

China`s 'socialist market economy

[Finance](#), [Market](#)



Question 2: In what way can China's ' socialist market economy' be regarded as successful and to what extent is it not achieving its promise? China is much more than just a mere country. It has been through many ups and downs and exciting changes in the Chinese society, from changes of dynasties to establishing a name under the ' 7 wonders of the world' with its creation of the ' Great Wall of China'. Its heritage and history for the past thousands of years have made China of what it is today.

Hence, with Deng Xiaoping's widely quoted phrases: " crossing the river by grouping for stones", " Getting rich is glorious", and " seek truth from facts, and not from ideology", how has China develop and grown over the years? How did China attain its current economic prosperity? How did China seek the truth of its economy transition from a planned economy to a market economy over the decades? " In a planned economy, government controls and determine business ownership, profits, and resource allocation.

The theory behind a planned economy is ' communism', which suggests that all property is shared equally by the people in a community under the direction of a strong central government. It is an economic system that involves public ownership of businesses. Rather than entrepreneurs, the government decides what products consumers will be offered and in what quantities. As the main planner, the government establishes trade polices that historically have been very restrictive in allowing foreign companies the opportunity to compete" (Stralser, 2004).

China was a planned economy under Mao Zedong's leadership as he thought was mainly equality, where he established nationalization of China's economy

through the control of markets by keeping it free from foreign dominations, price, and production as well as natural and human resources. He also introduced the promotion of egalitarianism and collectivism with little incentives, while individuals' needs are not being realized. As a result, economic development in China was stagnant and there was not much of an economic progress.

In the late 1930s, Oscar Lange started the idea of " Market Socialism," an economy in which assets or methods of productions, were owned socially by the communist party or State, but which imitated the supply-demand price adjustment of the competitive market economy. Conversely, Lerner and Lange debated on the issue that the key element that is common to ' market socialism' is socialist (i. e. party) ownership and (managerial) control of assets.

The key difference is that market-based allocation of goods and services versus centrally planned allocation of goods and services. In China, the ' market' element has expanded gradually since the start of the agricultural reforms in 1979 and the introduction of Urban reforms in 1984. In 1992, China publicly stated that its goal is a " socialist market economy with Chinese Characteristics. " Though China has successfully expanded the scope of the market, " socialist" (communist) control of factors remains very important.

An understanding of these elements is vital to an understanding of the economic performance of China. Thus, China's transition from a planned economy to a ' Socialist Market Economy' started in 1978, after the death of

Mao Zedong in 1976, when Deng Xiaoping recognized the need to reform its economy and political structure, as China was experiencing economic and developmental problems under Mao's leadership. Deng Xiaoping's thoughts were different from Mao Zedong's, as Deng Xiaoping believed in prosperity and efficiency for China's economy.

His aim was to raise living standards and introduced the ' Four Modernisations'; namely the Industry, Agriculture, Science and Technology and Defence, by developing ' a market economy with Chinese Characteristics'. Moreover, he establishes a contractresponsibilitysystem in agricultural areas and revives individual businesses in urban areas to understand and satisfy individuals' needs. Furthermore, he decentralized a substantial amount of authority in state enterprises and reform the irrational price system due to the high demand and selling in the market.

The call for such a change is for the reason that China was under a very centralized planned economy system that has high speed and excessive accumulation of national income at the expense of consumption, but produces a low result and consumptions due to poor planning and economic mismanagement. It led to the excessive emphasis on grain production and the low productivity of commune systems. On the other hand, China sees the need to be modernized and strong, thus establishing what Deng Xiaoping introduces, the ' Four Modernisations'.

In particular, the Industry sector, where overemphasis is placed on heavy industry while the light industry and services are being ignored. In addition to that, the Defence sector has placed too much emphasis on their national

defence and lacked efficiency. Too much attention is placed on self-reliance (Riskin, 1987; Hsu, 1991). Not forgetting the acknowledgement of the Chinese Communist Party's (CCP) mistakes in the Cultural Revolution, whereby permanent revolution, class struggle, mass movement and political unrest exist and the rejection of key theories of Maoism that has seriously damaged the Chinese economy (Wei, 2000).

From the period when China was under Deng Xiaoping's leadership till the end of 1998, China's economic reform has gone through a transition from a planned economy to a market economy. And at present, China portray itself as a " Socialist Market Economy" or where it is called " Socialism with Chinese Characteristics", which means that " using market forces to improve the efficiency of production while retaining a managed, predominantly state-owned economy and authoritarian control over political activity" (Dorn, 1998).

Deng Xiaoping introduced both the economic and political reform program to achieve four major objectives, namely, instituting contract responsibility in agricultural areas such as the labour responsibility system that determines where a person can work legally and where it cannot; reviving individual businesses in urban areas; decentralizing a substantial amount of authority in state enterprises where the banking system has evolved little from a government department where loans are decided on the basis of provincial or national objectives and ability to repay is irrelevant to the variable cost of the capital.

And lastly, reforming the pricing system, which simply means that the market rather than the government itself determines the pricing system. Cities or Provinces can and do price land to any buyer at any price. Infrastructure pricing and supply, mainly to foreign invested enterprises, is likewise determined on the basis of national or provincial or city objectives and can vary within the various enterprise. This is also applicable to the limit for some of the output of the State Owned Enterprises (SOEs) that remain subjected to the central department, who are their bosses for orders and directions.

As for the economic reform, Deng Xiaoping came up with three propositions that are private ownership has useful place in a socialist economy; market forces should be allowed to influence the allocation of goods and the determination of prices and material incentives should be the principal mechanism for stimulating greater productivity and efficiency, for example, having rewards to set the moods up for the workers so that they would work hard to achieve their rewards and hence, increases productivity and efficiency.

According to Virmani 2005, he mentioned that " in moving from the ' Socialist' to the ' Socialist Market' Economy, China has borrowed aspects from the " Nationalist Market Economies" of developing Japan, S. Korea and Singapore. The main purpose of China's government was to be able to economically draw closer to the advanced countries through fast growth of average income. Consequently, China developed a national consensus to

maximize GDP growth. The whole nation was called together to achieve this aim.

The simplicity of this purpose of growth, investment and production made China much easier to decentralize its economy structure and ensure accountability at every level including that of the private corporate sector". Now we move on to the political reform, Deng Xiaoping wanted China to seek a sharper and decisive break from Maoism and the Soviet model; de-maoisation by abolishing class struggle and permanent proletarian revolution; to reduce the role of ideology in political and intellectual life and also reduce Party's role in making technical and administrative decisions.

Therefore, separate the Party's ideology and administrative competence area and also not forgetting the technical and political areas. Today, China's 'Socialist Market Economy' can be regarded as successful due to the "high rates of growth China has sustained for the last quarter or a century, with GDP averaging 9% per annum. China's trade activity, including both imports and exports, has grown an average of 15% a year since 1979" (Eswar, 2004).

Its achievements were from political and economic decentralization that consist of the introduction of entrepreneurial autonomy to the Chinese economy, and to the new booming of rural industries, so as to offer higher employment opportunities, income and prosperity to the local communities. With reference to the World Bank research done on fighting poverty, the overall living standards for the vast majority of the Chinese population improved as 400 million people were lifted out of poverty, while business dynamism spread across China's urban and rural areas.

As a result, its transition to a market economy system gives individuals a higher share of their earnings, increasing their per capital wealth.

Furthermore, Virmani also mentioned, one of China's most significant market innovations to its socialist economy was the product market (2005). It started with agriculture output markets in 1979 where initially agriculture markets were partially liberalised in a manner similar to that used in India for sugar and other markets in the sixties.

This was a 'Dual pricing and distribution' system in which part of the produce continued to be handed over to the government at a controlled price, while the rest could be sold freely at the market price. Many of the rules circumscribing small-scale service activities were also abolished or ignored, resulting in a boom in collectively and individually owned restaurants and shops. Labour contracting services also developed in the interior provinces to supply construction workers to urban areas.

Dual pricing in industrial goods was introduced by China in 1985-86, with prices on the market channel allowed to fluctuate according to market conditions. At this point, more than half of all industrial goods were still distributed at administered prices. Product liberalisation was gradually extended to the entire manufacturing sector. It has also been selectively extended to the real estate sector and retail trade. One of the recent evidence on China's success is seen during the Beijing Olympics that showed to the outside world its successfulness, spectacular and advancement, prosperous and modernity is like any other west countries.

But there is also the more genuine and in fact improved aspect of China that raised itself up, so to speak, in the earthquake that occurred in May in Sichuan, “ with heroic rescue efforts by government at all levels, the army, and people from all walks of life throughout the country. The resilience and resourcefulness of the Chinese people are the real source of optimism. With a socialist ideal and politically conscious forces to pursue it, true reform is well within China's capacity” (Lin, 2009).

However, like any other communist or socialist country, to a certain extent China is not achieving its promise because in China, the single party rule is none other than the Chinese Communist Party (CCP). To paraphrase Perkins (1994), ‘ All political power in China is monopolised by the Chinese Communist party, a party that is organised along Leninist lines. Power is centralised at the top and not easily challenged from below. ’ The party is a hierarchy stretching from the party general secretary at the top to the party honcho in the smallest settlement/village.

The objectives, broad approach to achievement of these objectives and the parameters within which lower levels can take initiatives, is decided at the top. national to provincial level, and the Metro cities and Town & Village level. Also, with reference to Virmani 2005, in China, all land is owned and controlled by the State, however, due to the historical heritage of cooperative ownership of farmland, the controlling system is slightly different in the rural areas. In many provinces, farming households supposedly have an ownership share in village and farmland, but lose this right if they move to the urban areas to work.

Similar to every other Communist country, in this case, China, the Party controlled the labour unions and therefore the terms and conditions of work. Therefore, the overall policy approach to terms & conditions of employment, work hours and wages is decided by the CCP (at an appropriate geographical level or level of government). If the CCP decides to apply different work and pay rules in a particular province, sector, industry or type of enterprise (e. g. foreign invested) from those applied to general domestic enterprises, neither the (so called) labour unions nor the employees can do anything to change it.

China's labour market is also controlled through the Hukou system that determines where a person is entitled to live and work and receive State provided social benefits. Hukou is a resident permit given by the government. It is issued on family basis where every family have a Hukou booklet that records information about the family members, name, birth date, relationship with each other, marriage status, address and your employer. In other words, its legal residence in an area entitles one to access public schooling and healthcare, housing and job opportunities and/or land for farming.

Legal change of residence is possible if either a person succeeds in getting a place at a senior middle school and then at a city college by clearing competitive exams for the same, or if the state allows it, say allowing firms in a city to hire permanent workers from nearby rural areas. The Chinese government used the family register system in order to control the movement of people between urban and rural areas. Thus, with Hukou

System, it limits mass migration from the land to the cities to ensure some structural stability.

Also, it was an instrument of the command economy. Hence, if people move without formal CCP permission, they are in effect illegal migrants with no rights. Chinese government's restrictions on rural-urban mobility primarily operate through the Hukou system. A worker may live legally in an urban area, without acquiring an urban hukou as a permanent resident on a long-term permit or as a contract worker. Permits for legal residence are neither easy nor cheap to come by, and illegal migration has been increasing throughout the reform period.

When the special economic zones were first opened, all labour contracts were with a Chinese labour bureau that is effectively controlled by the CCP's 'terms and conditions' of employment. 100% of capital assets were owned and controlled by the State, that is the CCP. The management of these assets is distributed to different levels of government, which in turn is controlled by different levels of the party. Some are controlled at the National level through the departments of the central government and their CCP bosses. Others are managed or controlled at the provincial, City and Village level.

As a result, China's political system is interlocked and intertwined with the majority of administrative heads being Party members, who still is in today's China, controls everything. For example, China's listing could also be solely on the Hong Kong stock exchange or even a foreign exchange. This does not convert them into private enterprises as management control remains with

the same CCP boss or his nominee or appointee who represents them. In conclusion, China is trying to establish an entirely diverse conceptual economic system that is neither a traditional socialistic economic system nor a capitalistic economic system.

Furthermore, it is not apparent that " Socialist Market Economy" can be said to be socialism or capitalism. In fact, Deng Xiaoping made it clear that capitalism and socialism are both non-conflicting ideas, as both of them are tools for managing China's economy. For this reason, China would like to be at the so-called ' middle mark' where it is not at the extremes of the both sides but rather in the centre, with a system that makes use of the virtues of both capitalism and socialism.

The changes that were brought about by the success of the transition to a ' Socialist Market Economy' are that its agriculture system moved from People's Commune system to the family based ' responsibility system' and land has become a commodity. Market prices were from a price fixing system to a dual-price system, where the market determines 80% and the government determines the remaining 20%, so as to strengthen and institutionalized the price system in the market. The banking sector changed its allocation of funds according to the policy to dual system partially making decisions on its allocation.

The marketing of goods and services have changed from central planning to allocation to the market's allocation of goods and services. China's relation with other countries improved from economic isolationism to a desire to be active in the worlds economy via foreign investments and allowing labour

into export production and export to sustain domestic growth. As a result, the national economy showed a fast and constant growth, the overall strength of China expanded evidently, the standard of living of the people improved together with time and distinctive results have been attained in such activities as science and technology, education, culture, health and physical culture have advanced. The people of China are happier now with such changes in their life. And not forgetting that China's political system is still governed by the Party, Chinese Communist Party (CCP), that makes China still a capitalist country that controls and determines everything and not achieving its promise. References Dorn, James A. ed. 1998. China in the New Millennium: Market Reforms and Social Development. Washington D. C. Cato Institute. Hsu, Robert C. 1991. Economic Theories in China, 1979-1988. Cambridge; New York: Cambridge University Press. Lange, Oscar. 1971. On The Economic Theory of Socialism. New York. : Comparative Economic Systems. Lerner, Abba, P. Economic Theory and Socialist Economy: Review of Economic Studies 1934. Lin, Chu. 2009. The Socialist Market Economy: Step Forward or Backward for China?. Science & Society, Vol. 73, No. 2, April 2009, 228-235. Perkins, Dwight. 1994. Completing China's Move to Market. Journal of Economic Perspectives, Vol. , No. 2, Spring 1994, pp 23-46. Prasad, Eswar. ed. 2004. China's Growth and Integration into the World Economy: Prospects and Challenges. International Monetary Fund, Occasional Paper N 232, Washington DC. <http://www.imf.org/external/pubs/ft/op/232/op232.pdf> (accessed 04/05/09). Riskin, Carl. 1987. China's political economy: the quest for development since 1949. New York: Oxford University Press,

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