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China's Reform of Socialism on Trial

by Armin Bohnet and Günter Jaehne, Gießen*

Western public opinion frequently voices uncritical applause for the economic reforms in the People's Republic of China. The expectation of large sales opportunities in the Chinese market has led to a kind of China-euphoria in certain business circles. This frequently overlooks the fact that there are a wide variety of problems in implementing the reforms, which still have to be truly put to the test.

In recent years the People's Republic of China has been the scene of economic and social reforms conducted both on a scale and at a pace hitherto unknown in socialist countries. The following are cited as essential characteristics of the reforms: the realisation of a specifically Chinese form of socialism, i.e. one which is pragmatic and largely de-ideologised; a clearer separation between political power and economic management; replacement of the economic system based on central directives by a system of state-determined "economic levers"; the move towards decentralising economic decision-making authority and strengthening self-responsibility at the level of individual enterprises; encouragement of cooperative and private ownership, especially in the agricultural sector, in craft trades, wholesaling and retailing, and in the service industries; making the Chinese economy a more open one in relation to the rest of the world. The final result, as the Chinese themselves see it, to emerge from the reforms is to be a "socialist market economy under the umbrella of central strategic planning".

Because of the rapid pace of reform and the large number of special regulations, it has by now become increasingly difficult even for professional observers of the Chinese scene to keep up with, let alone assess, the reform process in its full breadth, depth, effects and results. And this occurs at a time when Peking's economic reforms are receiving largely uncritical applause in the West. The successes reported in the press, which in China too is manipulated, are regarded as confirmation that the chosen path is indeed the right one. The large sales opportunities expected in the Chinese market have led to a kind of China-euphoria in certain business circles.

However, this often overlooks the fact that the declarations of intent made by the reformers have yet to be converted into economic reality, and that there are a great number of difficulties in implementing the reforms. The reforms have yet to be truly put to the test. This will not happen until more complex tasks such as the reform of the price system have to be tackled and implemented. Furthermore, it will only become apparent in the long term whether the new incentives and control elements will produce the desired results, or whether they may not set in motion developments – in the social sphere, perhaps – which tear apart the framework set by the Party. Economic liberalisation could for instance, if it is to be successful, also produce a need for moves towards political liberalisation. The latter, however, are likely rapidly to run up against barriers determined, among other things, by the principles of maintaining the system and the power of the Party.

Peking's reformers do appear to be aware of both present and potential future difficulties in carrying out their economic policy. These difficulties can be located primarily in the following problem areas:

- in the field of tension between the plan and the market;
- in establishing harmony between directive control over the economy and the indicative regulation of markets;
- in creating a workable compromise between regional integration of the Chinese economy and decentralised regional development;
- in replacing the irrational and chaotic pricing of the present by a rational price system;
- in introducing an achievement-oriented and socially acceptable income structure;

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- in rapidly plugging the gaps in technology, management and skilled labour;
- in receiving acceptance for the reforms from the various population groups.

Tension between Planning and Market

In the long term, the success or failure of economic reform in China will depend on whether the authorities can manage to introduce market elements into the planned economy and allow both of these coordinating factors to work efficiently. Both proponents of a properly functioning market economy and those advocating the traditional dirigistic planned economy doubt that this will be possible. Each group regards the plan and the market as irreconcilable bed-fellows. The "central plan" camp is convinced that spontaneous market activities will, at the very least, hinder the production and supply activities foreseen in the central plan. The "market economy" camp, observing the sheer number of state interferences in productive and distributive processes and their lack of economic rationality, comes to the conclusion that these distort market information so strongly that even activities that are coordinated via the market will ultimately be inefficient.

In fact, problems of this nature are part of everyday economic life in China. There are still, for instance, raw materials and capital goods which are distributed almost exclusively according to state plans; this means that they can hardly be legally obtained on the "free" market. At the same time, however, "unplanned" orders placed by individual enterprises create such an intense demand for goods of this kind, and such premium prices may be paid under certain circumstances, that the materials are in short supply, or lacking altogether, for centrally planned projects. In this case, the market crowds out the plan. An interesting aspect of this is that such spontaneous demand frequently emanates from regional authorities, especially municipalities, using this as a means of realising their own development plans.

As Peking's plans, already carried out in part, to grant greater political, financial and economic autonomy to regional public authorities begin to gather way, the competition for scarce resources can be expected to increase still further. Financially strong and efficient regional administrations such as that of Shanghai or the authorities of the special economic zones are likely to be in quite a favourable situation under such "competitive" conditions. On the other hand the liberalised laws on external trade give these authorities the chance to import materials they have difficulty in obtaining domestically.

The Chinese economic reformers are clearly aware nowadays that it is impossible to plan centrally each and every economic activity, and to enforce such activities exclusively by administrative means. Their new scheme of things, therefore, is that the central organs should now only be charged with production decisions where a broad perspective is needed, and where broad economic structures need to be determined, examples being the exploitation of new resources, the direction of technology policy, regional development and key projects in the energy and transport sectors. Routine production decisions, on the other hand, should be increasingly left to the expert knowledge of the individual enterprise. In as far as state involvement does become necessary, it should take the form not of directives but of the use of "economic levers" in combination with modernised legal regulations applying to economic activity. In the official conception these economic levers include, in particular, prices, taxes and availability of loans, together with wages and incomes policy.

Direct Control versus Indicative Market Regulation

In general terms, one can say that the path now embarked on by the Chinese reforms is a sensible one. In Western market economies, too, such aspects as transport and energy policy, the promotion of technology, and regional policy are all areas where the state exerts an influence. Nevertheless, it would be wrong to overlook a number of substantial differences.

For example, whereas government promotion of technology in West Germany only occurs in selected areas in the form of programmes initiated by non-government bodies or enterprises, technical progress in the China of today is still largely centrally planned and directed, as is particularly clearly apparent in the field of technology imports. A consequence of this is that individual enterprises lack the initiative to carry out technical innovation of their own.

It is also worthy of note that Chinese government structural and development policy also encompasses areas where there is no recognisable need for economic policy action. In such cases there is a danger that market coordination, which would otherwise be possible, is partly or totally rendered inoperable. Here are a few examples of what can happen:

A number of the most important raw materials and capital goods are still produced and distributed to their users according to central plans. Political considerations predominate over economic criteria of

efficiency. The result of this is that business successes among the enterprises producing or using these goods is not so much a function of their own efforts as of government pricing and whether the goods in question are in – adequate – supply. Bureaucracy finds its way back into the enterprises by the back door.

Product prices are still fixed to a large extent by state authorities. This means that prices very much tend to lose the functions which make prices an indispensable element of market economies, namely establishing equilibrium in the market, providing a stimulus to lower costs and/or increase production, and providing the information necessary to reach efficient production decisions. An additional aspect which aggravates the problem is that the provision of due remuneration for efforts made – a central concern of reform – remains unrealisable as long as irrational prices continue to obscure not only insufficient but also above-average effort.

Integration versus Economic Regionalism

A matter which is repeatedly named by top party leaders as an important goal of the economic reforms is the reduction of economic barriers between provinces, autonomous regions, sectors of the economy etc. This, it is hoped, will allow cost advantages deriving from plant location to be utilised as economic activities are integrated and will also ease the marked differentials in regional development.

This is contradicted by the reality of a veritable economic regionalism. The roots of this lie, among other things, in the traditional strength of the Chinese provinces and in the thinking adopted from the Soviet Union in the 1950's which splits up the economy into industries, sectors and divisions. The underdeveloped transport and communications infrastructure, language barriers and the establishment of special zones have all helped create a situation in which it was hardly possible for a unified market based on the division of labour to emerge.

It is not certain whether the concrete reform measures which have been taken will be able to promote the integration of China as an economic region. The establishment of special economic zones and relatively autonomous coastal cities together with the plans to devolve more decision-making authority to provinces and big cities is in fact more likely to encourage the growth of regional centres of development than the integration of China as a whole. This, however, should not be interpreted altogether negatively. As the experience of other countries with a large land area –

the Soviet Union, for example – shows, regionalism and federalism within certain limits can by all means be sensible approaches in a country like China.

The different levels of economic development in various parts of the country could, in the future, give rise to a problem with the potential to be extremely explosive in political and social terms. The difference in development is primarily in evidence between the “rich” eastern provinces of the country, especially the coastal region, and the socially and economically backward western and south-western regions.

The regional policy concept the reformers are aiming to achieve intends, by reducing trade, transport and information obstacles, to generate a national East-West transfer of technology, know-how, capital, educational resources and development aid, thus allowing living standards in the poor regions to approach that of the coastal areas. However, in the short term at least the chances of achieving this better balance must be rated as slim. Whether or not it will prove possible to solve this problem in the medium term depends, above all, on the financial and political strength of the central government and its firm intention to bring living conditions in the various parts of China nearer to each other.

Superseding the Irrational Price System

As long as the price system which even official Chinese sources describe as “irrational and chaotic” continues to exist, the economic reforms will remain a piecemeal affair. As experience in other socialist countries has shown, if the government persists too long in price dirigism a reform economy sooner or later – and almost inevitably – is drawn back into the maelstrom of economic recentralisation tendencies.

This is a problem Chinese economic reformers have recognised. Great significance is therefore attached to price reform. However, how and how far such a price reform should proceed are still under dispute. This should not come as any great surprise to those familiar with the difficulties encountered with price reforms in the European socialist countries. The Soviet Union or East Germany are unsuitable cases for comparison simply because the establishment of prices in these countries has never been allowed out of the hands of the organs of the state. Hungary has gone much further along this road. The country undoubtedly achieved substantial progress with the concept it developed of “world-market-oriented domestic prices”. The same concept, though, cannot be applied in China, a country with a large domestic market and a very small contribution to the national product resulting from external trade. This,

then, is a field in which China must rely upon its own pioneering efforts.

A first fundamental step in this direction was taken with the definition contained in the Central Committee's October 1984 reform programme of the tasks prices would be expected to undertake in the new system of economic performance: assessment of the performance of individual enterprises; harmonising production and demand; encouraging the development of new products and methods; allowing the performance as assessed by the market to serve as a guide for remuneration.

However, the price reform measures so far decided upon, some of which are already being put into practice, are not enough to do justice to the ambitious reforms being sought after. For even though some goods have now been released from state price determination, in mid-1985 the prices of 60-70 % of all industrial products, raw materials, fuels and sources of energy, transport rates, wages and salaries, as well as high-value consumer goods were laid down by the state. In the case of other goods, prices may only be set by the producer once given quantities under plan or contract have been supplied, or alternatively price-setting is subject to state-prescribed costing guidelines.

An initial step, and so far evidently a successful one, in the field of consumer products, was the relaxation of control – under supervision – over consumer prices for various foodstuffs in the larger cities. The measure went hand-in-hand with the removal of the government monopoly over the purchasing and marketing of the agricultural raw materials involved, examples being grain and pig-meat products. While in the case of grain a mixed governmental system of recording and remuneration has initially been retained, the price paid by final consumers where swine for slaughter and pig-meat products are concerned is in future to be determined by "market forces" throughout the country. One of the means intended to be used to avoid undesirably rapid increases in consumer prices is a flexible government stock-piling policy for these products. The purpose of the price reforms in the agricultural products and foodstuffs sector is to gradually attain a harmony between production costs on the one hand and the prices paid by consumers on the other, hence allowing subsidies, which place a heavy burden on the state budget, to be reduced. The social hardship caused by the price rises thus generated – meat prices in Peking, for example, are up by 36-120 % – has at least in part been alleviated by providing cost-of-living bonuses to boost household incomes.

The main respect in which this new ruling is superior to the old system is that the price now excludes all those who have a demand for the product yet are not prepared to pay the market price and hence in most cases to cover the cost of production. This puts a damper on waste and on demand which in macroeconomic terms is unjustifiably high.

Apart from the irrationality of the price system, there is a further reason why, in many cases, prices in China have failed to fulfil the function normally attributed to them, and that is the lack of competition on the supply side. This lack of competition is especially evident in those areas where, in the wake of the centralisation carried out in the Mao era, production plants were amalgamated and the manufacture of new products was concentrated on one single enterprise. However, the phenomenon also occurs where the market shows typical characteristics of an economy of scarcity, namely too low a level of supply for the price level obtaining.

The economic policy decision-makers in Peking have recognised the disadvantages of this state of affairs and, in the mean time, have introduced the first steps in a process of deconcentration. They believe this carries the promise in particular of greater competition between enterprises. However, there is no overlooking the fact that such a deconcentration process will stretch over a long period of time. The time one will need to wait for a price system in China which functions well is also proportionately long.

Limits to Just Rewards for Performance

The wage system which came into operation in 1956 and persists in part to this day – a system based on egalitarianism and seniority – has only brought modest improvements in living standards to the peasants in the communes and to urban labourers. From the point of view of the economy as a whole, it has been the chief cause of a gigantic squandering of resources.

One of the main aims of economic reform is therefore to utilise all factors of production more efficiently by loosening up the rigid system of job distribution and applying a wages policy based on performance. By expanding the autonomy of individual enterprises, management now has the right for the first time to practice a wages policy more closely geared to the criteria of overall business performance. In future, individual work output in both quantitative and qualitative terms, the degree of responsibility within the enterprise, the level of occupational qualification, in combination with the results achieved by the enterprise as a whole, are intended to serve as the basis for

determining wage levels. This policy is supported by the payment of performance-oriented bonuses which have become considerably more significant in recent years.

However, given the current level of development in accounting at the enterprise level in China, it is likely to prove difficult to find objective criteria for justly assessing the various income elements cited above. The problem is further aggravated by the fact that, due to the "irrational" price system and the distortions it causes in input costs and also due to the pronounced differences in profit margins from one product to another, the results achieved by any one enterprise only depend to a limited extent on the actual performance put in by the enterprise collective and its management. Last but not least, this management is by no means as free in practice to set its own wages policy as is frequently portrayed in Chinese foreign propaganda. In many state enterprises, for example, the eight-grade wage system is still in place. As a Chinese source commented, this means that the younger and middle-aged employees receive the lowest pay even though they carry out the heaviest work and achieve considerably more for the enterprise and for society as a whole than do the better paid "veteran workers". Injustice, dissatisfaction and lack of motivation to produce more effort therefore continue to be hallmarks of the partly reformed wage system, with all their negative effects on economic productivity.

Managerial Shortage

Among the primary reasons that the October 1984 reform resolutions granted greater economic autonomy to industrial production units is that the reformers believe this will more strongly orient management at that level to fundamentals of business administration and will lead to an acceleration in the measures taken to achieve technological modernisation.

More right of disposal and more decision-making rights at the level of their own plant in the hands of enterprise management and the enterprise collective is not, however, sufficient to make this aim a reality. Before that can happen, there must exist capable factory directors, management at various levels, foremen and skilled workers. There is a noticeable lack of the right people within all these groups in the Chinese economy today. Present management personnel is for the most part relatively old, has little or no knowledge of the principles of business administration, and is not infrequently tarnished for having been involved in "left-wing" political activities during the cultural revolution. The management personnel deficit is growing in significance because China is importing an increasing

amount of highly developed technology which requires a certain minimum of organisational and technical ability if it is to be properly used.

In the view of many Western observers the success of the Chinese economic reforms could be placed in jeopardy by the lack of qualified plant and administrative managers which cannot be overcome in the short term. Chinese commentaries on this matter also continually criticise the quantitative and qualitative deficiencies as regards factory directors and other executive personnel. According to the judgement of a highly-placed Peking government official, it is not even so much their (out of date) equipment which obstructs the development of industrial enterprises as their "poor leadership".

According to Chinese sources, poorly trained management is also responsible for the fact that many state enterprises operate at a loss (the proportion was still 20 % in 1983). Approximately 70 % of Chinese "managers" – said to number 10 million – in industry, transport and communications, construction, finance and commerce have "at best" an education equivalent to primary or secondary-modern school level.

Throughout the country, China now operates a large number of training and further training courses of varying duration and intensity for business management personnel. One reason for the high motivation to take part in these courses and obtain a good result is that managers no longer hold their positions for life. Instead, it is intended that they should now have to justify their function at regular intervals by providing proof of their performance and the success of their enterprise. As the courses are generally conducted by Western experts and management institutes – with or without Chinese cooperation – the possibility cannot be ruled out that future Chinese enterprise directors will be taught management know-how which can only be applied to a restricted extent under the completely different working conditions prevailing in Chinese industrial enterprises – for example, the fact that they continue to be production rather than market-oriented.

Despite the large scale of activity in this field at government, enterprise and association level (a national management association has already been formed with its own periodical which has a circulation of 380,000 per edition) it is unlikely that the training capacity will suffice to meet the demand for enterprise management personnel in the coming years. According to information issued by the China Association for Enterprise Management in 1984, there is a requirement for at least 10,000 "highly trained" managers to direct and advise a good 2,000 enterprises, i.e. five per

enterprise on average. If this, however, is compared to the official figure of 380,000 to 400,000 industrial enterprises operating in China, the extent of the lack of management personnel becomes still more obvious.

Great Lack of Skilled Workers

The provision of a labour force for the Chinese economy is today more than ever a question of labour quality. At present, there are 630 to 640 million people able to work between the ages of 15 and 65. By the end of the century, this potential workforce can be expected to have risen by another 200 million. The number of industrial workers at present can be estimated at between 40 and 45 million. The majority of these have a low level of education and training (according to Chinese trade union information more than 80 % of workers have a school education below "junior middle school" level), and a not insignificant proportion of them is illiterate (8-10 %).

According to the Peking Ministry for the Labour Force and Personnel Affairs the proportion of workers classed

as having qualification levels 1 to 3 (the three lowest stages on the eight-grade assessment system, reserved for unskilled, or at best semi-skilled, labourers) is 70 % of all employees in the enterprises. For the sake of comparison, the corresponding proportion in the USA is 4.7 %. Only a small percentage of the workforce have had any technical training. However, there are differences from region to region; the Eastern provinces, the 14 coastal cities and particularly the special economic zones are, because of the above-average standard of living which prevails there, better supplied with skilled labour. It is plain, though, that with such a poorly qualified workforce the modernisation of the economy is unattainable. Inadequate occupational training, poor discipline at work and low motivation will, it seems, continue to be the main causes of low productivity, poor product quality and the large number of industrial accidents. Certainly, it is true that the problem has now been recognised and a large number of variously organised and structured training and further training courses for workers have been established. Also, most workers are motivated to take

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part in them on the understanding that a higher level of qualification means a higher level of income. Yet the training facilities and funds are too scarce, and time is pressing.

Transfer of Technology and Know-how from Abroad

Sine 1978 China has conducted a policy of opening its doors which is unparalleled in any other socialist country in both its thoroughness and in the economic and social consequences it will bring. The main purpose of this policy is to raise the low level of technological development and the Chinese population's general and technical knowledge as rapidly as possible to a "world level" with support from abroad. As far as this policy is concerned, China's attention is concentrated primarily upon the USA, Japan and Western Europe. The socialist countries in COMECON and in Asia play a minor role in this respect. The main reason is presumably that they have a low(er) level of technological development. However, some significance also ought to be attached to the political tensions existing particularly in relation to the Soviet Union and most other communist-ruled countries in Asia.

Undoubtedly the most important component of China's open-door policy is foreign trade and various forms of economic cooperation between Chinese enterprises and foreign companies. As China is generally regarded as an important economic area in the future world economic zone of the Pacific basin, the interest shown in economic contact with China, by the multinationals in particular, is great.

Although establishing economic relations has been extremely difficult to date – the Chinese negotiating parties have by now gained a reputation as dogged and successful defenders of their own economic interests – a number of important delivery and cooperation contracts have already been concluded. This process can be expected to continue once *longer-term* economic deployment of foreign capital in China is covered by guarantees, foreign capital appears to be adequately protected and at least part of the profits earned can be transferred out of the country. To achieve this, it will be necessary for the Chinese authorities to further extend the legal and political framework for international economic activities.

The "second passageway" in the open-door policy is devoted to the transfer of knowledge. Approximately 30,000 Chinese students and academics are at present engaged in study abroad, most of these in subject areas in the natural sciences and technical fields. These Chinese visitors, given their willingness to work hard

and their intelligence, are normally fully accepted in the research institutes and universities where they are based. Simultaneously, the number of so-called experts from abroad who have gone to the People's Republic of China to work as highly respected specialists or as teachers has risen strongly.

As yet hardly any experience has been gained with how those at present working on scholarships abroad will behave once they have completed their studies. One thing which is certain is that they will have noted the great differences in individual freedom and in standards of living. What is not certain is whether they will all return to their home country. Those who do may possibly bring with them revised conceptions of what forms of governmental, economic and social order are desirable.

The Problem of Acceptance

The reforms the Chinese Communist Party has tackled penetrate, directly or indirectly, into the social lives of all 1.1 billion Chinese by way of the substance of their economic existence. The reforms' consequences affect party and government officials on all levels, enterprise directors and managers, farmers and industrial workers, scientists and students and, to an increasing extent, every single person in his/her role as consumer.

A reform project on this sort of scale cannot simply be decreed from above; in addition, a certain amount of agreement from those affected is also essential. An outside observer can only assess with great difficulty the extent to which the reforms and their consequences are being accepted by the various forces within Chinese society. There is no doubt that the motor for the reforms is a group within the Politburo and the Central Committee of the CP of China whose numbers are uncertain and at whose head is Deng Xiao-Ping, Chairman of the Advisory Commission and of the Central Committee's Military Commission.

The "rejuvenation" of the uppermost party bodies pushed through by Deng Xiao-Ping leads one to suppose that many of the older high officials, in particular, cannot necessarily be counted among his followers. A factor which is unclear and is probably not even precisely known by the party leadership is to what extent the 41 million or so members in the middle and lower echelons of the party support the reforms in ideological and practical terms. One would expect their behaviour to depend primarily upon whether and to what extent they are "hurt", i.e. have to renounce existing privileges, as a result of the reforms, without being able to gain influence in some other way and to profit from the

material results of reform. Various signs appear to show that those groups whose influence is to be reduced are exercising at least passive resistance to the reforms.

To achieve a more precise analysis of the specific interest positions of the party officials and members, it would be necessary to differentiate between conditions in the cities and in the country, between the "grass roots" and officials of all ranks, between old, middle-aged and young party members, etc. It is only possible here to go into a few aspects of this question.

□ Approximately half the party members are farmers, or at least live in the country. Their level of general and political education is low. Nevertheless they appear (along with the rest of the rural population numbering some 780 to 800 million) to have been no lovers of the Mao era's agrarian socialism with its people's communes. The judgement they make of current reform policies is likely to be chiefly directed towards the economic results so far generated by the reforms and the opportunities for the future. These have not been, and continue not to be, bad. In agriculture and in the rural crafts and services above all else, the successes of the reforms cannot be overlooked if they are measured in terms of incomes and living standards. Nor is this impaired by the continued existence of poor peasantry in areas which are poorly developed because of their distance from markets, areas where the social situation is visibly slipping further behind in relation to the prospering agricultural regions. Whether in terms of the numbers involved or in political terms, this group is probably not sufficiently significant to act as an "inhibiting factor" for the reforms.

□ One might expect to find more weighty opposition to the reforms among the officials in the middle and lower party apparatus whose administrative abilities and ideological knowledge are less sought after today than technical and economic know-how. Though it is true that the material and other advantages associated with particular party functions (use of car, special leave, foreign travel, preferential educational opportunities for the children) are far less in China than within the "nomenclatura" in the Soviet Union or East Germany, the reforms do nevertheless involve sacrifices or even the loss of political influence and social standing for the middle group of officials. Even if the middle group of party cadres does not appear to outsiders to be overtly opposing the reformers, one can presume that it is frequently exerting such opposition in a more or less passive manner by making no contribution, or by solely paying lip service, to the further advancement of the reform process which is reducing their social status.

□ Party leaders who today belong to the older generation and those heads of government agencies or enterprises coming from the ranks of, and backed by, the Party continue to see themselves and their position as fulfilling the function of executing measures and goals handed down "from above". They find difficulty in delegating decision-making powers to those below them and in replacing state directives with economic incentives. The party decision to send management personnel from state authorities and the 40,000 or so state enterprises into retirement at the age of 62 at most, has met with resistance in many quarters and the change of generations on the upper management levels, as desired by the party, at first took place rather hesitantly. Nevertheless, a crucial breakthrough did occur at the 4th General Assembly of the CCP's Central Committee in September 1985, when a total of 131 older party leaders resigned from their posts. This ought also to have paved the way for a rejuvenation of the cadres in government administration. This is all the more important as the lower and middle cadres are anxious to keep their present departmental heads, as the latter stand for continuity in the former's existing work and the retention of their positions. The same also applies, though to a lesser and diminishing extent, to the review of managerial positions in the enterprises. Here too, "veteran" party and administrative functionaries who "proceed with caution" are preferred to younger managers who tend to welcome reform.

□ In the Chinese People's Liberation Army, mistrust of the reform course being steered by the party leadership appears to be more strongly pronounced than in other oppositional groups, which may be a result of the hierarchical structure of leadership applying to the military. Furthermore, the priority given in economic policy to raising production and living standards in the civil sector means that resources are being redistributed to the detriment of the military forces. It is difficult to determine whether the reduction in army numbers by about 1 million soldiers is connected with this. At any rate, this measure represents a reduced burden on the state budget. Western observers suggest another reason for the measure. Leading officers, they believe, were dismissed to make a contribution towards the modernisation of the Chinese forces which, they say, were suffering from "ageing generals, narrow-minded thinking, lack of ability and over-staffing". However, it is also conceivable that Deng Xiao-Ping, as Chairman of the Central Committee Military Commission, wishes to relatively weaken the army's political position, and to eliminate officers who oppose his reforms, by carrying out this reduction in strength.