed an amendment to Article 15 of the Chinese Constitution and substituted the words "planned economy" with "socialist market economy". Western observers of China see this as formal acknowledgement of the intensification of the reform and open-door policy as had been repeatedly called for by Deng Xiaoping, and a further turning away from the traditional ideals of the planned economy.

The significance of China's open-door policy for the transformation of its economic system, therefore, lies primarily in the fact that it is more or less inevitably compelled to undertake radical changes to institutional arrangements in the planned economy system and thereby, in the longer term at least, to accelerate their decline.

It can be expected for the future that the transformations of planned economy structures into those of a market economy which have already taken place or which are in progress will in turn lead to an intensification of economic cooperation between China and the rest of the world.

Conclusions

Developments since 1979 have shown that the aim of keeping "open" territories separate from the domestic economy was unable to be sustained if the success of the open-door policy was not to be jeopardized. By allowing joint ventures with foreign capital investment and by establishing the special economic zones, it was inevitable that the planned economy system would be penetrated by elements of the market economy. At the same time, competition between private-sector and public-sector forms of enterprise was the result. State enterprises tended to be the losers in this competition for a variety of reasons. The Chinese government, therefore, was finally faced with the choice of either making radical changes in the powers and methods of operation of state enterprises and guiding them towards market structures, or else of terminating its open-door policy. Assuming that economic (cost-benefit) considerations, the increasing of the population's prosperity and, therefore, the securing of the leadership's own position of power are decisive for the execution of the open-door policy, the decision had to be in favour of the first alternative. The consequence of this is, however, that state enterprises will be unable to survive in their traditional form in the longer term. Had the Chinese leadership wished to have slowed down or even prevented this process of decline, it could have done so. This would, however, have been irreconcilable with the achievement of economic welfare and efficiency objectives.