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**WILL CHINA TRAVEL THE CAPITALIST ROAD?
CHINA'S 'OPEN DOOR POLICY' UNDER DENG**

Ming Qin

A Thesis

in

The Department

of

Sociology

**Presented in Partial Fulfillment of the Requirements
for the Degree of Masters of Arts at
Concordia University
Montréal, Québec, Canada**

FEBRUARY 1993

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ISBN 0-315-84652-6

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Abstract

Will China Travel the Capitalist Road? China's 'Open Door Policy' Under Deng

Ming Qin

This thesis provides an historical and theoretical review of recent political, social and economic developments in China, and analyzes China's possible movement to a free market economy. The thesis is grounded in the assumptions and approach taken by Marxist scholars, who view China as taking a market approach to socialism.

The determinants of socialism in China are reviewed and analyzed, and an empirical investigation of social trends is provided in support of a socioeconomic determinism thesis that socioeconomic factors will influence political change in support of incremental, rather than revolutionary movement, to a free market economy.

The rise of an expatriate bourgeoisie with enduring and strong nationalist ties to China; a slow but nonetheless incremental reliance on foreign currency for Chinese development; a growing interest in western consumerism; and the need to revitalize stagnant bureaucratic structures to meet the demands of changes brought about by new socioeconomic influences on China, are all factors which are identified as contributing to the incremental development of a free market economy in China.

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INTRODUCTION

Historical and Theoretical Background

This paper investigates the economic and social reforms which have occurred in China over the past fifteen years. This topic is of interest because, in recent years, China has been rapidly changing both economically and politically. The sudden collapse of Eastern European regimes may further pave the way for China's integration into the capitalist world system. How China responds to these changes is therefore of special interest.

A study of economic and social change is akin to the study of the development process itself. Much has been written in recent years about development and about the problems of the so-called developing countries. No doubt, we have a better understanding now compared to twenty years ago of what is often called the development process; yet there is still a need for a more integrated socioeconomic theory.

If we are to move in the direction of such a theory based on today's knowledge in various fields, we will no doubt have to employ a multidisciplinary approach. This is so because the study of development is a complex and diverse field of academic research and policy analysis. The study of development also creates various views and criticisms. For example, Bert Hoselitz studied development by

placing the problem of economic development in a broad historical and comparative perspective. But, in S. N. Eisenstadt's view, such emphasis on the historical and comparative dimensions of modernization in general, and of development in particular, have only recently been done. (Manning Nash, 1982, p123) Eisenstadt therefore analyzed document upon which initial studies of modernization and of development were based.¹ For Gustav Ranis, development theory pays more attention to the problems of technological choice, employment, unemployment, and participation in international trade as they affect the distribution of income across families and across regions, as well as the existence of absolute poverty and the ability to satisfy some ill-defined set of "basic" human need.² From Ranis' perspective, the concept of development process is based on the awareness that the analysis of growth, employment, and distribution must be viewed as integrally of one cloth, with the focus on the existence and size of trade-offs among these objectives. From recent publications, we always find these common variables as development indicators, like GNP annual growth, national consumption, investment and savings. But newer factors such as individual freedom, education, health condition and women's issues are now more often included as development indicators.

As for a study of the development process in China, this comparatively poor nation has generated a varied body of literature

¹ : See S. N. Eisenstadt, *Tradition, Change and Modernity* New York. John Wiley & Sons, 1973, Pt. 1.

² : See Gustav Ranis, "Development theory at three-quarters century."(Manning Nash, 1982, p255).

in a growing number of journals and other specialist publications, encompassing such diverse issues as: the nature and feasibility of industrialization; the problem of agriculture and rural development; trade and other links between developed and developing countries and their effects on the development prospects of the poor; the nature and cause of poverty and inequality; and the record and future prospects of 'development planning' as a method of accelerating development. These new studies recognize that changes are taking place in China which have an impact on income distribution, methods of production, health conditions, education, political systems, and relations with the increasing of choice for individual and collectives. These changes are all interrelated in ways that no single branch of social or natural science can describe adequately.

From human development index: life expectancy, mortality rate, adult literacy and GNP per capita. China has made significant progress comparing with India. (see table I.1) China's achievement

Table I.1, Human Development Index

	Under five mortality rate (per, 1000)		literacy adult literacy rate (%)		life expectancy at birth (year)		daily calorie supply (as % of requirements)		GNP per capita (u.s\$)	
	1960	1988	1970	1985	1960	1987	1964-66	1984-86	1976	1987
China	202	43		69	47	70	86	111	410	290
India	282	149	34	43	44	59	89	100	150	300

Resource: *Human Development Report 1990*, Published for the United Nations Development Programme (UNDP), P134.

show up in the under five mortality rates, reduced from 202 in 1960 to 43 in 1988. Widespread literacy and food programmes to help ensure adequate nutrition have been important in China. China's

advances in human development are attributed to socioeconomic gains in meeting basic needs.

The limitations of space in this paper make it impossible to adequately review all development theories in the context of China. Nevertheless, apart from a review of general theories of development of human societies, the study has been guided by some leading ideas resulting from major changes in China over the past fifteen years.

As we know, economic and social reforms were adopted in China through several stages of socialist development since 1949, when the Chinese communist party took over. Van Ness and Raichur have labelled these stages of socialist development as strategy A, strategy B and strategy C.(Bulletin of Concerned Asian Scholars, 1983, P87)

They regard strategy A, as the Stalinist model, and point to its correlation in China to the First Five Year Plan(1953-57), which emphasizes centralized bureaucratic planning and resource allocation. This kind of economy is called a "command economy" by western economists. In the First Five Year Plan, China's command economy gave priority to developing central planning, and focused mainly on heavy industry (e.g., the construction of 156 key projects) to build country-wide technological assistance. In implementing the plan, it partially adapted strategy A from Stalinist theory and the development experience of the Soviet Union.

Strategy B, as it relates to China involved the Great Leap Forward, from 1958 to 1960. This strategy was designed to achieve

social transformation in communist society based on party-directed mass social mobilization. In Mao's view, the people's commune was the basic social unit for the transition from socialism to communism; and for the integration of industry, agriculture, the military, education and commerce into the social structure. In the people's commune, a "mass line" promoted the slogan of "serve for the people", so that each individual makes a commitment to work selflessly for the collective. The aim of strategy B is to educate and mobilize the masses in support of this "line" for two objectives: social transformation (continuing change in the relations of production), and economic modernization (the development of productive forces).

Strategy C was adopted as a response to strategy A and B. This strategy involves a market approach to socialism. Deng Xiaoping introduced strategy C to increase efficiency and productivity. He proposed an "economic reform policy" which combines socialist centralized bureaucratic planning with a capitalist competitive market system. This strategy allows competition among workers and enterprises, the opportunity to earn profits, and to inspire workers' enthusiasm and managerial initiative, so that worker productivity and performance are directly linked with material rewards and punishments according to the quality and quantity of output as governed by the market.

In essence, Deng Xiaoping's reforms moved China to a market socialism. Peter Van Ness defines market socialism as:

A development strategy undertaken by a ruling communist party that employs a market mechanism to affect systemic change in an existing command economy. (Peter Van Ness, 1989, P6)

In order to gain foreign capital and technology, an "open door policy" to foreign economic development began to be carried out after the death of Mao Tsedong in 1976. This policy moved the Chinese leadership from revolutionary politics and class struggle toward economic development and reform. The policy was introduced during the 1978 Third Plenary Session of the 11th Party Central Committee, marking the historic turning point for China's opening to the outside world. The Communiqué of the Third Plenary announced that China would be "actively expanding economic cooperation in terms of equality and mutual benefit with other countries" (Wang Zhenshong and Chen Dongqi, 1987, p15-17) and would be "striving to adopt the world's most advanced technologies and equipment."³ This was followed by the introduction of China's new "law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment".

With this policy, China took a major symbolic step toward confirming and implementing the "open door policy". Since then, the open policy has become an important feature of the nation's economic strategy, whereby world international exchanges now play a significant role in facilitating modernization and economic development.

The open door policy has led the national economy down a new road of development. The implementation of Strategies A and B,

³: See Wang Zhenshong and Chen Dongqi, 1987, p15-17, provides in a nutshell some of the key theoretical changes that have been adopted since the Third Plenum of the 11th CCP Central Committee of December 1978. Taken together, they clearly show the direction of change implied by government policy in the PRC.

involved changes which rapidly and dramatically reversed the socialist construction of the 1950s and 1960s. The main effects were that: (1) collectives (communes) replaced the individual household farming system throughout most of the countryside; (2) the "open door" policy welcomed foreign capital, and represented a fundamental departure from the concept of economic self-reliance in China; and (3) Private entrepreneurship was encouraged.

This paper assesses the above effects of socialist construction, and investigates the changes taking place, with a view to determining whether China will travel down a socialist or a capitalist road.

Marx believed that the socialization of appropriative of the social product would eliminate the basic contradiction of capitalism that exists between socialized production and private capitalist ownership. Since 1949, when the Chinese communist party took over, all characteristics of a capitalist economy, such as market economies, private ownership, and foreign capital, were gradually eliminated in China. Under strategy C, however, all these capitalist characteristics are again integrated into the socialist system.

How do these changes effect the development process? In this paper I will examine changes taking place in agriculture, industrial development and basic social services, with a view to determining the progression of the development process in China.

In agriculture, land reform is one of the cornerstones of agricultural policy in most underdeveloped countries. According to Erven J. Long, land reform programs usually have three basic

objectives - mixed in different combinations depending upon political and historical circumstances. These basic objectives are:

- (1) turning over ownership and management of the farms to those who actually 'till the soil,'
- (2) dividing up large holdings into smaller, more evenly distributed holdings, and
- (3) combining small operational units into larger, group units, ie., 'cooperative farms,' 'collective farms,' 'paysannat,' 'state farms.' (Stephen Spiegelglas, 1970, p200)

These objectives will be examined in the context of Chinese political and historical circumstances. Chinese land reform, for example, involved a shift from "objective three" ('state farms' 'collective farms') to "objective two" ('individual household farming'). Such radical changes have had a dramatic impact on economic growth, and are therefore investigated in this paper.

Team cohesion and collective farms have been applied to Chinese agriculture, and according to Amartya Sen, China has experimented with bolder schemes of cooperative allocation than any other country in the world. However this has not come about without some social upheaval and transformation, as is aptly described in Sen's description of the Cultural Revolution.

"with screaming Red Guards taking over factories, intellectuals being banished to rural areas, etc., more was happening in China during the Cultural Revolution than just the use of a different incentive system- with emphasis on social consciousness." "also the inappropriateness of the relative prices (e.g. low agricultural prices vis-a-vis those of industrial goods) played a role in generating inefficiency that must be distinguished from the part played by the distributional role within an enterprise. For example, loyalties to each other are easier to cultivate within a production 'brigade', which is a relatively small unit, than in larger units, like a commune. Identification is especially difficult when the beneficiaries are far away" (e.g. for the agricultural workers to identify with the urban

population enjoying the benefits of lower agricultural prices). (Amartya sen, 1984, p9-10)

To achieve the 'perfect social consciousness' is not easy for a host of reasons, including problem related to group loyalty. Andrew Walder describes this problem based on the impact of the system on work incentives, in the specific context of industrial wages policy:

Despite all the elaborations by Western observers of Maoist incentive principles, most workers experienced the much-vaunted experiment as little more than (1) discontinuation of regular wage raises, (2) cancellation of bonuses tied to work performance, and (3) intensification of political study, campaigns, and criticism sessions. In actual practice, there was never any attempt to blend moral with material incentives, to balance collective and individual material incentives. The mixed collective and individual incentive structure already in use in the early 1960s was dismantled during the Cultural Revolution, and nothing at all put in its place. The consequence was not only a complete severing of the link between work performance and either collective or individual pay, but also, over time, a growth of new kinds of inequality, perceived inequities, and real economic difficulties for certain age cohorts within the labor force. The ultimate effect was quite predictable erosion of employee motivation and work discipline. Increased ideological appeals as a remedy appear only to have bred growing political cynicism or indifference. (M. Selden and V. Lippitt, 1982, p222)

Therefore, the possibility of transforming the parameters that affect cooperative allocation, including social consciousness play, according to Sen, an important role in economic development, and require serious study.

William A. W. Krebs in Stephen Spiegelglas also studied another important role in economic development. According to his theory of industrial development:

"the conditions which are essential to the success of the key executive organization for industrial development include continuity of basic personnel and policy, strong leadership, highly qualified staff, and full support of the key ministries. The role of the industrially developed organization is primarily to give leadership in

mobilizing the resources of the country for industrial development. This means making full use of the increasingly wide range of resources available from outside the country from international agencies, from foreign governments, from foreign industries and investment organizations.”(Stephen Spiegelglas, 1970, P213-213)

Krebs' explanation suggests that the reasons Chinese industry became stagnant was poor management and lack of qualified staff. In order to build strong industrial development programs, the Chinese government adopted an 'open door to foreign capital' policy, which resulted in a net gain to the national economy. For example, a joint venture project which can make a valuable contribution through labor training, or in providing capital needed by local industries, can serve as a stepping stone in the process of industrialization.

As Krebs said in 1963, “ the symbolic importance of industry is great. However, that progress in industry is a political necessity in the development battle”. (Stephen Spiegelglas, 1970, P211) It raises the political question as to whether a Communist country also needs a 'market' with capitalist characteristics. 'Market socialism' is therefore also reviewed in this paper.

However, in recent development theory, a growing body of literature is being produced regarding the position of women in Chinese society which is often a variant of the descriptive view of the family. See, for example, A. H. Amsden(1980), *The Economic of Women and Work*; and M. Evans(1982), *The Women Question: Readings on the Subordination of Women*.

Becker's (1981), *A Treatise on the Family*, suggests that the role of women is similar to that of the family 'head', in that it takes on 'altruistic' characteristics. As Becker puts it. 'In Sen's approach,

the "optimal reallocation" results from altruism and voluntary contributions, and the "group preference function" is identical to that of the altruistic head, even when he does not have sovereign powers' (A. Sen, 1984, p192).

The biases against women seem to have typically taken the form of less education, less satisfactory jobs, less decision - making power, more boring and repetitive work, etc., which imply differences of capabilities related to certain important aspects of living. Therefore, it is necessary to review gender issues.

Since 1949 the Chinese government adopted a number of policies and programmes to redefine the roles of women and place them in a position of equal status with men in both the public and domestic spheres. For example, the laws had given women access to land and equal rights to participated in the waged labour force and in political institutions. The Chinese government also aid them in acquiring a new confidence, power and authority within the domestic and public spheres(Elisabeth Croll, 1983).

In addition, the effect of economic development on the conditions of life in a society depends on a number of factors, such as the organization of health services, and education and other joint activities. In general the advance of knowledge leads to a continuous change in the conditions of human existence and in ways of life. It is therefore necessary to examine social factors which influence institutional change.

This leads us into, for example, the issue of using technological choice as an instrument of employment policy in developing

countries. (See sen, 1975, Employment Policy and Technological Choice) The question of the different modes production also involves the challenging question of organization of employment and production. The capitalist system is deterred from choosing labour-intensive techniques, especial once wage rates begin to rise. Not surprisingly, in countries making major efforts in the direction of non-wage cooperative production, such as China, much emphasis has been placed on a cultural reorientation of work place behavior and organization, and a complete revision of work motivation.⁴

The relationship between investment and consumption is also examined in the paper. Sen believed that investment in 'working capital' may be possible to a certain extent with a surplus of consumer goods. For example, in some poor economies a surplus of food and cloth (and a few primitive tools) may be sufficient for investment in building dams, or roads, with very labour-intensive techniques. The possibility of this type of investment is, however, limited. (A. Sen, 1984, p129)

Organization of the Thesis.

Since, it is impossible in detail to deal with the whole period of historical development in China, I have chosen to focus on Van Ness and Raichur's third stage or strategy of socialist development. This will include an examination of the social factors during that period, namely, the period under the Deng leadership since 1978.

⁴ : See Hoffmann(1967), J. Robinson(1969) and Riskin(1973) for illuminating analyses of the experiments on work motivation in China. See also, Tshikawa(1973)for an important general study of choice of technology in China.

In chapter 1, I will review Marx' view of "socialism", which is cited the question of " China today: a move toward capitalism?" at present time. I will than construct the theoretical parameters from the current literature within which the problem can be located. The problem, as presented in my thesis concerning the future of socialism in China, will be approached from two distinct theoretical perspectives. On the one hand, there is the position which places socialism as one systemic "pole", in antagonistic opposition to the other "pole": capitalism. Therefore, in this view, one system(capitalism) has defeated the other system(socialism). On the other hand there is the position which places both capitalism and socialism in a more comprehensive historical frame of reference. Current events in Eastern Europe and/or in China are therefore perceived as manifestations of a transition which implies neither the end of history, nor the triumph of capitalism.

In chapter 2, I will give empirical evidence and review the changes taking place in rural, industrial development and basic social services. In rural development, I will examine how the people's communes (collectives) are being replaced by individual household farms, and analyze how the subsequent collapse of the people's commune is giving way to the privatization of land and the restoration of private ownership of the means of production. Economic reforms have given first priority to agriculture. This has had some positive and negative effects. For example, it has provided new incentives for 80 percent of China's population living in the rural areas to produce more, and using the increase in agricultural

output, to meet consumer demand throughout the country. Some negative effects of the responsibility system will also be examined.

In the industrial development section, I will review industrial development in post-Mao. What was its achievement? Why did it become stagnate? What has become of the policy which the state adopted to combat this situation?

The policy involved the partial opening of China's economy to the West, to obtain foreign capital and technology. Therefore, foreign and overseas Chinese capital has been invited to contribute in China's socialist construction, by setting up joint ventures and 'socialist' free trade zones in which foreign enterprises can trade and invest entirely along capitalist lines. I will therefore analyze aspects of expatriate bourgeoisie, joint ventures, economic zones and measures of economic performance in chapter 2

I will also focus on theory of basic social services, giving special attention to the advancements of knowledge and technology which lead to a continuous change in the conditions of human existence and lifestyles. This section will examine changes involving social policies related to public services, education, health, population, employment, consumption and investment.

In chapter 3, I will discuss market reforms carried out to revitalize the socialist command economy. The approach which I will take to investigate the command economy, will be to analyze the concept of 'market socialism' which is being introduced by the ruling communist party. Under this approach socialism employs a market mechanism to effect systematic change in an existing command economy.

Chapter 3 examines Ota Sik's criticism of the shortcomings of the command economy and explores the concept of market socialism in detail. A modest private sector economy is now permitted in China and collective enterprises are encouraged which are potentially in competition with state-owned firms. The nature of the economy and the social system which is unfolding, and the extent to which these changes are characteristic of a process of capitalist restoration are therefore examined in the context of the debate among Marxist scholars revolving around stages of capitalism. Such determining factors as the emergence of a 'state bourgeoisie', privatized economy and socialist competition are therefore analyzed.

Finally, chapter 4, compares social indicators in India and China to further illustrate how China was able to progress from a position of economic backwardness and underdevelopment in the aftermath of a protracted Civil War, to a level of economic development few countries in the Third World can match.

Moreover, chapter 4 will also argue that the rebellion of Tianmen Square, with most popular rebellion in China since the 1949 Revolution. The changes of the 1950s and 1960s were both fundamental and dramatic in transforming the structure of ownership in industry and agriculture, and in bringing about far-reaching changes in the material and social livelihood of close to one quarter of humanity.

Chapter 4 will the conclusion of the thesis in theoretical and empirical terms, investigating whether "market socialism" is a contradiction in terms. Based on comparing China to existing social systems in Japan, United States and Western Europe, this concluding

chapter appraises whether China is "taking the capitalist road", or continuing to build on its socialist traditions.

Chapter I: DEFINITION OF THE PROBLEM

I. i China Today: A Move Toward Capitalism?

In order to address the question of China's move toward capitalism, it is necessary to review and have idea about "socialism". Based on Marx's theory, the world was split into two systems, capitalism and socialism, but Marx (and Engels) didn't provide detailed blueprints of socialism. Most of their discussion of socialism is to be found in their discussion of post-capitalist societies in *The Economic And Philosophic Manuscripts*(1844), *The German Ideology*(1845), *The Manifesto of the Communist Party*(1846), *Critique of the Gotha Programme*(1875), and *Engels' Antiduhring*(1891).

In providing an analysis of socioeconomic development in the post-capitalist societies, Marx presented an evolution theory about capital accumulation and the exploitation of peasants by capital. The exploitation of peasants occurred through land enclosures, dispossession of land, and colonialism. These developments constitute the necessary condition for capital accumulation. Soon afterwards, private ownership enabled the means of production to expand and enhanced market conditions, allowing individuals, groups, and subsequently legal forms of power and institutions, to invest in the pursuit of more extended instruments of capital control. These

instrument were condemned by Marx as exploitative even though they brought about general relative improvements in the living conditions of people. Improved living conditions are for Marx an inevitable process in the location of capital. The process brought about great socioeconomic development. It also generated social problems and expanded capital concentrations to a few capitalists.

But since industry is all in private hands, it is the root of manifold contradictions and evils of capitalism. Marx believed that the system of private property- whether it is held in industrial capital, currency, landed estates, or through the control of the means of production- was wrong. This is because for Marx, it results in inequality between the rich and the poor, in exploitation of one human being by another, and in conflict which ultimately prevents the full evolution and the development of the forces of production.

To quote:

“at a certain stage of their development the material forces of production in society come into conflict with the existing relations of production, or-what is but a legal expression for the same thing- with the property relations within which they had been at work before. From forms of development of the forces of production these relations turn into their fetters. Then comes the period of social revolution.” (Marx and Engels, 1962, p389)

Marx asserted that solutions to the contradictions in the capitalist society are attained through a communist revolution. Such a revolution would result in the abolition of private property, and the nationalization of land, factories, and banks, by the community or state. If possible, abolition would result in even greater changes, such as the abolition of a market economy altogether. A socialist revolution would result in a total replacement of the market

economy with centrally planned and managed economy, whose main task is the redistribution of wealth, and the establishment of redistributive economies.

Marx's views on the revolution are based on his general materialist view of economic development that at a certain stage of their development, the material forces of production in society come into conflict with the existing relations of production. This view holds that a communist revolution would break out first in the most advanced industrial countries, such as Britain, France, Germany and the United States.

However, once a socialist revolution is undertaken, there is disagreement among socialist scholars as to how to solve certain social problems: how to eliminate all or much private property; how to turn the land, the banks and the factories, over to the nation state, or at least, to the community; and how to achieve greater equality and socialized economy.

There is a difference on solving these problems between those scholars referred to as "religious socialists", and the so-called "atheist socialists", who represent the majority among socialist scholars. For example, the "atheistic socialists" tend to believe that all of private property must be turned over to national or international governments; while many "religious socialists" assert that private property should be turned over only to small decentralized social units or village communities. Some socialists tend to believe that a libertarian democracy will be established soon after the revolution; others want to engage in a long period of dictatorship for the sake of political consolidation and economic promotion. Some socialist

theorists believe peaceful political means are possible, while others believe conflict and a violent revolution is unavoidable. Francis B. Randall refers to Marx and his colleague Engels as the 'atheist' type of socialist theorists.

"Marx and Engels were atheist socialists who urged violent revolution to be followed by a brief "dictatorship of the proletariat" in the course of which much private property would be turned over to the government". (The Communist Manifesto, 1965, p21)

In 1846, Marx wrote the Manifesto of the Communist Party. He described the process for establishing new societies in the most advanced countries after the revolution, as follows.

1. Abolition of property in land and application of all rents of land to public purposes.
2. A heavy progressive or graduated income tax.
3. Abolition of all right of inheritance.
4. Confiscation of the property of all emigrants and rebels.
5. Centralization of credit in the hands of the state, by means of a national bank with State capital and an exclusive monopoly.
6. Centralization of the means of communication and transport in the hands of the State.
7. Extension of factories and instruments of production owned by the State; the bringing into cultivation of waste-lands, and the improvement of the soil generally in accordance with a common plan.
8. Equal liability of all to labour. Establishment of industrial armies, especially for agriculture.
9. Combination of agriculture with manufacturing industries; gradual abolition of the distinction between town and country, by a more equitable distribution of the population over the country.
10. Free education for all children in public schools. Abolition of children's factory labour in its present form. Combination of education with industrial production, etc. (Karl Marx, 1965, p94)

After the revolution has taken its course, it would result in a communist society. Marx was no 'prophet', and so he didn't give details about the communist society he envisaged. However, in

general terms, we can say that he thought that the main attainment of communism should be the socialization of ownership, so as to eliminate the basic contradiction of capitalism that exists between socialized production and private capitalist ownership.

The resolution of this contradiction was believed to enable people to control and arrange not only their productive activity, but their whole lives with a view to satisfying their truly human needs. Therefore, it was predicted by Marx that economic life in communist societies will become more productive and provide far greater fulfillment than in the capitalist societies. Productive human activity, and labour, as the decisive element of society, according to Marx, will undergo dramatic equalitative and quantitative changes from capitalist societies, to socialist societies, through to communist societies. 'It is self-evident', says Marx,

"that if labour-time is reduced to a normal length and, further more, labour is no longer performed for someone else, but for myself, and, at the same time, the social contradictions between master and men etc, are abolished, it acquires a different, free character, it becomes real social labour, and finally the basis of disposable time- the labour of a man who has also disposable time must be of a much higher quality than that of the beast of burden." (Marx, 1969, Parts III, p.257)

In this way labour, under socialism, will consciously direct the production process. Socialized communal work will become real social labour. The worker will no longer be 'forced labour'. Instead the worker will be 'interested labour'. 'Surplus labour', even in the socialist society, will lose its repulsive character. Marx states in *Capital*:

"The abolition of the capitalist form of production would permit the reduction of the working day to the necessary labour- time. But even in that case the later would expand to take up more of the day,

and for two reasons: first, because the worker's conditions of life would improve, and his aspirations become greater, and second because a part of what is now surplus labour would then count as necessary labour, namely the labour which is necessary for the formation of a social fund for reserve and accumulation."(Karl Marx, 1976, p667)

In Marx's mind, labour will become the full development of activity itself. Says Marx, "labour, is free in all civilized countries; the point is not to free it, but to abolish it."(German Ideology, 1965, p224)

Marx believed that socialist public ownership instead of private ownership of capital, creates the harmony between relations of production and forces of production in socialist societies. Such harmonizing of modes of production also promotes economic development. In this context, Lenin in *The State and Revolution* argues that "the modern representative state is an instrument of exploitation of wage labour by capital." Also, Lenin quotes Engels who gives a general summary of his views on the "modern" state in the following words:

"The state, then, has not existed from all eternity. There have been societies that did without it, that had no conception of the state and state power. At a certain stage of economic development, which was necessarily bound up with the cleavage of society into classes, the state become a necessity owing to this cleavage. We are now rapidly approaching a stage in the development of production at which the existence of these classes not only will have ceased to be a necessity, but will become a positive hindrance to production".(Lenin, 1973, p17)

Engels makes reference to a certain stage in economic development, where the mode of production determines the relations of production and the forces of production. When the relations of production bring about class antagonisms, the State appears in order

to support the exploiting class in its maintenance of external conditions of production. This is done by mainly forcibly holding down the exploited class under conditions of oppression (slavery, serfdom, wage labour). This kind of relations of production, in turn hinders the development of the forces of production. Engels believes that when society will organize production on the basis of a free and equal association of the producers, the state will fall and become history in the Museum of Antiquities. Further, Engels believes that the "modern" state,

"Will fall as inevitably as they arose at an earlier stage. Along with them the state will inevitably fall. The society that will organize production on the basis of a free and equal association of the producers will put the whole machinery of state where it will then belong: into the Museum of Antiquities, by the side of the spinning wheel and the bronze axe." (Lenin, 1973, p17)

Having briefly reviewed Marx's theory about "socialism" and Engels' "modern state". let's see what has happen to China since 1949. When the Chinese Communist party took over, all capitalist characteristics of the economic such as market economies, private ownership, and foreign capital were gradually eliminated in China. Under strategy C, however, all these capitalist characteristics are again integrated into the socialist system (see introduction, "historical background"). These changes raise the question, will China travel down a capitalist road, and what is the future of socialism in China?

I. ii Theoretical Parameters.

The problem, as presented in my thesis concerning the future of socialism in China, will be approached from two distinct theoretical perspectives:

1. on the one hand there is the position which places socialism as one systemic "pole", and
2. there is the view that capitalism is in antagonistic opposition to the systemic "pole" of socialism.

In the first view, it is argued that with the death of socialism, capitalism is affirmed everywhere today. This view is articulated by people like Francis Fukuyama who described capitalism as the culmination of history("End of History in *National Interest*, summer,1989); Jan Prybila("The Failure of Socialist Economics" in *East-West Economics*, November, 1989); and Robert Herbroner, who proclaimed that "less than seventy-five years after it officially began, the contest between capitalism and socialism is over: capitalism has won". ("The Triumph of Capitalism" in *New Yorker*, Jan. 23, 1989,p98)

In Robert Herbroner's view, Capitalism organizes the material affairs of humankind more satisfactorily than socialism. The marketplace distributes goods more equitably and responsibly than the queues of a planned economy. The mindless culture of commercialism for Herbroner, it is more attractive than state moralism (Robert Heibroner, 1989, p89). In Robert Herbroner's word, "the collapse of centralized planning shows that at this moment socialism has no plausible economic framework, but the word has always meant more than a system of economic organization. At its core, it has stood for a commitment to social goals that have seemed incompatible with, or at least unattainable under, capitalism- above all, the moral, not just the material, elevation of humankind." (Robert Herbroner, 1989, p109)

On the other hand there is the position which places both capitalism and socialism in a more comprehensive historical frame of

reference. Current events in Eastern Europe and/or in China are therefore perceived as manifestations of a transition which implies neither the end of history, nor the triumph of capitalism. This position is articulated among others, by people like Ralph Miliband, Robert W. Cox, Daniel Singer, and Vicente Navarro.

Ralph Miliband in his "Socialism in Question" argues that many communist regimes were aberrant, deformed visions of socialism, or that they were not socialism at all, and many people on the left do hope that these regimes will be replaced by authentic socialist democracies. Miliband also points out that some common features of communist regimes have nothing to do with "socialism". For example, these regimes concentrate extreme power in the hands of relatively few people, which causes exceedingly undemocratic rule. He suggests and believes that

"socialists will have to build on the foundations of liberal democracy, and to push it much further in democratic directions. Socialist democracy needs a separation of powers in the state, representative assemblies, accountable executives, decentralization and strong local and regional government, constitutionally enshrined civic and political rights, a plurality of parties, frequent elections. It also requires democratic life at all levels of society, at work and everywhere else, with a vigorous and pervasive grassroots democracy. But grassroots democracy is no substitute for democratic mechanisms in the internal organization of state power.(Monthly Review, March 1991, p21)

Miliband proclaims that socialism is a long drawn out, slow, arduous, painful process, which will extend over many generations. As a consequence, socialism is now in crisis, even though, for Miliband, it still presents the only rational and humane alternative to capitalism. Socialists should continue to defend and advance the socialist alternative, and a new society which places all the means of

economic activity in the public domain, which still supporting private ownership and control, so as to create a "mixed economy". (Ibid, p21-26)

In Robert W. Cox's "Real Socialism In Historical Perspective", he reviewed the historical socialist countries like Soviet Union, China, Hungary and Cuba, with a socialist view of history and a socialist mode of reasoning. The existing world socialism has its own historical reason. In Cox's words,

"socialism as an historical experience arose from a particular crisis of world order. It aspired to be at the same time a system of political rule and of production. The organization of production lies at the heart of socialist politics." (The Socialist Register, 1991, p170)

For socialist countries no historical experience or precedent can be cited. It would have to be invented, and therefore, it is not a question of failure of socialism or triumph of capitalism, Perhaps the most attractive prospects for socialism in the future can be grouped broadly into three scenarios;

"The first scenario is a combination of political authoritarianism with economic liberalization leading towards market capitalism and the integration of the national economy into the global capitalist economy.

The second scenario is political authoritarianism together with a command-administrative economic center incorporating some subordinate market features and some bureaucratic reform.

The third scenario is the possibility of democratization plus socialist reform.(The Socialist Register, 1991, p186-187)

Each of these scenarios should be examined in terms of the relationship of the projected form of state and economy with the existing social structure of accumulation. Cox believed that social struggles and the balance of social forces is different in Europe, East Asia, and in North America. Opportunities arising out Social struggles

will be different in different parts of the world. The survival and transformation in some form of "real socialism" is conceivable, and struggles going on in the Soviet Union and China towards the definition of a new project of society could have a longer range importance not just for those countries. (The socialist Register, 1991, p190)

Economic reform in socialist systems was associated with giving much broader scope to the market mechanism. The market, in Cox's belief, was an attractive concept insofar as it promised a more effective and less cumbersome means of allocating material inputs to enterprises and of distributing consumer goods. The market was also suspect insofar as it would create prices, bring about greater disparities in incomes, and undermine the power of the center to direct the overall development of the economy. Some combination of markets with centralized economies seemed to be the optimum solution, if it could be done(Ibid, p182).

When China employs market forces to affect economic reform, it will certainly result in a restoration of capitalism. But, as Daniel Singer suggests in his "Prometheus Rebound", "the existence of a market does not mean a return to capitalism. for him, any transition to socialism worthy of the name will take time and involve a long period with a mixed economy".(Monthly Review, July-August 1990, p86)

From the above review of the theoretical parameters, a corollary of these arguments is the fragmenting of socialism into a multitude of quarrelling groups, each convinced of its possession of their own answers. Till now, I believe that there is no general

agreement about the definition of socialism, not even among those who consider themselves to be socialists. Therefore, it is difficult to say whether China will travel down a socialist road, or even a capitalist road from taking one single approach. But it is clear that socialism has not totally failed in China. Vicente Navarro observations shows us to observe what system better responds to the needs of the majority by comparing countries with similar levels of development of forces of production.⁵

It is equally important to investigate whether China has made better progress since the 1978 economic reforms began. As Robert Cox points out, “for the remaining countries of “real socialism”, no historical experience can be cited; it would have to be invented.” (The Socialist Register, 1991, p184). We therefore thus in the next chapter, to empirical evidence on the complex economic reforms and social change in China after Mao, to better ascertain the future of socialism in the “new society”.

⁵ : Monthly Review, Nov. 1989, p38, see details in the conclusions chapter:
India was chosen as comparing with China because of their comparable enormous population size, level of development and their multi-national compositions.

Chapter II: AN EMPIRICAL REVIEW OF CHANGES IN CHINA

II. i Rural Development.

Under the collectivized system, grain production outpaced population growth. China's population almost doubled from 1950 to 1980, and the rural population was guaranteed a secure but low level of subsistence. (See Table 2.1 which shows how grain outputs grew more rapidly than population, leading to the improvement in per capita supplies.)

However, the collectivized system seems to give few possibilities for rapid economic growth, since the system relies so heavily on orders from above, and made so little allowance for local conditions or local initiatives. Since the "household responsibility system" was instituted in 1978, provincial-level administrators in regions of low production yields, and consequently low standards of living, therefore began experimenting with new forms of land tenure and production(see Table 2.2).

The contract system of production in agriculture was suggested by the government in 1979. The purpose of this idea was to increase the incomes of poor rural farmers in mountainous or arid areas. The responsibility system upon which the contract system is based, allowed individual farms to work a piece of land for profit in return

Table 2.1. Foodgrain-Population Balance in China, 1952-81

	Foodgrain output (millions of tons)	Population (millions at year end)	Foodgrain output Per capita (kg)
1952	164	575	285
1957	195	647	302
1958	200	(661-662)	(303-302)
1959	170	(670-675)	(253-252)
1960	144	(659-672)	(218-213)
1961	148	(642-659)	(230-225)
1962	160	(659-664)	(243-241)
1965	195	725	268
1970	240	825	291
1975	285	920	309
1976	284	933	305
1977	283	945	299
1978	305	958	318
1979	332	971	342
1980	321	983	326
1981	325	996	326

Sources: Foodgrain output-Agricultural Yearbook Compilation Commission(1981,34), State Statistical Bureau (1982a). Population- 1950, 1957, 1965, 1975, 1979: State Statistical Bureau (1981c,VI-3), 1958-62: (Aird, 1980, tables 7 and 8), 1970: Ministry of Agriculture Policy Research Office (1980, 32), 1976, 1977-1979: State Statistical Bureau (1980b, 8), 1980: State Statistical Bureau (1981a, 20), 1981: State Statistical Bureau (1982a).

for delivering a set amount of produce to the collective at a given price. This arrangement created strong incentives for farmers to reduce production costs and increase productivity. Soon after its introduction, the "responsibility system" was adopted by numerous farm units in all sorts of areas.

Agricultural production was also stimulated by official encouragement to establish "free farmers markets" in urban areas, as well as in the country side; and by allowing some families to operate as "specialized households", devoting their efforts to producing a scarce commodity or service on a profit-making basis. Therefore, the replacement of private household farming was becoming fully cohesive after the downfall of the Group of Four, and the

readjustment period in the communist party conducted during 1977-1979(Dwight H. Perkin, 1988, p607).

During and after this period, the policies of decollectivisation were implemented in several stages, beginning since the Third Plenary of the Eleventh Central Committee meetings in 1978. Individual households were assigned to portions of collective land. Soon these assigned areas spread to all districts in China, and the commune structure was largely dismantled as a result. By the end of 1984, approximately 97 percent of all farm households were under the responsibility system(China Statistical Yearbook, 1985, p237). The communes' administrative responsibilities were turned over to township and town governments, and their economic roles were assigned to townships and villages. The role of free markets for farm produce was further expanded, with increased marketing possibilities and rising productivity, farm incomes rose rapidly (see table 2.2).

The agricultural reforms of the early 1980s also led to a confusingly large number of new production arrangements and contracts. In the first place, land was leased, allocated or contracted to individual households⁶ . But this land still remained collective property, as the households did not own the land, and could not transfer the land to other households. The household was responsible for its own production and losses, and became the basic economic unit. Households arranged contracts to provide a certain amount of

⁶ : Households in this paper refers to family members. For example, under the "Responsibility System", each farm household made a contract with the production team, based on the number of people in each household, or in each family.

products or sum of money to the township government⁷ in return for the use of land, workshops and tractors.

The goal of the contracting system was to increase efficiency in the use of resources, and to mobilize peasant initiative. Some "specialized households" devoted themselves entirely to production of cash crops or provision of services and reaped large rewards. Rural incomes increased rapidly(see table 2.2). This was in part due to the fact that the state substantially increased the prices it paid for staple crops, and in part due to the stimulation of economic growth based on the expansion of markets and the rediscovery of comparative advantage.

While the opening up policy, and rural reform, produced significant benefits to the Chinese economy, it also generated substantial problems. The reforms led to the reemergence of capitalist farming based on the "specialized household" entitled by the official communist party. Inequalities therefore appeared among economic regions and in some instances produced a new, potentially exploitative class of rich peasants(see 'rural development', section F.)

The official press contained accounts of peasants who carried the profit motive far beyond the intent of the reform program, engaging in smuggling, embezzlement, and blatant displays of newly acquired wealth. Thus, while the reform agenda could show major successes, those more concerned with ideological continuity and social stability could identify problems and areas of risk. The

⁷ : Corresponding respectively to Brigade level, as early as 1980, the three level structure of the people's commune were transferred to the township (Cheng) and village levels (Xiang)

differing perceptions and responses of these reformist and conservative groups who are afraid of 'capitalist restoration', produced considerable tension in the political system. For example, party leaders like Chen Yun who adhered to more orthodox socialist concepts, suggested leasing industrial and commercial enterprises to individuals and collectives. He even raised the issue of diversification of ownership, challenging the orthodox concept of state ownership.

This chapter therefore examines the "responsibility system" adopted in 1978, and the subsequent collapse of the people's commune. When the people's communes established under Mao were largely replaced with a system of family-based farming, it brought about changes which were mostly positive. True, land and farm machinery did become concentrated in the hands of the rich peasantry (see rural development, section F). However, rural reforms successfully increased productivity (see table 2.2), the amount of available arable land, and peasant per capita income. These achievements stimulated substantial support in the countryside for the expansion and deepening of the reform agenda.

A) The Face of Rural Areas (1958-1976).

In December 1962 the national people's congress initiated Agrarian Reform with the formation of mutual aid teams, and subsequently with the development of semi-socialist producer co-operatives. The process is described by Xue Muqiao as follows:

To put the soil to better use, it was necessary to link up the patches belonging to different households. This was done through the formation of elementary cooperatives in which the peasants, while

retaining private ownership of their land, pooled it together for common use and management. Draught animals and big farm implements also remained under private ownership but were used jointly by the co-op members. Thus the income was distributed according to work as well as investments in the form of land, draught animals and farm implements. The income from land-ownership was known as 'dividends on land'. All this meant that some members appropriated the fruits of labour of others on account of their possession of means of production. But as the elementary cooperatives developed their collective economy, they accumulated more and more public property and increased the proportion of income which the peasants earned by work. This made it both necessary and possible to abolish the dividends on land and other means of production and change over to the advanced form of agricultural producers' cooperatives by transferring land, draught animals and farm implements to public ownership with compensation to the owners. (Xue Maqiao, 1980, p34)

The mutual aid teams developed as a result of patterns of co-operation which existed historically in China's traditional agriculture. However, 'the pooling of several work teams paved the way for a new development when there was a land-pooling campaign in which thirty to fifty households pooled their land, implements and cattle'.(W. Burchett, 1976, p17) The first stage consisted in the formation of elementary agricultural producers' co-operatives and subsequently led to the consolidation of advanced producers' co-operatives.

The formation of mutual aid teams was completed by 1950, and by 1956 92% of peasant households belonged to elementary producers' co-operatives and 63% to socialized co-operatives of the more advanced type in which members collectively owned the land. Upon completion of the collectivization campaign in 1957 there were 760,000 to 800,000 co-operatives each with an average of 160 families or 600 to 700 persons. (Hsu Tmmanuel, 1975, p784-5)

The movement known as the "Great Leap Forward" was initiated in February 1958, along with the formation of people's communes. The mass movement to create people's communes consisted initially in the amalgamation of existing advanced produce co-operatives into larger integrated units. The movement started in Hebei, Henan and parts of Manchuria, and subsequently to other parts of the country. By the end of 1958, there were 26,000 communes covering 98% of the rural population. (Hsu Tmmanuel, 1975, p787)

Communes were indispensable to the functioning of Communism during the Great Leap Forward. The commune was composed of several production brigades which were responsible for agricultural procurement, fulfilling State quotas, assigning work and production. On the production side, communes were responsible for large scale agricultural infrastructure and investment projects, and they managed the large farm machinery and factories. Commune were also responsible for running secondary and technical schools, health clinics, cultural activities, security, military affairs, trade and commerce, banking and marketing of agricultural output, and so on.

Production brigades formed by the former advanced producer's co-operatives. Their duties related to irrigation, water conservancy, flood-control works and farm machinery to maintain productivity on their lands. Small-scale industries, a primary school and a primary health care unit were also under their responsibility.

In turn, the elementary producers' co-operatives were to become production teams in the three level commune structure involving the commune, the brigade, and the production team. The

production team was the basic production unit of the commune. Composed of 30 to 40 households, it was responsible for specialized agricultural work.

While the role of the commune was key to the progress of communism, the communist party leadership remained divided on how to promote its most effective use. For example, in 1960, Liu Shaoqi was elected Head of State. He and CCP General Secretary Deng Xiaoping were largely in control of the party apparatus, and attempted to reverse many features of individual household farming. Whereas the basic structure of the people's commune was maintained, many of its essential features were reversed and undone, the average size of the commune was reduced, individual household farming within the communal structure was emphasized and free market sale were restored.⁸

By 1959-1961, there was downturn in agricultural performance in China (see table 2.1). This was attributed by Mao's opponents to a 'hasty process of collectivization' and the 'failures' of the Great Leap Forward. It was argued that the movement to create people's communes had important disruptive effects on agricultural output. In fact, the downturn was also the consequence of bad weather which produced several consecutive poor harvests, and to the withdrawal of Soviet technical aid.

Mao's strategy from the Great Leap Forward to the Cultural Revolution was to encourage the association of poor peasants by

⁸ : See Joan Robinson, 1969, p42, Mao responded with 'The Four Clean-ups' This refers to "clean-ups" related to the political, ideological, organizational and economic aspects of the people's commune.

promoting Maoist poster campaigns in the cities directed against the inner-party leadership. Liu Shaoqi's response was to issue the 1964 directive ordering the control of the poor peasant associations by the District Party Committees. In 1962, at the central committee work conference, they criticized Mao and his followers for the 'errors' committed during the Great Leap which be characterized as having led the Chinese economy to the brink of collapse due to the loss of 'material incentive' and 'individual initiative which resulted from a hasty process of collectivization'. (W.A.C. Adie, 1980, p42)

Despite these power struggles, the communes were maintained, and from 1962 to 1967, the output of agriculture tended to increase. (see table, 2.1) Joan Robinson attributes the successful harvests to the very existence of collective agriculture:

There has been a succession of ever-improving harvests since 1962 to make the harvest of 1967 the greatest in the recorded history of China though the weather was favorable, there is no doubt that high spirits contributed something extra....Recovery started in 1962, and the fruits of the huge effort of investment made in 1958, began to show that the Great Leap was not a failure after all, but the rightists were reluctant to admit it. (Joan Robinson, 1969, p35-7)

Although the Cultural Revolution was essentially urban-based, leading in 1967 to the seizing of political power in Shanghai by proletarian mass organizations, it revitalized the class struggle in the countryside against the rich peasants and former landlords, and temporarily reversed Liu Shaoqi's attempts to destroy the people's commune.

Mao and his followers intended the social transformation of agriculture to counteract the initial impact of land redistribution and eliminate the incipient development of capitalist farming. These

reforms, however, were incapable of eliminating the rich peasantry as a social class. The prevailing social class structure was to some extent reproduced within the people's commune. This showed that, inasmuch as the social class structure in the countryside had not been modified in a permanent way, the organic structure of collective agriculture could be reversed and undone as a result of a shift in political power relations within the party leadership.

B) Rural Reform.

After the Third Plenum, held in December 1978. It seems that no one in China knew how far the process would take them when they started out on the task of rural reform by raising the material rewards going to farmers, and relating those rewards as firmly as possible to the effort expended.

The rural reforms however had a greater impact than anticipated. For example, the limited rural trade fairs or free markets which had existed in China throughout the period of collective farming (1956-82) started to free up. The main function of the free market was to provide a chance for farmers to sell their goods produced in their spare time and on private plots. (Dwight Perkins, 1988, p607)

Private plots and rural free markets had existed throughout the decade of the Cultural Revolution (1966-76), but their scope were severely limited (7% of arable land of the collective), and controlled by a production team of cadres. The private plots and free markets made the cadres' task much harder, in terms of controlling the farmer working on the collective land. The farmers worked on

private land with greater devotion than on collective land. But it was out of the cadres' control, because it was the task of collective management and supervision for raising and harvesting grain, the main cash sold to the state. Beyond this, the household spare time activities were not the duty of rural cadres. (Dwight Perkins, 1988, p608)

The livestock and vegetables were usually spare time products, and when the state restricted control of the spare time activities before the reform, production and output were kept to a minimum. With the reform, "Income from raising poultry, livestock, and other small animals, jumped 58% in 1979 and another 35 percent in 1980" (State Statistical Bureau 1984).

Reform of Chinese agriculture's collective sector started in 1979 but proceeded slowly until 1981 when the replacement of Hua Guofeng by Hu Yaobang as Communist Party Chairman removed the most reluctant reformer from a leadership position. The name given to the new ways of organizing agriculture was the "responsibility system". At the beginning, the "responsibility system" implemented a variety of collective reforms, whose purpose was to tie the reward received more closely to the work actually performed.

Under the "responsibility system", households were assigned a certain amount of land on a long-term basis, even though the land still belonged to the collective. Each farm household made a contract with the production team, based on the number of people in each household, or on some other criterion. The contracts ensured that each farm household fulfilled its obligations (taxes, fees to the production team, mandatory, and so forth), and in return, each

household received all income from the land after meeting certain obligations to the collective and the state (Dwight Perkin, 1988, p609).

The "responsibility system" differed from the people's commune system in three important ways:

- (1) Farms could own their own means of production-except for land and machines (such as tractors)- and invest on the land for which they contracted. Thus, a mixed ownership system was formed in rural areas.
- (2) Income was no longer distributed teamwide. This change overcame the egalitarian distribution prevalent under the commune system and provided incentive to farmers to produce more.
- (3) Farmers were allowed to make their own decisions on plowing, planting, and harvesting as long as they filled the state-assigned quotas. (Dong, Fureng, 1989, p10)

By the end of 1984, about 97 percent of collective forms of the responsibility system had given way to what amounted to individual household farming. (China Statistical Yearbook, 1985, P237)

After the removal of the term "Rural People's Commune" from the names of rural governmental and production units, the commune had been completely reorganized. In the past, the commune and the production team were both a rural government agency and an economic organization. Since 1980, when the local government was established at town and township levels, commune and production team functions were separated. This reform gave farm families more chances to make their own decisions and reduced government intervention in agricultural production.

Another issue was how the state could make sure that farm families produced what society and the state required. Under the collective system, the state made agreements with production teams requiring them to deliver a certain amount of a given crop to the state at a fixed price. The price was usually well below what would have been required to quote comparable deliveries on a purely voluntary basis. The state did try to adjust the prices of specific cash crops to encourage greater production of cotton or sugar, but prices were rarely adjusted during the Cultural Revolution (1966-1976). The policy during the period at the time was to place emphasis on grain productions and regional self-sufficiency. As a result, provinces and some smaller subregions were expected to provide for most of their own needs and to purchase little from outside their regions.

Beginning in 1979, price reform began transforming China's price system with the combination of adjustment and release of state control. The government raised farm purchase price in general and increased the premium paid for above-quota deliveries of grain. The government raised the purchase price, in several steps. From 1979 to 1984, price reform was in the preparatory and tentative stage when the state adjusted unreasonable prices. Price reform was mainly price adjustment intended to raise the purchasing prices of agricultural and sideline products. Correspondingly, the selling prices of some non-staple foods, and producer prices of industrial consumer goods, were adjusted. The prices of communications and transport were also regulated accordingly.

But by 1985, the government assigned advance contracts with farmers using a grain ordering system, and at the same time, making

purchases on the open market. Beyond quota deliveries of grain, farmers could sell their goods on the open market.

At the same time, the "responsibility system" had made it much more difficult to set crop quotas as had been done under the collective unit system. This was partly because of the growth of individual farms. Only 4.6 million production teams existed before the rural reform. By 1983, there were 185 million farm families (China Agricultural Yearbook Compilation Committee, 1984, p67-68). Under the "responsibility system", it became easier to set the price by market standards, rather than by the direct allocation of physical quotas to stimulate output of desired products.

The new standards, recognized as a great achievement according to the 1990 Report of Price Reform were:

From 1978 to 1987, purchasing prices of farm produce jumped by 98.8 percent with an annual growth rate of 7.9 percent, over four times of that between 1953 and 1978. In the same period, prices of means of agricultural production for retail sales rose by 33.8 percent at an average rate of 3.3 percent a year. The value of farm produce increased markedly in exchange for industrial commodities. From 1978 to 1987, the amount of manufactured goods in exchange for the same amount of farm produce increased by 65.7 percent with an annual increase rate of 5.7 percent, three times the figure from 1952 to 1978. Second, the prices of farm produce tended to be reasonable. During the same period, grain purchasing prices increased by 139 percent, cash crops by 63.9 percent, fresh and dried fruits by 121 percent and fresh and dried vegetable by 97 percent.....Again from 1978 to 1987, the prices of mining goods rose by 77 percent, industrial raw and processed materials by 55 percent, while industrial processed goods rose only by 21 percent.(Price Reform, 1990, p9)

In the 1980s, China's countryside began to enter a transition period from unitary agriculture to a comprehensive management of agriculture, secondary and tertiary industries. In recent years, the Chinese government has carried out policies to support peasants to run their enterprises in rural areas, and to encourage the development of all kinds of economic association, thus opening a new path in the overall rural areas. Under the new conditions, a larger number of farm families ran their own farming, transport, service enterprise or commercial enterprises. They have also been encouraged to set up nonfarm industries in rural areas. In promoting the nonfarm sector, two development models have been followed: the development of publicly owned nonfarm industries; and the development of privately owned nonfarm industries in rural areas(Ten Top Peasants Entrepreneurs, 1990, p1).

Before the rural reform, grain and subsidiary output growth contributed to the growth of agricultural output. The Chinese government included rural small-scale industrial output only in their gross agricultural production figures. After the freeing up of rural markets in 1979, all components of farm output grew more rapidly. However, the cash (nongrain) crops, livestock, and animal husbandry had the largest increases in output growth. After decollectivization, cash crops and animal husbandry were still stimulating growth, but rural industry became the most dramatic contribution to accelerated growth. From 1983 to 1986, the output of village industry increased nearly sixty percent in three years(Dwight H. Perkins, 1988, p612).

All these changes after "rural reform" constitute a fundamental reversal of the agricultural collectivization and modernization program started in the Soviet Union, and carried on through many other socialist countries in the world. Clearly, however, the introduction of the "responsibility system" has already made drastic changes in China's rural economy.

First, the "responsibility system" put pressure on farmers to produce more and work harder, which in turn resulted in a rapid growth of China's agriculture and farm income. From 1978 to 1986, the gross agricultural output value increased by 217.9%, and net income per capita of an average farm household increased by 316.4 percent (see table 2.2).

Table 2.2 Agricultural Production and Farm Income, 1979-86(1978=100)

Year	Gross agricultural output value	Per capita net income of farm household
1978	100.0	100.0
1979	108.6	119.9
1980	112.8	143.2
1981	120.2	167.3
1982	133.6	202.2
1983	146.4	231.9
1984	172.1	265.8
1985	196.6	298.0
1985	196.6	298.0
1986	217.9	316.4

Sources: China Statistical Yearbook, 1986, P645.

Secondly, the savings of individual farmers also increased rapidly. By 1985, individual investments in purchase of fixed assets for production reached ¥12.8 billion. (China Statistical Yearbook, 1986, p127)

Third, the purchasing power of farmers rose. The individual farmer now purchases more farm machinery. By the end of 1986, individual farmers had 574,000 tractors or 66 percent of all units in the nation; they owned small tractors and power tillers 4.16 million units, or 92 percent of the nation's total; farm trucks reached 318,000. or 4 percent of all units in the nation; and powered irrigation machinery numbered 363 million units, or 6 percent of the nation's total. In fact, the supply of power tillers and trucks has decreased beyond the demand. In recent years, the volume of sales of chemical fertilizers, improved seed, and farming goods all increased rapidly. (Dong Fureng, 1989, p11)

Fourth, the "responsibility system" provided more opportunities for extra laborers and farmer to look for and chose nonfarm jobs in the countryside. And fifth, the changes on rural and agricultural modernization were significant, for example, any villages have entirely changed, with the introduction of new village streets, public facilities, water supply stations, new restaurants, service sectors, and schools, and with the development of agriculture and the nonfarm economy rural life was brought closer to the modern life of the cities.

C) The Collapse of the People's Commune.

The collectivization of agriculture was nearly complete with the establishment of the people's communes in 1958, which brought nearly 98 percent participation in people's communes. Communes

were large, embracing scores of villages. They were intended to be multipurpose organizations, combining economic and local administrative functions.

At the beginning, private ownership of the means of production was retained: payments were made for the share of labour and the land "contributed" by participating farmers. Later, private ownership of the means of production was eliminated. For example, small tools, land and other means of production belonged to the collective. Farmers were paid only for their labor. By the end of 1956, 96 percent of farmers had joined producer's cooperatives of various types which supplied the means of production.

In general, under the commune system, larger units may contain on average 28 co-ops or 4,600 households as the basic unit in a people's commune. The labor management unit was a system that ties reward to work effort. Farmers received "work points" according to the quantitative and qualitative value of the work they performed. At the end of the year the total work points of all production team members would be added up and divided by the net income of the team. In this way, the actual value of each point was calculated. The farmers' annual income was determined by the total points multiplied by the average value of each point (Dwight H. Perkins, 1988, p608).

Such a distribution system, while ensuring egalitarianism, made it impossible for those who worked more to earn a large income. Also, the work point system was not precisely able to measure actual work performance. It also caused difficulty for mutual assessment by all members of the team. Under the work

point system, it was not only difficult to tie income to performance, it could also take a lot of time and energy for negotiations when the farmer personally felt that he was unfairly treated. Therefore, production teams sometimes decided to favor more supervised forms of distribution. Some production teams preferred to have work points set by team cadres acting as supervisors of the various production works. Small farm supervision was therefore costly to perform, and it was difficult to compare it with the supervision of a factory production line.

Despite all this, agricultural collectivization had its advantages. It was more conducive to promoting rural modernization, modern farming, improved agricultural infrastructure and public social services such as education and medical care (Dong Fureng, 1988, p4)..

In the beginning, between 1953-57, labour productivity on the farm increased rapidly. The net output value per person rose 1.9 percent annually. Thereafter, rural production started to decrease quirkily. From 1964-65 production returned to the principles of gradualism and voluntarism were not observed. The proper form of the collective was not chosen, because the organizational form of the collective economy was changed many times. In order to restore production, unified communes were divided to a three-level ownership and accounting system: the production team, the brigade, and the commune (Dong Fureng, 1988 p5).

By 1982, collective work broke down in accordance with China's reformed constitution. The people's commune no longer played a role as an integrated unit of self-government, and was replaced by the "responsibility system". The "responsibility system"

provided a variety of provisions, ranging from paying work points for small groups outlying specific tasks. Individual families were in charge of a certain amount of land on a long-term basis, and received all income from the land after meeting certain obligations to the collective and the state.

The people's commune's political and administrative functions were transferred to the township and village bureaucracies, which in turn were integrated into the broader administrative hierarchy of the provincial bureaucracy. Production teams were replaced by so-called 'village committees', responsible for community affairs and public social services. There may be one or several villages under the leadership of each committee, whereas the township administers up to a dozen villages. By 1984, more than 22,000 village governments had replaced the commune administration in more than half of China's rural counties.

When collective work was replaced by individual farms, land was divided into household fields, and production tools and machineries owned by the people's commune were either sold, leased, or subdivided to individual peasant households. When the farmers could not reach a distribution agreement, farm machinery was either left unused, or simply withdrawn from agricultural production.

Under the "responsibility system", the three-level structure of the people's commune was replaced. After the production team as a unit of both collective property and collective work was disintegrated, in some regions, mutual aid teams and production co-operatives similar in form to those in early 1950s, appeared again.

These new mutual aid teams were conducive to those households who are not able to purchase farm machinery. In other cases, machinery was purchased by rich peasants, who dominated the formation of producers' co-operatives.

In addition, the International Labour Organization set up training programmes for co-operative management. Such programmes helped, farmers in hiring farm labour and other mechanisms of semi-proletarianisation of the poor peasantry. Chinese government emphasized the importance of applying 'scientific' models of agricultural producers' co-operatives. International and foreign institutions provided the experiences of the agricultural co-operative under capitalism to Chinese leaders. (Michael Chossudovsky, 1986, p43)

In co-operative workshops two or three households participate in such activities as carpentry, repair workshops, handicrafts and brickmaking, and so on. Small-scale industries involve 10 to 15 households. The farmers directly own and manage the smaller units. In some provinces, households themselves are involved in investment funds. They are therefore shareholders, during the same time that they participate in the earnings of small-scale industry. All of their profit earnings are based on work performed and on ownership of real capital assets.

In such cases, these ownership structures were turning to full-fledged private ownership. Ownership of real capital assets determining the profit earnings created by a situation which encourages the development of private appropriation and accumulation. (Ta Kung Pao, 1982, p2)

As Michael Chossudovsky pointed out in 1986, the new co-operative schemes are similar in form to those which were developed in the 1950s, with some fundamental differences. The elementary producers' co-operatives and mutual aid teams in the 1950s promoted the formation of more advanced forms of collective property and collective work, within the context of the Agrarian Revolution. But according to Chossudovsky, these new co-operative schemes of collectivization and construction of socialist agriculture had become more characteristic of the producers' and marketing co-operatives which exist in many capitalist Third World countries, in that they mainly serve the interests of the farmer-entrepreneur. (Michael Chossudovsky, 1986, p42-75)

D) Household Farming: the Evolution of the New Changes.

The household "responsibility system" is a transitional form of private household farming. Under this system individual family units⁹ contract to work a certain amount of land and in return promise to pay a certain amount of grain and cash. The production team signs an output contract with the individual household. In turn, commune brigades set output quotas for the production team.

However, there were also variations on the responsibility system. By 1979-80, the responsibility system had taken on three levels of the collective:

⁹ : Individual family units and individual household are the same thing, as expressed by indicates the Chinese words "Baochan Dao Hu". this term is interpreted differently in different books.

- 1) Land and production quotas were allocated to individual households;
- 2) Tasks and land (as opposed to production quotas) were assigned to households; and
- 3) Output quotas were assigned to individual laborers, instead of being assigned to individual households. (Chossudovsky, p45)

But when large scale production was applied to the responsibility system, the three level collective structure collapsed, and the township government established an output contract directly with the farmers. The township appropriated the agricultural surplus from the individual 'tenant' households, and the production team or groups of peasants or producer's cooperatives devised contracts directly with the state marketing board.

What about changes of farmers' attitude to the farming under the responsibility system? David Zweig and Victor Nee found some differences among Chinese rural villages (see Willian L. Parish, 1985). Their survey research found that peasants in poor areas placed little faith in the collective and more in the efforts of their own family. In these poor areas, there were few economies of scale. Farmers could manage to grow grain on small fields by themselves, meanwhile avoiding many of the management and incentive problems of large collectives. In many of these areas, the collective rapidly became little more than a shell that came alive only once every few years when it was time to redistribute land among families.

Zweig also observed that the story was quite different in areas of China with a more diversified economy. Areas where they have

their own industries, fish ponds, orchards, and other means of income-earning which ensured the loyalty of its members. Individual households tended to prefer collective farming with their best laborers. They offered them collective benefits such as extra health, education, and welfare, as an added attraction. This has led Zweig to speculate that if it is in the best interests of the collective to act rationally it will do so. Zweig found, that for example, in some rural units the farmer temporarily resisted the rapid transition to quasi-family farming (See William L. Parish, 1985).

In Victor Nee's observation, the situation is different. With few products other than grain, and where incomes were slightly below the provincial average, the peasants are more likely to return to a greater emphasis on family farming. This is because, despite real advances in some areas, the family is still responsible for old age support and many other aspects of its own welfare. Also, in instances where there is long-standing inability, the collective still provides support to these families which can not provide for themselves. In general, when the collective supports a complex economy that provides many additional benefits that can not be achieved by individual farming, farmers tend to support the "rational peasant" model of collective farm behavior (William L. Parish, 1985).

Victor Nee also observed that in some areas, such as in simple grain production, there are few economies of scale or other sorts of endeavors that would attract farmers into collective activities. Most of those families with adequate labor power would prefer to work on their own without others indicating their work or sharing their output production with others. When the household division of labor

is no longer adequate as a production unit, peasants are likely to prefer cooperative work arrangements.

In order to see what direction peasants preferences pointed, (individual household farming or collective farming), Zweig suggests to "see the issue as that not once simply of collective versus family farming but one of the conditions under which one versus another system will be favorable to the rational interests of peasants." (William L. Parish, 1985, p20) From Yangbei's observation, Zweig has analyzed the sources of peasant preference for individual household production. As long as households are capable of operating under adequate production units, and capable of managing the full cycle of agricultural production, they are likely to prefer individual household farming to collective forms of production. By farming alone, peasants get the satisfaction that all of their work directly benefits their own household, whereas a persistent fear in collective farming was that by working harder than others, they benefited their own household only indirectly, while supporting those who worked less hard or were less skilled.

Each household is likely to maximize the utility it derives from participating in the collective economy, and from the private sector that exists alongside the collective sector, and in competition with it. The peasants show more preference for household goals than individualistic and community goals because of their household labour skills. Therefore, Zweig concludes that " Chinese peasants are willing to give up the security provided by collective farming when given the opportunity to choose individual household production. However, in households that lack confidence in their capability as a

sufficient production unit, and in richer, more developed localities where the division of labor has developed to the point that households cannot function as adequate production units, peasants are likely to prefer and sustain cooperative farming without the imposition of state power (Parish, 1985, p188).

E) Problems with the 'Responsibility System'.

The reforms discussed in this paper have resulted in sharp increases in productivity and per capital income, but the institution of the "responsibility system" has also imposed certain limitations. Problems with the new reforms with regard to agriculture have been numerous.

First, the production unit for agriculture has been decreased in size to an average of 0.55 hectares per household. Mechanization of agriculture with medium to large-scale equipment becomes impossible when dealing with narrow strips of land under individual control, while posing no problem for labor-intensive farming. Tractors and other machinery are used for transporting all kinds of goods instead of harvesting crops. There has been a concomitant sharp reduction in mechanization, with considerable losses of existing machinery through disuse. Therefore, to raise productivity, family operations need to be expanded, by, for example, concentrating land in the hands of a few households that do full-time farming. However, the "responsibility system" more or less inhibits such a process.

Second, with the replacement of the collective by the family as a work unit on the production side, people seem to have been

content to run down the communal infrastructure and construction erected in the previous thirty years. (see Table 2.3)

Table 2.3 Changes in Rural Infrastructure, 1978-86

year	Machine-tilled are (10,00 ha.)	Total irrigated area(10,00 ha.)	Power-irrigated are (10,000 ha.)
1978	4,067	4,496	2,489
1979	4,222	4,500	2,532
1980	4,099	4,489	2,532
1981	3,648	4,457	2,523
1982	3,512	4,418	2,515
1983	3,357	4,464	2,526
1984	3,492	4,445	2,507
1985	3,444	4,404	2,463
1986	3,643	4,423	2,503

Sources: China Statistical Yearbook, 1987, p139,140.

This neglect can not go on indefinitely. In the past, construction and maintenance of infrastructure were the responsibility of the collective, and recent reports of the ruination of the productive infrastructure are worrisome. For example, the drastic decreases in government investment in rural infrastructure has resulted in less effective irrigation and drainage systems. (Month Review, Nev. 1990, p9)

Third, another significant negative effect of the responsibility system on agricultural production is that as fertilizer application rates are increased, crop yields bring in a "diminishing return". The result is that less total yield is gotten from two equally sized fields if one receives no fertilizer and the other receives plenty, compared to the yield when both receive suitable amounts. Only in a collective or a cooperative is it possible to manage fertilizer rationally, based on

the most total benefit to the community.(Monthly Review, Nov. 1990, p10)

From the viewpoint of a family's self-interest under the "responsibility" system, fertilizer should be used as much as possible until the extra yield no longer covers the cost of the last portion of fertilizer. Under the responsibility system, fertilizer application decisions are often made by guesswork instead of scientific agronomic practices, because of the division of the landscape and of each strip under different management practices. It is difficult for laboratories to cope with the huge number of samples which need to be analyzed to determine the need for fertilizer use.

Besides these main negative effects, the new system has also resulted in growing unemployment, something China has not experienced in many years. Although grain prices have increased, so have prices of fertilizers, seeds, water, etc. for which peasants pay a lot. (See Social Factors Influencing Change section, for further detail.)

In addition to this, up to half a million hectares per year of scarce soil from cultivation have been lost to paths and demarcation of individual strips, industries, and other trappings of urbanization. So has the renewed practice of burying the dead in the middle of fields. The area added up from each individual grain threshing, compared with collective threshing, has removed land from many villages of agriculture. Finally, environmental degradation is serious, as the water and the air are becoming polluted, and forest areas are being reduced.

The concept of sustainable development has not yet taken hold in China. Farmers are increasing the speed of deforestation in order

to make a profit out of what had been communally held property. Steep lands which have been worked, require repair to terraces due to increased soil erosion. In certain villages, peasants pay less attention to good soil fertility practices such as retraining organic manure to the soil, which will cause harmful effects on crop production later on.

The new system also shows a negative impact on political and cultural life in rural areas. From Chinese newspaper you can read these reports, for example, peasants have lost spiritual support, and have returned to traditional religions and superstitions such as faith healing. In addition, less girls now attend schools since, they are kept home to help work.

F) Social and Gender Inequality and the Rural Distribution of Income.

Income differences in China since the 1950s have been much smaller than in most other countries. There was never any attempt, however, at complete equalization, and a wide range of income levels remain. In certain fields, some socioeconomic inequalities grew even wider in the 1980s, as economic reforms opened up new income opportunities.

But along with economic reforms, some inequalities have already become apparent. These inequalities can be found in those sectors of society where peasants are engaged in grain production, workers are involved in state-owned industry, employees work in party and state bureaucracies, peasants raise cash crops, and private entrepreneurs and workers are involved in collectively owned

service and industrial establishments. The gaps in income between groups are growing, and this has become a source of complaint, as reflected in the strikes by Beijing bus drivers over higher salaries received by the employees of collectively owned taxi companies, and in the resentment of rural cadres and peasants at the "ten thousand yuan" households who are becoming wealthy by engaging in light manufacturing or rural services.

Interregional inequality is also almost certain to increase. This is because some regions are better endowed than others with natural resources, transportation lines, and commercial centers, and there are inadequate links between the dynamic cities and the more backward areas in the interior. Business people who served as a liaison between foreign firms and the domestic economy already earn incomes many times higher than those of the best-paid employees of state-owned units. A handful of millionaire businessmen can also be found in the biggest cities.

Some economic reforms therefore are resulting in increasing inequality, but this does not, it seems, come as a surprise to the Chinese government. From Chinese official pronouncements one gets the impression that this inequality is no longer viewed as an evil, or even as temporary, but inevitable. The present leadership accepts inequality as a matter of course, provided that it stimulates production and "modernization". During 1979, the Chinese press published articles in which collective units and individuals were both urged to "enrich themselves". In this way, the richer production teams would "serve as models which could stimulate the poorer ones to follow their example" (Beijing Review, 2 March, 1979). It also

argued that "enriching oneself first" was actually an equalitarian principle, because, in the long run, it would lead to less inequality once poorer individuals can benefit from, or compete with, the rich ones.

What policies are there to help the poor peasantry? On this matter the government position is to help impoverished peasants to prosper through hard work, while promoting the rich peasantry. This means that the government promotes the successful peasants through public appraisal. For example, in 1987, the activity for choosing excellent peasant entrepreneurs through public appraisal was held by the China Rural Enterprise News, Central People's Broadcasting Station and Central Television Station. About 100 peasants were selected as excellent peasant entrepreneurs. The purpose of this was to make public some success stories and encourage impoverished peasants to work harder. The government has also stressed the modernizing role of the 'specialized household', so that their entrepreneurial skills may "trickle down" to the impoverished households. 'Those who prosper first must help others', is the official motto repeated in rural townships across China. The government also emphasized that the rich peasantry is the agent of 'socialist construction' in the countryside with such slogans as, 'it is no good for a single flower to bloom alone. When a man has prospered, he must help his neighbors'. (Beijing Review, 1983, p20).

This kind of spiritual and moral persuasion has always been used by Chinese government. This persuasion touches on the Chinese belief that people should not only depend on material life but also on spiritual life. When people get rich, they are expected not to forget

their impoverished neighbors, and to give them a hand. In addition, citizens are expected to demonstrate civic responsibility. In rural areas, the central committee of the communist party issued a circular in November 1983, instructing authorities at the grassroots level to 'set a ceiling on the money a peasant will have to pay to the collect savings... and on voluntary labour that a peasant should spend for state construction, public welfare and water conservancy projects'. (China Daily, 18 November, 1983).

Impoverished peasants therefore get some support from public welfare funds, and there are also some positive reports that the People's Republic of China are making impressive gains in the reduction of inequality. Dwight Perkins, for instance, observed that China has "clearly reduced intra-village income differentials in a major way; per capital differences of 2:1 from the richest to the poorest family are probably rare" (Dwight Perkins, 1978, p562). He also noted that on a national basis rural income differentials have changed little since land reform. Similarly, Alexander Eckstein saw evidence both of "a compression of average urban-rural income differentials" and "narrowing of income differentials... in the inter-regional distribution of income". (Alexander Eckstein, 1978, P102)

In the few years after the adoption of the household responsibility system, income gaps may well have increased. There were reports on jealousy of rich members who attempted to confiscate other rich members' resources. In the initial years, new agricultural policies were implemented to help narrow the gap between rich and poor locales, allowing poor villages to switch to commercial crops and other products.

Table 2.4
Distribution of Rural Households by per Capita Income

Income Groups (yuan) 1978	1979	1980	1981	1982	1983
100- 33.3%	19.3	9.8%	4.7%	2.7%	1.4%
100- 31.7	24.2	24.7	14.9	8.1	6.2
150- 17.6	29.0	27.1	23.0	16.0	13.1
200- 15.0	20.4	25.3	34.8	37.0	32.9
300-	5.0	8.6	14.4	20.8	22.9
400- 2.4	1.5	2.9	5.0	8.7	11.6
500+	0.6	1.6	3.2	6.7	11.9
----- 100.0%	----- 100.0%	----- 100.0%	----- 100.0%	----- 100.0%	----- 100.0%
Average income 134	160	191	223	270	310
Gini coefficient .28	.26	.25	.23	.22	.22
sample size 34,961	58,153	88,090	101,998	142,286	165,131

Source: Gini coefficients estimated from the income figures, which are in Brilliant 35 Years (Beijing: China Statistical Publishing House, 1984), and Parish, William L., 1985, p211.

If we look at the overall trends however, we will see that income distribution can provide a measurable gauge of inequality and of the overall performance of the system. The results of a recent Chinese survey gives us some ideas about what has happened since 1979.

Between 1978 and 1983, peasants in all villages increased their per capita incomes from an annual average of 134 yuan in 1978, to 310 yuan in the 1983, since these incomes included earnings beyond farm activities, remittances from cities, and other sources of income. (See table 2.4) The number of prosperous peasants therefore increased tremendously, and the percentage of families with a per capita income exceeding 400 yuan jumped from less than one-half of

a percent in 1978, to over 23 percent in 1984. But the poor profited as well. 33 percent of all families had per capita incomes below 100 yuan in 1978. Only less than two percent were this poor in 1983. The net result, as measured by Gini coefficients, was that overall income inequality declined steadily since 1978, from a high of .28 to a low of .22 in the 1983. With this decline, inequality in China moved toward the egalitarian countryside. This report suggests that instead of stepping back from economic reform, China should move forward further reforms.

According to the report, since the Third Plenum of the Eleventh Central Committee, many new studies for improved living standards and family planning have been brought forward under the responsibility system. For example, the Shanxi provincial Women's Federation made a survey among 737 rural women in 600 families spread over 14 villages in 7 townships belonging to 4 different countries. They found that their living standards have improved conspicuously with the institution of the production of the responsibility system.

the living standard of 458, or 62.1% of the women surveyed has improved appreciably. That of 240 women, or 32.6%, has improved somewhat. That of 32 women, or 4.3%, has remained at its former level, whereas that of only 3, or 0.4%, has dropped. (Chinese Women, 1989, p27-8)

The study found that Chinese women have inherited the traditional merits of diligence, honesty, and frugality, but the vestiges of feudal moral values are still much in evidence among a large number of country women. For example, women don't have the right to choose their husband. Their parents usually choose for them,

and they become engaged at an early age. Once engaged, girls start to prepare their large trousseaus including thirty pairs of pillows, half a dozen sets of sheets and draperies, a dozen pairs of handmade cloth shoes and embroidered handkerchiefs, and so on. This takes three to four years to complete.

Clearly, Chinese women are still very traditional in their outlook on marriage. The survey shows that

19% still thought marriages should be arranged by parents 40% still thought both sides in a marriage were obliged to give some form of gift to each other; and 30% held that the groom's family had to come up with the greater share of gifts and money, since the family was in effect gaining additional labor power. (Chinese Women, 1989, p31.)

However, most Chinese women have an overwhelming wish for freedom in marriage, hoping to establish a new type of family based on, and governed by democracy and harmony. Of the women surveyed,

40% were of the opinion that women should be able to enjoy true freedom in choosing whomever they wish to marry. Thirty-eight % were of the opinion that women should discuss their choices with their parents, but they should be allowed to make the final decisions on their own. They majority also stated that no gifts should be demanded from the male side or dowries from the female side. A total of 62.3% of the women in the 31-45 age group, who shoulder the heaviest family burdens in the villages, felt that family matters should be decided jointly by husband and wife. (Chinese Women, 1989, p30)

Most women realize the value of education for their children. They are willing to spend hard-earned money to send their children to school. The report cites the example of the once-poor family of Wang Yumei of Yongxin village which became well-off by running a vineyard. Wang herself spent 700 Yuan to send her son to study horticulture at Northwest Agronomy University. (Chinese Women,

1989, p30) The report shows that rural women have started awakening to their self-consciousness, joint management of the family, and a good education for their children. As written in the Second National Symposium on Women's studies:

"To acquire genuine equality, it is far from adequate for women merely to participate in social labor and strive for political and economic emancipation, They must fight for the awakening of their self-consciousness, a complete establishment of their values, and a through liberation of their personality."(Zhu Qing, 1987, p17)

G) Agricultural Industry and Services.

Since the rural reforms of 1978-9, commune management in the rural industries was initially replaced by an integrated 'holding company' which was made up of a professional managerial and professional team. Gradually three integrated 'holding companies' in the agricultural, industrial and commercial fields were created which administered all commune and brigade level factories.¹⁰

Previously, the commune ran the integrated commercial enterprise and was responsible for the supply of materials and consumer goods to the peasants. With decollectivisation, the integrated commercial enterprise operated as an autonomous commercial enterprise under the authority of the supply and marketing co-operative of the province.

The institutional structure of the rural industries may vary from one province to another. In Sichuan, the commune enterprise of industrial, marketing and agricultural spheres were, in many cases, coordinated by a centralized administration in the form of a joint

¹⁰ : For more details, see H. Yamamoto, 'Three Forms of the Agricultural Responsibility System'.

enterprise separate from that of the Xiang(village) government. This joint enterprise co-ordinated the enterprises in the different economic areas in a variety of ways. (see H. Yamamoto, 1983) For example, in 1981 the integrated industrial 'holding company' in Xiangyang, Sichuan province, for example, controlled 19 commune level factories, 15 of which were previously run by the united production teams. In Anhui, on the other hand, the political functions of the commune were transferred to the Xiang(village) level, and the commune, (now township), retained its supervisory functions over three separate companies respectively in the agricultural, industrial and marketing fields. (H. Yamamoto, 1983)

Therefore, with decollectivisation the structures of the commune are falling apart, and the role of the peasants in running the rural industries is being replaced by a permanent managerial structure. After the collapse of commune self-government, officials at the village and township levels are selected in a variety of ways. Sometimes there are selected by the commune members, sometimes by the province, with the purges being carried out at the local level by Maoist partisans who have been increasingly removed from local party and government functions.

Rural industries are no longer controlled by the collective, and increasingly produce in accordance with the laws of the market and the requirements of the 'modern sector'. However, these changes are not only of an institutional and organizational nature. The subordination of rural factories to the urban corporate bureaucracy contributes to the downgrading of the entire rural industrial base and the centralization of the so-called 'modern industrial sector' in

the cities. It also reverses the Maoist policy of reducing economic and social disparities between urban areas and the countryside.

Under the administration of nearby cities, the reforms in the system of prefectures and counties also supports the subordination of the rural economy to the urban-industrial base. Those in the vicinity of urban areas will be incorporated into the city-counties. In more developed areas, prefectural governments have been merged with those of medium-sized cities. Such administrative restructuring is intended so that 'production and commerce can be placed under unified guidance, with the economically more developed cities acting as centers leading the surrounding rural areas'. (China Daily, 29 Feb., 1983, p1)

The proceeds of decollectivisation also apply to educational, health and other services through the downgrading of the social sectors in rural areas: The construction of educational facilities in the countryside will increasingly be funded through individual donations by rich peasants.

Farmers are now gradually replacing the state in financing schools in rural Hebei...many farmers have observed that it is a tradition in China for individuals to finance schools...at present there is a wave of school construction in many rural areas. (Beijing Review, XXVI:48, 1983, p20)

'Socialist' medical care is financed from peasant contributions to the welfare fund. In the rich areas minimal fees are charged. The expanses of most township clinics are financed from the welfare fund. But, for poor farming regions, medical care is difficult because state subsidies have been cut or discontinued. Since the Ministry of Public Health's proposed 'new order' in the area of health, in some

regions, health care is financed on a fee basis for each medical consultation. The state has also permitted the operation of private clinics, and private practices for doctors, pharmacists and dentists have been rehabilitated. It is stated that the reform of the health care system must eliminate 'administrative disorder' as well as 'combat equalitarianism' in the distribution of medical services. State expenditures in health facilities have decreased (in relative terms) largely as a result of major investment outlays in industry and foreign trade infrastructure.¹¹

Alongside the collapse of collective institutions, health care facilities and primary health care are being upgraded to the large urban areas, and downgraded in the rural areas. The concept of 'modernization' has been applied to the health care sector. This signifies a shift in direction and orientation from the development of grass-roots primary health care in rural areas, based on an integration of Chinese and western medicine (emphasized during the Cultural Revolution with the development of the 'bare-foot doctors'), to the consolidation and 'upgrading' of modern urban hospital facilities, based on western therapeutic and diagnostic equipment and the development of pairing arrangements with western medical schools.

1) The Performance of China's Agriculture.

In order to know China's performance in agriculture, it is necessary to have an idea about China's demographics and natural

¹¹ : For more detail, see Beijing Review, XXVI:20, 1983), Minster of Pubic Health and Funds for Public Health Inadequate, p11-20.

resources. Compared to the United States, China, with its 1.1 billion people, has about four times the population but only two thirds of the valuable cropland of the United States. China has to feed its people on less than one third of an acre per capita. In addition, the climate in China is more variable, therefore, the weather patterns are less dependable than in the United States. In fact, the good American record in agriculture is mainly a result of favorable and dependable climate and very good soil. Given its natural resource limitations and demographics, China's agriculture is much more complicated, Chinese people must work harder to perform well in agriculture and China's agricultural goals must focus on maximizing production of the basic foods as grains.

China has been able to feed its expanding population reasonably well since the revolution. But this is one of the major human accomplishments of the twentieth century, since China has been able to do so only through enormous effort, vastly expanded irrigation and drainage of cropland, and the constructed new fertilizer factories. Crop yields per acre are very respectable by world standards. U.S. agronomists visiting China in the 1970s reported that crops grow excellently. They also found that the Chinese have bred varieties of rice that are as good as those developed at the International Rice Research Institute. In visits in 1988 and 1990, Fred Magdoff was surprised by the general quality of the crops which produced high yields.(Beijing Review, 1983, p11)

Rural reforms have directly influenced the present performance of agriculture. These reforms have made it possible for the state to retain both its powers and its role in the rural economy

in the 1980s. Decollectivization, like the collectivization of the 1950s, was directed from the top down. The state has loosened its supervision and the mandatory quotas of the 1960s and 1970s. Households and communities can now make their own minds to decide what to produce since the state has allowed the growth of rural markets and small-scale industries.

The supervisory functions of low-level cadres have lost their jobs overseeing the work on the collective fields. Some cadres relinquished their jobs as full-time administrators in township offices. But others took advantage of the reforms by establishing specialized production households, or by leasing collective property at favorable rates. With their networks of connections and familiarity with administrative procedures, these cadres were in a better position than ordinary farmers to take advantage of the opportunities offered by the growth of markets and commercial activity.

By 1987 rural society was more open and diverse than in the 1960s and 1970s. The rigid collective units of that period, which had reflected the state's overwhelming concern for security, were instead being organized by networks and clusters of smaller units. This new system and looser structure placed priority on efficiency and economic growth. Basic security was taken for granted, in the sense of an adequate supply of food and guarantees of support for the disabled, orphaned, or aged. Less than half of China's population remembered the insecurity and risks of pre-1950 society. But the costs and inefficiencies of the collective system were fresh in their minds. Increased specialization and division of labor were therefore

not to be reversed. People still lived together in villages and the actions of low-level administrative cadres still affected ordinary peasants.

The state and its officials still controlled the economy, managed supplies of essential goods, taxed and regulated businesses and markets, and signed contracts. In the Maoist period, the stratification system had been mainly based on a hierarchy of functionally unspecialized cadres directing the labors of a fairly uniform mass of peasants. But in the 1980's, a new elite of economically specialized households and entrepreneurs managed many of the resources necessary for economic success. Local cadres still had the power to impose fees, taxes and all manner of exactions. But the economic and social system continues to change in response to the rapid growth of rural commerce and industry, and in response to national economic policies and reforms.

It is difficult to predict what will happen next in the development of agricultural policies in China. As shown in a recent report, in the last two years, China's agriculture faces some problems. "In 1990, agriculture had its best year since 1984. Grain output was 435 mn tons, and overall agricultural output grew by 6.9 per cent., nearly double the 3.5 per cent target. (See table 2.5.)

By China's standards, 1990 was a climatically trouble-free year, despite flooding and typhoons in the Yangtze valley. However, there are already signs that 1991 will not be so blessed. Drought has afflicted the winter wheat crop in northern China, and the grain production target is in fact down from last year's actual harvest, at 425 mn tons. Farmers have been discouraged by the low free market

prices for grain in 1990. And even though the state intends to raise the procurement price for the approximately 70 mn tons it buys at

Table 2.5 Forecast Summary

(Rmb bn at 1990 prices unless otherwise indicated;% change on previous year in brackets)				
	a	b	c	c
	1989	1990	1991	1992
Industrial output	2,216.5 (8.0)	2,385.0 (7.6)	2,528.1 (6.0)	2,679.8 (6.0)
Agricultural output	690.6 (3.3)	738.2 (6.9)	738.0 (-)	752.8 (2.0)
GNP	1,657.1 (3.9)	1,740.0 (5.00)	1,811.3 (4.1)	1,892.9 (4.5)
Consumer prices (%)	17.8	2.1	10.0	7.0
Exchange rate (Rmb per \$)	3.77	4.78a	5.22	5.81
Current account (\$ bn)	-4.3	5.2d	3.5	-0.6
a	b	c	d	
Actual.	Official estimates.	Forecasts.	EIU estimate	

Resource: country report, No 1, 1991.

fixed prices, this in itself will not bring about an increase in the area of grain planted. Part of the vulnerability to bad weather can be attributed to the comparative neglect of collective public works since the launching of the agricultural reforms ten years ago. A huge irrigation and flood prevention drive, involving tens of millions of farmers was carried out in the winter of 1990-91. Nevertheless, it is unlikely that in 1991 agricultural outputs can be improved from last year, and the EIU is therefore forecasting stable production" (Country Report, No1, 1991, P6).

II.ii Industrial Development.

This chapter seeks to trace the history of the industrial organization and strategy in China since 1949, and to assess the

positive and negative experiences in China's industrial development. The industrial system after Mao is discussed with reference to the changes in overall development strategy.

The 'open door' to foreign capital since 1978 plays an important role in Chinese industrial development, since the international transfer of western 'managerial technology' takes place parallel to China's reintegration into the structures of international trade, finance and investment. The transfer of this technology is taking place through the liberalization of trade and foreign investment, the establishment of joint ventures and economic zones with foreign transnational, and the formation in China of fully-owned subsidiaries of international corporate capital. With this technology transfer, China is adopting western standards and concepts of management, and educational institutions are being formed which we are modelled according to American and Japanese business schools.

Today, wealthy expatriate bourgeois¹² are also encouraged to come back for business investment, and individuals with great endowments are permitted to open their own businesses. These individual private enterprises are already competitive with the state owned enterprise, and have a favorable position in the Chinese economy, where industry is characterized by different levels of financial endowment. The rural factory, the backward self-reliant enterprises, and the neighborhood collective are on the low end,

¹² : Wealthy expatriate bourgeois are the expatriate Chinese merchants in various countries in South-East Asia who are integrated into both commercial banking and financial undertakings, as well as through family and class ties.

whereas the advanced joint venture using the most advanced technology, is on top end.

In general, the open door policy has strengthened China's position in the international market, introduced foreign technology, capital investment, and management skills into China, and gradually created a new generation of policy-makers who have broad international perspectives as well as knowledge about modern societies.

But, as we shall see, the open door policy has been facing serious challenges, both domestically and internationally. These challenges have slowed down political and economic change because of resistance from conservative elements in the top party leadership. But time and continued reforms will undoubtedly move China toward further modernization.

A) Development in the Industrial Sector.

In 1949 there were only 120,000 industrial enterprises throughout China. These were mainly engaged in light industries, were usually small in size, and were concentrated in the coastal regions. Heavy industry was negligible. In a thirty-year period, the number of industrial enterprises increased more than threefold. In 1980 there were approximately 400,000 state-owned enterprises in the country, with fixed assets of 320 billion yuan.¹³ This is approximately twenty-five times the value of fixed industrial assets in pre-1949 China (Beijing Review, Oct. 5, 1979, p10).

¹³ : The Chinese billion, like the British billion, is equal to a million million, not a thousand million as is the case with the U.S. billion.

There are two main types of Chinese industrial enterprises, state-owned enterprises and collectively owned enterprises. State-owned enterprises represent "public ownership by the whole people...under which the state owns the means of production on behalf of all the working people" (Beijing Review, Feb.11, 1980, p14). These enterprises constitute the backbone of the country's economy.

Collectively owned enterprise, on the other hand, represent "public ownership under which the means of production are owned collectively by the working people in the enterprise and communes." Under this form of ownership, "the means of production and products belong to the laborers of the collectives concerned." Collectively owned enterprises supplement China's economy.

In 1978 the fixed assets of state-owned enterprises made up 91.8 percent of the total fixed industrial assets in the country. In the same year, 80.7 percent of the country's total industrial-output value came from state-owned enterprises; 71.5 percent of the nation's industrial workers and staff workers (30.41 million people) were employed in state-owned enterprises; and 12.15 million worked in collectively owned enterprises (Beijing Review, Feb.11, 1980, p13-16).

Besides these two forms of ownership, the 1978 constitution of the People's Republic of China authorized the development of the individual economy, on the condition that there is no exploitation of others and the activities engaged in are legal in nature. According to the Chinese Statistical Bureau, by 1980 there were 810,000 people licensed to transact business as individual operators throughout the country, primarily in the retail trade and service sectors (U.S. News &

World Report, March 23, 1981, P58; Beijing Review, May 25, 1981, p3-4).

In the past, state-owned enterprises always had priority. During periods of political and ideological upheavals, the collectively owned enterprises and the individual economy were dubbed "tails of capitalism" and were discouraged or outlawed (Michael Chossudovsky, 1986, p115). However, the Chinese government now states that the superiority of an ownership system is not judged nor measured by the extent of public ownership, but in terms of economic results. The government contends that these three types of economy should be allowed to coexist because each plays a different role in the national economy and each supplements the other. The establishment of state-owned enterprises may be more appropriate for the development of large modern industries. In the countryside, however, collective ownership may be more appropriate. Also, collectively owned enterprises can be established with minimal capital investment and can provide an important source of employment for the huge Chinese population. In addition, because of their smaller size, such enterprises are usually more flexible. Consequently, they may be more adept at revamping their complete product lines within a relatively short period of time to meet changing market needs. Individual enterprises, on the other hand, "make good use of the labor power with families" and play an important role in the retail trade and service sectors, areas that were previously neglected in the national economy (Beijing Review, December 8, 1980, p14).

Originally, traditional Chinese strategies for socialist industrialization were based on the 1924-28 Soviet Strategies, which emphasized the establishment and development of heavy industry - particularly steel - as the focal point of the socialist construction. The belief was that the development of heavy industry would assist the growth of the entire industrial sector, of agriculture, and of other productive sectors. High-speed growth became the goal of socialist economic development, and the construction of large new enterprises was seen as the means of achieving high-speed growth and industrialization. Therefore, during the first five-year plan, some 10,000 industrial enterprises and mining operations were established, including 156 key projects (Beijing Review, July 21, 1980, p18).

The goal of industrialization was self-sufficiency. Funds for industrialization were therefore to depend only on internal accumulation, not on borrowings from abroad or foreign investments, and industry was to be developed only in the cities, not in the countryside, so as to meet the needs of the domestic market, rather than export market. As industrialization progressed, it was expected to absorb the surplus population of the rural areas, and socialist industrialization was to allow only the development of public ownership, not the development of private economy. Some elements of the private economy that existed in the initial stages of industrialization were to be abolished totally or transformed into public ownership.

The achievement of these traditional strategies was to build an industrial foundation, particularly in heavy industry, within a

relatively short time. As industrialization progressed, products such as heavy industry farm machinery, power equipment, fertilizer, and farm chemicals-gradually became available for use in promoting agricultural modernization.(see table 2.6)

Table 2.6 China's Agricultural Modernization, 1957-78

year	Farm machinery(total power in 10,000 hp)	Large, medium size farm tractors (total units)	Small tractors or power tillers (units)	
1957	165	14,674	not available	
1962	1,029	54,938	919	
1965	1,494	72,599	3,956	
1978	15,975	557,358	1,373,000	

year	Machine-tilled area (10,000 hp.)	Powered irrigation (10,000 ha.)	fertilizer applied (10,000 t)	rural power consumption (100m, Kwh)
1957	263.6	120.2	37.3	1.4
1962	828.4	606.5	63.0	16.1
1965	1,557.9	809.3	194.2	37.1
1978	4,067.0	2,489.5	884.0	253.1

source: "China Statistical Yearbook, 1985," p275,281.

The main adverse effect of the strategies on agricultural modernization was the draining of the surplus out of agriculture to finance investment in heavy industry. This was done by levying agricultural tax and other rural taxes; underpricing agricultural commodities; and overpricing industrial products.

This industrialization strategy had the impact of transferring rural population to the nonfarm sectors involving heavy industry, which was relatively more capital-intensive. For instance, heavy industry needed an investment of 20,000 (yuan) to hire additional laborers, while light industry needed only 6,250 (yuan). From 1953 to 1978, heavy industry in China expanded 27 times; light industry expanded only about nine times. Consequently, although laborers

were transferred to industry and other productive sectors, total farming population, total rural population, and total farm laborers actually increased. (Dong Fureng, 1988, p6)

Another problem of traditional strategies is that, they didn't allow the existence, let alone the expansion of the private economy. The abolition of the private economy kept many people from getting jobs, and effectively blocked the chances of transferring farm workers to nonfarm sectors.

There are certainly many factors adversely effecting the growth and performance of Chinese industrial enterprises. The level of technological development and the education skills of Chinese workers are low. The economic system of management, with its heavy reliance on administrative means, is cumbersome, and often leads to bottleneck situations, which tend to stifle creativity, and delay the flow of information to and from the central authorities. In addition, overcentralization of authority in the State Planning Commission- which sets production targets, allocates resources, distributes outputs, and takes on the enterprises' profits and losses- is not conducive to increasing productivity among workers. Enterprise management and workers blindly pursue state production plans and have little concern for efficient use of raw materials and the quality of outputs because they know that they will only be held accountable for meeting the production targets set by the state. They have little initiative to contribute beyond these production targets. Thus the minimal standards and targets set by the state become the maximum toward which enterprise employees will work. At the same time, ignoring market forces means that commodities that are

not in high demand are produced and needed products are manufactured in insufficient quantities. This leads to waste and prevents the people's standard of living from rising commensurately with increased industrial output. (Rosalie L. Tung, 1982, p266)

All these adverse influences on Chinese industrialization have led to the government's realization of the need to reorder economic priorities. The principal reforms that have been implemented since 1979 include granting greater autonomy to individual enterprises, simplifying the administrative organizations, using economic means, developing different forms of ownership, electing workshop directors, allowing competition among enterprises, increasing outlets for circulation of commodities, encouraging interaction and interprovincial cooperation, strengthening centralization and unification of management, consolidating badly run enterprises, increasing specialization in industries, and emphasizing quality control. (Rosalie L. Tung, 1982, p157)

B) Changes in Overall Development Strategy.

We reviewed, in the last section, the traditional strategies¹⁴, which had an adverse impact on the Chinese economy while still helping agricultural modernization. For example, large-scale irrigation and cultivation need modern machinery which heavy industry can provide. After assessing the positive and negative

¹⁴: Traditional strategies emphasized the establishment and development of heavy industry particularly steel-as the focus point of the socialist construction.

experiences from these strategies, a number of changes were introduced in 1979.¹⁵

First, there was a change in objective, from high-speed economic development to the satisfaction of people's basic needs. Those sectors directly linked to basic needs such as agriculture, light industry, civilian construction, culture and education, and health care, were therefore given greater priority.

Between urban and rural residents in the country, there is an income gap. But this gap is not wide enough to create a rift between the rich and the poor. The Chinese government believes that the gap can only be appropriately narrowed by offering financial and economic incentives to workers to produce more. China is now implementing a policy that encourages a number of people to get rich

Table 2.7 Annual Average Income of Urban and Farm Workers, 1978-86 (yuan)

Item	1978	1983	1984	1986
Per capita income of an urban worker's family	316	526	608	828
per capita net income of a farm family	134	310	355	424
Gap (using farm income as 1)	2.4	1.7	1.7	2.0

Sources: China Statistical Publishing House. China Statistical Digest, 1985, p96, China Statistical Yearbook, 1985, p551; China Statistical Digest, 1987, p97.

for the purpose of bringing about common prosperity. Since implementing this strategic change, the gap in average annual income between urban workers and farm laborers has narrowed, as figures between 1978 and 1984 indicate. (See table 2.7)

¹⁵ : These changes follow from the ten principles for China's economic construction put forward in December 1981 by Premier Zhao Ziyang at the fourth People's Congress.

Second, the heavy industry-oriented strategy has been changed in favor of a balanced development strategy that combines priorities with the more general aspects of development. In recent years, the development of heavy industry has slowed, while the growth of agriculture and light industry has accelerated. The procurement price for agricultural products has been raised many times since 1979, and the restructuring of heavy industry is expected to benefit those subsections of the economy that serve agriculture and light industry.

Third, the changes have brought about the more efficient development of the "intensive" economy. Intensive development requires that economic efficiency be improved, by upgrading technology and by tapping the productive potential in existing enterprises as a means of obtaining the funds required for industrial development.

Fourth, economic self-sufficiency has made way for an "open" policy. Internal accumulation is no longer regarded as the only source of funding for industrialization and the government is seeking to attract funds from abroad through external borrowings and foreign investments. For this reason, the government encourages economic zones to have export-oriented economies.

Fifth, the focus has shifted from the industrial sector and other nonfarm sectors in urban areas, to a strategy of paying equal attention to development in rural areas. This strategy appears to be working. Figures from China's Statistical Yearbook indicate that sectorial shares among agriculture, light industry and heavy industry are now better balanced than prior to 1978 (see table 2.8).

The rapid development of agriculture has had several benefits

Table 2.8 Composition of Gross Industrial and Agricultural Output Value, 1978-86
(in percent)

Sector	1978	1984	1985	1986
Agriculture	27.8	35.0	34.3	35.2
Light industry	31.1	30.8	30.7	30.2
Heavy industry	41.1	34.2	35.0	34.6

Note: Agricultural output value includes the output of village-run industries.
Source: China Statistical Yearbook, 1987, p46.

to the Chinese economy. It has led to the reduction in expenditures for imports of grains, cotton, and other farm products. This has saved large amounts of foreign exchange, which can be used to purchase more equipment and materials for industrial expansion. Agricultural expansion has also provided more material for light industry. Light industry, in turn, has provided the agricultural sector with consumer goods. Consequently, in the restructuring of heavy industry, the government has paid attention to the demand for more farm capital goods needed for agricultural modernization.

Finally, a sixth change in industrial strategy has been the development of private ownership as well as mixed forms of ownership. The government is encouraged limit forms of private ownership, even it remains to be seen where this change in policy will lead though public ownership still enjoys a dominant position. For example, the Chinese government has clearly rejected selling off large state enterprise to private owners or encourage new large private firm except where foreign investment is involved (see Dwight H. Perkins, 1988, p604).

C) Urban-Industrial Reform.

Experiments with urban reform had been proceeding since the Third Plenum of December 1978 and throughout the early 1980s. On October 20, 1984, the Chinese government released a document on urban reform, which indicated a major push to alter significantly the system of Soviet-style central planning that China had established in the 1950s and carried out throughout the 1960s and 1970s.

This document advocated urban-industrial reforms for China by introducing a market-regulated economy combined with continued central planning 'guidance'. Based on what this document advocates, there are four main issues (Chen Yun, 1986, p14-15) involved in the development of relations between the state and economic markets.

Issue 1: Whether distribution is dominated by the market or bureaucratic forces¹⁶.

The distribution of industrial products, whether through administrative channels or through purchases on the market, is questioned by many enterprises which face reform. Most Chinese industrial products, in the 1960s and 1970s, were distributed through administrative allocations and annual plans set by the central or provincial government. By 1984-85, industrial products like steel, machinery, and raw materials were increased to be sold and purchased on the market at market prices.

¹⁶: For detail, see Byrd, William and Tidrick, Gene. "Factor Allocation in Chinese Industry". A paper prepared for the conference on Chinese enterprise management, Beijing, Aug. 1985.

Most enterprises acquire inputs both through market and administrative channels, because enterprises usually require more inputs than are identified in their original plans. Before reform, additional inputs were obtained either from the planners or from trading with other enterprises. After reform many of these additional inputs could be purchased on the newly created markets. In such cases, market forces governed most enterprise decision. But key inputs, such as electricity, were not available through the markets. Planners' decisions about them were therefore made by state rather than market forces that governed enterprise behavior. In those cases, where prices of inputs were lower than offered by the markets, planners' decisions determined enterprise behavior. There is no doubt therefore that market forces play a greater role than in the past, but the administrative allocation of certain key inputs ensures that enterprises can not overlook the wishes of the planning bureaucracy.

Issue 2: Whether enterprise managers should behave according to market rules(see Byrd, William et al, 1984).

Since the 1980s, the enterprise manager has paid less attention to the gross value of output, in favour of improvements of efficiency and employment benefits. This has naturally had a positive impact on employees, resulting in higher living standards, increasingly higher bonuses, and better housing.

However, the main avenue for the pursuit of these employee benefits was increased profits. Employees pursued these profits mainly through bargaining with the bureaucracy for lower tax rates,

or by obtaining larger allocations of low-priced raw materials from the central planners.

With respect to tax policy, a corporate profits tax was put into practice in the mid-1980s. However, the rates varied between enterprises and were set through individual bargains made with the state. It was difficult to adopt a single rate due to a wide variation in enterprise profit rates. Some enterprises were even running at a loss and therefore the bankruptcy law was established.

The bankruptcy law imposed constraints on the availability of bank credit and gains based on the central government's budget. Both working capital and investment financing were made available through the private enterprise's own funds, or from the banking system, at state determined rates of interest instead of the government budget. But the government still had the authority to decide which clients of the bank received the available funds, and what criteria they used to make these allocations.

Another influence of market forces on enterprise managers was in the area of promotions. Enterprise managers either pay special attention to the interests of the planning bureaucracy if they want to be a part of the bureaucracy in the future, or they behave according to the rules of the market if they want to please employees and thereby stimulate productivity.

In general, these factors influenced the behaviors of enterprise managers according to market rules, and therefore government bureaucratic involvement in enterprise decisions have become less strong and direct than in the past.

Issue 3: Whether the government should open market competition and how it should guard against monopoly power.

In the early 1980s, the government made a major effort to increase direct competition for markets. Competition was most apparent in urban services where private and collective traders started to reoperate state-run department stores, hardware stores and food distribution outlets, and suddenly found themselves in competition for customers with private traders. In order to avoid bankruptcy, state stores changed their management strategy. They raised the quality of their service, and kept stores open for longer hours. Industries also lost their monopoly control over regional markets. Where buyer's markets existed because products were in excess supply, enterprise behavior had to be modified to meet new competition.

Issue 4: Whether prices should be adjusted according to relative market scarcities.

In 1985-86, Chinese reformers allowed prices to fluctuate on that portion of enterprise inputs and outputs available through the market, so the state could avoid the difficulty of changing prices by administrative means. Prices therefore reflected the scarcities in these unregulated markets. But most of the industrial inputs and outputs were distributed at administered prices. Price reform continues to be carried out on the basis of deciding which market prices to use: those of the uncontrolled market, consisting largely of a dual price system, or those of a single unified national, or even world market.

The urban-industrial reforms achieved considerable progress over the past years, in contrast with the reforms in the countryside, even though their impact has been very uneven. However, the scope of 'directive' plans has not contracted as much as reformers would have liked and the fundamental nature of the relationship between state and enterprise has changed little. Nor have market processes expanded as much as the reform blueprints of 1978-9 envisaged. Though the scope of markets varies across sectors, in general they have not taken on the full characteristics of competitive price systems and efficiency pressures and allocation benefits which reform analysts envisioned.

D) Joint Ventures.

In order to seek foreign capital and technology China sought many shortcuts to its objectives. It invited foreign investment, and participated in international financial institutions like the International Monetary Fund and the World Bank. Also, China was willing to accept foreign direct investment as early as 1978, and by early 1979 it was widely known that the Chinese government was drafting regulations for joint ventures. This resulted in the drafting of "The Law on Joint Ventures Using Chinese and Foreign Investment" at the Second session of the Fifth National People's Congress and promulgated on July 8, 1978.

Of the many forms of international economic cooperation currently used by the Chinese, the joint venture departs most dramatically from China's previous practice of arm's length trade. Its main characteristics are the sharing of management responsibilities,

ownership and profits. More than any of the other special trade arrangements, the joint venture benefits both the interests of the foreign firm and the local enterprise, and it can be presumed that the two parties share a common objective- the commercial success of the venture. Because of this similarity in objective, the joint venture is generally considered to be an effective vehicle for the transfer of technology and organizational and managements skills from the foreign participant to the local enterprise. However, when the interests of the participant diverge, as they sometimes do in the course of the enterprise's development, the sharing of control and of ownership may create a serious problem, because decision-making becomes difficult. Given the inherent characteristics of the joint venture, its development in China depends critically on the ability of the Chinese, and of the foreign businessmen, to identify areas of mutual interest and to create ways to resolve conflicts.

With a centrally planned economy, industrial enterprises have limited decision-making authority and resources are allocated by a bureaucratic command system. This is quite different from what foreign firms are familiar with. Therefore, foreign firms are understandably cautious about investing in China. In order to encourage foreign firms to invest in China, the Chinese government produced a joint venture law which included fifteen articles that declared a national policy of allowing and protecting foreign direct investment in China. Since then, China has supplemented its joint venture law with numerous regulations and laws concerning joint ventures.

Article 3 of 'Regulations on Labour Management in Joint Ventures Using Chinese and Foreign Investment' defines the authority that joint ventures have in labour selection, labour discipline, and wage incentives. Article 4 of the 'Provision for Labour Management in Chinese Foreign Joint Ventures', and Article 5, state that the joint venture has the power to discipline and even dismiss workers who become superfluous as a result of changes in production and technical conditions, or who have violated its rules and regulations. Article 6, however, states that if the trade union, which exists in every joint venture, considers a disciplinary action unreasonable, it has the right to object and to seek a solution through consultation with the Board of Directors. (China's Foreign Economic Legislation, 1982)

The management reforms in China's state enterprises have also proceeded alongside the establishment of joint ventures with foreign transnational. The capitalist managerial technology and western and Japanese methods of personnel management are not only directly practised in the joint ventures, but are also transferred into the state enterprises across China. In order to adopt the art of capitalist 'scientific management', the joint venture also involved the setting up in China of business schools and a great number of management training programmes and private scholarships for Chinese students studying abroad.

Before establishing a trade and joint venture agreement, foreign enterprises will negotiate with government authorities in several provinces. According to the principle of joint venture, the contractual terms must be set by the central ministries, but

sometimes provincial trading corporations and state enterprises may negotiate directly with foreign capital. The various provisions are indeed 'flexible' and often ambiguous. In fact, joint venture transactions often transcend the boundaries of the regulatory provisions, and also depend largely on the individual deals reached between foreign and Chinese state enterprise parties. In most joint ventures, the Chinese side supplies all the labour, the factory space and part of the industrial hardware.

Equity joint ventures are also managed by Chinese and foreign parties through Boards of Directors for the enterprise. The equity sharing arrangement means 'equality' in the sharing of profits and losses. The foreign partner obtains a monopoly in the international marketing of the product, and makes most of its money through the sale of technology, know-how, production licences, and so on, in exchange for finished outputs. The corporate headoffice of the transnational purchases the finished output from its Chinese joint-venture subsidiary at an agreed price. In this way, foreign partners are able to make additional profits through transfer pricing.

In principle, the joint venture will share equally in the losses of production under the formal system of joint ownership. Once the joint venture starts to make profits, under the Rules for the Implementation of the Income Tax Law Concerning Chinese Foreign Joint Ventures" (see China's Foreign Economic Legislation, Vol.1, 1982), the foreign partner is exempted from income tax.

The concept of the equity joint venture has been defined with reasonable clarity, and this form of cooperation is governed by a relatively well-developed set of rules and regulations. By contrast,

the other forms of special trade-such as processing and assembling agreements, and co-operative ventures- are not defined with as much precision. They may be characterized by an export processing contract with a state enterprise, a licensing agreement, compensation trade with buy-back provisions, and so on. In many cases the contractual terms of the agreement are not spelled out, though by the same token it can be said that they benefit from a greater degree of flexibility. In general, this means that such agreements can be negotiated more quickly, and also that they can more readily be adjusted to meet changing circumstances. These flexible forms of special trade have proven to be more popular than the equity joint venture, which is more rigidly structured.

E) Expatriate Bourgeoisie.

The expatriate Chinese bourgeoisie at present time constitutes a vital link in the establishment of trade joint ventures and international credit operations in China. In the post-Mao period of the mid 50's, the proprieties of the national bourgeoisie were abolished within China. But today the expatriate Chinese merchant and industrial class constitutes a powerful base of capital accumulation in Hong Kong and South-East Asia. Since the Chinese government adopted the 'open door policy', expatriate capitalists were encouraged to return to the motherland. Expatriate bourgeoisie were therefore able to come back to their homeland and establish their own trade and joint ventures. In doing so, they are not only characterized by commercial and economic links, but also by family

and class ties within the remnants of the Chinese bourgeoisie which remained in China after liberation.

The expatriate Chinese merchant bourgeoisie already constitutes the dominant economic elite in areas of South-East Asia such as Thailand, Indonesia, Malaysia and Burma. They are also often connected to one another, in the various countries through family and class ties. The Chinese expatriate bourgeoisie is therefore integrated both in terms of commercial banks and financial undertakings.

The expatriate bourgeoisie in Hong Kong also plays an important role as a contractual intermediary in major financial and commercial undertakings and joint ventures between China and western business. On the Chinese mainland the Hong Kong capitalists are directly involved in finding cheap labour for processing industries similar to those which exist in Hong Kong, Taiwan, South Korea and elsewhere in the 'capitalist third world'. Moreover, Hong Kong 'compatriot' capitalists have been invited by the Chinese government to consult and participate in the actual formulation of foreign investment regulations and tax laws. They also constitute a powerful group of decision-makers at the local level, especially in the Special Economic Zones, where they sometimes participate in decision-making of labour hiring and dismissal procedures.

The expatriate Chinese bourgeoisie involved in the banking system control over 100 commercial banks in South-East Asia, and 24 private Hong Kong commercial banks are interlocked with a powerful regional and international financial network. It seems that current Chinese economic policy favours increased interaction and

financial integration between the Bank Of China and the group of 24 Hong Kong commercial banks which largely controlled by Chinese expatriates.

Since 1979, the Bank of China has been operating far more independently from the control of People's Bank of China. It has been active in establishment of joint financial ventures with overseas Chinese and foreign banking interests. It has also joined syndicated loans with American, European, Canadian and Japanese banks and is active in real estate and property development in Hong Kong. The Bank of China therefore already constitutes a form of economic and financial integration between expatriate Chinese capital and the Chinese government.

The economic and financial integration between the Hong Kong bourgeoisie and the Chinese government will certainly benefit economic relations after 1997, when the British relinquish Hong Kong to China. The communist party's position is to maintain Hong Kong as a capitalist autonomous region for another 50 years. Hong Kong would therefore become China's major international financial center, and it will clearly benefit China's modernization programme.

With regard to 'regaining confiscated homes and property', both the central and provincial authorities of the Chinese government have issued regulations which concern returning confiscated homes and property since 1949 back to their 'rightful' owners, even where property was 'voluntarily handed over' by owners classed as landlords. (see Far Eastern Economic Review, CIV;16, 20 April, 1979) In all cases, confiscated property is returned or compensation is paid. In the meanwhile, the expatriate

bourgeoisie are invited to develop privately-owned business enterprises in industry, services, construction and the tourist industry.

The 1982 Chinese constitution states that the basis of the socialist economic system is 'ownership by the whole people and collective ownership by the working people (China Daily, 7 June 1984, p1). Its foreign ownership policy allows foreign enterprises 'to enter into various forms of economic co-operation with Chinese enterprises'(China Daily, 15 June,1984, p1). But state guidelines limit private ownership to individual commodity producers with no more than six wage laborers. Increasingly, people are against this policy.

Hong Kong capital in Guangdong province already controls a section of the service industry, hotels, taxis, restaurants, construction and transport companies. Hong Kong's Hopewell group has joined together with other Hong Kong property developers to invest in the development of industrial, construction and tourist complexes in southern Guangdong Province. The Hong Kong expatriate bourgeoisie has also provided the financial support to build up a super-highway from Guangzhou to Hong Kong and Macao. This super-highway will give further impetus to regional integration between Hong Kong, Macao and Southern Guangdong province.

Finally, economic co-operation between the Chinese government and expatriate bourgeoisie also includes the development of the off-shore oil industry in the South China Sea and the Pearl River basin, and the establishment of joint ventures between the South China Sea Oil Company and International Oil Consortia.

F) Special Economic Zones.

In order to encourage more foreign investment, one of the major steps that China has taken is to set up the Special Economic Zones (SEZs). The Chinese government established the SEZs realizing that more foreign investment would be desirable, and that this could only be obtained through creating an attractive investment environment for potential investors in exchange for advanced technology and cash in foreign exchange. In 1979-80 China set up four SEZs- Shenzhen along Hong Kong Border, Zhuhai in the area of Macao, Shantou in Southern Guangdong province, and Xiamen on the Fujian Coast directly opposite Taiwan. Similar 'open door' procedures were applied to the development of Hainan Island in South-Western Guangdong as a free trade Zone specializing in tropical cash crops.

Shenzhen is the largest of four SEZs. It emphasizes industrial development, commerce, agriculture and tourism. The Shenzhen Special Economic Zone is part of Shenzhen Municipality along the sea coast and is closest to Hong Kong. Whatever Hong Kong represents as a present and future economic advantage for China, Shenzhen is considered to be a valuable direct transit port. After 1997, Shenzhen and Hong Kong will easily produce joint prosperity because Shenzhen can bring all the available resources to assure its future expansion and act as a hinterland for Hong Kong. In the long term, Hong Kong and Shenzhen may simply become one single commercial -industrial center for southeastern China.

In 1980 the National Peoples' congress issued the 'Regulations on Special Economic Zones in Guangdong Province, which largely protects profits and other legitimate rights. This cleared the way for

overseas Chinese, foreign citizens, and compatriots in South-Eastern Asia to start their own factories, establish enterprises with their own investment or start joint ventures with Chinese investment.(Wen Wei Po, 1981, chapter I, Article I).

On income tax, the National People's Congress promulgated a law on 10 September 1980 which decreed that 'the rate of tax on joint ventures is 30 per cent. There is an additional local income tax of 10 per cent, making the total 40 percent. When profit itself obtained from investment is remitted abroad, a tax of a further 10 per cent is levied on the profit. The law exempts income tax or reduces it by 50 per cent if a joint venture starts with a pledge to operate for a period of ten years or more. In such a case, the enterprise must apply for its tax exemption or its 50 per cent deduction for the first three years. If investment is made in a low profit region, it may gain an additional tax deduction by 15 to 30 per cent for a period of ten years after the first three years of tax exemption'(China's Foreign Economic Legislation, 1982-1984, p36-7)

Therefore, due to its interest in acquiring advanced technology and in exporting manufactured goods, China has established unique Special Economic Zones and provided special policy incentives to benefit both sides fairly. Investment security and guaranteed profits are therefore assured both in the existing law and also by contracts.

The pattern of employment on the SEZs is that foreign enterprises make a contractual arrangement with Chinese Labour Service Companies, and based on the terms of the contract, the labour service company recruits and screens staffs.

The labour cost in the SEZs is less than one-third that of Hong Kong, but this is still substantially higher than that in state export factories elsewhere in China. In Guangdong province, the 'recommended' labour cost to a joint venture and a foreign enterprise (in 1982) was set at 180 yuan a month for a 48 to 60 hour week. 50 per cent was paid to the workers in the form of a basic monthly salary and 20 per cent was used as incentives in the form of floating wage payments. The SEZs authorities who are in charge of the 'welfare fund' would get twenty-five per cent of total wage payments, and the remaining 5 per cent goes to the factories' medical and recreational fund.

Under the regulations of the SEZs, foreign enterprises make a contractual agreement for renting the land with the SEZs or provincial authorities. The production process between Hong Kong and the SEZs is integrated to the extent that industrial components and materials are shipped into the SEZs for assembly, and the product is then returned to Hong Kong in finished or semi-finished form and exported to international markets.

One of the most outstanding features in Shenzhen's development is the newly founded Shenzhen University. It opened on the 27th September 1983, when Beijing gave its approval to create a 'new and comprehensive university', and was used to help Shenzhen's future development. Economist and vice-president of Shenzhen university, Fang Sheng expressed his views on Shenzhen's economic future, as follows:

The purpose of 'China's special economic development zone is to expand state capital under socialist guidance. It is a 'multi-faceted'

economy in nature which allows several sectors to co-exist, with the 'state sector playing the leading role and state capitalism enjoying priority.it is beyond doubt that there will be an ever broadening range of economic relations and collaboration between Shenzhen and Hong Kong. Cooperation will ensure the two areas in continuous economic prosperity, mutual promotion and mutual complementing, and work division'(Fang, Sheng, 1984, P3-7)

After the establishment of the SEZs in 1984, the Central Committee also approved the establishment of 'development zones' or 'special trading areas' in 14 designated coastal cities, some of which were treaty ports under extraterritorial colonial jurisdiction before liberation (e.g. Dalian, Tianjin, Qingdao, Shanghai, Ningbo, Fuzhou, Guangzhou).

These Special Zone experiments conform to Deng's two revolutionary goals: (1) to keep China open to the outside World; and (2) to revitalize the economy. Since 1979, these two goals have been so strong and so well accepted that it seems impossible for any future leadership to stop it without unpredictable consequences. If setbacks and corruption should occur in the special zones, government could not easily abandon China's policy to remain open to the outside world, since long-term investment decisions and contracted arrangements with foreign investors will not allow easy withdrawal due to modifications in Chinese politics.

In general therefore, according to the assumption that China needs a constant inflow of foreign technology and capital, the special zones can provide four long-term benefits:(1) meet internal needs for social continuity and economic stability; (2) guarantee foreign capital retrieval; (3) accommodate the inflow of foreign technology and

capital; and (4) assurance profits and foreign investment safeguards. The Zones will allow greater investment competition for both profits and security to foreign investors. and, Chinese laws and regulations adapted for this purpose, will seek to provide China with long-term benefits.

G) Measuring Economic Performance.

There is evidence to suggest that China's reforms have had a positive impact on the performance of the economy. Dwight Perkins suggests that in this regard the most convincing figures are those for the growth rate of what the Chinese call national income. Western economists usually refer to national income as net material product (NMP). But the NMP excludes more than half of all of the service sectors. In this respect, the NMP is different from the concept of gross national product (GNP) that people are familiar with. A review of Perkins' data yields the following results regarding sources of economic growth in China from 1953 to 1985.

Table 2.9
Sources of Growth
(percentage increase per year)

period	Gy	Wk.Gk	Wl.Gl	a
1953-57	6.61	0.84	1.67	4.10
1957-65	2.09	1.87	1.63	-1.41
1965-76	5.11	2.81	1.68	0.62
1976-85	8.78	3.30	1.69	3.79

Gy=growth rate of net material product.(1980 prices)

Wk.Gk=contribution of increase in capital stock.

Wl.Gl=contribution of increase contribution.

$$GY=a+(Wk.Gk)+(Wl.Gl)$$

(sources:State Statistical Bureau 1984-1986b, and Dwight Perkins, 1988, P628)

"As the data in table 2.9 indicate, the growth rate of NMP (in 1980 prices) fell from an impressive 6.2 percent during the first five-year plan period (1953-57), to a more modest average of 3.9 percent a year during the 19 years, between 1958 and 1976, that encompassed the Great Leap Forward and the Cultural Revolution. In the nine years following the death of Mao Zedong, the growth rate accelerated to nearly 9 percent a year" (Dwing Perkins, 1988, P627).

Table 2.10
Periods in PRC Economic History & Strategies of Development

	Policies	Strategies
1949-52	Rehabilitation of the economy	
1953-57	First Five Year Plan	Strategy A
1958-60	Great Leap Forward and Communes	Strategy B
1961-65	Readjustment and Recovery	
1966-76	Great Proletarian Cultural Revolution	
1976-77	(CCP leadership transition: deaths of Zhou Enlai, ZhuDe, and Mao Zedong; and defeat of the "Gang of Four")	
1979-present	Four Modernizations	Strategy C

Resource: Bulletin of Concerned Asian Scholars, 1985, p81.

We may also see the evidence of economic performance related to the alternative approaches of Chinese government politics and economics. Analysts like Van Ness and Raichur have surveyed the three socialist development strategies which have been attempted in China, from 1949 to 1981. The three strategic lines of socialist development which are labelled and discussed in the introduction of this paper, by Van Ness and Raichur, are strategy A, strategy B and strategy C. (see table 2.10) Let us briefly review these strategies again.

The authors regarded strategy A, as the Stalinist model, and point to its correlation in China to the First Five Year plan, 1953-57, which emphasizes centralized bureaucratic planning and resource allocation. This kind of economy is referred to by western economists as the "command economy". In the First Five Year Plan, China gave priority to central planning, and focused mainly on heavy industry (e.g. the construction of 156 key projects) to build countrywide technological assistance. This strategy A was partially adopted from Stalinist theory, and the development experience of the Soviet Union.

Strategy A was successful as a design for achieving economic growth and modernization, especially in heavy industry. For example, during the five years from 1953 through 1957, the rate of growth in industrial production was on average 18 percent per annum, and agricultural production increased 4.5 percent per annum. Heavy industry increased an annual average of 25.4 percent during these years, and light industry an annual average of 12.9 percent. (See table 2.11)

Table 2.11
Indexes of Gross Output Value of Agriculture and Industry
(The preceding year=100)

Average annual increase (%)	Agricultural	Industrial	Light Industry	Heavy Industry
1953-1957	4.5	18.0	12.9	25.4
1958-1962	-4.3	3.8	1.1	6.6
1963-1965	11.1	17.9	21.2	14.9
1966-1970	3.9	11.7	8.4	14.9
1971-1975	4.0	9.1	7.7	10.2
1976-1980	5.1	9.2	11.0	7.8
1981-1985	11.7	10.8	12.0	9.6
1953-1985	4.7	11.0	9.9	12.5
1979-1985	10.1	10.1	12.6	8.1

resource: Statistic Yearbook of China, 1986, P33.

Strategy B, as it relates to China involved the Great Leap Forward, occurred from 1958 to 1960. This strategy was designed to achieve social transformation in communist society based on party-directed mass social mobilization. In Mao's view, the people's commune was the basic social unit for the transition from socialism to communism, and integrated industry, agriculture, the military, education and commerce together in the social structure. In the people's commune, a "mass line" promoted the slogan of "serve for the people". Each individual makes a commitment to work selflessly for the collective with the aim of educating and mobilizing the masses in support of two objectives: social transformation (continuing change in the relations of production), and economic modernization (the development of productive forces).

In fact, both objectives failed to be mobilized. Instead, strategy B resulted in a sharp economic downturn (See table 2.6). From 1958 to 1962, agricultural output decreased by 4.3% annually. The rate of industrial growth was only 3.8 percent per year, and the Chinese people suffered continued hardship, condemning the policies of the Great Leap Forward as utopian.

Van Ness and Raichur suggest that the actual reasons for the failure of Strategy B relate not only to the willingness of citizens to support policies of radical transformation, but also to the resistance and possible sabotage by a communist party "new class" fearful of losing its privileges and power. (Bulletin of Concerned Asian Scholars, 1983, P87)

Strategy C - the market approach to socialism- was therefore adopted as a response to Strategy A and B. The Deng Xiaoping

leadership, proposed this strategy of "economic reform", in order to increase efficiency and productivity in a manner which combines socialist centralized bureaucratic planning with a capitalist competitive market system.

In 1979, the government therefore adopted the 'economic readjustment, consolidation and improvement' policy, which redefines the broad relationship between light and heavy industry. With market liberalization and enterprise reforms, economic readjustment has been conducive to the decline and stagnation of heavy industry, and the light industrial sector has grown at the expense of heavy industry production.

Table 2.12
Indexes of Gross Output Value of Agriculture and Industry
(The preceding year=100)

year	agricultural	industry
1976	102.5	101.3
1977	101.7	114.3
1978	109.0	113.5
1979	108.6	108.5
1980	103.9	108.7
1981	106.6	104.1
1982	111.1	107.7
1983	109.6	110.5
1984	117.6	114.0
1985	114.2	118.0

Resource: Statistical Yearbook of China, p33.

For example, Table 2.12 shows that industrial output appears to have declined between 1977 and 1981. This pattern of economic growth was a direct consequence of the phasing out of an important sector of heavy industry. However, the ratio of light to heavy industry has been modified drastically: in 1981, light industry accounted for 51.5 percent of industrial output as opposed to 42.7 in

1978. Light industry production in 1981 increased by 14.1 percent, but heavy industry experienced a decline in output of 6.1 percent. (See Table 2.13)

After 1981, the rate of economic growth (see Table 2.12) increased substantially in relation to the 1979-81 'economic recession'. From 1981 to 1985, the real average annual rate of growth in agriculture is 11.7 percent, and the rate of industrial growth is 10.8 percent (Table 2.13). The balance of economic performance from 1981 to 1985 suggests major changes in the structure of capital accumulation which resulted in the readjustment policy. The 1977-81 period was therefore transition period which showed characteristics of extreme economic imbalance. In fact, during this recessionary period, official government policy further promoted stagnation in some sectors by attempting to phase out economic activity in heavy industry, and to actively promote others like consumer durable.

Table 2.13
Gross Industrial Output Value
Value (Rmb 100 million)
At 1970 constant prices

Year	Total	Light industry	Heavy industry
1978	4,231	1,806	2,425
1979	4,591	1,980	2,611
1980	4,992	2,344	2,648
1981	5,199	2,675	2,524

resource: Statistical Yearbook of China, 1986, p225.

The general picture since 1977 is therefore one of major upheavals in the organization of economy involving a transitional strategy towards the consolidation of a new pattern of capital accumulation which substantially modifies the relationships and

ratios between agriculture, heavy industry, light industry and foreign trade.

Recent available figures character the economic performance of the Chinese economy in recent years. The figures in the rate of GNP growth from 1986 to 1990 suggest instability in the economy as a whole. The reasons for this are various, including political, economic and involving disasters in nature as well. For example, the June 4, 1989, Tiananment Square incident provoked political instability and led to a declining GNP growth rate of only 3.9 percent. (see table 2.14)

Table 2.14

Macroeconomic indicators

	1986	1987	1988	1989	1990a
GNP at current market prices Rmb bn	946.4	1,117.9	1,401.5	1,590.7	1,740.0
Real GNP growth %	8.3	11.0	10.8	3.9	5.0
Exchange rate (av) Rmb per\$ March 25, 1991, Rmb5.31 per \$					

a-official estimates

Resource:EUI, Country Report, p3.

However, according to a research team at the Chinese Academy of social sciences, fiscal instability is one of the primary reasons for the instability of the economy as a whole. They therefore suggested a fiscal reform proposal for the 1988-95 period whose goal was to go from the existing system of fiscal contracting by the locality to one of divided taxation(Chinese Economic Studies, Fall 1990?vol,24 No.1, P85)

More recent economic policy was issued in March-April 1991 by the National People's Congress as the first year of China' s eighth five year plan. The "Ten Year Development Strategy" dominated the economic debate in late 1990 and early 1991. The basic goal of the

new plan is to achieve real GNP growth of an average of 6 percent per year. The plan is subdivided whereby in the first period, between 1991-91, GNP growth will be restrained to lower levels (4.5 percent in 1919) by a continuation of the austerity policies introduced, originally for a three year period, in the Autumn of 1988. The government has decided that not all the goals of the austerity programme have been met, and that they will have to be extended. However, the primary goals are still to lower inflation; to rein in the assurance of currency to no more than the economic growth rate; to balance government revenue and expenditure; to raise economic efficiency; and gradually "to establish a macro-economic regulation and control system". (EIU country report, NO.1, 1991, p17)

II. iii Social Factors Influencing Change.

As the previous chapters have shown, political and economic reforms have had considerable social impacts on China. This chapter therefore considers some of the social impacts of reform in the context of assessing the social factors influencing economic and political change in China.

Before 1949, the Chinese economy was characterized by widespread poverty, extreme income inequalities, and endemic insecurity of livelihood. By means of centralized economic planning, the People's Republic was able to redistribute national income so as to provide the entire population with at least the minimal necessities of life (except during the "three bad years" of 1959, 1960, and

1961), and to consistently allocate a relatively high proportion of national income to productive investment.

Between 1957 and 1978 the population of China increased by 3,000 million, whereas the amount of cultivated land actually decreased because some of the land was used for capital construction. Consequently, despite the increase in grain production, the average per capita share of grain for 1978 was the same as that for 1957 (Beijing Review, March 24, 1980, p15) Therefore, the economic reform is meaningless without population control programs.

Equally important to the quality of life were the results of mass public-health and sanitation campaigns, which rid the country of most of the conditions that had bred epidemics and lingering disease in the past. The most concrete evidence of improved living standards was that average national life expectancy more than doubled, rising from around thirty-two years in 1950 to sixty-nine years in 1985. (Worden, Robert L., 1988, p90)

The importance of knowledge as a factor of development is also important, particularly as it relates to the education process. This process requires an effort on the part of pupils as well as teachers, and it takes a number of years for children and adults to acquire and digest a reasonable part of the enormous stock of knowledge existing today. Only if relevant knowledge is digested, through a long process of learning and reflection, does it become an integral part of one's personality. On the other hand, few things are changing men and women more than this longish process, by which they are gradually

becoming partners in that great fund of knowledge that is the common property of mankind.

In addition, education and employment are intricately linked in every country in the world today. In China, employment is a consequence of the process of differentiation. In subsistence agriculture there can be no unemployment; there can be underemployment in the sense that not all of the people are working all of the time. But it is only when differentiation has reached a stage at which some people have to sell their labor on the market that unemployment becomes an issue.

These social factors are explored in more depth below, with a view to considering how the Chinese government has attempted to address population control; health care and education; employment; and consumption and investment.

A) Population Control Programs.

Of all the factors that condition life, the constraint of space is the most basic, especially in China which has almost one-fourth of the World's population. When the government of China realized the urgent need for population control, it reorganized its administrative structures to strengthen the development of population policy and programs which imposed birth control to the vast Chinese countryside in the early 1970s. The pressing situation of high population growth rates compelled China to adopt a planned birth policy.

Initially, post-1949 Chinese government viewed a large population as an asset. Soon the liabilities of a large rapidly growing

population became apparent. Since then, Chinese leaders saw rapid population growth as an obstacle to development, and set up several birth control campaigns.

By 1973, Mao Zedong was personally identified with the family planning movement, which showed a great leadership commitment to controlled population growth. But after Mao's death in 1976, the leadership was reluctant to put forth that population control was necessary for economic growth and improved living standards.

In the mid-1970s the maximum recommended family size was two children in cities and three or four in the country. Since 1979 the government has limited one child per couple in both rural and urban areas and two children in special circumstances. For minority nationalities two children per couple was allowed, and no limit was set for ethnic groups with very small populations. At the end of 2000, the one-child policy will keep the total populations within 1.2 billion. Under the one-child program, couples are entitled to cash bonuses, longer maternity leave, better child care, and preferential housing assignments. In return, they are required to pledge that they will not have more children. The one-child policy in rural areas, was considered more important than other place, because the rural population accounted for approximately 60% of the total. There is therefore great pressure to adhere to the one-child limit, the alleged methods for ensuring adherence to this policy range from intense psychological pressure to the use of physical force, including some grisly accounts of forced abortions and infanticide.

According to some observers, an accurate assessment of the one-child program would not be possible until all women who came

of childbearing age in the early 1980s passed their fertile years. In general, however, the one-child program has achieved more success in all urban areas than in rural areas.

But under the one-child program, rapid fertility reduction has negative effects. For example, in the future the elderly might not be able to depend on their children to care for them, as was the case in the past, placing a tremendous burden on the state to assume the expense. This is an important concern, since based on United Nations statistics and data provided by the Chinese government, it was estimated in 1987 that by the year 2000 the population of people 60 years and older in China would number 127 million, or 10.1% of the total population. The projection for 2025 was 234 million elderly, or 16.4%. According to one western analyst, projections based on the 1982 census show that if the one-child policy were maintained to the year 2000, 25% of China's population would be age 64 or older by the year 2040.(Worden, Robert L., 1988, p78)

B) Health Care and Education.

Since 1949, health programs have provided care to China's population, which has made maximum use of limited health-care personnel, equipment, and financial resources, despite the emphasis placed on preventive rather than on curative medicine.

However, the health-care system has dramatically improved. For example, the number and quality of health-care personnel has been greatly increased. "In 1949 only 33,000 nurses and 3633,000 physicians were practicing; by 1985 the numbers had risen dramatically to 637,000 nurses and 1.4 million physicians. Some

4336,000 physicians' assistants were trained in western medicine and had 2 years of medical education after junior high school. Official Chinese statistics also reported that the number of paramedics increased from about 485,400 in 1975 to more than 853,400 in 1982. The number of students in medical and pharmaceutical colleges in China rose from about 100,000 in 1975 to approximately 160,000 in 1982. Efforts were made to improve and expand medical facilities. The number of hospital beds increased from 1.7 million in 1976 to 2.2 million in 1984, or to 2 beds per 1,000 compared with 4.5 beds per 1,000 in 1981 in the United States. The number of hospitals increased from 63,000 in 1976 to 67,000 in 1984, and the number of specialized hospitals and scientific research institutions doubled during the same period".(Worden, Robert L., 1988, p93-94)

In 1987 economic reforms were causing a fundamental transformation of the rural health-care system. Along with decollectivization of agriculture, the rural population became less supportive of the collective welfare system, of which health care was a part. "In 1984 surveys showed that only 40 to 45% of the rural population was covered by an organized cooperative medical system, as compared with 80 to 90% in 1979". (abide, p94)

This shift entailed a number of important consequences for rural health care. The lack of financial resources for the cooperatives resulted in a decrease in the number of "barefoot doctors", which meant that health education and primary and home care suffered and that in some villages sanitation and water supplies were checked less frequently. Also, the failure of the cooperative health-care system limited the funds available for continuing education for

barefoot doctors, thereby hindering their ability to provide adequate preventive and curative services. The costs of medical treatment increased, deterring some patients from obtaining necessary medical attention. If the patients could not pay for services received, then the financial responsibility fell on the hospitals and commune health centers, creating large debts for many facilities.

As a general conclusion, although health care in China developed in very positive way, by the mid-1980 it had exacerbated the problem of overpopulation, putting greater pressure on the land and resources of the nation.

To provide for its population, China also has a vast and varied school system. There are preschools, kindergartens, schools for the deaf and for the blind, key schools (similar to college preparatory schools), primary schools, secondary schools (comprising junior and senior middle schools, secondary agricultural and vocational schools, regular secondary schools, and secondary professional schools), and various institutions of higher learning (consisting of regular colleges and universities, professional colleges, and short-term vocational universities). In terms of access to education, China's system is like a pyramid due to the scarcity of resources allotted to higher education, student numbers decreased sharply at the higher levels. Although there were dramatic advances in primary education after 1949, achievements in secondary and higher education were not as great.

Since 1949 the Chinese communist party has played a role in managing education and established a broad set of education policies. Under Deng Xiaoping, the policies emphasized improvements in the quality of education. The party also monitored the government's

implementation of its policies at the local level and within educational institutions through its party committees. Party members within educational institutions, who often have a leading management role, are responsible for steering their schools in the direction meditated by party policy.

The post-Mao Zedong Chinese Communist Party leadership viewed education as the foundation of the Four Modernizations. In the early 1980s, science and technology education became an important focus of education policy. By 1986, the highest priority had been assigned to training skilled personnel and expanding scientific and technical knowledge. Although the humanities were considered important, vocational and technical skills were considered paramount for meeting China's modernization goals. The reorientation of educational priorities paralleled Deng Xiaoping's strategy for economic development. Emphasis was also placed on the further training of the already-educated elite, who would carry on the modernization program in the coming decades. Renewed emphasis on modern science and technology, coupled with the recognition of the relative scientific superiority of the west led to the adoption, beginning in 1976, of an outward-looking policy that encouraged learning and borrowing from abroad for advanced training in a wide range of scientific fields.

But during times when education was competing with other modernization programs, capital was critically short. For example, many qualified youths were unable to attend colleges and university. But to make up for this, and in order to meet their demand and to educate a highly trained, specialized work force, China established

alternate forms of higher education-such as spare time, part-time, and radio and television universities.

Deng Xiaoping's far-ranging education reform policy which involved all levels of the education system, aimed to narrow the gap between China and other developing countries. Devolution of educational management from the central to the local level was the means chosen to improve the education system. Centralized authority was not abandoned, however, as evidenced by the creation of the State Education Commission. Academically, the goals of reform were to enhance and universalize elementary and junior middle school education; to increase the number of schools and qualified teachers; and to develop vocational and technical-education. A uniform standard for curricula, textbooks, examinations, and teacher qualifications (aimed at the middle-school level) were established, and considerable autonomy and variations in and among the provinces, autonomous regions, and special municipalities were allowed. Furthermore, the system of enrollment and job assignment in higher education was changed, and excessive government control over colleges and universities was reduced.

C) Impact on Employment.

In China today many people are waiting for a job. China uses the term *waiting for employment* instead of the term *unemployment*. People waiting for employment generally come from three categories. First, they are graduates of senior middle schools who have failed the university entrance exams, and who therefore want to spend more time studying for the subsequent year's entrance

examination. The category includes workers who are sick and need to rest at home, as well as those who must help their families with housework.

Second, there are those who have completed several years of military service and are waiting for job assignments by the local governments. They have already received a lump sum when they retired from the army, but they do not receive any money while waiting for employment.

A third category of workers waiting for employment are those young intellectuals (that is, middle-school graduates) who were sent to work in the countryside during the Cultural Revolution. Now they want to be transferred back to the cities. In the waiting period, if they continue to work in the countryside, they receive salaries. However, if they return home to the cities before a job becomes available, they do not receive salaries and are considered to be awaiting for employment.

Besides these three categories of people, there are instances in which individuals demand employment very urgently but cannot get work.

There is major reason for causing these problems of waiting for employment. After the 1950s, population grew very rapidly, increasing at a rate of approximately 19 per 1,000 annually. At the end of 1978 the population stood at 975.23 million. In 1979, China's population was 78% higher than in 1949.(Beijing Review, Nov. 16, 1979, p17-24)

The government tries to solve this problem through two principal means. The first method, as was mentioned, is population

control. China has established a State Family Planning Commission to regulate and implement family-planning policies throughout the country.

The second method of decreasing unemployment caused by rapid population growth is to develop the national economy. Since 80% of China's people still depend on agriculture, the government has undertaken measures to stimulate the growth of the rural economy. This includes the diversification of the rural economy to include such fields as animal husbandry and forestry, and the development of secondary industries such as the processing of agricultural products.

In the cities, the economic structure has been readjusted in order to increase employment. This readjustment includes the establishment of collectively-owned enterprises and individual operators, and the development of light and textile industries and of the commercial and service-trade sectors. In 1965, 23% of the urban work force was employed in collectively owned enterprises. In 1976 this figure was down to 20.9%. For every 1 million yuan invested in fixed assets in the heavy industrial sector, 90 jobs are provided. This compares with 250 jobs for the same amount of fixed assets in the light-industrial sector.(Beijing Review, Oct. 27, 1980, p18)

China also expanded and developed labor-intensive industries such as various light industrials, tourism, and service trade industries. The Chinese leadership also saw the need to develop small and medium-sized enterprises and labor-intensive industries. In addition to this, the government has will also considered exporting workers as a method of resolving unemployment problems.

D) Consumption and Investment.

At the beginning of 30 years of the People's Republic, many basic consumer goods were scarce because of the emphasis on heavy industry. After the 1979 economic reform program, many consumer goods were increased. For instance, television production increased from approximately 5000,000 sets in 1978 to over 16 million sets by 1985. (Worden, Robert L., 1988, p322)

As with food supplies and clothing, the availability of housewares went through many stages. Simple, inexpensive household items, like thermoses, cooking pans, and clocks were stocked in department stores and other retail outlets all over China, from the 1950s on. Relatively expensive consumer durable became available more gradually. In the 1980s, supplies of furniture and electrical appliances increased along with family incomes. By 1985 most urban families owned two bicycles, at least one sofa, a writing desk, a wardrobe, a sewing machine, an electric fan, a radio, and a television. Also, all urban adults owned wristwatches, half of all families had washing machines, 10% had refrigerators, and 18% owned color televisions. Rural households on average owned about half the number of consumer durable owned by urban dwellers. Most farm families had 1 bicycle, about half had a radio, 43% owned a sewing machine, 12% had a television set, and about half the rural adults owned wristwatches.(Worden, Robert L., 1988, p254)

Therefore, in the first half of 1985, compared with the same period in 1984, production of television sets, washing machines, electric fans, and refrigerators increased dramatically. Refrigerators, washing machines, and TV included imported components. In 1985

economic planners decided to limit production of refrigerators because they estimated that supply would outstrip demand by 5.9 million units in 1990. The following year, authorities curbed production of televisions to emphasize equality over quantity.

Interestingly, growth in incomes has increased personal consumption, not savings. State Statistical Bureau figures show that China's savings rate has dropped from 36.5% in 1979, to 34.6% in 1986, while income growth has accelerated. During 1978-86, the consumption level in the nation grew by an average of 8.1% in real terms compared with 1.8% per year during 1958-78.

The phenomenal increase in rural private investment of the decade has been overwhelmingly in residential construction. For example, "housing built by farmers was 700 million square meters in 1985, housing built by state and collective enterprises in cities and towns totaled 130 million square meters of floor space".(Worden, Robert L., 1988, P254) The 20 percent savings from net farm income are mainly for future consumption such as future weddings, retirements, possible health problems, and so forth. Just a small proportion of net farm income is invested in agriculture. Government investment in agriculture in 1989, measured as a proportion of its total budgetary expenditure, and dropped to a third of 1978. Investments on social services such as health and education also declined. The number of primary schools in the countryside was half in the ten years of reform (from 1.62 million in 1978 to 744,000 in 1987) even as population rose. Almost 25 million fewer rural children were in school in 1987 than in 1978, as parents kept them away to help with private family and farm chores.

Chapter III: CAPITALISM/SOCIALISM?

III. i “Market Socialism”.

Market reform in socialist countries will in time provide a new paradigm - that is, a whole new way of understanding contemporary socialism. In the introduction, I introduced the definition of 'market socialism', according to Van Ness, who argues that 'market socialism' is designed to bring about basic change in a command economy by employing market-mechanism reforms.

Ota Sik summarized the characteristics of the command economy as:

- (1) Public ownership of the "means of production" generally meaning state ownership of industry and collective ownership of land and agricultural equipment; and
- (2) Centrally planned, bureaucratic coordination of the economy. The planning bureaucracy exerts institutionalized, vertical control over the state-owned sector of the economy through a multilevel hierarchy that sets output targets and input quotas, allocates labor and investment, and appoints managers of state-owned firms.(Peter Van Ness, 1989, p8)

By employing market reforms, China intended to reverse the economic problems produced by the command economy such as declining rate of growth in productivity, a stifling of managerial initiative and worker enthusiasm at the production unit level, and a

failure to meet consumer demand. The use of market mechanisms in this way is what we mean by market socialism.

During the period from 1960 to 1976, the high economic costs of self-reliance from 1960 to 1976, convinced China that the international economy is inescapable. It therefore partially adopted western notions of the "interdependence" and "international division of labor," and will attempt to design its own market-socialist growth strategies in order to benefit from greater participation in the world market economy. China opened its economy to the west while employing market reforms, and seeking foreign capital and technology. China pursued these goals by making changes in foreign trade policy and investment policy, by creating Special Economic Zones, and by establishing exchange programs for students, bankers and business managers. Foreign investment was invited into the country and China participated in international financial institutions like the International Monetary Fund and the World Bank.

Increases in foreign trade have occurred in China alongside the development of 'market socialism'. Internal price mechanisms therefore have to respond to the structure of world market prices, as a consequence of external demand for Chinese exports and through the penetration of the Chinese market by foreign capital, as well as the absence of an effective structure of protective tariffs. Under the 'open door' policy, joint ventures, and subsidiaries of transnational corporations were allowed to send their products into China, placing them in direct competition with Chinese state enterprises. Competitive interaction grew not only between foreign and domestic

enterprises in the national market, but also between domestic enterprises.

In this competitive environment foreign subsidiaries and joint venture enterprises had a competitive advantage and so gradually replaced less advanced state owned enterprises. However, some individual state enterprises responded to the challenge. They were encouraged to undertake joint venture deals with foreign capital, and operated according to the principle of 'economic self-reliance'. For example, since 1983 the entire branches of the state-run automobile industry, had combined and transformed into joint venture operations with foreign capital.

At same time, the 'open door' policy modified the very fabric of Chinese society beyond the sphere of economic relations. Economic reforms will proceed in China with the development of trade and foreign investment, which will undoubtedly have social consequences. The entry of international corporate capital will push the Chinese economy into the structure and logic of the world capitalist economy. With the rise of joint venture firms and subsidiaries of transnational corporations, and with the restoration of property rights and private ownership, the constitution of a 'state bourgeoisie' within 'socialist China' will inevitably develop and bring about certain consequences.

Since the adoption of the 'household responsibility system' in agriculture, patterns of social and income inequality are still to some extent maintained. In many rich agricultural regions, the private appropriation of farm machinery, and concentration into the hands of rich peasant entrepreneurs, has resulted in inter-regional social

inequalities and income disparities between the successful peasant-entrepreneurs and the poorest farming communities. The absolute income gap between the rich peasant entrepreneurs in the areas of commercial farming and the poor peasantry in the less affluent regions is therefore growing.

In addition, the restoration of private ownership in a variety of foreign firms and private businesses has encouraged the emergence of a group of people who make a profit from surplus labour of the direct producers. Therefore, the consequence of this appropriation is the restoration of labour power as a commodity.

These phenomena are a consequence of economic reform which required the collaboration of the 'patriotic national bourgeoisie' as a necessary basis for the development of productive forces in the form of private and mixed (state-private) forms of ownership. Certain economic characteristics of capitalism have thereby been inevitably constituted by the application of market mechanisms in socialist enterprises.

In which direction is the post-Mao economic and social system therefore evolving? The Chinese communist party position, which indeed is shared by many Western Marxists, is that the reforms constitute a necessary phase in 'the transition between Capitalism and Socialism'. The 'open door' economic policy after Mao has resulted in activities which are characteristic of capitalism. The debate on the transition towards capitalism, therefore involves the question of whether it is necessary for China to take one step back from economic reform to determine whether economic reform will be more pernicious than beneficial to the Chinese people.

A) Why 'Market Socialism'?

The Previous chapters explain the value of the open door policy. But it is also important to explore why China adopted "market socialism" in the first place. To do this, we need to look briefly at the origins of the socialist tradition in the early nineteenth century.

In its early form, socialism reacts against the exploitation and impoverishment suffered by the newly formed working class. In their visions of an alternative society, early socialists tended to emphasize, on the one hand, material equality and an increased standard of living for the working class; and on the other, social harmony and co-operation in place of the conflict and competition of a capitalist economy. Attempts were made to combine the material benefits of industrialization with social and human benefits of pre-industrial communities. (Julian Le Grand, 1989, p26)

Chinese socialism has therefore never been based on utopianism as much as it has on Marx's pragmatic teachings. According to David Miller, Marx's socialist tradition differed from that of the 'utopian' socialism. First, Marx's view of the transition to socialism was grounded in the material interests of the working class. Second, Marx's theory was embedded in an ambitious account of historical developments, inherited from Hegel, according to which the human species realizes its full potential only through an ordered series of stages, each of which develops in response to the inadequacies of its predecessor. Thus, in Marx's view of Communism - the higher stage of socialism- is embodied in the material achievements of capitalism. As David Miller points out, Marx had an

inkling of a better view when he saw that the point was not to negate capitalism but to transcend it, which meant taking over and preserving the valuable elements in that system while displacing those that had become historically outmoded. As we have found in his description of Communism, the valuable elements were narrowed down to the material achievements of capitalism: its technology, its machinery, its human skills. (Julian Le Grand, 1989, p27-28)

Moreover, Marx did not make predictions about the economics of socialism as they pertain to market forces, except to suggest that they become outmoded. Therefore, if we are to consider a theory of the economy of socialism based on the Chinese experience, we should examine the value of market forces to see if they become outmoded as Marx contended.

We begin by examining the economic advantages of market forces. When they work well, markets are necessary to an industrial economy, because they are an excellent way of processing information, while simultaneously providing incentives to act. For example, if a product is in short supply relative to demand, the price of that good will rise, enabling producers to have more profits if they produce more. But if there is over-production of a good, then its price will fall, forcing producers to switch their production to something else. In order to increase their profits, markets also tend to encourage innovation, both in production techniques and in the goods themselves.

Competitive markets can disperse economic power since people can choose other people with whom they can deal. For example, if they do not like the service offered by a particular supplier, they can

go to another providing a better quality service. It also means that people have greater freedom of choice over what and where they buy, or when and where to work. Markets, therefore, have a central role to play in a society that aims for freedom, for they allow people to choose the resources that suit their particular styles of life.

Surely, markets also have their failures. Many market activities impose costs on people other than the immediate participants: environmental pollution is an example. According to David Miller, three other alleged disadvantages of markets are that they respond, not to real 'needs', but to superficial demands, often created by market producers themselves; that they encourage anti-social, selfish behavior; and that they create a morally arbitrary, and therefore unjust distribution of income. But Saul Estrin suggested that many market failures must be put down in large part to market capitalism, rather than to markets themselves. Since there is no necessary intrinsic link between capitalism and markets, this raises the question of whether it is possible to create market socialism.(Julian Le Grand, 1989, p3-6)

On the advantages of a socialist market economy, it can promise greater freedoms of choice in personal consumption and freedoms of expression, and it can extend these freedoms more widely than is possible in a capitalist economy and in a socialist economy without markets. Market socialism also tends to allocate income more equally than capitalism, because individual enterprises can not be democratically self-governing in a capitalist economy.

In summary, market socialism leads to a competitive outcome that no one controls while also having the advantage of offering

compensations which are due to democratic control of the economy. However, not all scholars readily recognize the value of market economics in a socialist system. They view markets as not disinterested social entities, but rather as working alongside other institutions whose aim is to redistribute wealth. As Saul Estrin suggests: "some part of the inequalities they generate can be justified on the grounds of desert; and we can attempt to neutralize the remainder by making the market into a genuine lottery, not a game of cumulative ideals which function perfectly, but a properly framed market may approximate as closely to those ideals as any system will in practice." (Saul Estrin, 1989, p45).

Another socialist critique of market economies is that market competition results in dividing people instead of uniting them in their community. For these critics, market socialism should not regard markets as the sole mechanism by which people should be related in a socialist society.

Markets can play a role in establishing a feasible form of socialism. Markets constitute economic efficiency, they can provide a variety of freedoms, and they can promote self-confidence in people and provide security in a way that is often not available to people when dealing with public agencies. This is the promise and attraction of market economies. However, they also need to be kept in check for gross maldistribution of resources. There is therefore a need to establish a political institution outside the market itself. Market socialism was therefore created to involve simple markets which respond to the aspirations of people without diminishing the need for equality in society. It however remains to be seen how market

socialism will respond once socialist economies become more complex.

B) Socialist Competition.

The market mechanism in a planned economy can be used to promote competition and socialist economic growth. Competition forces enterprises to produce what the market demands, and to improve the quality of goods, increase variety, and raise technical and managerial expertise in the production process. Within much of known human society, individuals are basically motivated to protect and promote their own interests. This can lead to increased efficiency and productivity within the economic system, by encouraging competition among workers and enterprises through promises that those which produce most will be rewarded most.

But is socialist competition any different from capitalist competition? Some scholars believe that socialist competition can be distinguished from capitalist competition. The main difference is that socialist competition is developed on the basis of public ownership or the means of production. For example, competition cannot develop on a full scale in China at present because no fundamental change to the economy has occurred. The economy is mainly run by administrative means and competition is under the guidance of the state plan:

To develop competition, an enterprise must be granted greater power to make its own decisions and its status as a relatively independent commodity producer must be respected. No local authority or department is allowed to interfere with the rights which an enterprise is entitled to enjoy under government policies, laws and regulations, rights with regard to production, supply and

marketing, personnel, finance and materials(Almanac of China's Economy, 1981, p220).

Competition is still a subject of controversy in China, even though it is controlled and encouraged by the party and government plan. The fear is that with many enterprises rushing to produce best-selling goods, it will cause economic imbalance or economic anarchy. However, the balance between supply and demand cannot be achieved only by state planning, which cannot possibly adapt to a fast-changing market. In this sense, socialist competition will not only be necessary for economic reform in the long run, but it will also benefit any economic readjustments. Any blindness may be restricted by such economic means as pricing and taxation and by administrative means when necessary.

In addition, many enterprises will drop out of business during the course of competition because they are a liability rather than an asset to the country. In the long run, it is a good opportunity to close down poorly managed enterprises. In fact, however socialist competition will not cause the closing down of a great number of enterprises, since the state can usually find suitable replacement jobs for each enterprise. Therefore, to avoid a great number of unemployed, the state will find a way to reorganize the manpower, money, equipment, and material for other productive pursuits. This is why 'socialist competition' was set up by the state plan:

It (socialist competition) plays an important role....In promoting the combination of enterprises and further activating our economy....It is illegal to adopt administrative means to protect the backward and restrict the advanced, obstructing the normal circulation of commodities.

With regard to the future of the so-called 'backward enterprises', 'some shall be reorganized, some should be consolidated...change their line of production or merge with other enterprises. They shall be encouraged to take the path of combination'. (Almanac of China's Economy, 1981, p221)

Those workers who become superfluous to Chinese enterprises are all taken care of by the state and assigned to other jobs. In the case of larger state-run monopolies, the state has encouraged the formation of industrial conglomerates which can subcontract work with enterprises in the rural and collective sectors of the economy.

The collective sectors are characterized by small-scale neighborhood factories, which play an important role in employment creation in urban areas, since they have 'less efficiency', and are therefore labour intensive. In this case, the state has encouraged the privatization of these collective factories, forcing small-scale neighborhood factories to rely more on themselves instead of being supported by government funds.

The state policy is to encourage the development of technological asymmetry between 'modern' and 'less modern' enterprises in the state sector, as well as between the state sector and the collective or rural sectors. This has led to competitive displacement, plant closing and the reorganization or subordination of so-called 'backward' enterprises. This approach reversed the 'Maoist strategy' characterized by the 'economic coexistence' of 'modern' and 'less modern' productive units. Under this strategy, the intermediate technology enterprises were forced to unite their surplus labour into productive employment based on the fullest

utilization of their industrial ability, and to use their energy and raw materials more efficiently.

According to the competitive principle of profit maximization, enterprises decided to produce highly-priced goods which were in short supply. Since 1979, a large number of enterprises changed their production lines both as a result of market demand and as a result of the government's 'economic readjustment' policy. This however did result in the temporary over-production of certain consumer goods, which gradually disappeared as a result of price declines.

Socialist competition is therefore based on the development by the state of legislation policies and economic levers. The Chinese government attempted to become more competitive by issuing "Provisional Regulations of the State Council on Developing and Protecting Socialist Competition".

The formula adopted by the regulations were as follows: "first, competitors must carry on the socialist code of ethics in the economic field. Cheating, bribery, embezzlement, manipulation, and profiteering will be punished by legislation. Priority should be given to competitors who produce more at a lower cost and who can supply energy and raw and semi-processed materials. Less competitive enterprises should be encouraged to catch up with the more competitive ones by streamlining their organization and management. To this end, enterprises and authorities in developed areas should help those in underdeveloped areas. Pricing, taxation, bank credit and interest rates should be designed in a way that ensures fair competition. Finally, market analyses and forecasts

should be provided, so that enterprises may avoid inappropriate undertakings in production and construction'.(People's Daily, October 30, 1980)

C) Individual Roles in Economy.

During the economic readjustment and reform of the last few years, the government has adopted a number of policies that more realistically attempted to promote the development of productive forces. In December 1978 the Third Plenary Session of the Eleventh Central Committee of the Chinese communist party adopted a series of guidelines for economic reform which injected the economy with a new vitality, including the policy to encourage the growth of individual businesses.

The policies were:

- (1) Encouraging and supporting the development of the individual economy;
- (2) Protecting the lawful rights and interests of the individual economy;
- (3) Treating the self-employed equally without discrimination;
- (4) Permitting flexible economy;
- (5) Permitting flexible prices; and
- (6) providing loan on favorable terms and preferential tax.(Individual Economy, 1989, P6)

By exercising this type of administrative control the Chinese State provided assistance, guidance and supervision for the self-employed which included individual business households and their assistants and apprentices.

Traditionally, peasants made up the largest percentage of the self-employed are mainly peasants. Since the establishment of the

responsibility system in the late 1970s, the peasants were allowed to open their own business. In addition, the state adopted a planned commodity economy which supported peasants to engage in private business.

But by 1987, more than 900,000 young educated people had become self-employed, dramatically increasing the percentage of educated self-employed people. The reasons for them becoming self-employed vary according to their individual situation. But most of them became self-employed because they have been waiting for for a long period of time for the state to assign them jobs. Also, they were not satisfied with their jobs in the state-run enterprises. Some therefore became self-employed because they were hoping for a better life. Others resigned their jobs so that they could more fully utilize their professional skills, and others still were fascinated by owning and operating privately-run enterprises and individual businesses.

Many graduates from specialized secondary schools, college graduates and graduate students have joined the ranks of the self-employed, some of them have already gained intermediate or senior professional positions. Many, with comparatively high education and professional skills, chose to run their own businesses, and this raised the quality of service provided by the self-employed sector as a whole, and encouraged future privatization.

In recent years, private businesses have been contributing to the overall vitality of national economic development, and they have been instrumental in providing employment, which has facilitated growth and development in commercial and service trades. For some

trades, operations by individuals can pay off economically, and can fill the gaps left by state-owned and collective commercial enterprises.

In addition, private businesses also tend to suit the needs of consumers. For example, residents in many large medium-size cities find it difficult to get clothing made, have their hair cut or styled, eat out in restaurants, buy nonstaple foodstuffs, buy furniture, and get repairs done through state-operated services. This makes it all the more desirable for individual businesses to fill in the gaps.

By setting up booths or stalls in the streets, many services are provided around the lanes and alleys, and goods are delivered door to door. Individual businesses usually serve customers from dawn till midnight, because the owners live right in the shops. On almost every corner in residential districts, you will find married couple teams running a grocery store. They sell a variety of merchandise, stressing quick turnover and catering to the daily needs of the people in the neighborhood.

In general, the positive roles of private businesses in China can be summarized as follows:

1. Providing a necessary and valuable complement to the state and collective owned economy.
2. Promoting commodity circulation and enlivening the urban and rural market.
3. Increasing state financial revenue.
4. Providing employment. (Individual Economy, 1989, P7-9)

The private business economy is therefore characterized by its small-scale, flexible management and responsibility for its own

profits and losses. The flexibility of this economy shows in the following aspects:

1. Variety of management forms.
2. Keeping abreast of market information and knowing the needs of customers.
3. Small-scale business and high adaptability.
4. Good service and long business hours. (Individual Economy, 1989, p10-13)

The self-employed have won respect from the society and state because of their quality of service and honest management. But self-employed people still face some problems because many Chinese still discriminate against or look down on them. Therefore, it is difficult for them to find business sites. The tax collectors and administrative personnel of industry and commerce sometimes also give them a hard time, and even abuse their rights by soliciting contributions from them or imposing fines on them arbitrarily.

Due to the various problems the private business economy is now facing, and in order to promote the legal economic activities of the self-employed, and safeguard their legitimate fights and interests, the Chinese government has adopted several policies such as "the State Council Concerning Non-Agricultural Individual Economy in Cities and Towns(1981); additional provisions (1083) to the above mentioned "policies;" provisions of the "State Council Concerning the Private Industry and Commerce in Rural Areas(1984)"; "General Principles of the Civil Law" (1986); and "Interim Regulations Concerning the Administration of Private Industrial and Commercial Business In Urban and Rural Areas(1987)". (Individual Economy, 1989, P15)

D) The Emergence of the 'State Bourgeoisie'.

Marxist scholars often have a critical debate and discussion about the reemergence of the State bourgeoisie in socialist countries like China or the Soviet Union. In China, the historical origins of the State bourgeoisie can be traced to the old social order of the Kuomintang period. After the 1949 Revolution, the private ownership of the means of production, which is always considered as the root of class formation, was abolished, and the state bourgeoisie could no longer find expression.

But as Bettelheim argues, the social relations of production can not be abolished by simply eliminating private property. He suggested:

The existence of the dictatorship of the proletariat and of state and collective forms of property is not enough to 'abolish' capitalist production relations and for the antagonistic classes, proletariat and bourgeoisie to 'disappear'. The bourgeoisie can continue to exist in different forms, and, in particular, can assume the form of a state bourgeoisie. (Bettelheim, 1917-1923, p21-2)

The Chinese situation may differ from what Ernest Mandel described as the counter-revolution of the late 1920s and early 1930s in the Soviet Union, involving the 'materially privileged social layer' which took over the state apparatus and constituted a 'state bourgeoisie'. According to Mandel, the emergence of this 'social stratum' is the result of objective conditions in which groups rose to run the state apparatus and manage state industry. This privileged 'social layer' is not treated as a social class, but as a 'bureaucratic stratum'. Therefore, according to Mandel, the contradictions of the Soviet Union cannot be attributed to a distinct phase of the class

struggle under a system of state ownership of the means of production. (Ernest Mandel, 1981, p36) But, in Bettelheim and Chavance's view, the 'state bourgeoisie' emerged in the political and economic transformations of the late 1920s and early 1930s. The class struggle of that period produced this transformation, which made the state bourgeoisie a class in itself, and consolidated the conditions in which that class exploited and oppressed the working masses(Bettelheim, 1980, p40).

Sweezy also believed that 'the state bourgeoisie was, first, a bureaucratic ruling stratum (not yet a ruling class) which consolidated power at the top, and that this was accompanied and followed by the depoliticizing of the masses. Centralized planning becomes increasingly authoritarian and rigid, which make it possible for the privileged groups in the bureaucracy, and in those positions of political and economic power to constitute themselves as a new ruling class'. Following Sweezy, Charles Bettelheim calls this new ruling class a "state bourgeoisie". (Sweezy and Bettelheim, 1971, p29)

In Bettelheim's opinion, the decisive or dominant factor is not economic but political, since the proletariat is no longer in power. What characterizes socialism as opposed to capitalism is not the existence or non-existence of market relations, but the existence of the domination of the proletariat, and of the dictatorship of the proletariat in all areas. Only in certain circumstances will the proletariat, which has assumed power, be forced into a strategic position on the economic front.

This may be, in truth, what happened in China during the Cultural Revolution. By 1966, Mao and his faithful followers realized

the potential for a restoration of capitalism in China. Using the partly spontaneous Red Guard Movement as their initial weapon, they launched the Cultural Revolution, roused the masses, unseated the bureaucratic leaders and in this way insured that China would continue on the road to socialism at least for a period of time.

But this situation changed after the death of Mao in 1976, when China's leadership put revolutionary politics and class struggle aside in favour of economic reform, and made development the number one priority. The historical origins of the state bourgeoisie is that it is now transforming under the influence of the expatriate bourgeoisie, which is transposed into the economic and social fabric of the state and party apparatus using the development of private capital and joint (state-private) capital.

The 'open door' policy encourages the social and economic intercourse of 'former national capitalists' in state industry, banking and commerce. The state bourgeoisie association, along with the national and expatriate bourgeoisie is the precise unfolding the social relations of production as well as the precise boundaries of state planning. The central committee is changing the political strategy, and political policy no longer consists of consolidating the monopoly of the state and strengthening bureaucratic structures. Political policy now consists of promoting the development of productive forces, in close association with that of private capital, under a system of predominantly public ownership of the means of production. The consolidation of private commercial farming, for example, is done through decollectivization, which constitutes the basis for appropriating agricultural surplus.

According to Sweezy and Bettelheim, China has already undergone a capitalist restoration following the social strife of the Cultural Revolution. Economic reform since 1979 has reversed the decline in economic growth rates that plagued the late Maoist period. The average annual rate of increase of agricultural output from 1979 to 1985 has been 10.1 percent, well above the rates of 4.0 percent to 5.0 percent achieved in the 1950s, 1960s and early 1970s. In industry, the figures are somewhat less impressive, if only because the reforms were implemented later in the urban areas than they were in the countryside. The average rate of growth of industrial output between 1979 and 1985 was 10.1 percent, compared with 9.1 percent in the early 1970s and 11.7 percent in the late 1960s. (See Table 6) The increased pace of economic growth, in turn, reflects notable improvements in labor productivity, in both industry and agriculture. In addition, there is a positive trend toward rapid improvements in living conditions in the 1980s as a result of economic reforms.

What will now happen in contemporary China with the reemergence of the 'state bourgeoisie' remains to be seen. Is a 'Second Cultural Revolution' necessary in order to undermine the state regime's political authority, thereby excluding the possibility of a full 'capitalist restoration'?

As a partial answer, and in a comparable analysis, Bettelheim, in reaction to Sweezy's analysis of the Soviet Unions economic reforms, suggests:

The Soviet leaders supposedly could have made a "choice" between two "techniques": one would have been a Cultural

Revolution in the specific sense that the Chinese have given to the term....the other response was to rely increasingly on the discipline of the market and the incentive of profit...But what is involved here is not a "choice' between two techniques that would enable the economy to "progress", but a line of demarcation between two political courses, between two classes". (Sweezy, 1971, p21-31)

This suggests that a second Cultural Revolution would not enable the economy to progress. It would only insure that China would continue on the road to state socialism for a period time, which would again result in low production rates and a further slowing of China's economy. These facts, when considered with the fact that Chinese society as a whole has already been worn out by the turmoil of the first Cultural Revolution, suggests that the Second Cultural Revolution would not appear to be in store for China.

Chapter IV: CONCLUSIONS

IV. i The Problem Reinstated: Has Socialism Failed In China?

Before the Chinese communists came to power in 1949, China was an underdeveloped economy which had been badly disrupted by years of war, inflation, and weak government.

Modern industry in China before the communist takeover was limited in extent and very localized. Table 4.1 shows that one symbolic indicator, steel production, never reached the level of one

Table 4.1

	Gross Industrial Output Value for Selected Items					
	Pre-1949 peak & year	1949	1952	1st Plan target for 1957	Claimed output 1957	Plan target 1962
Steel(mill. tons)	.923(1943)	.158	1.35	4.12	5.35	10.5-12
Electric power (bill. Kwh)	5.96(1941)	4.31	7.26	15.9	19.03	40-43
Coal (mill. tons)	61.88(1942)	30.98	63.53	112.99	128.62	190-210
Crude oil(mill. tons)	.320(1943)	.122	.436	2.01	1.46	5-6
Cotton (mill. bolts)	2.45(1933)	1.80	3.62	5.0	4.61	8-9
Trucks(number)	0	0	0	4,000	10,000	n.a.

Source: see A. Doak Barnett, 1959, p93.

million tons a year. Until 1952, the Chinese communists reported that overall industrial production in 33 major products had risen 26 percent above previous peak levels, and 16 percent in capital goods and 32 percent in consumer goods. See table 4.1, for instance, where

the production of cotton yarn, steel, and some other major products was over two fifths higher than previous levels.

The population in China has grown rapidly since about the 17th century. As a result, the Chinese suffered from a severe land shortage. The total cultivated land in the country amounted to only about one half an acre for each person. With growing demand imposed upon Chinese agricultural, the production yield of grain and cotton has increased since 1952.(see table 4.2)

Table 4.2
Agricultural Production--Grain and Cotton
(million tons)

	Pre-1949 peak (and year)	1952	1st Plan 1957 target	Claimed output 1957	1958	Preliminary 2nd Plan 1962 target
Grain	138.7 (1936)	163.9	192.8	185(195)	375	250
Cotton	.849 (1936)	1.304	1.635	1.64	3.32	2.4

Source:A. Doak Barnett, 1959, p95.

There are certainly other factors that had traditionally kept the living standards of the Chinese rural population close to the subsistence level. In the 19th century and early 20th century, the situation of the peasants further deteriorated due to ineffective government and civil disturbances. By 1911, the collapse of the old empire, the cumulative effects of foreign penetration by Japan, Britain, France and the United States, the impact of the First World War and the Russian revolution, all posed severe problems for China. Foreigners controlled the great cities of the existent seaboard; local

warlords, petty gangsters and landlords dominated the countryside. The Kuomintang under Sun Yate-Sen leader could not mobilize sufficient military power to overcome local and foreign contenders for China's territory. With the Japanese invasion and the onset of a new world war, China was in a state of grave crisis. In 1921, the Chinese communist party was formed, and based on these historical circumstances and economic base, socialism was established.

As to the success of socialism in China, table 4.1 and 4.2 shows that the industrial and agricultural output of China has improved compared with its original economic base since the introduction of socialism in 1949. This suggests that socialism can sustain economic growth.

However, to further test this conclusion let us compare China with a country with similar levels of development of forces of production, such as India.

A) Comparison of Social Indicators in India and China.

India was chosen to compare with China because of its comparable enormous population size, level of development and its comparable multi-national composition.

Health is very important in people's daily life. We have therefore chosen health indicators as indexes of the quality of life, so that we can analyze how the economy affects the everyday lives and well-being of the population.

The social indicators suggest China were worse than India before 1949 and the rise of communism. As shown in table 4.3, under age 5 mortality rate and infant mortality rate of the Chinese

people in 1945 was even higher than India's. But by 1984 and 1985 China's infant mortality rate is much better than that of India. This indicator and improvements in other areas show that China's health factors are improving more rapidly than those of India.

Table 4.3

Comparison of Social Indicators in India and People's China

	India	People's China
Under 5 mortality rate, 1945	430	520
Under 5 mortality rate (under 1), 1985	158	50
Infant mortality rate, 1945	203	280
Infant mortality rate (under 1), 1985	105	36
Life expectancy at birth, 1985	57	69
Percent of adults who are literate, male/female, 1985	57/29	82/56
Percent of enrolled in primary school, male/female, 1982-84	100/68	100/93
Daily per capita calorie supply as percent of requirements, 1983	96	111

Source: UNICEF Reports 1984, 1986, 1987, and Monthly review, Nov. 1989, p42.

Vicente Navarro offers the following observation. "Socialism rather capitalism is the form of organization of production and distribution of goods and services that, at least for the large majority of people living in the underdeveloped world, better improves the quality of life for most people. In terms of health, nutrition, education, and housing (items that consume 60 to 80 percent of a family's budget in most capitalist societies), socialism offers a better solution for the poor masses than does capitalism. Socialism, rather than having been defeated, is alive and well and doing much better than capitalism, a force that is responsible for the death of the child every two seconds in today's world." (Monthly Review, Nov. 1989, p43)

B) The Demands of the Most Popular Rebellion in China.

The Tiananmen Square events in 1989 amazed the world. Since then people have expressed their different attitudes and reached different conclusions, but all have raised the question of whether socialism has failed? In order to be able to understand this question, it is necessary to have an idea about the demands made by the most popular rebellion in China.

An open letter from Beijing media circles to the Chinese communist party authorities, asks the central authorities to declare that the student movement is a patriotic, democratic, and peaceful action, not a turmoil. Some reports showed that Chinese students were demanding democracy and protesting inflation, enormous wage differentials and luxury consumption. They asked the government to stop importing luxury items but instead to build up the socialist infrastructure in education, science and health. Young communists directly led this students' rebellion. It seems that they are demanding greater and not less socialism.

What caused this new generation to feel dissatisfied about the socialism provided to them. Vicente Navarro, who analyzed the problem faced in some socialist countries, points out that people were grateful for communist leadership at the first stage of the revolutionary process. When these leaders began the socialist construction process, technocracies were organized to help run their societies. In time, the party, state bureaucracy, technocracy together formed the new power bloc, which then no longer remained accountable to the classes it represented. When the institutions of democratic participation become weak, the power bloc constituted a

new class stratum, in which even their privileges can pass to their children. Established sectors of this power bloc therefore resist the development of these democratic institutions.

Conflict within the party and the state therefore becomes possible, when new generations appear which are less reverential to the established strata, and therefore challenge them on the basis of the pure standards of socialism which they were taught. They appreciate the revolutionary achievements of the past, and demand further development of the socialist project. They are likely to question the established class stratum and inequality. The struggle which results further enhances fissures within the party.

Based on this analysis the conflict between new the generation and the established strata (party, state bureaucracy, technocracy) was unavoidable. According to Navarro,

The struggle of a generation educated in new values, who question the right of unresponsive strata which constrains most dramatically the advancement they were promised. It would be wrong to see the struggle as simply a conflict between young and old. It is far more than that, since the young can mobilize many other sections of the society as well.....But more importantly, the new generations in socialist societies have higher levels of expectations than their counterparts in the capitalist world at the same level of development. (Monthly Review, Nov. 1989, p48)

Evidence shows that "sixty-four percent of youth in capitalist Mexico wanted a stable full-time job, when asked what they need most. A similar question put to urban youth in socialist Cuba, shows that they want a broader diversity of cultural opportunities. This further proves the comment once made by Roosevelt that only those who have already achieved economic rights and social rights will

keep asking for political rights. Therefore, the political rights are dramatically limited when economic and social rights are absent." (bid, P48)

This review shows that socialism has not failed in that it still meets the demands of the majority of the population. But it does need further modification, so that it can better service people and encourage the further development of the economy. As Navarro pointed out, "the solution is the one demanded by the students: to democratize the state, the party, the scientific community, and all institutions in which serving the people should be the guiding motto." (bid, p49)

IV. ii A Prospective View.

A) 'Market Socialism' : a Contradiction in Terms?

Socialism, as defined by some Marxists, should be a society without commodity production. On the other hand, the market is the central feature of a capitalist economy. For Marxists, markets and socialism are at the opposite ends of the political and economic system. Therefore, market socialism is a contradiction in terms.

Socialist society furthermore, is based on fundamental socialist values such as justice, freedom and community spirit. However some countries, such as U.K. and Canada, have social programs such as universal health, unemployment and welfare, which we do not consider in socialist term. In fact, these countries achieve both goals of a productive economy along with a standards of social justice. Some defenders of the market have already argued that markets

cannot be used to attain socialist ends. Because markets do not produce outcomes that are for human designs, even if they consist of human action. The outcomes from the operations of the market, such as the income distribution, or the pattern of consumption is unforeseen, undesigned and unintended. The operations of markets also can emerge as unjust and involve negative liberty, because some people end up with more and others with less. Markets and socialism thus seem quite incompatible.

But there is also a different response to this argument. Some thinkers suggest that government intervention can be justified, regulated and supplemented by the operation of markets, so that we get an acceptance of the morality of the outcome, according to any particular set of values, the regulated outcomes of market operations have experienced. On empirical investigation, we find that all modern economies are more or less some combination of both plans and markets for labour, technology, consumer goods and capital equipment, and all contemporary societies include one or more kinds of plans and markets. Therefore, socialist societies actually operate on a kind of market socialism, and all contemporary capitalism is a kind of planned capitalism. For example, capitalist economies including the United States, now recognize the need for the government to exercise some form of control over various sectors of the economy to ensure orderly development, as witnessed by the increasing number of different kinds of planned government interventions to constrain market forces so as to minimize the various effects of inflation and recession, and of government rules and regulations imposed upon the operations of private industrial

enterprises. Socialist China like many capitalist economies basically has a planned economy which permits market forces under the control of a plan. In this sense, market socialism is not a contradiction in terms.

We know that each economic system should operate on the basis of a particular logic, either a market logic or a planned logic. Employing the market to reform a command economy which necessarily increases competition and enhances efficiency. A centralized state planning system does not produce what is needed and desired by consumers. It stifles workers' enthusiasm and managerial initiative, and therefore causes production inefficiency. The characteristic of the command economy is that it places priority on achieving rigid output quotas. Thus, market mechanism reforms in a socialist command economy attempts to establish a direct link between the quality and quantity of what workers and enterprises produce, and creates an equilibrium of supply and demand. In return, workers receive the material benefits, and work harder to increase productivity.

B) China's Capitalist Road?

In the aftermath of October 1976, the decollectivisation of agriculture, the 'open door' to foreign capital and the reforms in industry have proceeded at a very rapid pace. Thus, market mechanism reforms adopted for the socialist command economy are challenging the post-Mao regime, and are making progress towards dismantling the economic and social achievements of Chinese socialism. Communism, in this way, reforms its economy by utilizing

the basic structural feature of the capitalist system-the market. Does this mean, as a result, that China is "moving towards capitalism"?

In order to answer this question, we must define what capitalism means to us and what criteria are applied to capitalism. For example, during the Cultural Revolution (1966-1976) Mao Zedong defined "taking the capitalist road" as permitting private enterprise and foreign investment, emphasizing individualized material incentives, decollectivizing agriculture, and generally enhancing the role of the market. In fact, all of these features are exactly what China is doing in pursuing economic reform. Therefore, based on Mao, China is "taking the capitalist road" rather than building socialism.

But if we define "capitalism" according to the existing social systems in Japan, Western Europe and the United States, and on the basis of the perspective of western neoclassical economics, the answer would be no: The existence of markets is not a defining characteristic of capitalism. After all, there were market exchanges in feudal society and during slavery, but these modes of surplus appropriation were not capitalist. The existence of markets does not capitalism make. Capitalism in the western sense would require political reforms aimed at undermining the party's monopoly of political power and changing the nature of the "dictatorship of the proletariat." But so far no ruling communist party has been prepared to do that.

Therefore, according to western neoclassical economists, the key to defining capitalism relates the nature and extent of political reforms. "The key political requirements of market socialism are that the party give up running the economy; end its arbitrary exercise of

political power; permit the selection of leaders mainly on the basis of merit instead of party loyalty; and loosen controls on the individual citizen to allow the operation of a labour market and to encourage individual entrepreneurial initiative."(Van Ness, 1989, P16)

Market reforms in China indeed create new political interests within the society that will inevitably challenge both the party's monopoly of political power and orthodox Marxist ideas about socialist construction. These fundamental changes in the communist party system may stimulate the development of capitalism.

But, change may occur slowly. When we go back to review what the Den Xiaoping leadership has proposed to the Chinese people, in terms of "upholding the socialist road, the people's democratic dictatorship (i.e., the dictatorship of the proletariat), the leadership of the communist party, Marxism-leninisms and Mao Zedong Thought." (Resolution on CPC History, 1981, P74). This suggests that many conservatives are still at the top of the party leadership who will try to halt the reforms at least into the next century.

C) Concluding Remarks.

This paper constitutes a brief reflection on the complex economic reforms and social changes in China after Mao. When compared with progressive economic and social changes in the contemporary Third World, Chinese socialism represents the means for overcoming the social misery, poverty and oppression endured by people.

Chinese socialist economic policies went through a historical development process. During the 1950s and until the break with Moscow in 1960, China built its industrial infrastructure on the basis of economic cooperation with the Soviet Union and Eastern Europe. Following that, Mao adapted a policy of self-reliance for China. After Mao's death in 1976, China started a program of 'economic reform'. The program operated on the assumption that those countries that do not compete in the world market will be left behind. China therefore integrated its economy more and more into the world capitalist market. Since then, China has made significant economic progress. The role of socialist countries in the capitalist world economy therefore raises critically important questions about the future of socialism.

As reforms unfold, they reveal those social forces which confront and challenge the regime's authority. This will constitute a new phase of class struggle within the communist party and represent a new phase in the history of China. Class struggle after Mao, constituted a standing danger to the system, where change could lead to a capitalist restoration. As Mao himself stated in 1967, at the height of the Cultural Revolution:

The victory or defeat of the revolution can be determined only over a long period of time. If it is badly handled, there is always the danger of a capitalist restoration. All members of the party and all the people of our country must not think that after one, two, three, or four cultural revolutions there will be peace and quiet.(Jerome Chen, 1970, p139)

However, as this paper shows, we must not discount the possibility that a "permanent revolution" can be as much of a

disaster as no revolution. The Cultural Revolution for example has shown itself to be, disorganized, impoverished and confused. And, there are no 'historical laws' which ensure that a successful 'Second Cultural Revolution' will take place. If it does take place it may very well not resist the party's monopoly of political power. Therefore it will not exclude the possibility of 'capitalist restoration' outright.

What should be done in a contemporary socialist country like China in the future? We know that the so-called socialist societies also need to develop a high degree of social productivity. Permanent vigilance, and permanent reform, are without a doubt necessary and important elements for this social productivity to come about. Upon empirical investigation, the economy actually can be improved by introducing a mixed plan-market system. However, in order to get public support for the mixed system, it has to be shown that increased production efficiency and supplies of consumer goods can bring about more material benefits to the people. In China, 80 percent of the population are peasants. Agricultural reform and much greater autonomy for individual enterprises should therefore be a first priority. Increased competition of production units within a given industry will also help to reverse the declining productivity and poor competitiveness of the command economy.

Among the political reforms and economic successes achieved by China, the most important thing is to control the party's monopoly of political power. The party must step away from running the economy, give the market freedom to operate on the basis of supply and demand, end ideological campaigns, allow other types of intellectual thinking into China, and encourage individual

entrepreneurial initiative. At the same time, the government does, in my view, have a role to play, particularly in terms of interventions designed to control inflation and unemployment. Finally, if China moves toward a free market economy, the role of the government should also be that of benefiting from the experience of other free market countries in addressing the responsibility of the state to help its victims of growing income inequalities.

As Philip Eden points out, "we have no similar historical quid for what may happen, for example, to make socialism work well. That history is now apparently in the world. Gorbachev's writings, particularly his book *Perestroika*, make it clear that many socialist politicians have no intention of abandoning socialism, but they intend to advance more rapidly towards it. It appears to be equally possible for any country, socialist or capitalist, to adopt modifications, to borrow from each other, without changing its basic economic system." (Monthly Review, Nov. 1989, p53)

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