

Chinese Economic Reform with Chinese Socialism Characteristics

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Abstract: *The phenomenal performance of Chinese constitutes the great economic miracle of the last quarter century. China's economy has expanded by leaps and bounds, at historically unprecedented rates that few economists would have found plausible or feasible ex ante. More importantly, this growth has lifted hundreds and millions of people from deep poverty and has helped improve health, education and other social standards. China has accomplished all this using its own brand of economy, "Socialism with Chinese Characteristics."*

One of the most difficult aspects of market transition in all of the formerly socialist economies has been the dramatic shift in macroeconomic regimes. Investment decisions were made primarily by people who were investing other people's money. These people faced little or no failure, as they were not abiding by laws and norms that govern today's market economy. The Chinese closely followed the Soviets. They further studied their own drawbacks and mistakes. Seeking truths from facts is the quintessence of Marxism, of Mao's thought and Deng's theory. After the founding of PRC, the planned economy played an important role in the Chinese economy. This planned economy was practiced due to historical conditions.

It is really a wonder to see how economy of China has transformed from what was a communistic society to what is now an economy having "Socialism with Chinese Characteristics" which in Chinese known as GAIGE KAIFENG. Since 1978 PRC, the Peoples Republic of China's government (within the political framework, provided by the communist party of China) has been reforming its economy from a Soviet Style centrally planned economy to a more market oriented economy. Reforms in Chinese economy started in 1978. Since then it has helped lift millions of people out of poverty. As a result the poverty rate, which was 53% in 1978, came down to 8% in 2001, which now stands less, then 7% at a conservative estimate (2007 estimate). It was in 1982 that, Deng clearly spelt out his vision of "Building socialism with Chinese characteristics." In the 12th national congress of CPC he said, "Our modernization drive should proceed from the actual conditions of China. We should pay attention to learning from and using for reference the experience of other countries in both revolution and construction. But mechanical application of foreign experience and copying foreign models indiscriminately will take us nowhere..... We must integrate universal truth of Marxism with the concrete realities of China, blaze our own road and build socialism with Chinese characteristics." In 1987 Deng explained his vision of primary stage of socialism.

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Chinese economic reforms unlike Perestroika (so called Russian economic reform), has been an economic success, generating over two decades of economic growth. The living standards of the Chinese people have made a rapid growth. The CCP goal of modernization seems to be set well in the correct path (unless some careless mistakes in the form of over enthusiastic approach take place). Chinese economic reform has consisted of a large number of different changes. The Russian system failed because they invested heavily on Heavy Industries, which were limited for the benefit of few. The Chinese reform prioritized the agriculture and the light industry sector; which covered benefit for lot of people. As a result the Chinese success was note worthy. Because of loss of iron rice bowl jobs due to reforms, many people were initially opposed to further liberalization of the economy. The CPC leadership has often experienced its hybrid system the worst results of socialism (bureaucracy, lassitude, political corruption, disrespect of personal property) and of capitalism (windfall gains, a huge and widening gap between rich and pool; stepped up inflation). Beijing thus has periodically backtracked, retightening central controls at intervals.

*Analysts say that PRC government is determined to keep the economy reviving at a high speed, but is concerned that racing too fast or perhaps too slow, could spoil the party before 2008, when PRC is likely to show case its prowess (during the Olympic games). Among the chief worries for the government is "over-investment" in certain sectors of the economy. Like real estate, Stock **prices are another** concern. Whatever might be the case the Chinese economy seems to be moving at a speed which is well ahead of the speculations of over heated economy and economic bubble. It has been proved by China's practice of reform and opening up that capitalist private ownership and socialist public ownership can not only coexist but also be combined in a way of cooperation and joint economic super power The path shown by the second generation of Chinese leaders led by Deng Ziao Ping will take China to the pinnacle of economic success and glory. It has been done due to the right and correct usage of the term, "Socialism with Chinese characteristics" in the reality of the Chinese economic context.*

Introduction

One of the most difficult aspects of market transition in all of the formerly socialist economies has been the dramatic shift in macroeconomic regimes. Under the socialist economy, bureaucratic decision making without accountability led to insatiable demands being placed on economy's resources. Here investment decisions were made primarily by people who were investing other people's money. These people faced little or no failure, as they were not abiding by laws and norms that govern today's market economy. As such, transition, has really been tough for the Chinese decision makers.

Since the birth of China in 1949, long time has elapsed; the Chinese economy (by 2006 standard) is the fourth largest in the world when measured by nominal GDP.

It is really a wonder to see how economy of China has transformed from what was a communistic society to what is now an economy having "Socialism with Chinese Characteristics" which in Chinese known as GAIGE KAIFENG. Since 1978 PRC, the Peoples Republic of China's government (within the political framework, provided by the communist party of China) has been reforming its economy from a Soviet Style centrally planned economy to a more market oriented economy. Reforms in Chinese economy started in 1978. Since then it has helped lift millions of people out of poverty. As a result the poverty rate, which was 53% in 1978, came down to 8% in 2001, which now stands less, then 7% at a conservative estimate (2007 estimate).

Today the Chinese have the fourth generation of their leaders (after Mao Tze Dung, Deng Xiao Ping and Jiang Ze min) under Hu jin Tao(selected for a second term). We have also witnessed the injection of the fifth generation of leaders having their ages in the fifties and sixties. The second generation of Chinese leaders under Deng took power after Mao's death in 1976. Deng rose twice to limelight, he was purged once as party secretary. During the second time he took no time to take control over Chinese Communist Party and thereby running PRC. It was after the year 1978 (In 1978 in the third plenary session of the eleventh Communist Party of China-CPC central committee meeting took decision for bringing historical changes in the Chinese socialistic system) that, Deng Xiao Ping summed up the historical experiences of international communist movements and China's socialist building. Deng explained in a very systematic way to build, consolidate and develop socialism in such an economically and culturally backward country. This THEORY of Deng Xiao Ping in fact made the corner stone of what we see today-a new brand of China under a new economic system-a system not understood by many (?). It marked a new leap in CPC's recognition of China's national conditions and laws of national development.

Purpose/Objective of the Paper

We are all familiar with the term 'Capitalism' and 'Socialism'. In case of China, we have seen how a socialist system of economy is being absorbed by a capitalist system. Yet we can't say it fully whether the system is socialist system or capitalist system of economy. The Chinese have rightfully coined the system as "Socialism with Chinese Characteristics". While writing this article I would like to put emphasis on evolution, reform, and principles guiding the reform including various challenges attributable to the issue. The present state of Chinese economy bears a clear testimony of the success of the Chinese, "Socialism with Chinese characteristics" venture.

Chairman Mao's Era

After the founding of PRC, the planned economy played an important role in the Chinese economy. This planned economy was practiced due to historical conditions. Seeking truths from facts is the core of CPC's ideological guidelines. In as early as the Yan'an Rectification in 1940s, Mao Tze Tung used the term "Seeking truths from facts" to describe ideological guideline of CPC. The Chinese closely followed the Soviets. They further studied their own drawbacks and mistakes. Seeking truths from facts is the quintessence of Marxism, of Mao's thought and Deng's theory. Mao Tze Tung's dictum of "emancipating the mind and seeking truths from facts" was the cornerstone of the third plenary session of 11th CPC central committee.

Deng Xiao Ping Era

Deng Xiao Ping developed a theory basing on shifting the center of gravity for work of CPC to economic construction of China. In 1978, he delivered his important speech titled "Emancipating the mind, seeking truth from facts and looking forward in unity". He moved slowly because he anticipated that there could be chances of reaction from the hardliners of the CPC. Deng meanwhile gave his four-modernization formula.

It was in 1982 that, Deng clearly spelt out his vision of "Building socialism with Chinese characteristics." In the 12th national congress

of CPC he said, "Our modernization drive should proceed from the actual conditions of China. We should pay attention to learning from and using for reference the experience of other countries in both revolution and construction. But mechanical application of foreign experience and copying foreign models indiscriminately will take us nowhere..... We must integrate universal truth of Marxism with the concrete realities of China, blaze our own road and build socialism with Chinese characteristics." In 1987 Deng explained his vision of primary stage of socialism. The principal of emancipating the mind proposed by Deng includes:

- To emancipate the mind from the stereotyped thinking and the blind faith towards Marxism.
- To emancipate the mind from unscientific understanding and even distortion of Marxism.
- To emancipate the mind from the dogmatic understanding of Marxism, which is divorced from realities?
- To keep an eye on the development of times and emancipate the mind from those practice proven outdated ideas'.

a. Deng pointed out, "To emancipate the mind is to make peoples minds in line with the actual conditions and to make the subjective in line with the objective. And this is just seeking truths from facts." Deng further said, "China's affairs should be handled in accordance with Chinese conditions and by relying on the strength of Chinese people. That is to say, to paddle one's own canoe and walk one's own way with self-independence." Deng's theory was further advocated and ardently followed by Jiang Jemin's (he propounded the famous three represents theory which mostly dealt with the productive and technologically developed force) and Hu Jin Tao during their tenures.

b. Deng found that highly centralized planned economy had a series of malpractices. As such, in order to overcome this he not only compared the Chinese economy with other socialist countries but also brought into limelight the success stories of the developed countries economy. He in 1979 commented to an US delegation that, "It is absolutely incorrect to say that market economy only exists in capitalist society and there is only capitalist market economy. Why

can't socialism practice market economy?" Regarding opening up of socialist economy Deng went further saying, "There exists no fundamental contradiction between socialism and market economy. The thing is how best to develop better socialist productive forces. We had been practicing planned economy, but the practicing planned economy only will fetter the productive forces. The combination of planned economy with market economy can liberate the productive forces and accelerate the economic development." The 14th national congress of CPC in 1992 clearly defined socialist economic structure as the goal of reform. The third plenary session of 14th National congress of CPC put forward the theoretical frame of socialist marked economy and the steps and method of implementation. At the 15th national congress of CPC in 1997 the theory of socialist market economy was further perfected. There after China's opening and reform went further and deeper.

Various Areas of Reform

China's reform and opening up has **been** carried out in following six areas²:

- **Rural restructuring:** It was initiated in the rural areas in five steps. Step one included to separate the land ownership from the right of land management and to carry out "the house hold contract responsibility system with income linked to output". Step two was, to turn the state planned growing and purchase of agricultural products into a new way of growing crops according to market demands and a contract purchase order of such major agricultural products as grains and cotton with which the state adjusts market. Step three was to abolish the state determined pricing system pricing system. Step four included encouraging the peasants to establish township enterprises by raising fund independently and to explore a way of urbanization. In step five, since 1997 the PRC government encouraged agricultural restructuring according to market demands.

Urban restructuring was done in three steps. Step one was meant to give decision making power to state owned enterprises in urban areas, namely the decision making in production and

management, in assets restructuring and in investment abroad. Step two included to release financial power to city governments. Step three included giving city authorities power of construction, management and administration.

- Opening up to the Outside world was carried out gradually. In 1980 central authorities approved plan to establish special economic zones in four areas. In 1984, PRC opened fourteen coastal cities. In 1988 new and high-tech development zones were established. Since 1992, PRC started opening interior areas and autonomous regions. During this time various preferential policies were introduced. Till 2003, PRC had 5 state level special economic zones, 33 economic and technological development zones and 52 new and high tech development zones.
- Reform of Banking, finance, Taxation, Planning, Foreign trade including government structure : It was done in four steps. Step one was to separate the central bank from the four specialized banks namely Bank of China, China construction bank, the Agricultural Bank of China and the Commercial Bank of China. Step two to further clarify the functions of Central Bank and the specialized Banks. Step three included the permission for setting up of stock banks local development banks and city cooperation banks. Step four allowed the necessary permission for opening branches of foreign banks. The reform of finance system aimed to establish unified financial and taxation systems, transforming the state monopoly for revenue and expenditure into proper management by the central and local governments. Similarly the tax system was also properly reviewed. Centralized planning system was also further subdivided among central and local authority.
- Government restructuring was done four times in 1982, 1987, 1994 and in 1998 respectively. The number of ministries and various offices were reduced from 76 to 41 while the numbers of personnel were reduced by 50% (in 1998 it was 47.7% was reduced). Local governmental restructuring has also been done accordingly. Government activities mostly focused on macro aspect of policy matters.

- Reform of Social Security System: All previous welfare policy pertaining to pension, medical care, housing and subsidized food etc was done away with. In 1997 a unified old -aged insurance system was established where insurance premium is paid by both individuals and enterprises.

Principles Guiding Chinese Reform

Chinese economic reforms unlike Perestroika (so called Russian economic reform), has been an economic success, generating over two decades of economic growth. The living standards of the Chinese people have made a rapid growth. The CCP goal of modernization seems to be set well in the correct path (unless some careless mistakes in the form of over enthusiastic approach take place). Chinese economic reform has consisted of a large number of different changes. The principles guiding the reform can be summed up as follows³:

- The Guiding ideology of reform: Instead of shock treatment like "Perestroika" shock treatment and "transformation once for all", the Chinese seem to implement reform step by step. The Chinese consider reform to be a very complicated process and tries to take every possible measure not to make any mistake.
- The leading method of reform: The adherence to the CPCs leadership ensures the authoritativeness of the Chinese government and the continuity to reform and opening-up policies. The Chinese believe that implementation of some reform plans would be postponed if it did not get the support of the people.
- Way of reform and opening up: The Chinese prefer to stick to the way of "Spreading reform after making experiments in selected areas" Experiments of reforms were made in a few local areas, sectors and enterprises to accumulate certain experiences and spread such reform. For example the joint stock system of state-owned enterprises began with experiments in as early as 1984. it took almost 13 years (i.e.1997) to spread it nationwide i.e. throughout China. Plans and measures of reform are generally promulgated in the form of laws and regulations in order to ensure successful implementation.

- Unity of Efforts (people and the officials): There is a free exchange of ideas held in between the above mentioned stake holders in order to implement any reform without dividing them into any groups such as "reformists" and conservatives." By doing so the Chinese wants to avoid any sort of antagonism on the reform matters.

Chinese Reform Versus Other Countries Reform

While the Chinese economic reform was going on the Russians and some socialist countries by then were implementing a reform called "Perestroika" about which I have already mentioned. The Russian system failed because they invested heavily on Heavy Industries, which were limited for the benefit of few. The Chinese reform prioritized the agriculture and the light industry sector, which covered benefit for lot of people. As a result the Chinese success was note worthy. Because of loss of iron rice bowl jobs due to reforms, many people were initially opposed to further liberalization of the economy. The CPC leadership has often experienced its hybrid system the worst results of socialism (bureaucracy, lassitude, political corruption, .disrespect of personal property) and of capitalism (windfall gains, a huge and widening gap between rich and poor, stepped up inflation). Beijing thus has periodically backtracked, retightening central controls at intervals. At the end of 1988, certain austerity programs were introduced in reaction to a surge of inflation caused by accelerated price reform. Protestors at the Tiananmen Square incident included workers who felt that the reform had gone too far and threatened there livelihoods. By 2009, China predicted to overtake Germany as the third largest economy. Lately, a study by University of Virginia, a USA based firm "Program on international Policy Attitudes" found that 74% of the Chinese surveyed felt free market was the best economic solution for them. It was highest percentage of people supporting such reform out of 20 countries surveyed. For example 71% of the US population felt the same.

Present day Chinese Economy

The Chinese economy regained momentum in the early 1990s. Deng Xiao Pings Chinese New Year visit to Southern China in 1992 gave

economic reforms new impetus. The economy slowed due to the Asian financial crisis of 1998-99, with official growth of 7.8% in 1998 and 7.1% in 1999. Growth accelerated again in the early new century reaching 9.1% in 2003, 9.5% in 2004, 9.8% in 2005 and 10.7% in 2006. The executive vice minister of China, Huang Ju, speaking at the World Economic Forum at Davos, Switzerland, in January 2005, projected growth of economic output to US\$ 04 trillion by 2020, up from US\$ 2.2 trillion in 2005, with output per capita tripling to US\$ 3000 per person. Its per capita income was approximately US\$ 1,709 (US\$ 7,204 with PPP) still low by world standards, but rising rapidly (by 2005 estimate). As of 2005, private sector was contributing 50% of China's GDP. The economy grew 10.7% in 2006, the fastest in more than a decade, amidst growing signs of inflation. At the start of 2006, the PRC officially announced itself as the largest economy, measured by USD exchange rate overtaking France and the United Kingdom. In 2007 Chinese had a growth rate of GDP of 11.5%. Chinese foreign reserve as of 2007 stands US\$ 1 trillion. Its economy rose at an unbelievable rate of 11.6% in 2007. Apart from this, out of 500 top companies of the world almost all are having their offices in China. The Chinese economy is likely to grow at 10% with inflation of 5% in 2008. (Statistics of Macao and Hong Kong has been excluded).

Challenges

From 1995-1999 inflation dropped sharply, this was the result of tighter monetary system of central banks and stronger measures to control food prices. At the same time, PRC government struggled to (a) Reduce corruption and other economic crimes. (b) Collect revenues from provinces, businesses and individuals. (c) Tackle 50 to 100 million surplus rural workers adrift between villages and the cities (many living below standard lively hood). (d) Keep afloat large state owned enterprises many of which even failed to pay the workers salaries. (e) Control and confront popular resistance, as changes in central policy and loss of authority by rural party cadres have weakened PRC's population control program. (f) Deterioration Environment, air pollution, soil erosion and steady fall of water is also a major threat to PRC's economy. Another significant hurdle for

the Chinese economy (lack of economic control?) is the rapid growing economy of the past years leading to over heating and inflation in the economy. Tilled 2007, China is experiencing having double-digit economic growth for the last consecutive five years. "Right now, the economy is growing at the upper limits of what is acceptable," said Li Lianfa, an economist at Beijing University. He further said, "The government is facing lot of challenges." This has in the wider sense potential for wider global repercussions. The recent large-scale investment is the reason for this. According to Chinese government research the Indians return on investment is three times more then that of Chinese return. The taxation has also provided to be a problem is stabilizing Chinese economy with tax cuts planned for certain economic sectors and industries. It was reported in April 2006 edition of New York Times, that, labor costs has continued to increase and a shortage of unskilled labor had developed with a million or more employees being south. How ever we have seen that in spite of al such prediction in 2007 Chinese had an 11.5% growth.

Conclusion

Analysts say that PRC government is determined to keep the economy reviving **at** a high speed, but is concerned **that** racing too fast or perhaps too slow, could spoil the party before 2008, when PRC is likely to show case its prowess (during the Olympic games). Among the chief worries for the government is "over-investment" in certain sectors of the economy. Like real estate, Stock prices are another concern. Whatever might be the case the Chinese economy seems to be moving at a speed which is well ahead of the speculations of over heated economy and economic bubble. It has been proved by China's practice of reform and opening up that capitalist private ownership and socialist public ownership can not only coexist but also be combined in a way of cooperation and **joint** economic super power. The path shown by the second generation of Chinese leasers led by Deng Ziao Ping will take China to the pinnacle of economic success and glory. The third and the fourth generation have done their part of the job to steer China out of economic out of economic debacle or recession, able to meet the need of the Chinese people and make Chinese economy is robust enough to come to third position in

the world. China under the coming fifth generation of leaders is well set to take its historical place in the world economic super power role. It's only a matter of time to see PRC in its economic super power role. However, they should keep in mind that, China's success has not come without controversy. China's cheap-labor oriented market captured the markets (since 1980) of US, Japan, European Union to Mexico, Malaysia and Thailand. China currently has one of the largest trade surpluses with USA (US\$ 268 billion) and is identified with US traders and businessman as stealer of jobs armed with unfair trade practices. They also have to be very prudent in handling the economic situation along with political changes so that it does not go out of control.

Reference

- ¹ Page 23 "NATIONAL CONDITIONS OK CHINA" Book issued by the training development of National Defence University, Changping, **Beijinj**.
- ² Page 31 "NATIONAL CONDITIONS OK CHINA" Book issued by the training development of National Defence University, Changping, **Beijinj**.
- ³ Page 35 "NATIONAL CONDITIONS OK CHINA" Book issued by the training development of National Defence University, Changping, **Beijinj**.