



Changing Chinese economy

The Long March To Reform

The process of reform in China since it began in late 1978 has been characterised by periodic cycles of slowdown and acceleration. This is most evident in industrial or urban reforms where the implementation of each successive package of reform measures has tended to generate overheating, overinvestment, inflationary pressures, and budgetary and trade deficits. These negative side-effects then compel a period of economic consolidation during which the reform process is slowed down and, in some cases, reversed.

Reforms in China since 1986 have been on the down cycle, following economic overheating in 1985. The question now, however, is whether the present hiatus will be followed, as in the past, by the reintroduction of reforms with a vengeance. The simple extrapolation of past trends can no longer suffice as a guide.

One reason for this is that reforms have reached a critical stage where choices about further and necessary measures are increasingly ideologically sensitive and technically complex. When the Chinese reforms were first introduced, the lead-



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ership sought to defend the reforms' marxist legitimacy by enforcing, conveniently if somewhat superficially, a separation between the concept of management from that of ownership. Thus, reforms were presented as a change in the system of economic management while public ownership of the means of production remained inviolate. Industrial reforms introduced within this framework, however, failed to produce the hoped-for gains in productivity.

Quite aside from the failure to reform the irrational price system because of political anxiety about its inflationary impact, the reforms in enterprise autonomy suffered from the inability of the government to introduce fundamental changes in microeconomic behaviour conducive to independent profit and loss accounting. 'Investment hunger' and 'soft-budget constraints' continued to pervade the Chinese industrial system because enterprises remained unpenalised for erroneous investment and production decisions, with the state, the ultimate owner, meeting losses through subsidies.

It is now recognised by the overwhelming majority of Chinese economists, and by the more reform-minded members of the leadership, that further reforms must confront the question of own-

ership if enterprises are to become autonomous accounting entities. To introduce such changes while preserving intact the socialist nature of the Chinese state, it has been suggested that the form of public ownership be changed from the present state ownership to more diverse forms such as joint-stock companies in which the state and other enterprises as well as individuals can own shares. Concomitant with such a change would be further marketisation of the Chinese economic system, involving among other things the development of capital, labour and housing markets.

Understandably, these changes are objected to by the more dogmatic and orthodox members of the leadership. These so-called conservatives are also reformers in a fashion: they prefer a leninist NEP-type system in which limited market relations are allowed on the periphery of a system dominated by state-owned enterprises subject to a mixture of direct and indirect planning. But both radical reformers and 'conservative' reformers alike recognise, the former positively and the latter negatively, that changes in the form of public ownership and full-fledged marketisation represent a crossing of the Rubicon in marxist theory and practice.

Meanwhile the framework

of consensus leadership within which such ideological and policy differences over reform have hitherto been contained is now being undermined by a power struggle as various factions jockey for position in anticipation of the 13th party congress. The 13th congress will elect a new party leadership for the next five years.

In these power struggles for the leadership in succession to Deng Xiaoping, policy differences over the reform programme serve as the principal ammunition for the conservatives. The latter have argued that the market-oriented reforms of premier (and acting secretary-general of the party) Zhao Ziyang are essentially a Pandora's box which, once opened, will usher in bourgeois political ideas corrosive to socialism.

Deng Xiaoping himself articulated the notion of the indivisibility of economic and political reforms last year, and it was his call for suggestions from Chinese intellectuals that led to proposals for checks and balances to the monopoly of power by the Communist Party, and ultimately to the forced resignation of Hu Yaobang as party secretary-general following student demonstrations in favour of Western-style democracy earlier this year. The leadership's definition of political reform is much more narrow: rationalising the party and state administrative structures within a leninist framework.

But the conservatives have overplayed their hand. In seeking to capitalise on the excesses of reformers advocating radical political reforms, they themselves have committed excesses in seeking to undermine Zhao Ziyang's position by attacking the economic reform programme. It is evident that Deng Xiaoping is now seeking to force out the conservatives by stepping down himself from the politburo, thus forcing other veteran leaders to follow his lead as Chinese political and cultural decorum requires. The end result is likely to be a

balanced leadership with reformers (Zhao Ziyang, Wan Li and Qiao Shi) holding the key positions but counterbalanced by open-minded, less dogmatic 'conservatives' (Li Peng, Yao Yilin) who are essentially in favour of a more cautious pace and scope of reforms.

The 13th congress will also be a public relations exercise, especially to the outside world. Consequently, the congress will reaffirm China's commitment to reform and its open door policy by introducing further measures in these areas. Political reform (of a sort) is paramount on the agenda, involving a major reorganisation of the party apparatus and possibly the abolition of the politburo as well as the abolition of the post of secretary-general and its replacement with a chairman. This type of change would be consistent with Deng Xiaoping's narrower conception of political reform: bringing in younger technocrats and separating party and state functions.

Economic reforms to be announced at the congress are likely to include a rationalisation of the central economic agencies through merging the state planning and state economic commissions into a single, leaner comprehensive macroeconomic planning organ.

The major reform is likely to be in agriculture, where further marketisation and the abandonment of compulsory state purchases of grain are on the congress's agenda.

The 13th party congress will certainly rekindle the outside world's optimism about the future course of Chinese reforms. That is one of its objectives. In the longer term, the actual course of reforms will continue to be cyclical. Sooner or later decisions about crossing the Rubicon need to be taken, but they can only be taken with a re-examination of marxism, leninism and Stalinism. The fragility of the political consensus that is likely to emerge at the 13th congress will suggest that such re-examination is not quite timely yet. •

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