

China

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The former highly centralized command economic system has given China a lot of historically valuable and useful practice. Still, the shortcomings were numerous. The main drawback was rooted in the relationship between the state and business. In a rigid command system, an enterprise was only an administrative appendage of the state authorities and had no right for any free business activities. In addition, the role of market regulation was categorically denied. Vices of the old mechanism manifested themselves clearly when the overall situation in the country was changing. Radical restructuring of the economy has become an objective necessity “ since the 1970s when they started shifting to a postindustrial service-based economic structure (in part as a reaction to earlier oil price shocks in the 1970s).” (Winters and Yusuf 150).

Beginning late in 1978, the reform was fully developed after the XII Congress of the Chinese Communist Party (1982) and strengthened its position as a result of the decisions of the XIV Congress (1992). Important milestones were the XIII Congress (1987), which gave a detailed interpretation of the initial stage of socialism theory and the XIV Congress, which decided that the reform is to create a socialist market economic system with Chinese specifics.

The main objective in the domestic politics of China became the recovery of productive forces through a set of market type economic reforms. Strategically far-sighted was the decision of the Chinese leaders about gradual implementation of reforms, taking into account national specifics, according to folk wisdom - Crossing the River by Feeling for Stones. In 1979 - 1983, the interim target of the reform was to complement the command economy, which was still predominant, with market regulations

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under state control. Practice of the transformations' start-up phase included expansion of enterprises' economic independence, creation of special economic zones, recovery of individual and collective structures in the economy, the first attempts to introduce market principles in pricing and sales of engineering products and household goods which had no ratios. The biggest breakthrough was the elimination of the former ineffective system of rural people's communes.

The new economic model included the following: 1) complete economic independence of enterprises; 2) replacement of directive planning by guiding; 3) free, under state regulatory functions, buy and sell of consumer goods and means of production; 4) creation of the market of science and technology, labor and information; 5) pricing based on supply and demand; 6) competition in the domestic and external markets.

Gradually was formed the idea that the presence of public property only does not contribute to the rapid economic development and satisfaction of human needs; that the formation and development of a diversified ownership system can take advantage of each form of ownership, thus providing a more effective functioning of the economy as a whole.

In 1992, the Communist Party has made another important step towards reforms, aiming to "create a system of socialist market economy." The decisions were based on the thesis of Deng Xiaoping, who stated that planned economy is not the definition of socialism and market economy can perfectly work under it. Plan and market, Deng Xiaoping stated, were only economic instruments and somewhat greater use of planning or market is not an essential difference between socialism and capitalism. He also realized that foreign capital should be used in the interests of socialism, as <https://assignbuster.com/china-essay-samples/>

well as resources, equipment, and technology and specialists. In 1997, the theory of building socialism with Chinese characteristics and market development under socialism was formulated in the final form.

Chinese economic system has undergone profound changes during the years of reforms. A mixed economy was formed. Profound changes have occurred in the pricing pattern. Prices for the most products are free.

Tax, banking, foreign exchange and investment systems were modified. Value added tax, single income tax for enterprises, the system of distribution of taxes between central government and local administrations were introduced.

A two-stage banking system was created through the functions' division of the central and lower state-owned banks. Were selected the banks executing the economic policy of the central government.

The official and market exchange rates were abolished and unified floating exchange rates, regulated by the market, were introduced. And this list of changes is far from a complete one.

Works cited

Winters, Alan, and Shahid Yusuf. *Dancing with Giants: China, India, and the Global Economy*. Washington, DC: World Bank, 2007.