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Article — Digitized Version

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Intereconomics

Suggested Citation: Lösch, Dieter (1996) : The west needs to take a closer look at China, Intereconomics, ISSN 0020-5346, Nomos Verlagsgesellschaft, Baden-Baden, Vol. 31, Iss. 1, pp. 1-2, <https://doi.org/10.1007/BF02930247>

This Version is available at:

<https://hdl.handle.net/10419/140525>

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The West Needs to Take a Closer Look at China

As we approach the millenium, our image of China, which plans to catch up on the economies of the developed industrial countries by the middle of the 21st century, vacillates between extreme stereotypes. While some admirers see the spectacular economic achievements as evidence of an economic miracle and rank China as a showcase example for system transformation, urging businesses to stake out their share in its large and rapidly expanding market, critics point to its political and human rights record, branding the Asian giant as an inhuman dictatorship that needs to be forced to accept democracy by economic sanctions.

Considering the contrary impressions and facts presented to visitors to China, these highly disparate assessments of Chinese reality are understandable. The dynamic growth in the coastal regions, in particular in the special economic zone Shenzhen, adjacent to Hong Kong, is so dazzling as to blind us not only to China's many grave economic problems but also to the fact that the country is still in the hands of a Communist dictatorship.

From the point of view of the World Bank China's economic figures for 1995 are superb. Despite stabilisation efforts the national product is expected to grow by nearly 10%. The money supply target has been achieved and the planned budget deficit of 2% of national product has only been exceeded by a small amount. The foreign trade surplus rose to nearly US\$ 20 billion and foreign exchange reserves increased to about US\$ 75 billion. Viewed in these terms, China is an economic wonderland.

The other side of the coin is that, alongside persistently high inflation fuelled by subsidies to state enterprises amounting to 5 to 7% of national product, the inequity of income distribution and regional disparities are increasing. These adverse developments were foreseen and accepted as inevitable by the reformers – certain individuals and provinces should be allowed to enrich themselves so as to lay the material foundation for a better life for everyone – but this has resulted in social tensions and growing egotism on the part of the flourishing provinces, which are highly reticent to pay taxes to the central government in Beijing and battle with each other over foreign direct investment. To construe this as a threat to Chinese national unity, however, is an exaggeration on the part of Western observers and underestimates Chinese national sentiment.

A more serious threat to national stability is however posed by the 200 million rural unemployed, many of whom migrate to the towns to look for work and together with employees threatened with redundancy in the ruinous state enterprises form a dangerous source of unrest. This has been one reason why the overhaul of the state sector, which still employs a third of the national work force and accounts for about 45% of industrial

production with at least a third of the enterprises making a loss, has been repeatedly postponed. At least every sixth employee in the state sector is estimated to be superfluous, i.e. is one of the hidden unemployed. Efforts are currently underway to decentralise the large state combines and make them more efficient by closing unproductive parts, but a radical shut-down of loss-making enterprises is evidently politically unfeasible, especially as up to 80% of the people in the old industrial regions and some cities are still engaged in the state sector. Some progress has however been made in reforming the banking sector. Further reform measures are also expected this year in the foreign trade sector, namely cuts in the very high customs duties of about 35% on average to some 23% in preparation for aspired membership of the WTO.

As it is obviously impossible to solve the problem of the state sector in the medium term, there is good reason to doubt whether the rapid pace of growth can be kept up in the long run. China needs to do this, however, if it wants at least to catch up with today's newly industrialising countries in the first half of the next century. The level of development and the living standard are still extraordinarily low. Per capita income (leaving aside differences in purchasing power) is still under DM 1000 per annum (less than 2.5% of per capita income in Germany!) Infrastructure is still inadequately developed, even in parts of the coastal regions. Bottlenecks here could constrain the future pace of growth. The abolition of the tax exemption for imports of investment goods by joint ventures, now deferred until April 1st, could lead to a decline in foreign investment and thus have a negative influence on the speed of growth. It would then be even more difficult to implement the overdue reforms in the state sector, under which there will be more losers than hitherto.

The fact that Deng's gradual transformation strategy has been so successful so far does not at all mean that it should be taken as a precedent for a general, long-term phased approach to introducing a market economy. China is not a typical case of system transformation. Its reform policy could not be emulated in the economies of central and eastern Europe, nor in the successor states to the Soviet Union, for a number of reasons, the main one being that in China the reform initiative came from the top of a Communist party with unchallenged power. Nor should we forget that the difficult part of systemic change in China still lies ahead: the transition of state enterprises into the market economy.

However useful the authoritarian system has been for rapid system transformation, it could jeopardise reform success in the long run. But many Chinese still accord top political priority to the maintenance of stability and order amidst changes which are taking place at breathtaking speed. This attitude can only be understood when seen against the backdrop of the trauma experienced by the Chinese people in the cultural revolution. And after the events on Tiananmen Square in June 1989, the state is also much more determined to stifle all initiatives for democratic change with brutal repression.

Despite this repression and despite the lack of democracy the Chinese enjoy more individual freedom today than ever before under Communist rule. Specific grievances, such as corruption and nepotism amongst the nomenclatura, crime, forced resettlement and victimisation by police and authorities are a far greater source of discontent than any lack of democratic rights.

In view of its discernible progress towards a more "liberal" society, it would be just as wrong to boycott China as an inhuman police state as to overpraise it as an economic wonderland of unlimited opportunity and ignore its enormous economic and social problems and the consequent risks to its future development. China is still searching for its place in a world of ever closer relations, but it will in all probability play a major role in the coming century. To prepare for this, it is time to get rid of our clichés and open our eyes to the real China.

Dieter Lösch