

Klenner, Wolfgang

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Wolfgang Klenner\*

## Administrative Regimentation and Economic Reform in China

*The West has scored an economic "victory" in Eastern Europe. In the Far East, on the other hand, developments appear to be slipping out of its hands: not only Japan but also, to an ever greater extent, South Korea and Taiwan have been growing into serious competitors in more and more sectors; China, meanwhile, evidently now has only a limited interest in economic cooperation with the West. What course will future economic policy in the People's Republic of China take?*

In response to the current situation, many Western companies and banks are tending to confine their attention to relatively easily attainable objectives in their traditional markets and now also in Eastern Europe. In the long term, however, this reluctance to meet the challenge in the Far East may well turn out to be damaging.

The West has enough capital, technology and human resources for it to have a simultaneous presence on all important markets around the world, and that also means in the Far East. Of course, specific strategies and measures do need to be thought out for each individual market. In China's case, there is the additional complication since the massacre in Tiananmen Square that it is necessary to reassess expectations regarding the institutional and general economic conditions which will prevail there.

### Broad Spectrum of Possible Policies

Until very recently, China was still regarded as one of the planned economy countries most prepared to carry out reforms. The qualities of dynamism, openness to world developments, persistence and eagerness to learn all aroused the expectation that China would integrate itself step by step into the market-oriented sphere of the world economy. However, since the displacement during the past year of those political leaders prepared to enter into dialogue and to change economic and social structures, the basis for these

earlier optimistic forecasts has been altered. The spectrum of possible economic policy developments which observers of the Chinese economy now need to take into consideration is once again a very wide one.

As the situation appears today, it cannot be completely ruled out that China may even turn back to the conventional, centralized economic system and that, as a result of mistaken policy measures, large areas of the country may be plunged into poverty and political chaos. It is evident, for example, that economic processes are now again being increasingly watched over, controlled or prevented by politicians and bureaucrats. The most prevalent attitude is now to wait and see or indeed to do nothing at all, and most fight shy of the political risks involved in any courageous decisions which might point the way ahead.

This problem has already led to a sharp fall-off in the efficiency of the Chinese economy, and not the least of the consequences has been a marked decline in new foreign direct investment and a deterioration in the country's credit standing abroad. To the extent that they are granted at all, loans have become considerably more expensive for China.

Developments could of course quite conceivably be very different if the right sort of changes were to occur in the domestic political situation. One ought to allow even for the possibility of many elements of the planned economy system being abandoned, given that the "planning faction" might be deemed to have lost its last vestiges of credibility as a result of recent events. Even

\* Ruhr University, Bochum, West Germany.

so, there is reason to doubt whether the necessary institutional conditions in which microeconomic decisions might also be macroeconomically beneficial could be created within any short period of time.

These, then, are probably the two extremes in the possible future path taken by Chinese economic policy. However, experience shows that even in China, where changes in the personalities occupying the top leadership positions have a vital influence on the choice of a concrete development strategy, heed is still ultimately taken of economic realities. Thus there is much to suggest that the economy may not always follow political exaggerations in future, and that economic trends may after all be more readily foreseeable.

In the light of these considerations, an attempt will be made below to provide an overview of the current economic situation and the policy requirements to which this gives rise.

### **Complex Tasks for Economic Policy**

Since the end of the 1970s, the Chinese economic leadership has set itself some extremely difficult policy tasks. Apart from economic policy objectives such as high and sustained growth, full employment and price stability, plans were also pursued to transform the old state-planned economic system into one in which a significant part would be played by market elements. In other words, China went beyond the standard economic policy field to also set to work on those areas which would be among the constant operating environment in most other countries. This all called for an extraordinary amount of effort in economic policy-making.

Two additional circumstances made the tasks facing China's economic policy still more difficult. For one, no clear conception existed of what sort of institutional conditions to aim for. Although the guiding maxim was one of combining planning and market elements in a "mixed system" in such a way as to increase the economy's productivity and to orient production more than before towards demand, when it came to putting this broad idea into practice there were no precedents available from any other countries which might have provided some degree of orientation. Nor had the mixed economy being aimed for been worked out in detail on a theoretical basis. Insufficient enquiries had been made before the reforms began into how two allocation systems as contrary as the plan and the market would interact together. Hardly any theoretical concepts were available from abroad, because investigations conducted in market economies or planned economies

were predominantly based on "pure" examples of one system or the other. Western economic theory generally assumes the existence of market processes, and Eastern economic theory planned processes. In the early years after the takeover of control by the Communist Party in a number of countries, there had admittedly been a lot of attention paid to the transition from capitalism to socialism, and hence to problems arising in mixed systems. However, these were only considered as temporary phenomena occurring along the road towards socialism. Thus the focus of attention was not how to achieve an optimal mixture but how to carry through the transformation to socialism as rapidly as possible.

Another inhibiting factor faced by economic policy was that there was still no consensus on which economic decision-making processes should be left to the market and which should be incorporated into the plan. At first sight, this is simply a matter of choosing between two alternative allocative mechanisms. Yet how such choices are made also determines which groups in society, economic sectors or geographical regions may turn out to be better or worse off as a result.

### **Controversial Distribution Effects**

Economic interrelationships and the controversies these can generate within society may be illustrated by the example of the coal price and how it is determined. In the past, coal has been sold at prices set by the government. These prices are very low in relation to the imputed scarcity of the commodity. If the state were to relinquish its responsibility for fixing the price and switch to a market pricing mechanism, coal prices would therefore increase sharply. There would be a number of serious implications for income distribution as set out below.

Coal-mines would tend to earn higher revenues than before, as would administrative organizations to which the mines had to pass on any of those revenues. Miners' incomes would increase, and the regions in which the coal industry is located would be able to develop more quickly as they too would have more funds available. On the other hand, any enterprises using coal as an input would be faced with higher costs. Unless they were able to make use of energy-saving technology or to pass on their increased costs in higher product prices, they would suffer a reduction in profits and would be less able to pay bonuses to their employees. The revenues of the corresponding regional administrative bodies – in this case primarily the coastal industrial centres – would also fall comparatively. They would therefore have fewer

funds available to develop their infrastructure and industrial base than had previously been the case.

The distribution effects of liberalized coal prices would not end there. The majority of families still use coal for their domestic heating. They would suffer a corresponding fall in their real incomes. There would also be consequences for the prevalent type of business structure, for the millions of small and very small enterprises which are especially important in rural regions use very energy-intensive production methods. Even under the existing price system, many of these hardly make any profit, or have to be sustained with the help of subsidies. If the coal price were to increase without any chance of compensating for it via technological or organizational measures, their economic existence and hence the jobs of millions of rural workers would be called into question still more than today.

In view of the expected economic and social effects of economic policy measures, any misconceived economic policy could rapidly have brought on serious crises in a country where a large proportion of the population still does not live far above the subsistence line. Moreover, China was very well aware that, in contrast to East Germany or many other Eastern European countries today, it could count on little support from abroad in alleviating the social problems flowing from a change in the economic system. Thus it is understandable that the first moves made were only to seek solutions on something akin to a trial-and-error basis, in selected regions and in situations where there were as few disadvantages and as many advantages as possible.

### **Successful Moves towards Reform**

During the last decade, there has been a relatively large move away from the conventional economic system in the agricultural sector. The soil which had previously been jointly tilled by production groups, production brigades and people's communes has more recently been rented out to individual farming households. Farmers were given the freedom to make their own decisions on crops and methods of husbandry. They began to choose what to produce on the basis of the prices they could earn and not of the targets set by a plan. They were now responsible for their own economic success. Thus individual effort was again made worthwhile in the agricultural sector, and the problem which had developed in China along with the formation of cooperatives, namely the paralysis of individual economic activity, had been eliminated.

If the agricultural reforms are judged in terms of the

average annual growth rate in gross agricultural production, they have proved extremely successful. That growth figure was 11% during the period 1981-1985. Admittedly, setbacks did occur in the following years, so that the growth rate for the period from 1981 to 1988 was lower, at 6.6%. That, however, is still a high figure when compared internationally. Moreover, because of the effect of price signals, agricultural production is now better adjusted to demand.

Reforms were not as far-reaching in non-agricultural sectors of the economy such as industry. Nevertheless, most state-controlled enterprises were transformed into relatively autonomous tax-paying entities which primarily make their decisions in accordance with the objective of profit-maximization. However, there was still no clear, uniform conception of how these enterprises should best be tied into the overall economic plan which continued to be issued. Some still held the view that state enterprises fundamentally ought to continue to be given certain binding targets. The aim once they had fulfilled those plan obligations, though, was to leave it up to the individual enterprises to produce profit-earning goods and dispose of them as they saw fit. Another, further-reaching conception envisaged that most state enterprises should be supplied with the most important aggregate economic data as parameters for their activities. However there were also plans to use interest rates and fiscal measures if necessary as a means of influencing the enterprises so that they would realize the objectives of the state while pursuing their own profit interests.

Other variants of a mixed-economy system were at the experimental stage. These included transforming state enterprises into a form of joint stock company. Some of the shares were sold to the public and some remained under state ownership. The more important the enterprise concerned was considered to be for the economy as a whole, the greater the proportion of shares retained by the state.

Apart from the measures taken with regard to state enterprises, both permission and encouragement were also given to private enterprises and to cooperatives. Millions of businesses were established in one or other of these two categories, most of which had only a small number of employees and a low level of capital invested. Despite this, private enterprises could also be found in fields which are technologically rather sophisticated.

The fact that growth rates were also relatively high in the industrial sector is a pointer to the success of the reform measures carried out in that field. Gross

industrial production grew at an average annual rate of 13.7% between 1981 and 1988. The figure for light industry (15.1%) was higher than that for heavy industry (11.5%). Taken in isolation, the gross production figure is of course a rather inadequate indicator of economic welfare. As in the case of agriculture, though, it is safe to assume that supply was better able to satisfy demand once price signals had become effective at least in certain areas.

Further measures were designed to integrate the country more closely into the world economy, and these were undoubtedly successful. During the 1981-1988 period, the volume of foreign trade grew by an annual average of 13.2%. Use was made of foreign capital by taking out foreign loans (totalling over US \$ 40 bn) and by granting licences for direct investment (more than US \$ 32 bn, of which approx. US \$ 14 bn have already been invested).

### Problems in Agriculture

Obviously, the implementation of the new economic policy was not able to solve all problems, and a number of new ones also arose.

In the agricultural sector, for example, the government had not managed to go quite as far as to liberalize the prices of all foodstuffs, for fear of the distributional effects. Certain staple foods continued to be sold to the general public at low prices. However, the state purchase prices for these products were set above their retail prices, since the farmers – now oriented to the principle of income maximization – would otherwise not have produced them. The result was that for every increase in the production of these staple foods there was a corresponding growth in the burden of subsidies borne by the state, which put the national accounts under an alarming degree of strain.

In addition to that, as in the 1950s it was necessary to grapple with the problem of farms being too small to be viable, and with the need for better infrastructure. Now that the land was again being cultivated by individual enterprises, there was a drastic reduction in the size of agricultural production units. Although it is a very difficult matter to state any optimal farm size, it would nevertheless appear that, however that optimum is defined, most farms now fell short of it. Once the structure of people's communes had been dismantled, that left no one to take the responsibility for constructing and maintaining drainage and irrigation systems or for other rural infrastructure facilities. Farmers began to concentrate on increasing their own current production and to neglect important infrastructure investments needed to safeguard their long-term prosperity.

### Problems in Other Sectors

Other problems occurred outside the agricultural sector, such as difficulties in converting state-owned industrial enterprises into tax-paying entities. The most straightforward approach would have been to levy a standard rate of tax on the earnings of all enterprises. Yet the management of most enterprises would have found this extremely unjust. The reason was that the state continued to control the prices of many goods, and also set them above or below those which would normally be derived from the imputed scarcity of the goods concerned. Thus the profits earned by different enterprises had little or nothing to do with their true market performance. Furthermore, the cost structures of individual enterprises, and hence also their chances of earning a profit, were substantially dependent on past investment decisions taken by the bureaucracy. If they had been lucky enough to be kitted out with the latest equipment by the administrative system, they would be in a position to earn high profits. Meanwhile other plants

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which had been neglected would frequently be unable to match this performance however great an effort they might make. China's economic leadership therefore decided to introduce a system of taxation intended to compensate for those elements of profits or losses which were relatively unconnected with an enterprise's own performance by levying a special tax or providing a subsidy as appropriate. In the event, however, this was no small factor in a renewed influence over the activities of enterprises by the bureaucracy, and this was incompatible with the overall aims of the reform.

### **Problems of Macroeconomic Management**

The above sectoral difficulties were compounded by certain problems of macroeconomic management which were rooted in the overall concept of economic policy. One of these was the inability of China's economic policy mechanisms to maintain price stability. Virtually all prices which had been freed from state control promptly rose. There were no compensatory movements in the opposite direction. The average increase in the price level in the last few years was well over 20%. Since money was rapidly losing its value, it soon began to lose its significance as a medium of exchange and as a store of value. A flight into tangible assets, with the additional destabilizing effects that entails, was already under way.

This was further aggravated by the leadership's inability to avoid or correct the gross inequalities which arose in the distribution of income. In a society which until then had been oriented to the principle of equal conditions for all, it was inevitable that social tensions would arise if small entrepreneurs and workers with a good eye for a profit began to earn incomes several times higher than the wage levels previously known. What made the situation socially explosive, however, was that certain groups of people with privileged positions in the party and the administrative system were able to make skilful use of inside knowledge and contacts to earn exorbitant sums of money which, for lack of any corrective mechanism via income tax, they also actually received in full.

Finally, it proved virtually impossible to maintain the previously existing "employment guarantee" in a reformed economic system. Members of the public felt insecure because they could no longer assume that they would be able to retain the job assigned to them, whether in a state or cooperative enterprise or in the administration, for the rest of their lives.

Admittedly, these management problems were not an inevitable consequence of the reform policy. As will be

demonstrated below, however, it did prove very difficult to eliminate such problems within the newly constructed economic system given the nature of the policy instruments available. These problems can be presumed to be one important reason why the demonstrators whose concerns were primarily related to socio-political ideals also aroused such understanding and sympathy among the urban population.

### **Incompatibility between Economic Policy and System**

The main root cause of the management problems which led to the loss of macroeconomic equilibrium and to undesired income peaks lies in the fact that China did not have the set of economic policy instruments to hand which would have fitted the mixed-economy system it had now brought about. In an economy such as this which was now partially guided by market mechanisms, conventional planning methods could no longer be effective as a means of enforcing primary economic objectives.

Under the controlled-economy system, price stability was maintained using the methods described below. The supply of goods and the demand for them were matched with each other *ex ante*. Whatever goods were produced according to the plan were then apportioned to the recipients which were also determined by the plan. In this system of allocation, the prices set by the state had only a secondary part to play. Nor did they necessarily change if unforeseen imbalances occurred. That is, prices were not lowered if "oversupply" occurred in order to generate greater demand. Instead, any products which could not be deployed at the predetermined price were put into storage at the state's expense. Conversely, if a certain item became unexpectedly scarce, its price was not raised in order to restrict demand, but a rationing system was applied.

In contrast to this, the new concept according to which the economy was operating demanded that prices, at least in those spheres where market elements were to the fore, should be a reflection of scarcity. Equilibrium between supply and demand would have to be attained by way of price movements. Thus the only way of ensuring price stability would be to apply measures which took account of these new conditions.

In Western market economies, the main such mechanisms, apart from counter-cyclical budgetary policy, are monetary policy instruments such as open market operations, minimum reserve ratios and adjustments to the central bank discount rate. All

available experience indicates that China, too, has need of a similar set of instruments to stabilize prices in those spheres of the economy now dominated by market elements.

This is a view the Chinese economic leadership had actually adopted. In the early 1980s, for example, the People's Bank which had previously functioned simultaneously as a monetary authority and as a trading bank was divided up. Thus, apart from a system of commercial banks, the country does now have a central bank which is exclusively concerned with matters of monetary management. Regulations have also been passed which, at least on paper, have paved the way for controlling the money supply using modern methods. But of course, setting up the necessary institutional conditions and human resources for an efficient monetary policy does take quite some time. In a country where it was unheard of until recently to think in terms of monetary quantities, it is impossible to build up a monetary policy system in the short term which has a truly effective central bank at the top of the tree which is in a position, say, to keep control over commercial banks even in the remotest regions by the application of minimum reserve requirements.

New instruments were also required to correct the differentials in personal incomes which were felt to be too extreme. Under the planned economy system, distribution policy objectives of this kind were enforced in the urban areas by such measures as stipulating different income classes into which workers and white-collar employees were categorized. The income was paid net to all these employees; that is, there was no income tax, and the state funded its expenditure from other sources such as the transfer of profits from enterprises and a turnover tax.

Once private enterprise had been permitted and even state enterprises had become more market-oriented, hence also being allowed to pay productivity bonuses to their employees, the stipulation of income classes by the state was no longer an adequate means of carrying through incomes-policy objectives. New instruments were now required in order to correct primary income distribution. This can best be achieved by means of an income tax as normally found in the Western market economies. The same opinion was also held in China, and corresponding tax regulations were issued.

However, the institutional structure and personnel necessary to implement income tax laws are also absent. An impression can be gained of the extent of the difficulties likely to be encountered and the length of time needed to create these conditions in a developing

country as large and heterogeneous as China by bearing in mind that even the Southern member countries of the EC still find it a difficult problem today to call the private sector to account and ensure that it honours its tax liabilities.

### **Conflicting Objectives and Unemployment**

What placed full employment in jeopardy was not so much a lack of instruments appropriate to the new system as the contradictions inherent in the large number of different economic objectives which were simultaneously being pursued. Even in open Western economies, it is very difficult to meet objectives such as full employment, price stability and a neutral balance of payments all at the same time. The achievement of one such goal is usually at the expense of other, competing objectives. Thus it is quite understandable that China, which in addition to the "normal" set of everyday technical and structural policy issues has also been tackling a reorientation in its underlying economic system, has had a vast number of conflicts between objectives.

As an example, public unrest at the prospect of changes in the government's employment policy made it evident that the Chinese economic leadership had not succeeded in maintaining full employment while simultaneously reforming the economy. In the past, school-leavers had normally been allocated to a particular enterprise where they would remain for their entire working lives. Although in principle levels of qualification and performance were a major factor in the apportionment of employment positions, this was not always the case in practice. Indeed, there were many instances where the labour forces of economic units were increased without regard to their actual requirements. The crucial consideration was that the number of employees in the state-owned sector should increase as rapidly as possible. It hardly therefore comes as any surprise that most state enterprises are heavily overstaffed. According to Chinese estimates, even if their labour forces were to be cut by one third enterprises would still be able to carry out their operational tasks.

The enterprises themselves had offered little resistance in the past to this form of government employment policy. After all, they did not necessarily have to generate the revenue themselves from which wages and salaries were paid. The principle was that they were funded by allocations of government expenditure.

This situation changed when state enterprises became autonomous economic entities which were

both permitted and expected to maximize their profits. Given that reducing labour costs is one way of increasing earnings, it was now in their interests to reduce their payrolls and only to retain the workers and staff who were properly qualified for the job and willing to make an effort. In view of the high levels of overstaffing in state enterprises, the shedding of surplus labour would have had serious consequences for general employment in the economy if it had been tolerated all round the country. In the short term at least, this would have run counter to the objective of maintaining full employment.

### **Administrative Smothering as a Way Out?**

The fact that the economic policy instruments at their disposal conformed so poorly to the system they had now introduced and the conflicts between objectives confronted China's policy-makers with a dilemma. What were now needed were counter-measures which would rapidly take effect. In principle, a determined continuation of the reforms and the establishment of a purely market-based economic system would have allowed these problems to be solved. However, the allocative mechanisms of the market economy also necessitate a firmly effective set of instruments of global management, an efficient tax system, mobility of factors of production, and so on. None of these preconditions could be very readily created.

Moreover, China was not in the position of certain Eastern European countries, particularly the GDR, in that it would not have had any partner country which might have been able to bear at least part of the burden associated with a rapid system transformation. Of course the support received from abroad was a great help to China's reform proposals. Nevertheless, it could never have expected to receive foreign funds for purposes such as paying unemployment benefit to the millions who would have lost their jobs as a result of the reforms, or giving financial support to those whose real incomes suffered most heavily from price deregulation. The costs of introducing market mechanisms – even if they were only of limited duration – would presumably have had to be borne in full by China's own population.

Since something had to be done quickly, the fastest-working remedy available under the circumstances was for the administration to take charge of economic processes. In order to restrict the growth of effective demand, for example, officials were dispatched all over the country to bring investment projects to a stop, mostly without regard for their value to the economy or to the particular enterprise concerned. In order to avoid

differences in income which were too glaringly obvious, private enterprise was also checked. Naturally this not only had the effect of making life difficult for the wheeler-dealers or the corrupt among the cadres, but also threw daring private investors into a state of uncertainty. In order to alleviate people's worries that they might be made redundant, subsidies continued to be paid out on a grand scale so that they would continue to receive their incomes even if the enterprise in which they worked was hardly producing anything.

### **Missed Opportunity**

The above policy is extremely costly in economic terms. The same objectives could have been better achieved, if the right instruments had been available, by squeezing the money supply, implementing an efficient taxation policy and encouraging labour mobility, the latter supported by the establishment of a nationwide system of social security.

Of course, such market-compatible measures would also have been drastic and painful. The measures applied by the Thatcher government to the British economy, or used to stabilize Chile's economy following the overthrow of Allende, also imposed a heavy burden on certain areas in the initial stages. But at least these measures created structures which could be built upon in the future and facilitated a subsequent economic upswing. That is not the case with China's current economic policy.

The situation being as serious as it was, even a government willing to implement reforms would admittedly also have had to take administrative measures to dampen economic activity. That same government, though, would at least have continued at the same time to set up policy instruments compatible with the new system and an institutional framework suitable for the market economy. However, the experts who might be capable of that task appear at present, if they are still in office at all, to be in a state of enforced inactivity. As a result, valuable potential is being wasted, along with the time in which it might have been possible to carry out pioneering work.

### **Vicious Circle**

Furthermore, in view of the change of mood "on the shop floor", it is doubtful whether even thoroughgoing administrative measures will be able to achieve the desired stability very quickly.

For the time being, the sense of a new beginning which was so important for the economic initiatives taken by managers in both private and state sectors has



been wiped out. Lethargy has taken hold at all levels, and that has led to still further reductions in capacity utilization. Since employees cannot be made redundant, their wages continue to be paid yet there is little they can actually buy with them.

In this situation, there is the danger that even the reduction in effective demand following the investment moratorium will not have allowed inflationary pressure to be eliminated. On the contrary, the policy-making bodies may find themselves in a vicious circle. In attempting to restore stability and to enforce an income distribution which is regarded as desirable, they are pushing the economy down onto ever lower levels of output.

#### **Wait-and-see Approach**

Most key experts in China appear to be holding back and awaiting the turn of events. They are tolerating bureaucratic interference up to a certain point – that is, as long as it is designed to dampen down the overheating in the economy and to avoid excessive income differentials – but would not be prepared to accept an about-turn on the type of system the government wishes to maintain.

Hardly anyone has any hopes of the economy attaining stability and growth if a return is made to the planned economy system of the 1950s, as occasionally advocated by China's current supreme leadership. People are only too aware of the dubious successes achieved by the planned economy system in the past. Economic growth, for example (which ran at a respectable annual rate of 6% between 1952 and 1979), resulted almost exclusively from increased inputs of labour and capital. The overall productivity of these two factors, on the other hand, hardly showed any improvement. By comparison, 40% of the economic growth achieved by South Korea is attributable to increased factor productivity. Moreover, despite their efforts (or perhaps because of them), the planners never really succeeded in coordinating different industries or regions within the economy, and what was produced did little to fulfil real demand.

There were broad sections of the public which had a strong interest in reforms. They were ultimately confirmed in this, and continue to be so, by developments elsewhere in the world. Japan, South Korea, Taiwan and Singapore, all of which have economic systems with a predominant market orientation, have managed within a few decades to draw level with the established industrial nations in a number of key areas. Current changes in Eastern Europe and the Soviet Union are now fulfilling the first preconditions

for future economic progress, and are thus likely to reinforce the feeling within China that the country is now among the last small number not to have got on board the train towards economic and social modernization.

#### **The Eastern European Option or Far Eastern Initiatives?**

In the present circumstances, it is not even necessary to apply moral standards in order to show Western companies that it is not particularly advisable to tie up long-term capital in China. Western managers have potential investment locations available all over the world, and China's economic leadership ought to be made well aware of that.

Nevertheless, it is still possible that the People's Republic may again change course towards a market economy within a short time. All the experts who pushed ahead with the reforms in the past and who had already thought through subsequent steps towards disengaging the state from the economy are still there. Indeed, if a new change in economic policy should occur this would presumably happen much more quickly than ten years ago when the policy-makers were only feeling their way towards liberalizing and opening up the economy.

Of course it is wrong to assume that economic liberalization in the future will lead to greater economic and social "harmony". On the contrary, if the Communist Party and bureaucracy retreat from key economic positions a growth in economic dynamism will not be the only consequence. A parallel effect will be increased "disorder" in the economy and society. It will then be essential – in the interests of China itself and of the rest of the world – that suitable mechanisms be developed in order to contain and solve conflicts.

Whatever else happens, there will immediately be new opportunities in the Chinese market for foreign companies. Those in Japan, South Korea, Taiwan and Singapore are already preparing for that time, while simultaneously sounding out the potential Eastern European markets. If they do not come up against any serious competition from Western competitors, the "hinterland" of China's input and retail markets would put them in a still stronger position for conquering Western markets.

Those companies in the West which have been sticking to their traditional markets and have perhaps been hoping to play the "Eastern European option" against China and other countries in the Pacific Basin would then have to face up to the fact that they had adopted the wrong strategy.