The Critical Path for Continuing Chinese Economic Reform

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Outline:

- The Chinese Economy Today
- Review of Chinese Economic Reform (1979-present)
- Problems Old and New
- The Critical Path for Continuing Chinese Economic Reform

The Major Components of Chinese Economic Reform (1979-the present)

- The “Open Door”
  - International Trade
  - Foreign Direct Investment
- Marketization
  - Goods Market
  - Labor Market
  - Foreign Exchange Market
  - Housing Market
  - Capital Market
- Devolution of economic decision-making power (The “Contract Responsibility System”)
  - Empowering Provincial and Local Governments
  - Autonomy and Incentive at the Enterprise Level
  - Professionalization of Management of Enterprises
- Creation of new, non-state-owned modes of organization for production
  - Agriculture--Abolition of communes; return to a system of individual cultivators with fixed rents and taxes
  - Non-Agriculture (Industry and Services)--emergence of “Township and Village” (T&V) enterprises; (foreign) joint-venture, foreign and private enterprises

Economic Performance: Pre- and Post-Reform

Average Annual Rates of Growth of Selected Economic Indicators (%)

	1952-1979 Pre-Reform	1979-2000 Reform
Real GDP	6.20	*9.62*
Real GDP/Capita	4.14	*8.24*
Real Gross Value of:		
Agricultural Production	4.33	*7.41*
Light Industry	7.83	*11.23*
Heavy Industry	11.37	*11.10*
Real Personal Consumption	4.99	*9.04*
Real Consumption/Capita	2.96	*7.70*
Real Gross Fixed Capital Formation	11.43	*10.90*
Capital Stock	5.93	*9.82*
Employment	2.52	*2.71*
GDP Deflator	0.59	*5.72*
Retail Price Index	0.80	*6.11*
Exports (in current US Dollars)	10.98	*14.83*
Imports (in current US Dollars)	10.27	*13.53*

The Tenth Five-Year Plan (2001-2005)

- An indicative (or predictive) plan rather than a mandatory plan
- Doubling of real GDP between 2001 and 2010, with an implied rate of growth of 7.2% p.a.
- An inflation target of less than 3% p.a.
- An increase in the share of central government revenue in GDP (the introduction of a comprehensive individual income tax)—tax revenue as a proportion of GDP rose from 14.2% of GDP in 2000 to 17.1% of GDP in 2001
- Indirect (macroeconomic) control of the economy using instruments such as money supply, interest rate and exchange rate rather than direct (microeconomic) control through administrative directives, commands and central planning with mandatory targets

Marketization: Final Abolition of Planned Prices

- The market prices of more than 99% of commodities have been determined by supply and demand for at least a decade
- In 2001/07, the remaining planned prices are abolished with the exception of the following: the prices of natural gas, oil, edible oils, grains, tobacco, water, salt, and products related to national security
- The exchange rate and the rate of interest are still determined administratively by the People's Bank of China, the central bank
- The dual-track system of prices introduced in the mid-1980s to facilitate the transition of China from a centrally planned to a socialist market economy has finally been phased out, reducing to a single-track, market-based system, with the exceptions noted above

The Stock Market

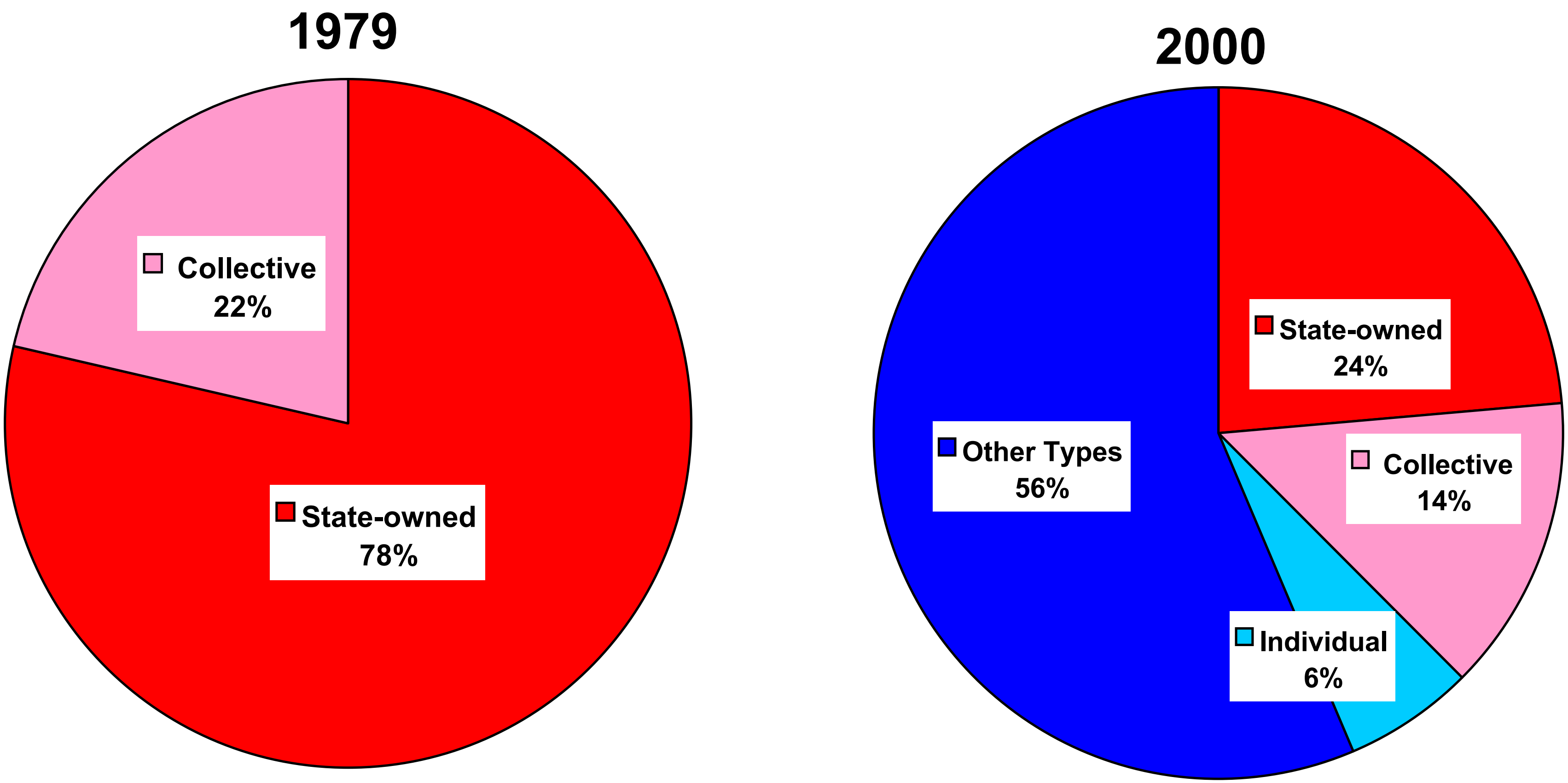
- 1171 enterprises (more than 95 percent majority state-owned) listed on Shanghai and Shenzhen Stock Exchanges combined as of March, 2002.
- Market capitalization (US$520 billion); market turnover (US$2.0 billion a day)
- Third largest market in Asia after Japan and Hong Kong
- A-shares for domestic and B-shares for foreign investors; however, beginning in 02/2001, Chinese domestic citizens with foreign exchange can purchase B-shares as well
- 7/8/99--introduction of indexed funds in China
- 8/99--16 billion Yuan bonds issued and traded on the domestic stock exchanges
- 9/99--state-owned enterprises permitted to trade stocks
- The main boards of the Shanghai and Shenzhen exchanges will be unified in Shanghai
- A second, new, board for non-state-owned enterprises will be set up in Shenzhen with reduced requirements for annual profits and capitalization (Chinese version of the American Stock Exchange)

The Bond Market

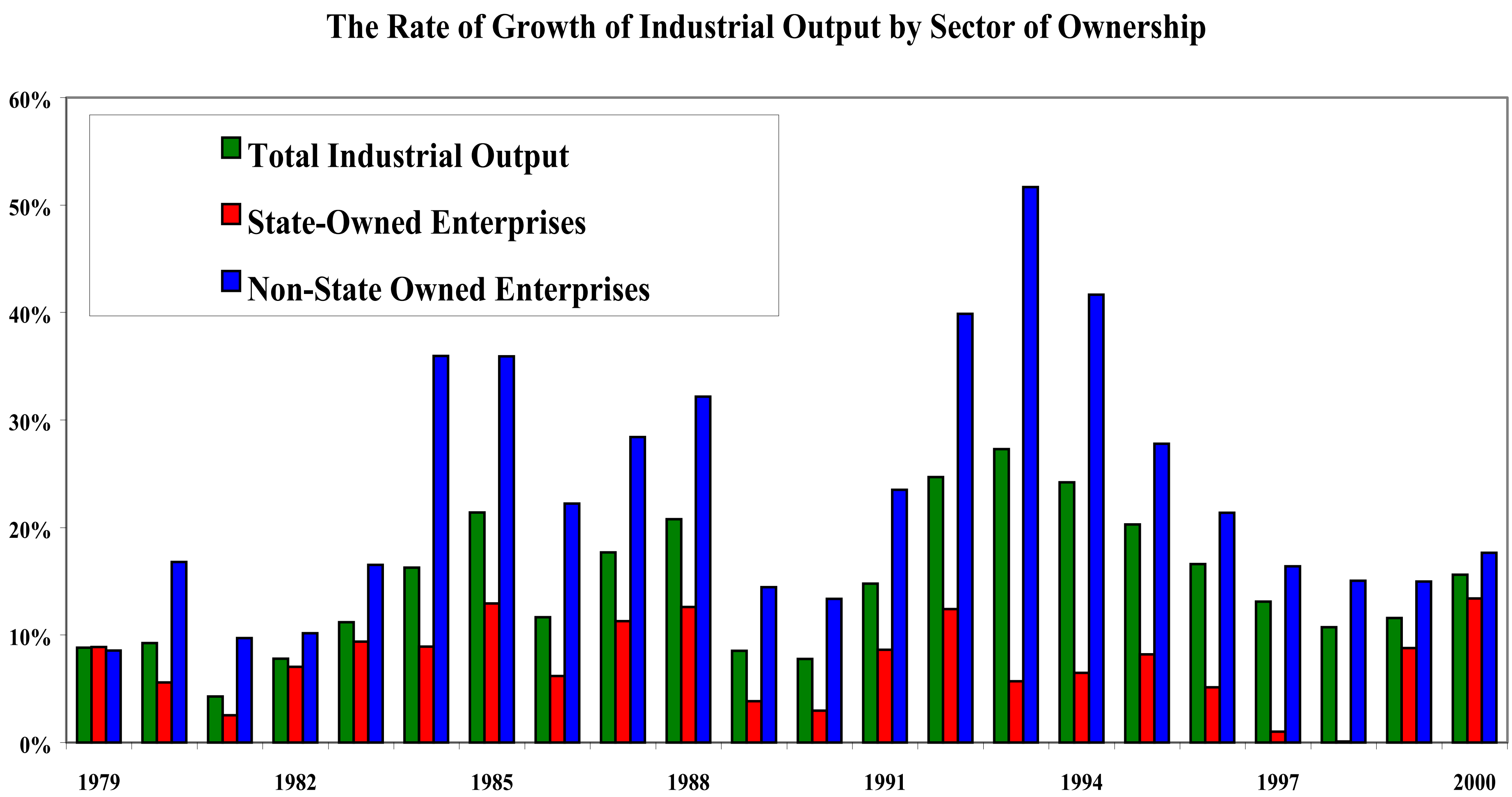
- In 2001/05 approximately US$1.5 billion worth of long-term bonds, denominated in US$ and Euro, were sold to international investors
- The issue was oversubscribed by nearly 5 times
- The coupon rate on the 10-year US$ bond was 6.8%, 1.33% above U.S. Treasury note of the same maturity
- The coupon rate on the 5-year Euro bond was 5.25%, 0.64% above German DM bonds of the same maturity
- The premia paid by the Chinese Government were low by the standards of developing economies
- These rates were actually higher than the rate of interest paid on Chinese government bonds denominated in Renminbi
- In 2002/05, thirty-year Yuan-denominated bonds were sold domestically with a coupon rate of 2.9%, indicating very low long-term inflationary expectations

The Growth of the Non-State Sector-Industry

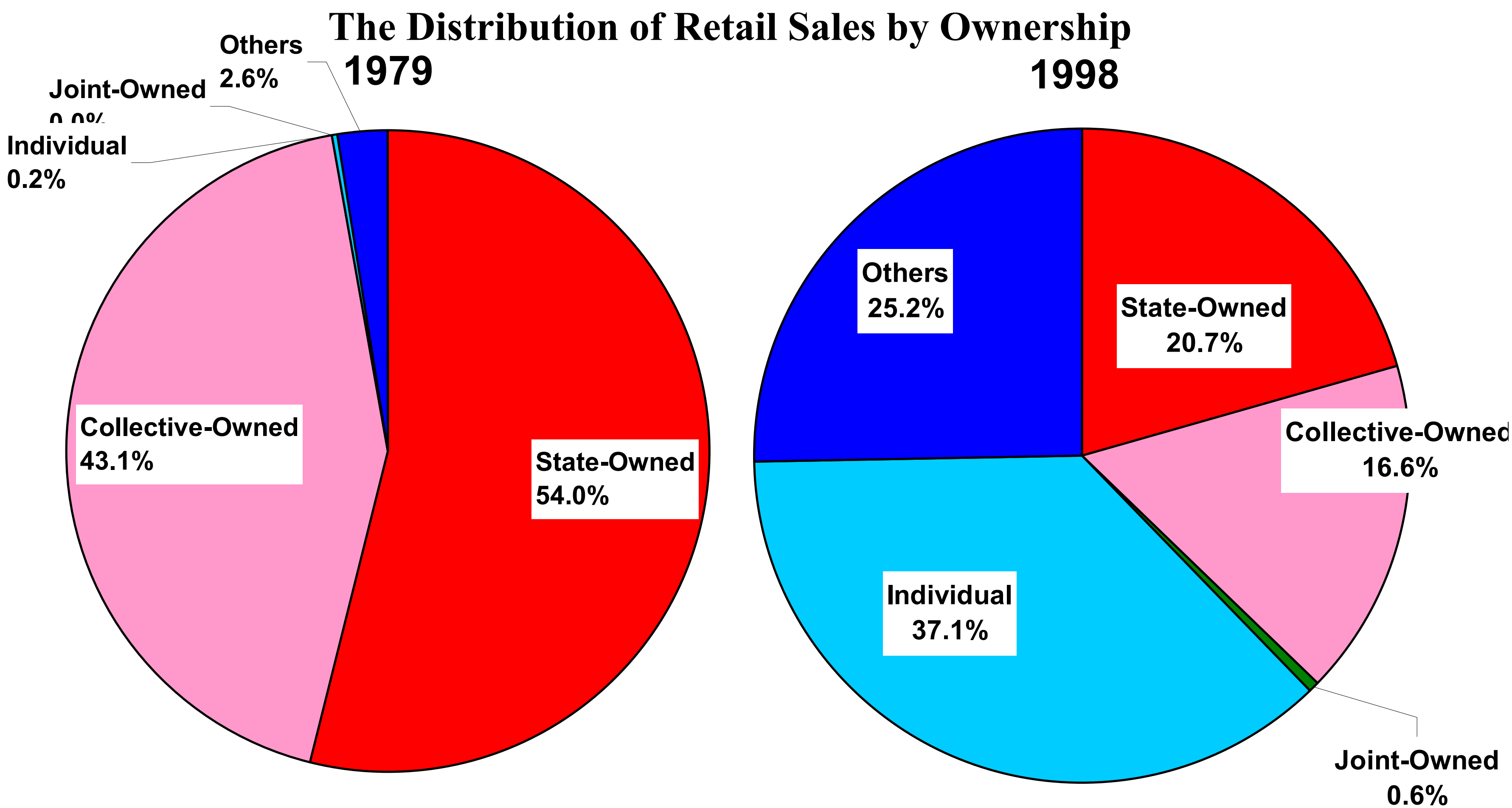
Distribution of Gross Value of Industrial Production by Ownership



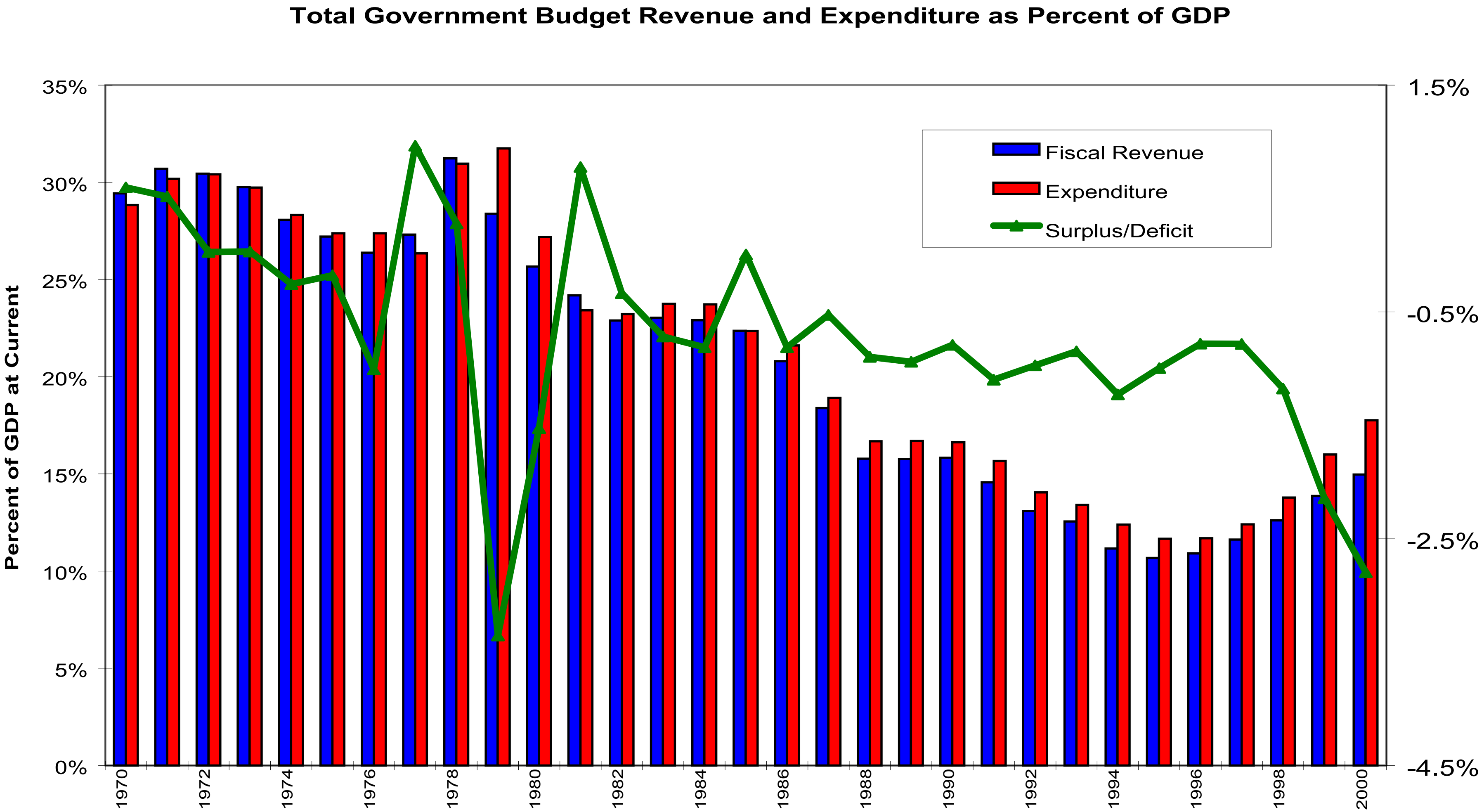
The Growth of Industrial Output by Sector of Ownership



The Growth of the Non-State Sector-Retail



Total Government Budget Revenue, Expenditure, and Deficit as a Percent of GDP



Remaining Problems and New Problems Caused by the Success of the Economic Reform

- The state-owned enterprises (SOEs) are unable to compete effectively in the open market with the newly formed joint-venture, foreign, and private enterprises, even with the advantage of credit access to the state-owned commercial banks
- The SOEs are unable to repay the loans they have taken out from the state-owned commercial banks, causing a serious "non-performing loans" problem for the banks as well as the financial system as a whole
- The SOEs are, on average, overstaffed by one half to two-thirds—many employees have implicit life-time employment guarantees
- With the loss of their secured markets, many of the SOEs are unable to fulfill their obligations to existing as well as retired employees
- The deterioration of social services such as education and public health customarily provided by SOEs
- Accession to the World Trade Organization (WTO) means even greater competition for many of the SOEs, thus exacerbating the problem; moreover, WTO rules imply that government subsidies to and preferential treatment of the SOEs will no longer be permitted thus making the reform of the SOEs even more urgent
- Export markets are approaching saturation as the Chinese market shares have risen—continued economic growth can no longer depend on the growth of exports—growth of internal demand has become much more important
- The rise of inter-regional and intra-regional inequality within China
- The rise of a new elite outside of the state sector (including the public government sector and state-own-enterprise (SOE) sector)

The Critical Path for Continuing Economic Reform (1)

- In order to reform the Chinese commercial banking sector, the non-performing loans (NPL) problem of the state-owned commercial banks must be resolved.
- In order to resolve the NPL problem of the Chinese commercial banks permanently, it is necessary not only to take care of the outstanding stock, but also to stop the continuing flow.
- In order to stop the flow, it is necessary to restructure the borrower enterprises, so that they are independently viable without relying on new loans afterwards.
- In order to insure the viability of the restructured SOEs, most of the existing obligations of the SOEs must be assumed by the central and local governments, i.e., "socialized," or by the individual employees themselves.
- Socialization of these obligations requires, in turn, the creation of a credible social safety net--a viable social security and pension system (including unemployment "insurance") to take care of both the inherited historical problems and the future--and the provision of social services by the local governments instead of the SOEs.
- Provision of social services by the provincial and local governments instead of the enterprises requires an independent source of revenue, through either the sharing of revenue with the central government, the division/sharing of tax bases, and direct and indirect central government subsidies (e.g., through tax preferences).
- Thus, continued economic reform must start with the creation of a social safety net and the division/sharing of social responsibilities and revenue/tax bases.

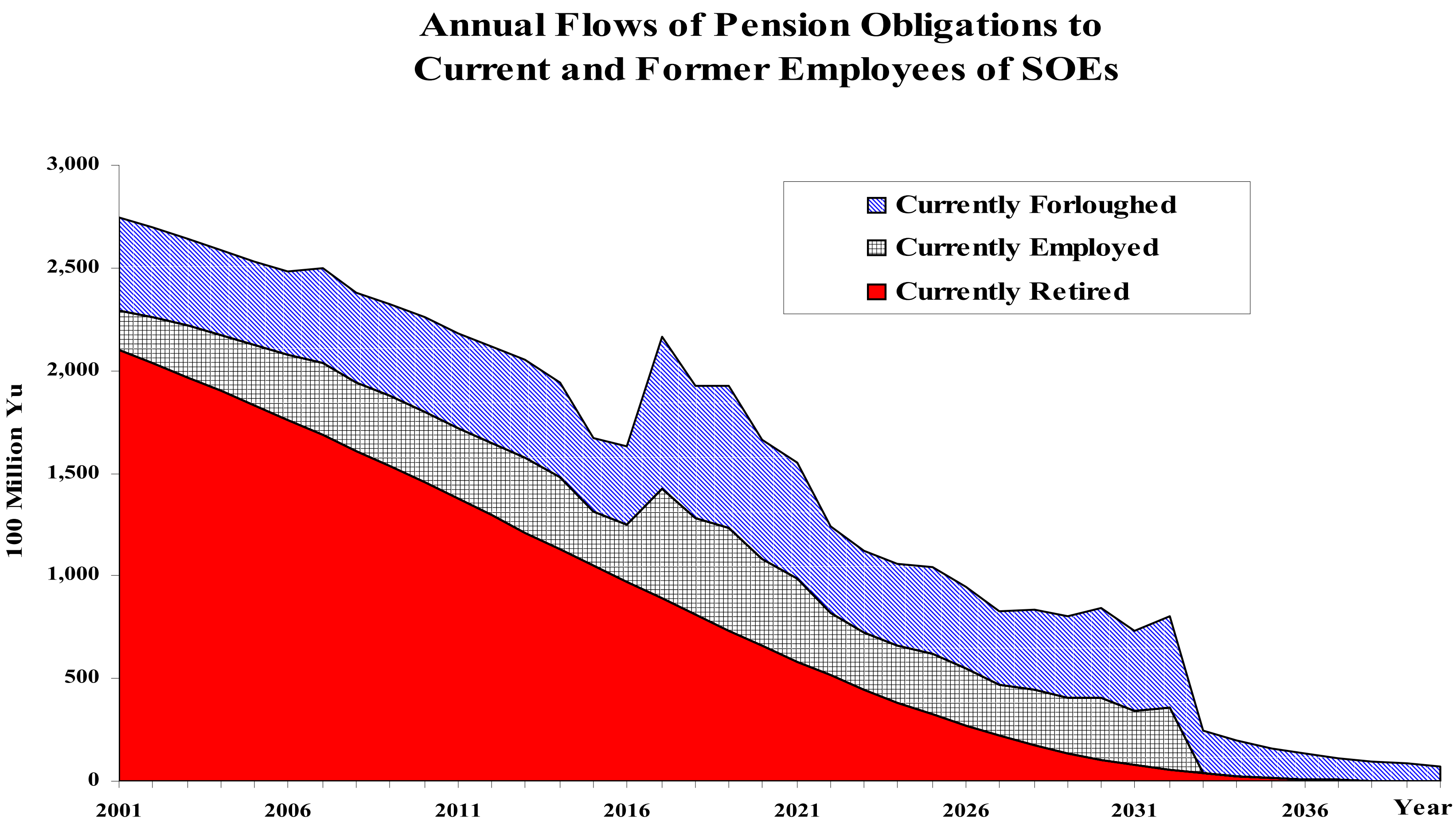
The Critical Path for Continuing Economic Reform (2)

- In parallel, agricultural reform should be undertaken to provide an income floor for households in the rural areas.
- In parallel, development and deepening of the factor markets to promote efficiency through creation of new markets and enhancement of mobility
  - Capital markets
    - Stock market
    - Bond market
  - Labor markets
    - Towards full monetization and mobility
- Reform of the housing market
  - Promotion of housing as a major source of aggregate demand
  - Enhancement of labor mobility through full monetization and marketization
- Accession to WTO reinforces the urgency of continuing reform.

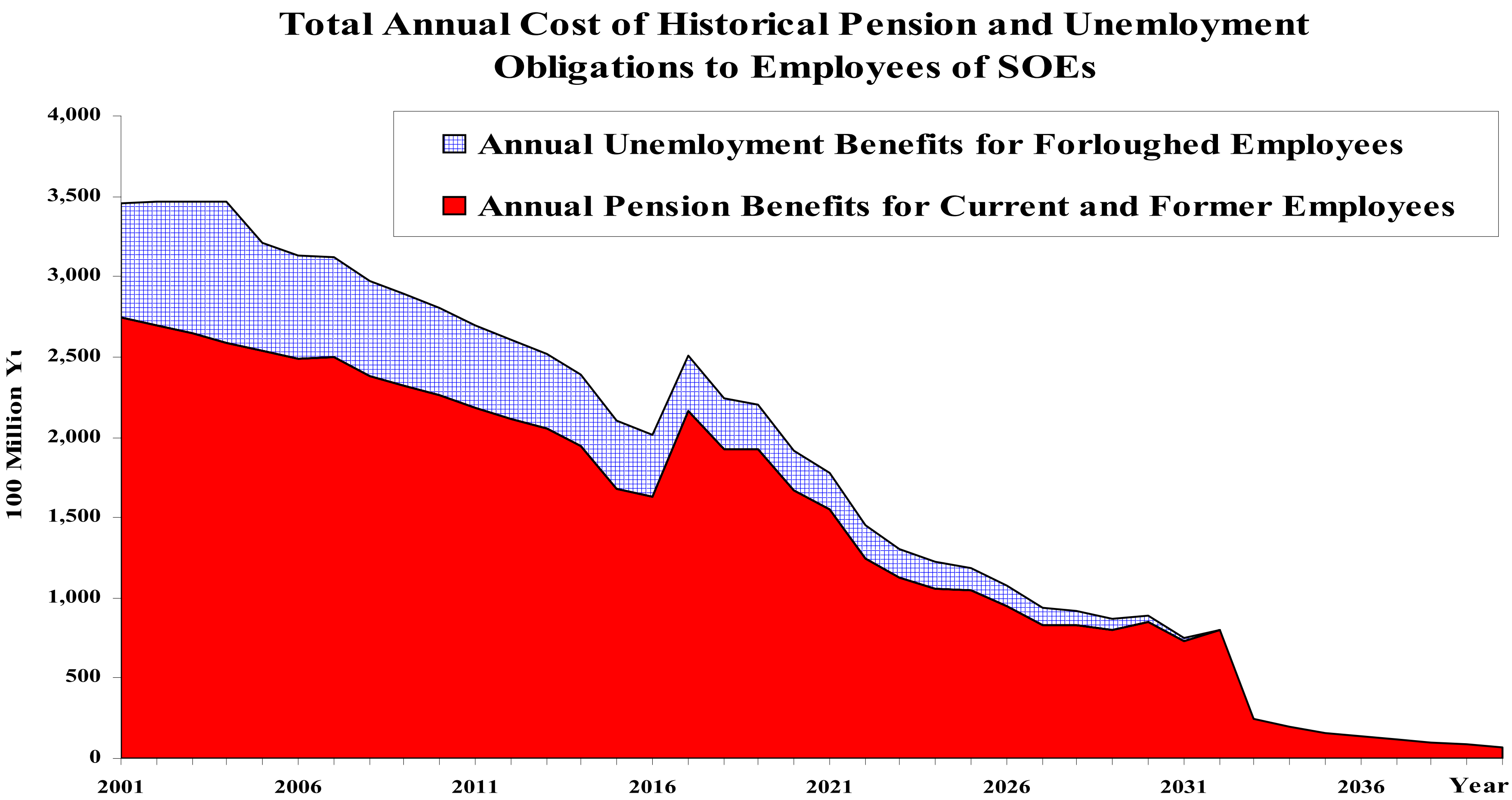
The Establishment of a Social Safety Net

- Assumption of current and future unfunded pension liabilities of the SOEs
- Provision of unemployment "insurance" benefits for the redundant employees of the SOEs; the number of urban residents receiving subsistence benefits increased from more than 4 million at the beginning of 2001 to 11.2 million at the end of 2001
- Assumption of the responsibility for the provision of social services such as education and health care by the local governments, relieving the enterprises
- Establishment of a Social Security Fund with state-owned shares of SOEs as an endowment to cover unfunded pension liabilities of SOEs as well as unemployment benefits for employees of the SOEs
- 10% of new IPOs will consist of state-owned institutional shares with the proceeds dedicated to the Social Security Fund

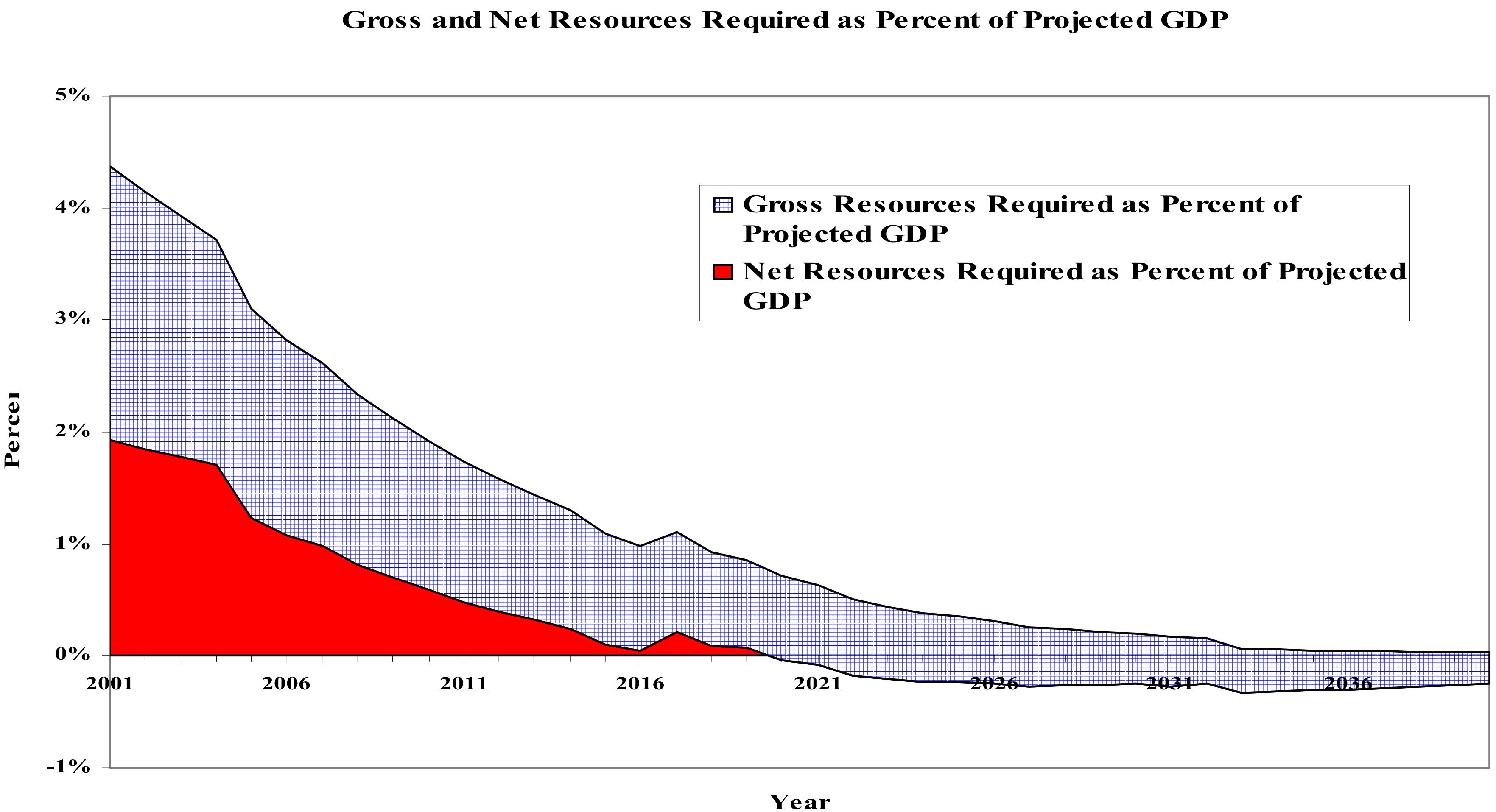
The Annual Flows of Resources Required for Historical Pension Obligations



The Total Annual Cost of Historical Pension and Unemployment Obligations



The Annual Flows of Resources Required as a Percent of Projected GDP



The Estimated Cost of the Social Safety Net

- The peak annual flow of unfunded pension obligations may be estimated at 275 billion Yuan, compared to an estimated flow of 220 billion Yuan under the current system for the year 2000
- The peak annual flow of unemployment benefits for furloughed employees of SOEs may be estimated at 90 billion Yuan in 2004, compared to an estimated flow of 20 billion Yuan under the current system for the year 2000
- Taking into account the contributions of the central government should make on behalf of its current employees for the future pensions, the peak annual net additional cost of the social safety net may be estimated at approximately 200 billion Yuan in 2004 or less than 2% of projected GDP
- The stock of unfunded pension obligations may be estimated at 4 trillion Yuan compared to a current GDP of almost 10 trillion Yuan and an estimated value of total state-owned assets of 9 trillion Yuan
- Total market capitalization of publicly listed Chinese enterprises on domestic Chinese and overseas stock markets may be estimated at US$700 billion, approximately 70% of which is held by the state directly and indirectly in the form of institutional shares, amounting to slightly more than 4 trillion Yuan; there are additional Chinese state-owned firms remaining to be publicly listed

The Need for a Sustainable Social Security System

- The Social Security Fund can solve the one-time problem of transition--it is not a permanent solution
- A credible and sustainable pension system must be set up, taking into account China's demographic conditions
- A "Pay-as-you-go" system is doomed to eventual failure
- A system based on individual retirement accounts in a central provident fund provides a credible and sustainable system in the long run

Provision of Social Services

- Basic education (primary and secondary), public health, individual health care, and housing, for their employees and retirees and their families, are traditionally provided by the SOEs.
- In order that the SOEs can compete effectively on the market, these responsibilities must be assumed by either local governments and/or the individuals themselves.
- What this implies is a reform of provincial and local public finance (a new federalism)
  - Division of the revenue bases and responsibilities between the central and local governments
  - Subsidies for provinces and local areas with low real GDP per capita
  - Expanding options for the financing of education, especially tertiary education (private universities, tuition, loan programs) and health care (private group health insurance)

Non-Performing "Loans" of the State-Owned Banks

- Borrowers are all state-owned enterprises (SOEs)
- Non-performance is no surprise to either the lenders or the borrowers
- In terms of flows, they amount to 2-3% of GDP, comparable to government budget deficits in many countries
- In terms of stocks, they range from US$300 billion (People's Bank of China (PBOC)) up to US$500 billion (25-40% of GDP); more recently (May 2002), Standard and Poor estimated these non-performing loans to be US$518 billion.
- Assuming that only 25% of the NPLs are ultimately recoverable, the bad debt provision required ranges between 20 and 30% of GDP. (Auctions for the NPL portfolios have been held successfully recently with a recovery ratio of approximately 25%.)
- The loans should be regarded as indirect loans to the central government which also owns all of the major banks, i.e. public debt
- Outstanding Chinese national debt is approximately 18% of GDP (compared to 60-70% for the United States, 140% for Japan, 75% for Zone Euro and 160% for Belgium)
- Total public debt, assuming the conversion of all non-recoverable non-performing loans into public debt, would amount to 40-50% of Chinese GDP
- Vice Minister LOU Jiwei estimated that the NPLs would raised the public debt/GDP ratio by approximately 20 percentage points.

Non-Performing "Loans" of the State-Owned Banks (2)

- Non-performing loans can be approximately divided into three parts
  - Loans to traditional old-line industrial enterprises
  - Loans to enterprises established during the mid-1980s in lieu of a founding equity
  - Loans contracted during the over-heated period in the early 1990s
- Rollovers (appropriately camouflaged) of these non-performing loans since 1994
- Permanent resolution depends on reform of the SOEs
- The banks will never be allowed to fail in a way that hurts the depositors--implicit deposit insurance

Restructuring of the Non-Performing Loans/Policy Loans (1)

- Permanent solution of the problem of non-performing loans of the state-owned enterprises (SOEs) requires that the SOEs be viable afterwards--I.e. a successful reduction of the currently redundant labor force, assumption of the social welfare costs, and debt-equity swaps if appropriate, so that the continued flow can be stopped
- Assumption of non-performing loans by another government-sponsored entity (like the Resolution Trust Corporation of the United States)
  - China Construction Bank is the first of the four major commercial banks to set up an asset management company, CINDA, to restructure its non-performing loans
  - Other management companies formed are Great Wall (Agricultural Bank of China), Dongfang (Bank of China) and Huarong (Industrial and Commercial Bank of China)

Restructuring of the Non-Performing Loans/Policy Loans (2)

- Restructuring to be followed by recapitalization
  - government bonds can be exchanged for non-performing loans
  - government/central bank purchases of subordinated debt of the banks
  - change in the bank reserve ratio
  - issuance of new stock, either common or preferred, by the banks in the public market
- Reform of the SOEs is absolutely essential for the long-term success of banking reform

Why Do State-Owned Enterprises Lose Money? (1)

- Burden of unfunded or under-funded pension and other social welfare liabilities
- Burden of interest costs caused by the lack of a founding equity
- Losses due to improper transfer pricing and other irregular practices--as long as the state, or state-owned banks, are ready to absorb them--some of the losses are accounting losses and only imply that the shareholders (the state), as opposed to the management, are losing money
- Losses due to lack of incentives for efficient management or efficient allocation of new investment
- Losses due to diversion or re-lending of funds with or without the connivance of the loan officers, e.g., for the financing of stock market speculation
- Losses due to moral hazard (excessive risk-taking and corruption)

Why Do State-Owned Enterprises Lose Money? (2)

- The really relevant losses are the genuine operating losses due to antiquated equipment and technology and/or over-employment
- The system of governance of the SOEs has to be reformed to solve the principal-agent problem and to reduce moral hazard through the hardening of the budget constraint
- **LOSSES MAY NOT REFLECT SOCIAL EFFICIENCY OR LACK THEREOF, ESPECIALLY IF THEY ARE CAUSED BY FIXED FACTORS AND ARE INFRA-MARGINAL**

Agricultural Reform

- Excessive production leads to low prices. Low prices lead to low income for individual farmers. Government procurement through above-market subsidized prices supports the prices of agricultural commodities and the incomes of individual farmers but results in excessive supply and inventory, low market prices and huge budget deficits.
- The Question: How to provide an income floor to individual farmers without stimulating excessive production and causing uncontrollable budget deficits?
- Abolition of specific agricultural taxes
- Government purchases from individual farmers should be limited by quantity on a per farm household basis and made at pre-announced fixed prices sufficient to guarantee a subsistence income to the farmers
- The market prices of agricultural commodities will be determined by supply and demand in the market without government intervention
- Improvement of grading and standardization practices and introduction of greater competition in the distribution of agricultural products can result in significant increases in the income of farm households without a corresponding increase in the government's budgetary burden

Capital Market Reform

- Lowering the debt-equity ratio at the levels of both the enterprise and the economy
  - Enterprises will be better able to survive economic shocks without bankruptcy
  - The spillover effects of bankruptcies can be better contained
  - Contagion will be minimized
- Greater emphasis on performance of enterprises--delisting of loss-making enterprises
- Leveling the playing field for all investors
  - Tighter supervision and enforcement against market manipulation and insider trading
  - More demanding requirements on accounting standards and financial disclosure
  - Stress on transparency and corporate governance
- The use of IPO proceeds for partial funding of unfunded pension liabilities through the Social Security Fund
- Merging of A & B shares?
- Inward foreign portfolio investment--Foreign Depository Receipts (ADRs, GDRs, HDRs)? Closed-End Funds? Qualified Foreign Institutional Investors (QFIIs)?
- Outward portfolio investment--Chinese Depository Receipts (CDRs)? Closed-End Funds? Qualified Domestic Institutional Investors (QDIIs)?
- Creation of a long-term bond market (securitization of owner-occupied residential mortgages and other loans)
- A second board as a source of capital for non-state-owned enterprises

Capital Market Reform: Making the Ownership of Common Stock Attractive to Investors

- Making common stock an attractive long-term investment for investors not currently in the market—institutional investors, risk-averse investors
  - Making dividend payments of publicly listed corporation deductible in the same way as interest expenses
  - Providing a cash dividend exemption up to a ceiling for individual income taxation (it can be the same ceiling as for interest income from bonds and banks)
  - Deferral or exemption of income tax if the shares are held and the dividends are received in a pension or retirement account
  - Exemption of capital gains from buying and selling of publicly listed common stock from individual income taxation for long-term investors (say, over 12 months)
  - Leveling the playing field—making the stock market a fair and competitive market for all investors

Capital Market Reform: Making the Ownership of Common Stock Attractive to Investors

- Cash dividend payment as an indicator/signal
  - Revenue and profit are more likely to be real because cash is required for the payment of dividends (historically (but not recently) U.S. firms paid out approximately 50% of operating earnings as cash dividends).
  - Payout of cash dividends reduces retained earnings, which means enterprises may have to seek additional financing for new projects either through issuance of additional shares or bank credit and hence the prospective projects will face more rigorous scrutiny.
  - Robert Arnott and Clifford Asness find that in the postwar period, enterprises retaining the most earnings had zero or negative real earnings growth for the subsequent ten years and that enterprises retaining the least earnings had average real earnings growth of 4% p.a. for the subsequent ten years.
  - In general, enterprises with deep pockets, including public enterprises, are slower in shutting down projects that turn bad and hence over time suffer greater losses. Enterprises with little retained earnings are therefore likely to be not only more careful in choosing projects to undertake but also more decisive in discontinuing projects that have not worked as expected.

Capital Market Reform: Making the Issuance of Common Stock Attractive to Enterprises

- Making the issuance of common stock an attractive source of finance for enterprises relative to debt
  - Making dividend payments of publicly listed corporation deductible in the same way as interest expenses
  - Linking the insurance premium payable by a bank for deposit insurance to the average debt to equity ratio of its borrowers—the higher the average debt to equity ratio, the higher the premium. This should result in a higher rate of interest for enterprises with a high debt to equity ratio
  - Equity, unlike debt, does not have to be repaid
  - A lower leverage, i.e., lower debt to equity ratio, reduces moral hazard—the more an enterprise is risking "other people's money" (e.g., the commercial bank's), the higher the risk it is willing to take

Capital Market Reform: The Second Board

- The second board should avoid the pitfalls of the “Growth Enterprises Market (GEM)” of Hong Kong and the Neuer Markt of Frankfurt
- Enterprises listed on the second board should satisfy the following conditions:
  - They must have a minimum of three years of operating profit
  - They must be audited by auditing firms with a significant net worth, e.g., the Big Four accounting firms (Deloitte-Touche, Ernst and Young, KPMG, PriceWaterhouseCooper)--auditing firms with net worth are less subject to moral hazard because they have something to lose; they also have the resources to compensate defrauded shareholders who rely on their audits
  - Initial public offering (IPO) shares are exclusively new shares the proceeds of which are to be used by the listing enterprise for specified purposes
  - Significant lock-up periods for founders and senior management

Capital Market Reform: Attracting Overseas Investors

- Avoiding large, unpredictable, short-term flows of capital
- China does not need to attract capital and least of all short-term capital
- The benefits of short-term capital are not well established, especially for economies with a high national savings rate
- Attracting long-term overseas investors without full capital accounts convertibility
  - Overseas depository receipts
  - Closed-end mutual funds publicly listed on overseas stock exchanges

Capital Market Reform: Allowing Chinese Investors to Invest in Overseas Enterprises

- Possible instruments include
  - Chinese depository receipts
  - Closed-end mutual funds publicly listed on Chinese stock exchanges
  - Permitting Chinese domestic citizens with foreign exchange to invest in closed- and open-end mutual funds registered, distributed and managed in China
- Competition between domestic and multinational enterprises can improve the overall credibility and liquidity of the domestic stock market
- Gradual opening minimizes the shock of a potential "big bang" when capital accounts are allowed to become fully convertible

Liberalization and De-Regulation of the Rate of Interest

- Since 09/2000, the association of bankers can set the deposit and lending rates for foreign currency
- Widening the band of discretion for banks to set deposit and lending rates in the urban areas
- The People's Bank of China (the Central Bank) will regulate the rate of interest through open market operations and changes in the re-discount rate
- Regulation in the form of minimum lending rates and maximum deposit rates to deter moral hazard

Labor Market Reform

- Full monetization of labor compensation
- Flexibility on both the employers' and the employees' sides—mobility in lieu of guaranteed lifetime employment
- Lifetime employment in the same firm or even the same industry may not be possible in this age of globalization and rapid technological progress and diffusion
- The freedom to "fire" employees actually encourages the hiring of more employees; if it is difficult or impossible to fire someone, no one will be hired
- Self-fulfilling expectations in the rate of labor market turnover—the Japanese and Silicon Valley examples

Public Investment in Human Capital

- Investment in Human Capital (formal, technical, on-the-job training, and re-training); re-orientation from firm-specificity to worker-specificity (flexibility, adaptability and re-employability); mobility (institutional and legal); network externalities and benefits from networking; accreditation, standardization, quality assurance and examinations and tests
  - Lengthening of the time for formal and general education--extension of compulsory education to 12 years; expansion of tertiary education; permitting private funding of education
  - Investments in information and communication technology
    - A PC in every classroom (in every urban home)
    - New modes of education and information dissemination

Affordable Owner-Occupied Housing: A Source of Growth of Aggregate Demand

- Huge pent-up demand for new affordable owner-occupied residential housing and rebuilt and renovated residential housing—a housing boom that can last for decades
- Promotion of affordable owner-occupied residential housing investment for and by the domestic population is one of the few alternative new and durable sources of growth of aggregate demand
    - Simultaneous adjustment of salaries and rents, providing purchasing power for employees not currently provided housing
    - Establishment of properties (transfer) rights to residential housing similar to those already available in the rural areas
    - Provision of long-term, preferably fixed rate, mortgages; development of secondary markets for such mortgages to avoid maturity mis-match; adoption of "safe-harbor" rules to over come "reluctance to lend"
    - Institution of urban zoning and land use laws; absorption of land costs but maintaining fairness through land leases adjustable upon renewal
    - Development of mass urban transit
- Housing reform has taken root in major urban centers except Beijing

Long-Term Economic Growth: Three Paradigms of Chinese Economic Growth

- Domestic demand-driven growth--the domestic market paradigm a la the United States in the 19th century. China is a large continental economy--International trade will never be as important as other, smaller countries and China must rely on internal demand for further economic growth. Value-added from exports constitutes only 6 percent of Chinese GDP.
- Industrial migration--the "wild-geese-flying pattern" metaphor of East Asian industrial migration over time can apply to Chinese provinces and regions
- Privatizing the economy without privatization--shrinking the state sector through the growth of the non-state sector in the absence of explicit privatization--the experience of Taiwan and South Korea
- What does it take?
  - Availability of infrastructure (transportation and communication, including the internet)
  - Continued marketization of the economy
  - Maintenance of a domestically open economy (the equivalent of the “interstate commerce” clause of the U.S. constitution)
  - Affirmation of property rights and the rule of law (a national commercial and tax court?)
  - Maintenance of an internationally open economy--the role of the "open door” (WTO)

The Development of the Great West: Reducing Regional Inequalities

- Even though all regions benefited from the economic reform since 1979, the coastal regions benefited much more than the inland regions—there is an estimated 6 to 1 or even 8 to 1 ratio between the per capita GDP of the richest and poorest province/region.
- Interregional income inequality has risen, resulting in:
  - Dissatisfaction and restiveness
  - Deterioration of social services, especially education and health care
  - Massive illegal migration from the inland regions to the coastal regions, creating huge pressure on social and physical infrastructure
- Relaxation of rural-urban migration (mostly controlled by the local authorities)
- Transfer payments from the central government
- Raising agricultural incomes
- Moving jobs to where people are, not people to where jobs are
- Urbanization through the creation of new towns and cities, not the growth of existing towns and cities
- Developing a truly unified national market
- Education and investment in human capital is the most effective means for reducing income inequality
- Maintaining long-term competitiveness without devaluation; WTO accession can help by putting pressure on enterprises to move inland to lower their costs and maintain competitiveness
- Relocation of the capital from Beijing to a city in the Western region of China can significantly accelerate the development of the Great West

The Speech of President Jiang Zemin at the 80th Anniversary of the Founding of the CCP (7/1)

- Emphasized the "Three Represents": Advanced productive forces, all classes, and all cultures
- The Chinese economy is still in the "primary stage of socialism" (=capitalism)
- Non-state and private ownership of property is recognized and protected
- Non-state and private entrepreneurs, industrialists, managers, traders, high-technology innovators, writers, actors and people from all walks of life will be eligible to join the Chinese Communist Party
- The party itself will actively recruit new members—a step towards a form of elitist politics (China will be going through a technocratic phase in the next couple of decades)