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Administrative Regimentation and Economic Reform in China

The West has scored an economic “victory” in Eastern Europe. In the Far East, on the other hand, developments appear to be slipping out of its hands: not only Japan but also, to an ever greater extent, South Korea and Taiwan have been growing into serious competitors in more and more sectors; China, meanwhile, evidently now has only a limited interest in economic cooperation with the West. What course will future economic policy in the People’s Republic of China take?

In response to the current situation, many Western companies and banks are tending to confine their attention to relatively easily attainable objectives in their traditional markets and now also in Eastern Europe. In the long term, however, this reluctance to meet the challenge in the Far East may well turn out to be damaging.

The West has enough capital, technology and human resources for it to have a simultaneous presence on all important markets around the world, and that also means in the Far East. Of course, specific strategies and measures do need to be thought out for each individual market. In China’s case, there is the additional complication since the massacre in Tiananmen Square that it is necessary to reassess expectations regarding the institutional and general economic conditions which will prevail there.

Broad Spectrum of Possible Policies

Until very recently, China was still regarded as one of the planned economy countries most prepared to carry out reforms. The qualities of dynamism, openness to world developments, persistence and eagerness to learn all aroused the expectation that China would integrate itself step by step into the market-oriented sphere of the world economy. However, since the displacement during the past year of those political leaders prepared to enter into dialogue and to change economic and social structures, the basis for these earlier optimistic forecasts has been altered. The spectrum of possible economic policy developments which observers of the Chinese economy now need to take into consideration is once again a very wide one.

As the situation appears today, it cannot be completely ruled out that China may even turn back to the conventional, centralized economic system and that, as a result of mistaken policy measures, large areas of the country may be plunged into poverty and political chaos. It is evident, for example, that economic processes are now again being increasingly watched over, controlled or prevented by politicians and bureaucrats. The most prevalent attitude is now to wait and see or indeed to do nothing at all, and most fight shy of the political risks involved in any courageous decisions which might point the way ahead.

This problem has already led to a sharp fall-off in the efficiency of the Chinese economy, and not the least of the consequences has been a marked decline in new foreign direct investment and a deterioration in the country’s credit standing abroad. To the extent that they are granted at all, loans have become considerably more expensive for China.

Developments could of course quite conceivably be very different if the right sort of changes were to occur in the domestic political situation. One ought to allow even for the possibility of many elements of the planned economy system being abandoned, given that the “planning faction” might be deemed to have lost its last vestiges of credibility as a result of recent events. Even

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so, there is reason to doubt whether the necessary institutional conditions in which microeconomic decisions might also be macroeconomically beneficial could be created within any short period of time.

These, then, are probably the two extremes in the possible future path taken by Chinese economic policy. However, experience shows that even in China, where changes in the personalities occupying the top leadership positions have a vital influence on the choice of a concrete development strategy, heed is still ultimately taken of economic realities. Thus there is much to suggest that the economy may not always follow political exaggerations in future, and that economic trends may after all be more readily foreseeable.

In the light of these considerations, an attempt will be made below to provide an overview of the current economic situation and the policy requirements to which this gives rise.

**Complex Tasks for Economic Policy**

Since the end of the 1970s, the Chinese economic leadership has set itself some extremely difficult policy tasks. Apart from economic policy objectives such as high and sustained growth, full employment and price stability, plans were also pursued to transform the old state-planned economic system into one in which a significant part would be played by market elements. In other words, China went beyond the standard economic policy field to also set to work on those areas which would be among the constant operating environment in most other countries. This all called for an extraordinary amount of effort in economic policy-making.

Two additional circumstances made the tasks facing China's economic policy still more difficult. For one, no clear conception existed of what sort of institutional conditions to aim for. Although the guiding maxim was one of combining planning and market elements in a "mixed system" in such a way as to increase the economy's productivity and to orient production more than before towards demand, when it came to putting this broad idea into practice there were no precedents available from any other countries which might have provided some degree of orientation. Nor had the mixed economy being aimed for been worked out in detail on a theoretical basis. Insufficient enquiries had been made before the reforms began into how two allocation systems as contrary as the plan and the market would interact together. Hardly any theoretical concepts were available from abroad, because investigations conducted in market economies or planned economies were predominantly based on "pure" examples of one system or the other. Western economic theory generally assumes the existence of market processes, and Eastern economic theory planned processes. In the early years after the takeover of control by the Communist Party in a number of countries, there had admittedly been a lot of attention paid to the transition from capitalism to socialism, and hence to problems arising in mixed systems. However, these were only considered as temporary phenomena occurring along the road towards socialism. Thus the focus of attention was not how to achieve an optimal mixture but how to carry through the transformation to socialism as rapidly as possible.

Another inhibiting factor faced by economic policy was that there was still no consensus on which economic decision-making processes should be left to the market and which should be incorporated into the plan. At first sight, this is simply a matter of choosing between two alternative allocative mechanisms. Yet how such choices are made also determines which groups in society, economic sectors or geographical regions may turn out to be better or worse off as a result.

**Controversial Distribution Effects**

Economic interrelationships and the controversies these can generate within society may be illustrated by the example of the coal price and how it is determined. In the past, coal has been sold at prices set by the government. These prices are very low in relation to the imputed scarcity of the commodity. If the state were to relinquish its responsibility for fixing the price and switch to a market pricing mechanism, coal prices would therefore increase sharply. There would be a number of serious implications for income distribution as set out below.

Coal-mines would tend to earn higher revenues than before, as would administrative organizations to which the mines had to pass on any of those revenues. Miners' incomes would increase, and the regions in which the coal industry is located would be able to develop more quickly as they too would have more funds available. On the other hand, any enterprises using coal as an input would be faced with higher costs. Unless they were able to make use of energy-saving technology or to pass on their increased costs in higher product prices, they would suffer a reduction in profits and would be less able to pay bonuses to their employees. The revenues of the corresponding regional administrative bodies — in this case primarily the coastal industrial centres — would also fall comparatively. They would therefore have fewer