

## An Unusual Path of Transition from Plan to Market

- Uninterrupted growth since 1979
- Unprecedented since 1840
- *Ex ante* it was not clear if China could muddle through
  - Doubts in the late 1970s and early 1980s
  - More doubts in 1989 and early 1990s
  - Still more doubts after the Asian crisis in 1998
  - Still doubts today

## An Unusual Path of Transition from Plan to Market

- Economists have not anticipated this
  - Ask an economist in 1988 which country would come first economically, China or the Soviet Union?
- Political scientists have predicted otherwise
  - China was, and still is, a Communist country
  - Political liberalization should come before economic liberalization

## Quotation from Shirk

“We usually think of communist political institutions as rigid and hostile to innovation. We expect communist party and government officials to defend their vested interests in the command economy by blocking market reforms. Gorbachev's effort to change the political rules of the game before transforming the economic system accords with our views of communism better than Deng's strategy of economic reform without political reform does.” (Susan Shirk, *The Political Logic of Economic Reform in China*, 1993)

## Big Debate on Reform Strategy

- China vs. Eastern Europe
- Alternative reform strategies
  - Gradualism vs. big bang
  - Incremental vs. comprehensive
  - Economic reform first vs. political reform first
- Ideas for social transformation
  - What types of social engineering
  - Can social transformation be designed

## Evolution in Three Stages

- 1979-1992: the first stage, reforming the planning system
- 1993-2001: the second stage, building the market system
- 2002-present: the third stage, integrating to the global economy
- They are evolved, not planned

## 1979-93: The First Stage

- Phase I (1979-83): The start of reform
  - December of 1978: the 3rd Plenum of the 11th Chinese Communist Party Congress
  - Economic development as the Party's “key task”
  - Two key phrases: “reform” and “opening up”
  - The framework: “planning as a principal part and market as a supplementary part”
  - Reforms: Agriculture, foreign investment, special economic zones, profit incentives, fiscal decentralization, etc.

## 1979-93: The First Stage

- Phase II (1984-88): High wave of reform
  - Agriculture success: grain production increased from 319 kg to 400 kg (per capita) between 1978 and 1984, rural income (per capita) increased by more than 50%
  - Boost of reformers' confidence and popular support
  - October 1984: major decisions on urban reform
  - The framework: "planned commodity economy"
  - Reforms: Market price liberalization, managerial incentives in state-owned enterprises (SOEs), coastal open cities and development zones, financial reform

## 1979-93: The First Stage

- Phase III (1989-93): Retreat and revival of reform
  - Problems of inflation and corruption
  - June 4, 1989: Tiananmen Square
  - Central government retreat of reform
  - Some local governments continued reform, especially in coastal provinces
  - January and February of 1992: Deng Xiaoping's "southern tour"
  - 1992-93: the Western media's hype on the rise of China

## 1994-2001: The Second Stage

- September 1992: "socialist market economy"
- November 1993: a blueprint for building a market system
- January 1, 1994: a serial of major reforms
  - Foreign exchange reform
  - Tax and fiscal system reform
  - Monetary and financial reform
  - Social safety net
  - Privatization of small SOEs

## 1994-2001: The Second Stage

- March 1999 Constitutional amendments
  - On private ownership
    - Old: the private economy is a supplement to public ownership
    - New: private ownership is an important component of the economy
  - On rule of law
    - "Governing the country according to law"

## 2002-present: The Third Stage

- December 11, 2001: China entered the WTO
- 2002-2006: a five-year window period for transition
- Many previous predictions have not come true, yet
  - Agriculture
  - Automobile
  - Banking
- Accelerated growth between 2003 and 2006

## 2002-present: The Third Stage

- November 2002: 16<sup>th</sup> Congress of the Chinese Communist Party
  - Capitalists/entrepreneurs can join the Party
  - Leadership change peacefully, for the first time
- March 2004: Constitutional amendment on private property rights
  - "The lawful private property of citizens is not to be violated."

## 2002-present: The Third Stage

- New problems
  - Inequality
  - Corruption
  - Social unrests
- New catch phrases
  - “Harmonious society”
  - “Peaceful development”

## 2002-present: The Third Stage

- The new technology
  - The Internet and the web
  - Cell phone (short message service, SMS)
  - The satellite and cable TV
- The media
  - Continued Party crackdown on the media
  - Media exposures leading to policy shifts
  - Media’s role in the rise of populism