

## Reports from China:

### The Chinese Monetary System

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During a visit to China in June 1973, a group of young civil servants from the École Nationale d'Administration, myself amongst them, had several interesting interviews, particularly with Han-lei and Wang Si-yi, two experts from the People's Bank of China, in Peking.<sup>1</sup> This was, as far as I know, the first time since the Cultural Revolution that visitors have had the chance to gather official information on current Chinese monetary policy and on the role of the People's Bank in the economic life of the country.<sup>2</sup> One can define the Chinese monetary and financial system by the following formula: the People's Bank, the sole autonomous financial institution, receives the deposits of private individuals, enterprises, people's communes and State departments, and it grants loans to enterprises.

#### *Savings and Loans*

*Deposits.* There exist in China two categories of deposits: on the one hand, those of collectives and of enterprises and, on the other, those of private individuals.

State administrative departments, public institutions and enterprises under public control have, since 1950, been obliged to deposit their funds, beyond a certain cash holding, at the People's Bank. On the other hand, self-governing rural collectives, production groups and people's communes are not subject to this regulation and are free to the total amount of their cash holdings. All commercial settlements between enterprises, and the payment of taxes and profits to the State, are made in the form of transfers, whereas salaries and pensions as well as certain agricultural revenues are paid in cash. The credit accounts of State departments and public institutions are not paid for. On the other hand, those of

1. This article first appeared, in French and in longer form, in *Bulletin de l'Economie et des Finances*, No. 64, January 1974, pp. 55–68.

2. For the little work which has been done on China's internal financial system, see Tadao Miyashita, *The Currency and Financial System of Mainland China* (Tokyo, 1966), K. Huang Hsiao, *Money and Monetary Policy in Communist China* (New York: Columbia University Press, 1971), both of which only cover the period, 1949–61. For translations of some more recent articles in the Chinese press describing the aid which the People's Bank has to give to enterprises see *Chinese Economic Studies*, Winter 1973, and *Documentazione sui Paesi dell' Est*, December 1971.

enterprises are, at the rate of 0.15 per cent a month, or 1.8 per cent a year. This rate has been in force since 1972. It was previously, it seems, since 1955 0.18 per cent a month or 2.16 per cent a year.

Private individuals cannot tender cheques. The only possible form of investment is a savings deposit at the People's Bank. Payments are made with complete freedom both as to amount and frequency. Indeed, in contrast with what has occurred at certain periods in other communist countries, the Chinese collect in cash the totality of their salaries, pensions, or agricultural revenues and are not obliged immediately to pay a percentage into a savings account. Equally, withdrawals are totally free and our interviewers assured us that savings have never been blocked against the wishes of depositors.

These accounts give rise to the payment of interest. This is currently paid at the rate of 0.27 per cent a month, or at 3.24 per cent a year, for time deposits, i.e. for a period of more than a year, and at 0.18 per cent, or 2.16 per cent a year, for current account deposits. This latter rate has, it seems, been in force since 1959 whereas the former has been appreciably lowered, since it stood at 7.92 per cent a year in 1955 and 4.8 per cent in 1959. Interest payments are exempt from tax, like all individual incomes.

Banking secrecy is guaranteed on all accounts. The amounts deposited are therefore known neither to the administrative authorities nor to employers. Savings are, furthermore, transferable to heirs. It was not possible for us to find out the average amount of the deposits of private individuals as statistical secrecy was decided upon in 1961, since when no data on this has been published. It was only specified to us that, in twenty years, from 1951 to 1971, the number of account holders had multiplied by 100, whereas the global sum of savings had increased ten-fold. If this is correct, it implies that the level of savings has not increased much since 1957, because, according to Mrs K. Huang Hsiao, personal deposits were in that year nine times higher than in 1951.

It would in fact be possible for the level of savings in 1973 to be no higher than it was in 1957. Between these two dates, the Great Leap Forward, the economic difficulties which followed it, and the Cultural Revolution have probably produced a reduction in personal saving, and only since 1968 have savings been able to grow again.<sup>3</sup>

The final piece of information on the subject of savings that was brought to our attention concerns the proportion of time deposit accounts to current accounts. In 1973, some 80 per cent of personal savings would have been placed in a time deposit account, i.e. for a period greater than

3. This hypothesis could find further confirmation from information published in 1965, according to which, from 1952 to 1964, the sum of savings quintupled. Now, according to the figures published in 1961, individual deposits had already quintupled between 1952 and 1957. The deposits would therefore have been as great in 1964 as in 1957, which confirms the extent of the economic difficulties encountered between 1958 and 1961, i.e. at the time of the Great Leap Forward and immediately following it.

a year. This percentage is identical to that which was given in an article published in 1967, for the year 1964.<sup>4</sup> There would not therefore appear to have been a notable development in the structure of savings in the course of the last ten years, even though the same article indicated that between 1952 and 1964 a change in behaviour patterns had been observed, the proportion of current deposit accounts decreasing from 60 per cent to 20 per cent.

*Credit.* In the same way that forms of possible deposits have been reduced to some specific types, so credits granted by the People's Bank are based on very simple characteristics. The provisions made in 1950 and 1951 concerning the financial organization of State enterprises remain essentially in use, and have since been applied to the whole of the industrial and commercial sectors, for the means of production are now entirely in the hands of the State – with the exception of agriculture, which is managed in a collective but decentralized way by the people's communes and production groups.

There no longer exist shares, stocks, or direct loans granted by enterprises to other production units. Moreover, taking into account options made in economic organization, all financial needs relating to industrial investments are directly controlled by the state budget, which fixes the allocation of available resources according to criteria defined in the Plan. Industrial and commercial enterprises receive capital allocations for investment projects necessitating external expenditure: the acquisition of machines, the purchase of construction materials.

The intervention of the People's Bank is limited to the allocation of short-term loans intended to cover transitory treasury needs relating to the acquisition of stocks of raw materials or the establishing of stocks of finished products. The Bank's loans therefore play the role of credits granted by suppliers and of trade bills. Only those enterprises dependent on the State, or public collectives can obtain such credits. Civil service departments, private enterprises and private individuals cannot, on the contrary, benefit from them. The rules of credit allocation help therefore to limit the importance of the still existent private sector (small businesses and artisans), whose capacity for self-finance is indeed further reduced by the fixing of prices by the administration.

To obtain a loan an enterprise must fulfil two conditions: first, its treasury plan must be approved by the Bank; its financial needs must then correspond to certain types of transactions. In industry, loans are meant to finance production (the acquisition of raw materials and of semi-manufactured goods) or the distribution of finished products. Commercial enterprises can borrow for their internal or external sales. One particular category of loans is that granted to enterprises trading in cereals. Loans to industry and commerce have a maximum term of 12

4. See J. Stoffels, "Monnaie et financement en Chine," *Bulletin du Centre d'études des pays de l'est*, Vol. 8 (1967).

months at an interest rate equivalent to 0.42 per cent a month, or of 5.04 per cent a year.

Loans to the agricultural sector, which, according to the information of our interviewers, represent only a limited part of the credits of the People's Bank, are subject to slightly different regulations. There exist, first, short-term loans at a rate of 0.36 per cent a month, or 4.32 per cent a year, intended to favour production (the purchase of seeds, manure, insecticides, etc.), or in the form of advances on the sales of agricultural products. The People's Bank also grants, from funds assigned by the State, loans for agricultural equipment for a period of one to five years at an interest of 0.18 per cent a month, or 2.16 per cent a year. There is therefore an important difference between investments carried out in agriculture and those in industry and commerce. The external resources necessary to communes must be paid for in five years at the most, whereas the capital contributions made by the State budget to enterprises are permanently taken over by them. In fact, this formal difference in treatment has no economic consequence because it seems that the State exacts a very high interest on capital invested and therefore obtains a rapid return of its investment.

The rates already mentioned have been in use since September 1972. They were previously 0.48 per cent a month in industry, 0.60 per cent in commerce and 0.48 per cent for short-term agricultural loans. Generally speaking, all the rates have been appreciably lowered since the accession of the Communist Party to power, as the table below shows (and which refers to monthly rates) <sup>5</sup>:

	1953	1955	1958	1959	1961	Before Sept. 1972	After Sept. 1972
State industrial enterprises	0.45– 0.48	0.48	0.60	0.60	0.60	0.48	0.42
State commercial enterprises	0.69	0.60	0.60	0.60	0.60	0.60	0.42
Agricultural collectives	0.75	0.60	0.48	0.60	0.48	0.48	0.36

It is difficult to place a precise interpretation on this progressive reduction of interest rates. It is possible that the leadership of the PRC wants to avoid financial expense constituting too important a debit in enterprise accounts. If this hypothesis is correct, it would mean that enterprises have more recourse to credit in proportion to the growth of their production, and to the consequent growth in stocks of raw materials, or of semi-manufactured and finished products.

This apparent expansion of credit in modern China could further be

5. See K. Huang Hsiao, *Money and Monetary Policy*, pp. 130–31; and Tadao Miyashita, *Currency and Financial System*, p. 205 for the figures for 1951 to 1961.

confirmed by another statement made by the experts we met. In 1973, an enterprise could obtain loans for up to 70 per cent of its needs, the remainder having to be financed out of equity funds supplied by the State budget. Now, according to Mrs K. Huang Hsiao, from 1952 to 1962, the proportion financed by recourse to credit was always less than 30 per cent, except during the period of the Great Leap Forward, i.e. from 1959 to July 1961, during which the People's Bank could provide 100 per cent of credit requirements.

This increasing loan facility certainly allows the People's Bank to play a more active role in encouraging economic expansion. Meanwhile, the official doctrine will not permit the increase in credit to be represented as a means of encouraging a growth of production. The allocation of loans to enterprises is solely represented as a means of facilitating the production and distribution of merchandize, economic decisions about the volume of production and investments being made by the authorities in charge of planning.

#### *The People's Bank and the Conduct of Monetary Policy*

That unique, autonomous financial institution, the People's Bank exercises a multiplicity of functions. It is at one and the same time the issuing department, the State bank, a credit centre for enterprises, a system of financial compensation and an agency of economic and financial control.

*The Organization of the People's Bank.* Organized in a uniform way throughout the country, it possesses more than 10,000 branches, not counting the district and enterprise offices and the temporary bureaux, all dependent on branch offices. Its internal organization closely follows that of the civil service: in the main town of each area (province, region, district, or municipality) one finds an office of the Bank which is in direct touch with the local economic officials.

These offices apparently have, from the point of view of the Bank's head office, considerable power at their disposal, for they render their accounts only every ten working days. This decentralization of power is warranted both by the difficulties of communication, still existing in China, and by the wish of the leadership to avoid a too close supervision which would lead to a slackening of production.

The accounts of the People's Bank are not published. It would seem from our interviewers' information that two types of accounts are kept: on the one hand, an account of financial resources and outlay and, on the other, an account of profit and loss.

The Bank's outlay takes essentially the form of the credits mentioned above and, when they arise, loans to the Bank of China.<sup>6</sup> Its resources,

6. The Bank of China has direct responsibility for China's external financial relations, under the overall supervision since 1950 of the People's Bank. See, for example, *The Banker*, February, 1972, and *Neue Zürchner Zeitung*, 24 September 1971.

on the other hand, are more diverse. They consist, first, of that part of profits not paid to the State and of sums assigned to capital accounts (i.e. in practice, allocations to the sinking fund and to reserves). The People's Bank profits further from capital allocations as also from budgetary subsidies intended to finance loans for agricultural equipment. A third category of resources comes from the issue of currency. Finally, the most important funds arise from the deposits made by the State, public services and private individuals.

The only receipts of the profit and loss account are the interest paid by enterprises, always higher than the interest paid by the Bank on the deposits of private individuals or enterprises – the principal item of expenditure. These comprise, however, working expenditure. The surplus from working operations is partly paid to the State in the form of tax and the remainder is put in reserve or allocated to capital accounts.

*Public Services.* Amongst the functions exercised by the People's Bank, some correspond to those services commonly performed by public bodies. The Bank is first an issuing department and assumes in this capacity the responsibility for printing notes, and for circulating the means of payment throughout the country. It watches over monetary circulation and seeks, by its policy of controlling savings, to maintain the stability of money. On the other hand, it is not directly responsible for exchange operations, which are carried out by the Bank of China.

In its capacity as the State bank, the People's Bank holds the accounts of administrative departments. It centralizes the proceeds from taxes and the funds paid by nationalized enterprises. But it is not responsible for collecting taxes, which is done by specialized administrative departments. One of the important tasks of the bank is also to fix the regulations of commercial operations. As has been said above, all the sales of nationalized enterprises must be paid by transfer. Some 85 per cent of the Bank's operations therefore take the form of transfers from one account to another, the rest consisting of the issue or receipt of bills.

*Economic Functions of the People's Bank.* One of the objectives constantly pursued by Chinese monetary policy seems to have been to seek to match the money supply to the quantity of available goods. The arrangement of money supply is planned, on the one hand, by a minute examination of the credit demands of enterprises and, on the other, by the systematic encouragement of individual saving.

Over and above the investigation of credit, the People's Bank rigorously controls the financial situation of an enterprise and the possible returns of the envisaged expenditure. It ensures that all the sales have been settled, that liquid holdings do not exceed the forecast amount and that the credit previously granted has been effectively utilized. The expenditure made necessary by treasury needs is then examined in detail, the Bank advises the enterprise on the possible returns of the operations envisaged and the technical and financial means of reaching the most economic results. When the incurred expenditure does not correspond



to the forecasts, the Bank can demand immediate repayment of the granted credit.

The powers of control thus attributed to the Bank can lead it to exert too close a watch on the functioning of enterprises. Since the Cultural Revolution, and particularly since 1970, the emphasis has above all been placed, in articles published in the Chinese press, on the management consultancy role that Bank employees must play. In applying the directive of Chairman Mao, "Develop the economy and assure supplies," the procedures have been simplified and the too exclusively financial criteria applied to the allocation of loans have been abandoned in the interest of a more economic evaluation of the expenditure programme of enterprises.

The Bank currently conducts a policy of active encouragement of savings, probably in order to limit the increase in demand resulting from the growth of incomes allowed since 1968. One means of encouragement used is the payment of interest. In spite of their relatively low level compared to the rates applied in western countries or other countries with planned economies, they remain attractive since their returns are tax free and because the stability of purchasing power has been secured since 1955. Another means of encouraging saving is the increase in the number of the Bank's cash counters. Each urban or rural branch secures the running of several offices, permanent or temporary, in the districts, enterprises, or villages. In particular, some permanent offices are maintained in the big production units so that wage-earners, paid monthly in cash, can easily make payments or withdrawals. It is, however, above all by propaganda and persuasion that the monetary authorities act to expand savings.

Finally, one must note that the impossibility of resorting to credit obliges private individuals to make savings before acquiring durable consumer goods. A family would have to save for several years before buying a bicycle, furniture, a watch, a camera or a sewing machine, each of which costs the equivalent of two to five months' average salary. According to the information of our interviewers, a wage-earner saves, on average, four to five per cent of his income each year. This percentage is clearly lower than that which western countries know. But it is fitting to recall that in China a considerable amount of saving is undertaken by the State and its enterprises which assure the financing of all productive investment in industry and commerce.

### *Conclusions*

Two traits seem to characterize China's monetary system: its originality, and its adaptation to the current economic situation of the country. The Chinese system has a double claim to originality. It is neither a simple extension, following nationalization, of the pre-1949 techniques, which were shown to be inefficient in maintaining the stability of the

value of money, nor a faithful copy of the Soviet model, which has a greater diversity of institutions, and of procedures for saving and credit.

It is above all thanks to its simplicity that the Chinese system has adjusted well to the modern economic situation. In a country where industry and the services contribute only a limited part of the GNP, the existence of numerous financial institutions or of rather elaborate techniques, like the cheque or negotiable bill, would probably be useless. A diversity of institutions or procedures would itself be contrary to the wish of the Chinese leadership to conduct a dynamic economic policy, in a very extensive territory and without external aid, where enterprises and households would to some extent act freely, possibly in opposition to the targets of the Plan.

Finally, it seems that the Chinese monetary system has, since 1949, proved its own effectiveness. The control exerted on the liquidity level of enterprises and on the distribution of credit has, it seems, helped totally to eliminate speculation in commodities, notably foodstuffs, which characterized economic life before the accession of the Communist Party to power. Moreover, the maintenance of the purchasing power of the *yüan* which all observers agree in recognizing, and of which the Chinese press boast at each international monetary crisis, shows that the credit and savings policy has been conducted in a way entirely consistent with the policy of production and distribution of goods and with that of fixed prices.

## Health Services and the New Relationship between China Studies and Visits to China

Victor H. Li

The new improved relations with China have placed China specialists in the United States, and in some other countries as well, in an apparently contradictory position. On the one hand, direct contact is now possible: instead of being confined to libraries an ocean away or visiting Hong Kong a border away, China specialists can now look forward to visiting China itself, and to experiencing at first hand what before was principally a mental concept. On the other hand, it appears that most of the scholarly exchanges will be in areas such as physics, medicine, and the biological sciences, and that social scientists in general and China specialists in particular are low on the priority list of people being admitted to China. There are exceptions to this, of course, including fields such as population