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ECONOMIC THEORY, APPLICATIONS AND ISSUES

Working Paper No. 55

**Economic Reform and Openness in China:
China's Development Policies in the Last 30
Years**

by

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Economic Reform and Openness in China: China's Development Policies in the Last 30 Years

ABSTRACT

This article adopts the point of view that China's development policies can only be appreciated if they are considered by applying perspectives from institutional economics. This requires attention to be given to the historical, political and cultural context in which its economic development has occurred. Therefore, this article gives attention to the political events leading up to China's decision in 1978 to begin its economic reforms and the way in which Deng Xiaoping crafted its new development path. It also discusses the subsequent extension of Deng's development policies by more recent leaders of the Chinese Communist Party. Indicators of China's economic progress (including its increasing economic openness) since 1978 are given, and its emerging economic issues and concerns are highlighted. The concept of 'market socialism with Chinese characteristics' is analysed and consideration is given to the economic challenges now facing China as a result of the global economic recession and the way it is responding to these challenges. In conclusion, the article touches on China's economic and political future and its growing international status.

JEL Codes: P00; P20; P26; P27; P30; O10; O20.

Keywords: China, developmental states, economic development, economic reforms, institutional economics, market socialism.

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1 Introduction

Since 1978, China has experienced extraordinary institutional change which has proven to be effective in promoting its economic growth and is advancing its international status. It has achieved institutional change in a steady systematic and staged manner. This has altered its economic system substantially. At the same time, the structure of its political system has hardly altered. It still remains a one-party state which relies heavily on the guidance of the leadership of the Communist Party for its direction. Institutional economists contend that the development of nations can only be well understood by considering the manner in which their institutions change and evolve or fail to do so. This requires simultaneous account to be taken of their political, social and economic settings. The importance of doing this is apparent in China's case where the government has played a very active role in the reform of China's institutions since 1978. Therefore, I give considerable attention in this article to political events that have influenced the development of China in the last 30 years.

Most institutional economist believe that traditional neoclassical economics is unable to provide an adequate explanation of the forces that promote or retard economic development (see, for example, North, 2003, pp. 2-3) because it fails to take into account factors that shape institutions, particularly political institutions. In this context, North (2003, p.3) states, "The economic institutions we have that shape directly our world derive from political institutions. Economists do not like to think that they are dependent on political science but they are. As well as recognizing the formal rules like constitutions, laws, rules and regulations, we are interested in who makes the rules and for whom". This view is adopted in this article but it is also pertinent to note that political institutions are not the sole influence on economic institutions. For example, the cultural background of a society shapes norms which in turn have consequences for economic and political institutions. Institutional change involves complex social interactions (mutual causation) and path-dependence. For example, in the case of China, Confucianism may be linked with the type of political systems it

has sustained. Confucian culture supports respect for authority and values social stability maintained by an acceptable authority (compare Qian and Wu, 2008, p.62).

Few, if anyone, could have imagined in 1978 how much economic and social progress China would make in the next 30 years as a result of deciding to embark on its economic reforms and to introduce open-door policies. The purpose of China's reform was said to be develop 'socialism with Chinese characteristics' (Deng Xiaoping, 1984). As a result of these reforms, China's economy has been transformed. It has changed from an economy in which market forces played virtually no role in organizing economic activity to one in which these forces play a major role. China has also gone from a position where it had virtually no foreign investment and a low-level of international trade and exchange to a position where it is a major global recipient of foreign investment and its trade and foreign exchange reserves are very high in comparison to its level of national production. A variety of indicators demonstrate that economic welfare in China has shown an upsurge in the last 30 years.

However, in 1977, there was no sign that China was about to change its economic policies and the extent of its cooperation with the outside world. Examination of the documents of the Eleventh National Congress of the CCP (The Communist Party of China) held in 1997 reveals a commitment to past practices and policies (The Communist Party of China, 1977). Therefore, it seemed that without a change in political leadership, China would be stuck in its old economic groove, with well-worn philosophies and a negative outlook on the world.

Credit for the change in direction goes primarily to Deng Xiaoping and subsequent Chinese leaders who have followed in his footsteps and have continued to develop, modify and apply his approach. In retrospect, Deng Xiaoping was a wise and courageous leader. He was courageous in that several CCP members at the time would have viewed his approach as radical. He was wise in the sense that he could foresee the advantages to China of the reforms and opening up but was also aware that the reforms would have to be phased in at a gradual pace and systematically.

But as is to be expected, he could not foresee and provide solutions to all development issues that would eventually arise for China, such as growing income inequality,

environmental problems and the global economic crisis that is currently plaguing China.

It is not clear that Deng Xiaoping's major objectives were very different to those of the CCP prior to his reforms. These were firstly to maintain the position of the CCP in China and promote economic growth. The main change was in the **methods** believed to be necessary to achieve China's economic growth and thereby sustain the status of the CCP. New methods required in turn significant institutional change. It could be argued that China has had an obsession with achieving material economic growth since the CCP came to power in 1949 but that with the passage of time, central economic direction of its economy became less and less effective in achieving this objective, and in meeting the needs of its population (Tisdell, 1993, Chs. 1-2) and this posed a growing threat to the dominance of the CCP. By the time Chairman Mao Zedong died, this had become painfully clear. While some scholars consider that China only became a developmental state after commencing its economic reforms, (Bolesta, 2007; Woo-Cumings 1999), an alternative view is that it was this from 1949 onwards but that now it is pursuing a different path to achieve its objectives. This will be discussed later.

This article first of all considers the period leading up to the decision in 1978 to begin the reforms and then outlines this decision and the consolidation and extension of the economic and social reforms. After this, the nature of the ongoing reforms under Jiang Zemin and Hu Jintao are outlined and this is followed by indicators of China's economic progress since 1978 as well as discussion of changes in its economic openness. Consideration is also given to the meaning of the concept of 'socialism with Chinese characteristics' which has become a core part of the vision of the CCP. Subsequently, the reform process is viewed in retrospect, the challenges faced by China in coping with the current global recession are given particular attention and some views are provided on China's future prospects. The discussion is of necessity selective and restricted because so much has changed in China in the last 30 years. Given the nature of China's system of government, unavoidably much of the discussion hinges on political changes in leadership of the CCP. Only limited coverage can be given to political factors occurring behind-the-scenes that have influenced the development policies adopted by China. The main coverage of political

factors in this article is based on visible alterations in politics and official Chinese reports of these. Although some scholars may doubt the wisdom of relying on official reports of the CCP, in my view, they provide a valuable record of events and their interpretation, and much can be learnt from reading between their lines.

2 The Period Leading up to the Decision to Begin the Economic Reforms

Three major events occurred in China in 1976. First, the moderate leader Premier Zhou Enlai died in January. He was more sympathetic to economic reforms than Mao Zedong and felt it important that China make progress with the 'four modernizations'. He was greatly missed by the Chinese people who it is said spontaneously displayed their grief in Tiananmen Square (Li et al., 2007). Mao Zedong did not attend his funeral (Li et al., 2007), probably because of political disagreement with Zhou Enlai.

In September 1977, Chairman Mao Zedong died. He had piloted China for around 27 years following the foundation of the People's Republic in 1949. He was a strong leader but during his period of leadership, the 'Great Leap Forward' and the 'Cultural Revolution' involved a heavy cost to China. Next, not long after Mao's death, the Gang of Four were arrested. They were blamed for political ferment and adding to social unrest in Mao Zedong's later years.

With these changes, the stage now seemed to be set for China to follow a new development path. But there were no signs of this happening in 1977, despite continuing concerns in China about the excesses of the Cultural Revolution.

After Mao Zedong's death, Hua Guofeng became Chairman of the CCP and chaired its Eleventh Congress held in December 1977. Mao Zedong had nominated Hua Guofeng as he preferred successor. The documents of the Eleventh Congress reveal no fresh prescriptions for China's development. Its documents support past policy approaches and attribute any past shortcomings in policy to the influence of capitalist deviationists in the CCP and those who failed to follow Mao Zedong thought, such as the Gang of Four. The emphasis of these documents is on the need for appropriate political action in being alert to deviationists in the CCP, eradicating these deviationists and guarding against external enemies of the CCP and China, including several foreign nations. In retrospect, the documents did not provide a positive and

constructive way forward for the CCP and China. They focused on political controversy and theory with little or no attention to economics and pragmatism.

During 1977, Deng Xiaoping returned from the political wilderness to which he was assigned for a while before Chairman Mao died. Before Mao’s death, Deng Xiaoping (like Zhou Enlai) believed that there was a need for economic and social reforms in China but his approach was rejected by the then leadership of the CCP. With his partial restoration to political power in 1977, Deng Xiaoping already displayed a positive new approach. He reformed the university entrance system. Entrance to university for students was now to be based on academic merit as indicated by examination results. The past histories of families of prospective students and their political connection were no longer to count. In the past, some students were barred from university entrance because members of their families had previously been landlords or capitalists (Li et al., 2007).

Table 1 provides a chronology of events that have been associated with the formulation of China’s development policies in the last three decades or so. The implication of these events are outlined below.

Table 1: A Chronology of Events Affecting China’s Development Policies in the Last Three Decades or So

Time	Event
Jan 1976	Premier Zhou Enlai dies.
Sept 1977	Chairman Mao Zedong dies. Hua Guafeng becomes Chairman of the CCP and subsequently Deng Xiaoping returns from political exile.
Dec 1978	Increasing CCP support for Deng Xiaoping’s reformist agenda culminates in its basic acceptance by the 11 th Central Committee of the CCP. It was argued that the reforms should begin with agriculture.
1979	Deng Xiaoping becomes Chairman of the Military Commission. He criticizes dogmatic approaches to policy and favours a pragmatic approach
1980	Hua Guofeng steps down as Chairman of CCP.

Table 1 (cont.)

Time	Event
Mid-1981	Under the influence of Deng Xiaoping, the CPC stresses that China's policies for modernisation must be realistically based, systematic and staged , and take account of Chinese conditions.
1984	The CCP decides that the economic reforms commenced in agriculture should be extended to the whole economy. An end to the privileged position of state enterprises is signalled. Increasing emphasis occurs on greater economic openness as an instrument of development policy.
1989	Chairman Jiang Zemin confirms the direction of China's development policies, such as extension of the market system and greater economic openness as well as measures to limit population growth. He saw the need for China to improve its science and technology policy because as China catches up with the rest of the world's technology; it will need to do more to advance its own scientific and technological improvements.
2002	Jiang Zemin in his report to the 16 th Congress of the CCP re-affirms China's policies for economic development but expressed concern about growing economic inequality in China. Given changed economic conditions in China, it seemed that Deng Xiaoping 's principle of payment according to work (expounded in 1978) was going to be modified
2007	Chairman Hu Jintao in his report to the 17 th Congress of the CCP then confirmed support for continuing earlier economic reforms but also indicated that policy must pay more attention to income inequality, approaching technological (and similar) barriers to China's continuing development, and environmental and energy issues.
2008	China faced the challenge of the global economic crises and formulated policies to weather the economic storm. This has been described as "China's greatest [economic] crisis since its reforms 30 years ago".
Early 2009	Signs of recovery of economic activity in China as a result of Government intervention. China aims for 8% growth in GDP in 2009.

3 The Turning Point in 1978 and the Consolidation and Extension of the Economic and Social Reforms.

3.1 Milestones in Deng's development policies

Already in 1977, Deng Xiaoping made it clear that performance should be the main consideration in the economic and social advancement of individuals. In other words, professionalism and results should count. Furthermore, he emphasised the importance of academics and scientists for the future of the economic development and the international standing of China. He thought that this should be more widely recognized by the Chinese people. During 1978, Deng Xiaoping's reform philosophy gained growing support in the CCP and its desirability was accepted in December 1978 at the Third Plenary Session of the Eleventh Central Committee. This session proved to be a turning point in the direction of China's policies for its economic and social development.

It was decided at this meeting that the system and methods of economic management in China would be transformed; economic co-operation with other countries would be expanded; special efforts would be made to adopt the world's advanced technologies and equipment; and that scientific and educational work would be greatly strengthened to meet the needs of modernisation. The importance of the four modernizations (modernising agriculture, industry, national defence, science and technology) was emphasised. Furthermore, it was stated that "The general task put forward by our Party for the new period reflects the demands of history and the people's aspirations and represents their fundamental interests" (The Research Department of Party Literature, 1991, pp. 9-10). The CCP now intended to concentrate on 'rapid growth in production [to] improve the people's living standards significantly and strengthen national defence' (The Research Department of Party Literature, 1991, p.10).

Several other important decisions about reforms were made at the Third Plenary Session. There was recognition of the need to reduce bureaucratic centralised management of the economy and eliminate bureaucratic and political impediments to achieving economic efficiency and development, particularly at lower levels (such as local levels) of economic activity (The Research Department of Party Literature, 1991,

pp. 12-13). This was consistent with Deng Xiaoping's emphasis on professionalism and efficient economic management.

It was decided that the economic reforms should begin with agriculture because at that time it was "the foundation of the national economy". Particular attention was given to the rule of law, decentralization and resource ownership in undertaking the agricultural reforms. These features were applied later to the rest of the economy.

Again, in line with the views of Deng Xiaoping, it was agreed that economic incentives should be incorporated in the economic system and that economic responsibility should be stressed. The principle of "each according to his work" should be followed rather than the principle of "each according to his need". It was stated that in order to promote production, it is necessary "to work out payment in accordance with the amount and quality of work done, and avoid equalitarianism". This represented a major departure from China's previous "iron bowl" policy which emphasised egalitarianism.

The importance for China's economic development and its future international standing and welfare of maintaining political stability under the continuing leadership of the CCP was stressed. The Third Plenary Session also praised Deng Xiaoping for his leadership in 1975 (The Research Department of Party Literature, 1991, p.15) and criticised those who were instrumental in his temporary fall from power (The Research Department of Party Literature, 1991, p.16). It rejected completely the view of his critics who claimed that Deng's political line was "Right-deviationist wind to reverse correct verdicts" (The Research Department of Party Literature, 1991, p.16).

Towards the end of 1980, the Political Bureau of the CPC's Cultural Committee advised Hua Guofeng that he should step down as Chair of the CPC. Hua was accused of following "Left policies formulated by Comrade Mao Zedong in his later years" as evidenced, for instance, by his statement supporting the "two whatevers" (The Research Department of Party Literature, 1991, p.105). The "two whatevers" refers to a joint editorial of which Hua Guofeng was a joint author. It appeared in the *People's Daily* on February 7, 1977 and elsewhere. The editorial stated "we will resolutely uphold whatever policy decisions Chairman Mao made, and unswervingly follow

whatever instructions Chairman Mao gave” (The Research Department of Party Literature, 1991, p.887).

Possibly, Hua Guofeng had no other political option after he became leader following Mao’s death but to stress the continuity of policy in order to maintain social stability. This possibility was mentioned by the Cultural Committee in its non-confrontational advice to Hua (The Research Department of Party Literature, 1991).

Deng Xiaoping was offered the Chair of the CPC but declined it and instead accepted the offer of Chairman of the Military Commission. Now it seemed that any remaining political impediments to the consolidation and extension of the economic reform policies advocated by Deng Xiaoping had been overcome.

In March 1979, Deng Xiaoping gave a significant speech in which he stated:

“Realizing the four modernizations is a many-sided complex and difficult undertaking. The task of the ideological and theoretical workers cannot be confined to discussion of the basic principles. We are confronted with many questions of economic theory, including both basic theory and theory applied to particular spheres such as industry, agriculture, commerce and management. Lenin called for more talk about economics and less about politics. In my opinion, his words are still applicable with regard to the proportion of effort that should be devoted to theoretical work in these two spheres. I am not saying of course that there are no more questions to be studied in the political field. For many years we have neglected the study of political science, law, sociology and world politics, and now we must hurry to make up our deficiencies in these subjects. Most of our ideological and theoretical workers should dig into one or more specialized subjects. All those who can do so should learn foreign languages, so as to be able to read important foreign works on the social sciences without difficulty. We have admitted that we lag behind many countries in our study of the natural sciences. Now we should admit that we also lag behind in our study of the social sciences, insofar as they are comparable in China and abroad. Our level is very low and for years we haven’t even had adequate statistical data in the

social sciences, a lack that is naturally a great obstacle to any serious study”
(Deng Xiaoping, 1979, p.188.)

Consequently, Deng Xiaoping was of the opinion that much of the past ideological and political debate that had been occurring in China was arid and not conducive to tangible results. He made it quite clear that he wanted to change social concerns from politics to economics in order to provide China with positive economic benefits.

In mid-1981, the CPC again stressed the importance of striving for the modernisation of China’s economy by acting systematically and in a staged fashion while basing its development policies on the realities of Chinese conditions and the level of available resources in China (The Research Department of Party Literature, 1991, p.196). Only modest and realistic goals would be sought. This contrasted with the much earlier attempt by China to make massive economic advances during China’s Great Leap Forward (Tisdell, 1996, p.228). Policies for the Great Leap Forward were mainly based on exhortation and did not take account of economic realities such as the importance within the domestic economy of regional and local economic specialization in accordance with the theory of comparative economic advantage.

The issuing by the CCP of the document “On Reform of Economic Structures” in 1984 marked an important milestone in the strengthening of China’s economic reforms and their extension. It was agreed that following the success of China’s rural economic reforms, similar reforms should be extended to the whole economy with the focus now being placed on the urban economy. By continuing and extending reforms, it was hoped to establish a dynamic economy, invigorate enterprises and establish an economic system in which economic activity and production would be responsive to economic values.

Several important goals were outlined in the document “On Reform of Economic Structures”. It was stressed that a rational price system should be established for the whole economy and that this system should make use of economic incentives as levers. This would mean the extension of reliance on market systems for organising economic production – in essence, the development of market socialism with Chinese characteristics.

Enterprise functions were to be separated from those of the Government. This was to ensure that investment and production decisions by enterprises were made on economic grounds rather than political ones. Furthermore, it was confirmed that economic responsibility systems should be established for enterprises. This meant that the government no longer intended in the long-run to prop up uneconomic state enterprises with soft loans and other forms of financial support. Notice was also given that it would no longer be the case that state enterprises would have an unassailable position in the economy. A diversity of enterprise forms was to be encouraged. In addition, it was decided to press ahead with payment according to work as an economic incentive even though it was realized that this would result in greater income inequality.

A continuing feature of China's reforms would (according to this document dealing with economic reforms) be further promotion of economic openness through international economic cooperation, investment, trade and exchange. Great success was subsequently achieved in pursuing this goal, as for example, is shown in Tisdell (2009).

In line with Deng Xiaoping's emphasis on the relevance of professionalism, and the ability of individuals, it was also agreed that more emphasis should be put on promoting competent and talented persons in managerial and other positions. In addition, it was thought to be beneficial to strengthen party leadership in order to ensure the successes of the reforms. The unity of China under the CCP was seen as essential to securing a strong and reasonably prosperous future for China.

The last part of the document "On Reform of Economic Structures" outlines a significant observation by Zhou Enlai. In the quotation from him, Zhou observes that the world is always changing and consequently, policies have often to be altered to fit these changing circumstances. Zhou Enlai concludes "therefore, man has constantly to sum up experiences and to go on discovering, inventing, creating and advancing" (The Research Department of Party Literature, 1991, p.426). In this regard, Zhou Enlai's philosophy and that of Deng Xiaoping were similar. Deng was of the view that the world had changed and that the situation unfolding in the 1970s and beyond was different to that in the early days of the Republic. Hence, there was a need for the reforms that he advocated. He wanted to be guided more by economic pragmatism

and current realities than by old political theories based on a continuing class struggle and the inevitability of conflict between socialist countries and nations with economies based primarily on market capitalism. It is said that he was quite impressed with the industrial advances that Japan made after commencing its modernisation policies following the Meiji Restoration (Li et al., 2007).

Deng Xiaoping's influence on China's development policies continued both directly and indirectly. In 1992, he toured the south of China giving speeches to assure Chinese and the rest of the world that China's market reforms and open-door policies initiated by him would continue and even after his death, China kept basically on the development path that he had pioneered.

3.2 The nature of Deng's approach to policy change

Deng Xiaoping is characterised by realism and gradualism, and the importance of learning by trial-and-error. Proposed new institutional structures were tried wherever possible only in a particular region or locality or sector of the economy at first. The economic and social results were then observed. If the policy proved to be a success, it was then extended more widely to other regions or sectors of the economy, modifying it if necessary in the light of the experience obtained. This was Deng's method of 'crossing the river by touching stones'. It is interesting to observe that this is the policy approach that China continues to use. In October 2008, the Central Committee of the CCP agreed to fundamental agricultural land reforms which in effect will (if they are fully implemented) result in agricultural land becoming private property (World Bank, 2008, p.19). However, implementation of this policy will be a **gradual** process. This reform will first of all be tried in one region and the experience gained there will become an input into the geographical widening of this policy for institutional changes.

Roland (2000, pp.63-64) notes the significance of this type of approach to China's development. In doing so, he is eager to show the relevance of the type of new economic institutionalism developed by Williamson (1975). Roland appears to claim that Deng's gradualism demonstrates that China's economic policies altered from ones involving a unitary form (U-form) of management to one based on a multidimensional form (M-form); from a centralised form of economic management

to a decentralised one. It is true that Deng Xiaoping's reforms (as a whole) promoted this type of change. However, his strategy of crossing the river by touching stones does not necessarily imply decentralisation of management. In fact, it should be regarded as a very sensible application of the precautionary principle (Tisdell, 1970).

3.3 How was Deng able to get the support of party leaders for his policies?

An important question is how was Deng Xiaoping able to obtain support from the leadership of the CCP for his reform agenda? First, it was clear in 1978 that the earlier policies of the CCP were no longer able to deliver satisfactory economic results. This was partly because evolving economic systems had become increasingly complex. Secondly, Deng adopted political tactics that in the opinion of some observers helped to placate 'hard-liners' in the Party. He emphasised that his main objective was to preserve the dominance of the CCP in China, thereby securing the position of the Party's leaders. In his view, a necessary condition for achieving this was to aim for maximum economic growth subject to the adoption of policies that would enable the party to keep its domination in China's socioeconomic system. Qian and Wu (2008, p.56) summarise this objective to be one of maximizing economic growth subject to the constraint of Party maintaining control and they draw several significant conclusions from it. Deng thought it imperative that the Party should retain its control in China. Consequently, any Party member who supported policies sympathetic to **political** liberalism was not tolerated by Deng, even if they were staunch supporters of Deng's economic reforms. For their apparent support of political liberalism, two secretary-generals of the CCP were dismissed (Hu Yaobang in 1987 and Zhao Zhiyang in 1989) even though both were strong supporters of Deng's economic reforms (Qian and Wu, 2008, p.57). This unforgiving approach of Deng was welcomed by Party hard-liners.

The fact that Deng's reforms bore fruit relatively quickly would have also helped to placate traditionalists in the Party and might have helped to gain public support for it. Furthermore, Deng's reforms were relatively gradual (and most definitely not of the 'big-bang' type initially tried in Russia) which would have allayed the concerns of some of the Party conservatives. In addition, his reform policies were presented with socialist trappings and a nationalistic flair. For example, he described his ultimate goal as being to create 'market socialism with Chinese characteristics'. Therefore, this

portrayed a socialistic and a nationalistic agenda. It would certainly not have been politically prudent of him to have described his programme as one designed to achieve capitalism with Chinese characteristics. Later, in this article, considerations will be given to what the achievement of ‘market socialism with Chinese characteristics’ might mean.

4 Ongoing Reforms - Jiang Zemin and Hu Jintao

4.1 The basic political approach of Deng is retained but the need to modify policies becomes apparent

Both Jiang Zemin and Hu Jintao continued advancing China’s economic reforms and adapting them to changing economic circumstances. Their core consideration continued to be the adoption of policies which would promote the rapid economic development of China.

In 1989, Jiang Zemin stated that China’s continuing economic development would become more dependent on scientific and technological progress and on improved labour quality (The Research Department of Party Literature, 1991, p.305). In essence, this recognized that China’s economy was catching up with the rest of the world and that in higher income countries economic growth was highly dependent on scientific and technological progress and improvement in human capital, for example, via greater investments in education and in skilling (Denison, 1962).

He also mentioned that population growth would continue to be controlled. This policy was introduced after the departure of Mao Zedong who favoured population growth and thus followed the line of Marx and Engels who rejected the theories of Robert Malthus completely. This policy has most likely helped China to raise its per capita income more quickly than otherwise. It can also be argued that it would have had environmental benefits.

Nevertheless, by 1989, pollution and environmental problems had intensified in China as a result of its economic growth. Similar and arguably even worse, environmental problems were observed in capitalist countries during the Industrial Revolution. Jiang

Zemin mentioned that now increasing attention would be given to conservation of the ecological environment and to addressing environmental issues. This indicated that expanding the level of economic production would no longer be the sole arbiter of China's development policy. In effect, the supremacy of the economic growth goal (put forward in 1978) would be modified.

In his report to the 16th Congress of the CCP in 2002, Jiang Zemin provided further guidance on policies for the continuing development of China (Jiang Zemin, 2002). He highlighted the importance of further raising living standards in China, of continuing improvement in the market system and the need for further expansion in overseas trade, foreign investment and international co-operation. However, he also expressed some concerns about growing income inequality in China and about disparities in access to social services. He suggested that some reforms would be needed in these areas. Therefore, some modification on equity grounds to the principle put forward by Deng in 1978 of payment according to the amount and quality of work done seemed to be called for due to China's changed economic circumstances. It was becoming evident that some modification to the principle favoured in 1978 of payment according to work was needed on equity grounds. Some of the general issues raised by this principle are discussed in Tisdell (1993, Ch.6).

Hu Jintao (2007), in reporting to the 17th Party Congress, outlined China's remarkable achievements in the reform period. He confirmed continuing support for China's reforms as a way of further strengthening China's socialist market economy. He also mentioned several points which called for policy responses. These included:

- Growing income inequality and unequal access to social services by individuals.
- The fact that as a result of its economic development the Chinese economy had modernized greatly and was approaching some development frontiers.
- The increased importance to China of energy and environmental issues.

Jiang Zemin had noted these items earlier but they were given more emphasis by Hu Jintao.

The implications of the above are that review and reform of China's income distribution system and its social services system are required; more attention should be paid to energy issues and the quality of the environment, and because of its catching up with the rest of the world, China's future development will become increasingly dependent on its own science and technology capabilities and its use of more sophisticated science and technology as well as improvements in its human capital. The latter will, amongst other things, require improvements in its educational system and more effective methods for imparting skills to its people. China has already instituted major reforms to develop its science, technology and educational systems (see, for example, Geo and Tisdell, 2004). Furthermore, cultural development is likely to be given more attention in the future. These changes in emphasis reflect variations in China's circumstances as the extent of its economic development has increased.

A serious problem experienced by China in the second half of 2008 was the negative economic impacts on it of the global economic recession. This was a major threat to its economic stability with the potential to have adverse political consequences for the CCP. One writer described it as the greatest challenge facing China since its economic reforms commenced in 1979 (Pyo, 2009). Deng did not have to deal with an economic crisis of this magnitude during the time of his influence on China's economic policy.

4.2 Observations on China's development policies since 1989

During the pre-2008 reform period, China was lucky that it could as a result of its market reforms and open-door policies tap into an expanding world market. Its opening up occurred during a period of sustained global growth and one involving economic globalization in which it was able to participate (Tisdell, 2009). To some extent, this was fortuitous. However, China would not have benefited from this situation without its reforms. It stole an economic march on India because India was much slower in reducing its barriers to international trade and investment (this was an advantage for China), and China was indirectly a beneficiary of the Washington consensus designed to support the global extension of market-based economic systems.

These international developments plus greater economic freedom within China resulted in rapid economic growth within China but they did not ensure its political stability. In 1989, this stability was tested by the Tiananmen demonstrations and surrounding events. Thus, it seemed that economic growth alone might not secure the dominant position of the CCP and demonstrated that some opportunistic party leaders, such as Zhao Ziyang, could wreck the one-party development strategy of the CCP. After 1989, China was fortunate from an economic development perspective that its political stability returned quickly as Deng reinforced and re-iterated (in the immediate years following 1989) his development policies. In that early period, Deng still remained an influential political and national leader.

After 1989, China's economy quickly reverted to its path of rapid growth and its market reforms and opening up continued. Deng's approach of gradualism combined with learning-by-doing was retained. It was, for example, applied to the development of China's environmental policies and it will be applied to the introduction of policies that could effectively privatize the ownership of agricultural land. However, not all policy formulation can be gradualistic or as gradual as one might like. For example, the fairly rapid (and to some extent unanticipated) onset of the current global recession has caused a severe economic shock to China's economy, one requiring a relatively rapid political response. Consequently, Chairman Hu Jintao and Premier Wen Jia-bao have to address policy matters which Deng Xiaoping did not confront. They are also challenged by the growing complexity of the Chinese economy as it develops, the realization that economic development (and national development generally) involves more than growth in marketed goods and services (e.g. GDP), and by the need to keep in mind the changed position of China in the world order. While the political legacy of Deng Xiaoping is not irrelevant, it is becoming less useful for the formulation of specific policies. For example, it gives inadequate guidance about what should be done about income inequality and social welfare issues in China.

5 Indicators of China's Economic Progress since 1978 and its Open-Door Policies

5.1 Indicators of domestic economic progress

In a short presentation, it is impossible to provide a comprehensive list of indicators of China's economic progress since 1978 and to specify all the changes in its economic structure since its reforms began. Furthermore, its general achievements in this regard are relatively well known and have been outlined by several authors, including myself (Tisdell, 2009). Therefore, only the basics are outlined here. During its reform period, China amazed the rest of the world by its rapid rate of economic growth which in most years reached, or almost reached, double digit levels. As a result, China's real GDP was over 13 times higher in 2006 than in 1978. This change is based on World Bank information which uses US prices for 2000 to estimate that China's real GDP in 1978 was US\$157.7 billion whereas in 2006 it was US\$2,100 billion. Furthermore, because of its controlled growth in population, the level of per capita income in China rose steeply. However, most economists realize that GDP alone and market-based measures of per capita income can be a poor indicator of human welfare. Estimation of the Human Development Index (HDI) goes some way to addressing these concerns, even though it also has several limitations. Nevertheless, using the HDI measure, China progressed significantly in its reform period. According to UNDP estimates, in 1975 China's HDI was 0.530 and increased to 0.777 in 2005, that is by more than 30%. Given a logarithmic scale is involved in the calculation of HDI, this is impressive.

When the UNDP's estimates of the HDI-values for China for the period 1975-2005 are graphed (at five-year intervals) they show a continual upward trend that accelerates. Furthermore, between 1975 and 1980 estimates of the values of HDI show little changes. This 'stagnation' corresponds mainly to the immediate pre-reform period (see Tisdell, 2008, p.11) and it is followed by rapid growth in China's HDI-values.

Another indicator of China's economic success since starting its reforms is the substantial reduction it has achieved in its incidence of poverty which is now very low for a developing country (Tisdell, 2003). For example, Premier Wen Jia-bao stated in

a speech at the United Nations addressing the Millennium Development Goals, (MDGs) that “China has brought down the number of people in absolute poverty from 250 million to 15 million in less than 30 years” (Wen, 2008). These figures for poverty are based on the Chinese national poverty standard. It is true that in 1978 the rural population in poverty was estimated officially by China to be 280 million (30.7% of the rural population) by 1998 it was down to 42 million (4.5%), 28 million in 2002 and by 2007 it had fallen to about 15 million (see Qian and Wu, 2008, p.42). Although the number of the rural dwellers in poverty is higher if the World Bank standard of poverty is used, there is still no denying that China has achieved an incredible reduction in the incidence of its rural poverty in the reform period; a reduction which would be the envy of countries like India. The initial World Bank estimates for rural population in poverty in China are for 1990, when it found 280 million (31.3%) of the rural population to be in poverty. In 1998, the World Bank estimated that 106 million (11.5%) of the Chinese rural population were in poverty and this fell to 88 million in 2002, less than 10% of the rural population (see Qian and Wu, 2008, p.42). Therefore, China’s experience seems to accord with the ‘trickle-down’ theory of economic growth.

On the other hand, there has been a very significant increase in income inequality in China during the reform period. Inequality has risen within urban and rural areas and the disparity between average incomes in rural and urban areas has magnified. The relevant statistics are summarised by Qian and Wu (2008, p.43).

5.2 *Increased freedom*

A substantial benefit for ordinary people in China has been increased economic freedom. There has been increased scope for private investment, much greater freedom of geographical movement for work in China, a greater variety of choice in consumer goods and services (which is a type of freedom) and greater ability to travel both within China and abroad. There has also been progress in improving the rule of law in China, but political and civil liberties are still restricted (Qian and Wu, 2008, p.46-48), presumably as a measure to ensure the supremacy of the CCP and the stability of government.

The nature of the ownership enterprises in China's economy has diversified greatly. The relative importance of state-owned enterprises has declined considerably (Yang and Zheng, 2005; Wen, 2005). Qian and Wu (2008, p.50) argue that more than 60% of China's GDP is now produced by privately owned enterprise. During the reform period, China also became a magnet for foreign direct investment and many foreign enterprises now operate in China. Furthermore, China's international trade openness has grown remarkably (Tisdell, 2006) and the structure of its trade has altered. It has increased its importance as an exporter of commodities that are more technologically sophisticated than in the past and the level of its own foreign direct investment has risen significantly. Nevertheless, the structure of its international trade still displays features of a country at a middle stage of development (Tisdell, 2007).

Some other structural features associated with China's reforms include massive levels of rural to urban migration (Cao, 2005) and there has been a large increase in the tertiary sector of the economy as a relative contributor to China's employment and GDP, an expansion in its secondary sector and a decline in its primary industry in terms of relative employment. According to the theory of Colin Clark (1957), this is also a positive indicator of economic progress in China. Given underemployment in many rural areas of China in previous times, this structural change has been economically advantageous to China. However, once China's agricultural labour surplus is fully employed, this may place upward pressure on wages in China in the future. Pyo (2009) mentions that already wages have begun to rise in China and this is causing some foreign investors to look elsewhere. Consequently, increased human productivity will increase in importance as a source of continuing economic growth as China's agricultural labour surplus becomes increasingly absorbed.

During its reform period, China has been the beneficiary of the type growth model described by Lewis (1965, Bauer, 1956) in which agricultural labour has been available in perfectly elastic (seemingly unlimited) supply to help provide the increasing labour force needed for greater industrialization. However, due to the phenomenal economic growth of China, the elasticity of this supply is beginning to diminish and it may diminish even further in the future. Rural labour migration has also become an issue in China because of the global economic downturn. In this

downturn, many rural to urban workers have lost their jobs with adverse economic consequences for them and their families. This issue will be considered later.

5.3 *Progress with China's open-door policies*

According to data quoted by Qian and Wu (2006, p.40), China's total foreign trade as a percentage of GDP in 1978 was 9.8% but this ratio increased constantly after 1978 to reach 60.31% in 2003 and continued to rise. In 1988, the World Bank estimated that China's gross exports were about 14% of its GDP (see Tisdell, 1993) and in 2008 they amounted to about 40% of its GDP (World Bank, 2008, p.7). This means that China has had a large macroeconomic exposure to the recent global economic downturn. The World Bank (2008, p.7) comments that "...exports are more important in China than in other large emerging market economies, even [if] China is more robust than most to external shocks, because of its strong macroeconomic fundamentals and large balance of payment surpluses". On the other hand, much of China's exports are based on processing of imported components, as pointed out and modelled by Tisdell (2007) and as recently confirmed by empirical work of the World Bank which estimates that China's share of its exports to its **GDP in value added terms** is around 17.5% (World Bank, 2008, p.7).

A very important contribution to China's open-door development has been the inflow of foreign direct investment (FDI) to China. China became the major global recipient of FDI during its reform period. Prior to 1979, FDI in China was negligible but after 1979 it rose rapidly with a small temporary decline in the late 1990s, probably associated with the Asian Financial Crisis. With the passage of time, China's FDI inflow has become less important as a proportion of China's GDP. It peaked as a proportion of China's GDP in 1993 but the absolute amount of FDI in China continued to rise (see Tisdell, 2009, pp.222-223 for details). The inflow of FDI to China had many advantages for it: it brought with it new systems of business management, helped transfer modern technologies to China and provided China with valuable foreign exchange and increased its access to foreign markets. The process of opening up was also a gradual one which began first with the establishment of special trade zones.

Another important part of China's opening up has been the expansion of its own direct investment abroad (Tisdell, 1993, Ch.4). This is a strategy to extend China's market reach, help transfer new technologies from abroad and to secure access to its import of raw materials. The latter can also be expected to be an influence on China's foreign policy. China is, for example, a major importer of oil and its oil exports will rise.

6 Perspectives on Market Socialism with Chinese Characteristics

6.1 Political emphasis on the development of socialism with Chinese characteristics

Deng Xiaoping (1984) first proposed that China should build market socialism with Chinese characteristics and subsequent Chinese leaders have emphasised the importance of doing this. Nevertheless, it does not seem to be possible to find an exact (or even a relatively precise) official definition of the term. However, it is clear that Deng Xiaoping was of the opinion that China in its transition to a mixed economy should take account of economic realities in China, its cultural background and be pragmatic in seeking China's stable economic development. Also he had in mind that during China's economic transition, its prior institutional structures would have to be taken into account in planning and executing its reforms. In other words, he was well aware of the phenomenon of path-dependence. In addition, he emphasised that it is imperative to maintain the central role of the Communist Party in China.

6.2 Comparison with market socialism as envisaged by Lange

The question naturally arises of how does market socialism with Chinese characteristics differ from market socialism as envisaged by Taylor (1938) and Lange (1938) and as also considered by Barone (1935). Their type of socialism envisaged that a socialist government would play a guiding role in adjusting market-determined prices to facilitate movement to market equilibria. A relevant government body would be established to act as a pilot to guide market prices by trial-and-error towards their equilibria in markets (Tisdell, 1972, Ch.22). But such a mechanism is not used in the People's Republic of China. To a large extent, prices of commodities in China are

allowed to seek their own levels within markets. Nevertheless, not every market is entirely free of government intervention. Therefore, the market guidance mechanism for equilibrating markets proposed in Lange's form of market socialism has not been adopted in China.

Lange (1938) also envisaged that the government in his socialist market economy would have a major influence on the level of aggregate investment and that investment would be allocated by an investment board. Lange's model assumed the state ownership of the means of production. Such ownership is becoming less and less important in China. Nevertheless, the Chinese Government has a major influence both on the amount and nature of investment in China, particularly in infrastructure and in the selection of key sectors for development, as well as in human capital formation and in the direction of scientific and technological research. It could therefore be argued that this aspect of Lange's socialist model has, to some extent, been adopted. The Chinese economy has become a mixed economy in which the CCP plays a central role by providing a general framework or blueprint for China's development. Nevertheless, whereas Lange's model assumed state ownership of all capital, this pattern is no longer followed in China. We can conclude that the Chinese model does not conform with Lange's model of competitive market socialism.

6.3 The analysis of Qian and Wu of development of market socialism with Chinese characteristics

Given the economic transformation that has occurred in China, the question could be asked of whether China's economy displays socialism with Chinese characteristics or would be more appropriately described as involving capitalism with Chinese characteristics. Could it be that Deng Xiaoping was really aiming for capitalism with Chinese characteristics but for political reasons, found it unwise to state this? Or is it possible that he did not know exactly how the economic reforms would evolve? To some extent, this is irrelevant. The reality is that China has a mixed economy today in which the CCP has a major overall guiding role with detailed economic decisions being to a large extent decentralised.

Qian and Wu (2008) undertake a reductionist analysis of the terms in 'market socialism with Chinese characteristics' and conclude that it has not yet been achieved

in China. They find that markets have developed but that the process of this development is far from complete. They also argue that (at this stage) China does not display attributes associated with socialism of some types. According to their estimates, more than 60% of China's GDP is supplied by private enterprise and private ownership of resources is rising. Therefore the means of production are not significantly owned by the state. Secondly, China is not yet a welfare state; another possible attribute of socialism. Income inequality has increased markedly and income support and redistribution policies have been inadequate to moderate this inequality. According to Qian and Wu (2008, p.52) a favourite slogan of Deng Xiaoping was that economic development should proceed by 'letting some people get rich first, and gradually all the people should get rich together'. Just how gradual that process should be and how it will happen is unspecified. Therefore, Qian and Wu (2008) conclude that market socialism has not yet been achieved in China.

As for 'Chinese characteristics', they argue that China has many characteristics that make it unique and agree that this is an important factor influencing the development policies of the CCP. They conclude that what matters most for the development of China is the leadership of the Communist Party given its dominating role. They point out that "the Chinese Communist Party is no longer a Communist Party committed to public ownership. It is also gradually moving away from being a totalitarian party in the sense of controlling everything and everybody". (Qian and Wu, 2008, p.53).

In September, 2008, I asked a leading Chinese scholar what 'market socialism with Chinese characteristics' means. His reply was that it means whatever the CCP wants it to mean. This view stresses the overarching significance of the role of CCP leaders in guiding China's development.

6.4 China as a 'developmental state' and increasing complexity of its management

In order to better understand the pattern of China's economic development, some scholars have categorized it as a 'developmental state' (Bolesta, 2007; Woo-Cumings, 1999). In that regard Bolesta (2007, p.105) argues that China has adopted a similar development approach to that followed by Japan during the Meiji era and by Bismarck in relation to German development. Bolesta (2007, p.105) states: "The governments of these states followed a state designed development path and until now

have been favouring state interventionism over a liberal open market ...” Furthermore, he also states (p.105): “The development state is often conceptually positioned between a liberal open economy and a central-planned model”. It is neither capitalist nor socialist. The government takes an active role in guiding development in co-operation with business interests. He also mentions in his article that the success of such a state is heavily dependent on the professional ability of its public servants.

As mentioned earlier in my article, Deng was quite impressed with the Japanese development model. Furthermore, in the past, China has had a strong system of public administration based on the selection of officials on the basis of scholarly merit. There are indications (see section 3.1) that Deng was trying to re-develop such a system, but one attuned to modern needs. In my view, China is still striving to recreate a meritocracy system of this nature.

From the above discussion, it seems clear that the continuing success of China’s economic development and its sustainability of China as a nation depend integrally on the quality of the leadership shown by the CCP. This was emphasised by Gérard Roland in a presentation made by him at the Renmin University of China on 20th September, 2008 at a conference to mark 30 years of economic reform in China. Professor Roland of the University of California (Berkeley) argued that given the new institutionalist perspective on factors favourable to economic development, as for example outlined by North and Thomas (1976) and North (1990), China should not have had the spectacular economic growth which it has experienced in the last 30 years. For example, North and Thomas (1976) attributed rapid economic growth in Britain in the Industrial Revolution to the reduction of state control over civil activity and the restriction of the power of the state to interfere in economic decision-making.

It is, however, true that in the reform period China has increased private property rights and extended the operation of markets, factors which gives the theories of North should be favourable to economic growth. At the same time, it can be argued that the power and status of the state has not withered in China, a factor which according to North would not be favourable to economic development.

It could be argued that North’s theories have been too much influenced by the development experiences of the UK and the United States. Gerschenkron (1962, Ch.1)

has argued that countries that industrialised and developed later, such as Germany, had a different pattern of development and that dissimilar pathways to economic development of nations may be required at different times in history and in unlike cultural contexts. Roland (2008) supports the idea that institutional transplantation from one society to another to achieve economic development is likely to result in failure. He doubts whether direct transplantation of Western-style institutions to China would have been effective in ensuring its recent economic growth. He comments: “Based on its existing stock of cultural knowledge (which differs strongly from that in the West) China, like other Asian countries, has developed unique fast-moving institutions in achieving its recent growth trajectory. Thus, China is experimenting with its own institutions for the market economy instead of importing Western institutions (Roland, 2008, p.148).

Although the CCP has significantly reduced its interference with microeconomic decision-making since beginning its reforms of China’s economy, major patterns of China’s economic development are still subject to central direction, either directly or indirectly, in accordance with the policies of the CCP. This approach appears to be the kernel of market socialism with Chinese characteristics.

The implication of the above discussion is that the rapid economic growth of the Chinese economy in the last 30 years is due to positive leadership of the CCP, and that continuing improvements in the welfare of the Chinese people depend on the quality of that leadership being sustained. Thus, an issue of continuing importance is how the quality of this leadership can be maintained and improved. Furthermore, as China’s economic development proceeds, the direction of its economic development will become more complex. When China began its reform in 1978, its overriding aim was to promote economic growth. This seemed appropriate at the time given the low level of per capita income in China. However, as economic growth has proceeded and per capita incomes have risen, other goals such as those involving the environment and income distribution have increased in significance. Thus, multiple economic goals are of growing importance. It is much more complicated to set performance goals for achieving multiple goals and the measurement of performance is much more difficult than in the case of pursuing a single goal, such as one of accelerating economic growth. Therefore, it is possible that the CCP maybe tardy in providing economic

incentives for the pursuit of multiple goals. In any case, pursuing multiple development goals is very challenging from an administrative point of view.

7 The Reform Process in Retrospect

Without its economic and related reforms, it seems likely that China would have been stuck in a political and economic rut after 1977. Its reforms proceeded systematically and gradually as planned and were based on realistic goals. Nevertheless, although a ‘big bang’ approach was avoided, the reform process was carried out resolutely. In retrospect, the restructuring of China’s economy was achieved in a relatively short period of time. China’s reforms proceeded step-by-step beginning in the rural areas, extending later to urban areas to encompass eventually the whole economy. They have been marked by pragmatism, a willingness to experiment regionally and to learn from experience.

As pointed out, the reform process and features of the economy requiring attention have altered as new stages have been reached in China’s economic development but the basic goal remains the same as in 1978. The CCP is keeping to its basic goal of improving the well-being of the Chinese people but its policies are being adjusted to allow for changing circumstances. This is consistent with the pragmatic philosophy expressed by Zhou Enlai and by Deng Xiaoping.

China’s reforms have not only benefited the Chinese people but have brought substantial economic and global benefits. They have stimulated global economic growth and have contributed to global economic and political stability. China has developed into a new global economic centre, making countries such as Australia less dependent on traditional overseas markets for their international trade. China’s contribution to diversifying the location of regional and global economic activity appears to have provided a stabilizing force for reducing global and regional fluctuations in economic activity. Although China has become very dependent on international trade and exchange as a contributor to the level of its economic activity, its economic development during the reform period has expanded its domestic market greatly. While China is not immune to the consequences of global economic recession, further expansion in China’s home market will help to mitigate the impact on it of global economic recession. This should help to maintain regional economic stability.

China will also be assisted in stabilizing its economy by the high level of its international monetary reserves. It might be noted that China played an important stabilizing role in containing the Asian Financial Crisis which occurred a few years ago. However, the current global economic crisis poses a greater policy challenge for China.

8 The Challenge of the Global Recession

8.1 China's ability to cope with the recession

Coping with the global recession is a major (but not insuperable) challenge for China's policy-makers even though some writers have described it as China's greatest economic challenge since it began its reforms (Pyo, 2009). Reasons why China is well placed to weather the global recession include:

- Its very high level of foreign exchange reserves (World Bank, 2008).
- The fact that FDI in China is not as important as a proportion of GDP as it used to be and therefore, China's level of economic activity is less dependent on it (Tisdell, 2008).
- The Chinese Government has taken prompt and decisive action to counteract the negative effects on its domestic economic activity of economic recession abroad (Wen Jia-bao, 2009).
- The actual dependence of China on exports for the level of its economic activity is much less than the gross value of its exports in relation to its GDP indicates; this dependence is more than halved when account is taken of imported components that are re-exported in goods manufactured in China (World Bank, 2008, p.13; Tisdell, 2007).
- There is significant scope to expand domestic demand to replace the decline in foreign demand for China's products.

The above does not, however, mean that it is easy for China to adjust to the global economic crisis. It faces some difficult adjustment problems.

8.2 *Problems facing China in coping with the global recession*

Now that China's economy is increasingly market-driven and more open, it is at greater risk from macroeconomic fluctuations than in the past. The Chinese Government has had its control over such fluctuations and their impacts on unemployment reduced. In general, economic globalisation has reduced the degree of control of national governments of macroeconomic activity within their own countries (Tisdell and Sen, 2004) This is also the case for China. The increasing market orientation and economic openness of China's economy has two sides to it: it has stimulated China's economic growth but at the same time has reduced security of employment within China, particularly involuntary unemployment as defined by Keynes (1936). There are, according to Pyo (2009, p.45) fears in China that increasing unemployment in China due to the global recession could trigger social and political unrest, and therefore, the Chinese Government has acted swiftly.

Unemployment of urban residents has been rising since the recession began and increased unemployment of rural-to-urban workers who have lost their jobs is of particular concern. There are around 220 million of these workers (described as Nong Min Gong) and their remittances contribute significantly to the incomes of farmers and other rural dwellers. It is estimated that almost 20% of these workers have lost their jobs and returned home (Pyo, 2009, p.46). This exodus is expected to further widen the gap between the levels of urban and rural incomes.

China is trying to address this problem with a multi-pronged stimulus package described briefly below. It is not only accelerating its infrastructure investment, moving ahead more quickly with the provision of safety nets and social services, it is also providing economic support to selected industries, and has adopted measures to stimulate purchasing by domestic consumers. It is important for China not to lose industries now which currently experience economic problems but which would be economically viable once the global recession has passed. The demise of such industries in the current economic crisis could lead to permanent loss of expertise in these industries. Furthermore, in some cases, domestic increased demand for their products cannot easily be substituted for reduced foreign demand; and capital and human resources once assigned to a particular purpose are not easily switched to other

purposes in modern economies because there is a high degree of specificity in the short-to medium-term in resource use.

8.3 *Ways in which China is meeting the challenge of the recession*

It is not possible here to go into the details of China's stimulus package and the prospects of China achieving its 8% growth rate this year. However, it does appear that China's stimulus policies are working and that it is using this crisis as an opportunity to advance its long-term development plans. The World Bank (2008, p.1) gives the following comment:

“The stimulus policies provide China with a good opportunity to rebalance its economy in line with the objectives of the 11th five-year plan. The stimulus package contains many elements that support China's overall long term development and improve people's living standards. Some of the stimulus measures give some support to the rebalancing of the pattern of growth from investment, exports, and industry to consumption and services. The government can use the opportunity of the fiscal stimulus package to take more rebalancing measures, including on energy and resource pricing; health, education and the social safety net; financial sector reform; and institutional reforms.” (World Bank, 2008, p.1).

China's stimulus measures are not focused just on the support of industries (they are multi-pronged) but Pyo (2009, p.49) pays particular attention to China's industrial policy measures and states that:

“The Chinese government has recently selected the fabric, steel, metal, car manufacturing, petrochemical, shipping, electronics, communications, and light industries as the beneficiaries of its extensive stimulus package. It plans to provide support in various forms, such as export and value added tax reduction; support for expansion into overseas markets; and expansion of government purchases. The nine industries selected are labor intensive, so from the implementation of this policy, the Chinese government is expecting both economic growth and lower unemployment.”

To the extent that China supports these industries, it may benefit but this policy could add to the economic difficulties facing its international competitors in the same industries. To some extent, these policies may be seen as beggar-my-neighbour policies. On the other hand, if they support economic growth and social stability in China, this could have positive flow-on effects in contributing to global economic recovery from its current recession.

Depending on how long and severe the global economic recession proves to be, it could bring changes in China's development policy. For example, China may switch to greater reliance on its domestic market for economic growth than in the past and reduce its comparative reliance on foreign markets. In any case, this could be a natural part of China's progress with its economic development. This does not, however, imply that China will become inward-looking in its economic and international affairs.

9 Concluding Comments

Change is inevitable, as Zhou Enlai pointed out and as Deng Xiaoping observed. The circumstances which China will face in the next 30 years will differ from those of the last 30 years. Even during the last 30 years, conditions have altered as China has made substantial headway with its economic development. This has required variations in policy decisions even though the basic goals of Chinese policy remain unaltered. China is adjusting and will continue to adjust its balance between equity in income distribution and access to social services, its environmental conservation goals and cultural development in relation to the continuing growth of its material wealth. While China will continue to seek ongoing economic growth, greater emphasis is likely to be placed on other factors that affect human welfare than was the case in 1978. This is appropriate in view of changing circumstances. In my view, China's importance for global and regional stability and development will continue to magnify. Furthermore, its international economic, political and cultural influence can be expected to grow.

Changes in China's economic and social structure are likely as it approaches the frontier of economic development and as it becomes comparatively modernized. This has already been evidenced in major changes in institutional arrangement for delivering scientific and technological results (Gao and Tisdell, 2004) and continuing

reform is occurring in China's higher education system. Nevertheless, China's changing economic position and enhanced global status will bring new challenges for China. It will be more difficult for China to keep a low profile in and avoid the spotlight in international affairs. Furthermore, the Chinese economy is more dependent on the use of international resources and is becoming a major user of these resources. Access to these resources may generate international rivalry and China is likely to come under greater global scrutiny for its use of the natural environment, for example, the level of its greenhouse gas emissions.

In addition, there are high international hopes that China will continue to be an engine contributing to global economic growth for some time to come and signs of economic recovery in China have strengthened global economic confidence in recovery from the current economic recession.

In 30 years, China's reforms have not only resulted in it achieving a phenomenal increase in its living standards, it has made China a major global economic actor and has enhanced its status in the world community. Just how its system is likely to develop is difficult to predict but China is unlikely to revert to its doctrinaire position held prior to 1978. It is possible that China will not develop a multi-party democratic system of the type common in Western democracies in the foreseeable future, even if it continues to extend its market system. This is because, as indicated by Roland (2008), there is a significant difference between Chinese and Western characteristics which are more fully appreciated when an institutional approach to economics is adopted. China's economic development cannot be understood without taking into account its historical, political and cultural background.

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by Dr. Clevo Wilson of the Queensland University of Technology and Professor Zhao Xufu of Wuhan University of Science and Engineering. I alone am responsible for the views expressed in this paper.

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