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**THE SOCIALIST MARKET ECONOMY  
IN THE PEOPLE'S REPUBLIC OF CHINA;  
FACT OR FICTION?**

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# THE SOCIALIST MARKET ECONOMY IN THE PEOPLE'S REPUBLIC OF CHINA: FACT OR FICTION?

After four decades of autocratic rule, the Chinese Communist Party (CCP) of the People's Republic of China (PRC) is at one of those critical moments in history when a society engages in great activities that will dramatically change its character and behaviour from the past within a decade or so. Examples that come to mind for East Asia are the Meiji Restoration of the 1870s, South Korea's march to industrialise in the 1960s, and the Guomindang (KMT) on Taiwan embarking on major reforms of that society in the 1950s.

As for the PRC's critical historical moment of the 1990s, its leaders and élites have committed themselves to building a socialist society based neither on state-run planning nor on a capitalist market economy but rather on a middle road of economic development and modernisation that they define as a socialist market economy with Chinese characteristics. Although such an economy has never existed in any communist-controlled society, the CCP seems determined to put it into practice.

Between 1992 and 1994 a dialogue and a large number of experiments were conducted in the PRC to ascertain how to build this socialist market economy. I first want to describe the context in which Deng Xiaoping's thinking, the Party's decision to follow a new path, and the new economic patterns evolved. Then, after discussing how the dialogue and experiments affected five basic issues, I conclude with some reflections about their significance for the PRC's future.

## *Deng Xiaoping's Thought (A New Tixi ?)*

The Chinese publish the expressions of their leaders because of the competition among those leaders to be perceived as the 'publicly moral, enlightened élite who should lead China (*junzi*)'. Going back to imperial times, the person who offered a clear vision, uttered maxims of wisdom, and persuaded others to obey—and all more convincingly than anyone else—earned the respect

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and praise of supporters and opponents alike and was glorified by élites and commoners.

Thus, CCP-selected works and dictionaries contain the aphorisms and expressions of those judged to be in the communist pantheon of great leaders: Mao Zedong, Zhu De, Zhou Enlai, Liu Shaoqi, and of course Deng. Small in stature, a survivor of countless political struggles, and a key player in the CCP's inner circle of power holders, Deng Xiaoping has exerted an enormous influence on China's élite these past fifteen years. Party members and citizens commit his expressions to memory.<sup>1</sup> What quintessential ideas set Deng apart from the other greats in the revered communist leadership? Do they consist of a new system of thinking (*ixi*) that will save China?

According to Deng, socialism is the natural evolutionary stage China must attain,<sup>2</sup> but many decades of hard work and sacrifice will pass before China can enter the golden era of socialism. A mature, workable socialism means negligible differences in the distribution of income and wealth, sufficient community wealth for all, and exemplary citizenship values and moral behaviour. What kind of economic system is most compatible with these goals? By seeking truth from facts (*shishi qiushi*), China's experience and Marxist analysis demonstrate that the planned economy has not worked and that capitalism must be avoided.

Thus, the centrepiece of the new order is a socialist market economy with Chinese characteristics, a new economic system that will be neither capitalist nor planned-economy socialist but contain elements of both. As Deng said in his January 1992 tour of southern China:

Whether the emphasis is on planning or on the market mechanism is not the essential distinction between socialism and capitalism. A planned economy is not socialism; there is planning under capitalism too. A market economy is not capitalism; there is market regulation under socialism too. Planning and market regulation are both means of controlling economic activity. In essence, the objective of socialism is to liberate and develop the productive forces, to eliminate exploitation and polarisation, and ultimately to achieve common prosperity.<sup>3</sup>

<sup>1</sup> Wang Jing and Cai Kaisong, eds, *Gongbeguo lingsbou da zidian: Deng Xiaoping zhuan* [The great directory of our Republic's leaders: Deng Xiaoping] (Chengdu, Sichuan: Sichuansheng Xinhua Shudian Zongfaxing, 1993).

<sup>2</sup> Deng Xiaoping, *Deng Xiaoping xuan: di san zhuan* [The collected works of Deng Xiaoping, vol.3] (Beijing: Zhonggong Zhongyang Dangxiao Chubanshe, 1993).

<sup>3</sup> Wu Jingta, ed., *Shehui zhuyi shichang jingji zhuanshu* [Comprehensive compendium on the socialist market economy] (Beijing: Xinhua Chubanshe, 1993), p.135.

For Deng, the market favours a new type of publicly-owned enterprise and cooperative forms of wealth<sup>4</sup> that will be highly productive, diverse in forms of property rights, and operational in markets. Deng feels that market forces encourage advanced technology, the efficient production and exchange of goods and services, and the rational use of resources.

To avoid market failure and other pathologies, macro-adjustments and control mechanisms (*beng guan tiaotong*) will be built into this new system. The challenge facing the CCP, says Teng, is to avoid the policies of left-wing opponents who long for a return to a planned economy and the Maoist methods of the past and stand ready to sabotage the new system.<sup>5</sup> At the same time, the Party must not allow capitalist forces, which produce income disparity and class struggle, to dominate the new system. The CCP must steadfastly resist the calls of left and right and persevere to build the new socialist market economy.

That economy should also be firmly connected to a political and legal system managed by the CCP,<sup>6</sup> which, although not allowing opposition parties, will gradually allow voters to elect delegates to representative bodies that will discuss and ratify laws. Moreover, only those ideas that do not degrade, endanger, or replace Marxism and its related thought will be allowed to compete in education and the ideological market-place.

The reforms launched by the CCP in the 1980s embodied Deng's ideas and created a favourable climate for the CCP's new party line at its Fourteenth Congress in October 1992. That new line signaled a decisive break with the planned economy and a commitment to translate Deng's concept of a socialist market economy into reality.

### *The CCP Breaks with the Past*

Between 5 and 9 October 1992, CCP leaders at the Fourteenth Congress drew up a list of new tasks and revised the Party's charter.<sup>7</sup> The congress's keynote

<sup>4</sup> Zhongyang Dangxiao Jingji Xuebu [Economic Education Department of the Central CCP School], *Deng Xiaoping shichang jingji de gouxiang yu shixian* [Deng Xiaoping's design and implementation of a market economy] (Beijing: Zhongyang Dangxiao Chubanshe, 1994), p.206. See also Hu Sheng, 'What is socialism. How should we build socialism?—studying *The Selected Works of Deng Xiaoping*, vol.3', in Foreign Broadcast Information Service (FBIS), *Daily report: China*, FBIS-CHI-94-125 (29 June 1994), pp.26-35.

<sup>5</sup> *Ibid.*, pp.206-7.

<sup>6</sup> *Ibid.*, ch.11.

<sup>7</sup> Zhuanjibian Weihui [Special Issue Editorial Committee], *Dui Zhonggong 'shisida' yu guan wenti pingshi zhuanyu* [Special issue to evaluate and analyse the issues regarding the Chinese Communist Party Fourteenth Party Congress (Taipei: Zhonggong Yanjiu Zazhishe, 1992), pp.1-3.

address was delivered on 12 October by Party Secretary-General Jiang Zemin, who, after committee reviews and a review by Deng, had revised his 26,000-character report ten times. Jiang's report set forth the concept and strategy of a socialist market economy and emphasised avoiding right-wing and left-wing deviations. As the Party affirmed the new road of economic reform, it assigned this task of national economic reform to the State Council, whose organs worked hard to put teeth into it.

The State Council's reform committees prepared reports and drafted laws to regulate the new economy: the first stage calls for improving commodity and factor markets in 1994–95, especially a capital market and initiating state enterprise property rights reform; the second stage in 1996–97 calls for further market reforms and breakthroughs in developing capital and labour markets; the third stage, 1998–2000, is to complete market reform, transform state enterprises into a corporate system of mixed property rights, and put in place macro-economic regulation and controls.<sup>8</sup>

But as the Party and state rapidly initiated these momentous changes, inflation exploded. By applying the brakes on the money supply and investment, inflation slowed slightly but by September 1994 still raged at 27% in the cities. At the same time, imports surged, contributing to a whopping US\$12.18 billion trade imbalance, but controls imposed in late 1993 kept the trade imbalance under control. The Chinese leadership, now committed to initiating major reforms to build a socialist economy, confronted socio-economic problems of enormous magnitude: generating jobs for farmers and young people flooding the workforce, controlling severe inflation and trying to limit the widening income disparities, subsidising the debt-ridden public enterprises while trying to reform them, and a host of other problems too numerous to cite. These reforms also were associated with new economic patterns that had become more commonplace since 1992.

### *The New Economic Patterns*

In 1992 the cumulative economic changes in the PRC of the previous decade coalesced, setting off the strongest economic boom since economic reform began in 1979 and, in effect, creating more prosperity than poverty. This boom took the form of greater integration of China's markets with the world economy;

<sup>8</sup> 'Procedure for implementing the overall plan of building socialist market economy system', *Zhongguo tongxun she*, 10 August 1994, translated in FBIS, *Daily Report: China*, FBIS-CHI-94-156 (12 August 1994), p.22.

growing domestic market integration; high growth rates in gross domestic product (GDP), foreign and domestic investment, labour participation, and the money supply; increased GDP in the services and manufacturing sectors and a declining one in agriculture; and, in manufacturing, the growing role of private and cooperative enterprises and the declining role of public enterprises.

Between 1992 and 1993 the PRC's percentage of exports of GDP increased from 18% to 22%.<sup>9</sup> GDP increased 8% in 1992 and 13.2% in 1993, with a 10% growth projected for 1994.<sup>10</sup> In 1993 foreign investment amounted to US\$25.8 billion, accounting for 13% of total investment in assets compared with 8% in 1992.<sup>11</sup> The Republic of China increased its investment to the PRC from US\$3.5 billion in 1991 to US\$16.8 billion in September 1993.<sup>12</sup> Domestic investment surged by 42.6% in 1992 and 46% in 1993 compared with the previous highest single year's growth of 38.8% in 1985.<sup>13</sup> The money supply rose more rapidly than the authorised investment funds in the national budget: 47% in 1984, 97% in 1987, 31% in 1989, and 66% in 1992, producing (as already mentioned) inflationary spurts that between January and September 1994 reached 27% in the cities.<sup>14</sup> In 1993 the proportion of industrial output produced by state-owned enterprises declined below 50%; for private and collective enterprises it exceeded 50%.<sup>15</sup> In the early 1990s the services sector greatly expanded, producing more than 30% of GDP.<sup>16</sup>

<sup>9</sup> Richard D. Fisher, Jr., and John T. Dori, *U.S. and Asia Statistical Handbook*, 1994 edition (Washington: Heritage Foundation, 1994), p.35; and Kari Huus, 'A scramble for status', *Far Eastern Economic Review*, 1 September 1994, pp.46-7.

<sup>10</sup> Zhongguo Kexueyuan Suliang Jingji yu Jixu Jingji Yanjiuso, 'Zhongguo jingji fazhan: 1993 nian tedian, 1994 nian zoushish zi yu guan duice' [China's economic development: the special characteristics of 1993 and the trends and policies of 1994], *Jingji yanjiu* 2 (February 1994), p.1.

<sup>11</sup> Central Intelligence Agency, Directorate of Intelligence, *China's Economy in 1993 and 1994: The Search for a Soft Landing* (Washington, D.C.: Central Intelligence Agency, 1994), p.18.

<sup>12</sup> For 1992 see Huang Tianzhong and Zhang Wuchiu, eds, *Liang'an guanshi yu dalu zhengci* [Cross-straits relations and mainland policy] (Taipei: Wunan Dushu Chuban Yuxian Gongsi, 1993), p.247. For 1993 see Sung K'o-han, 'A major event that will stimulate economic and trade relations between Taiwan and the mainland', *Jingbao* (Hong Kong) 201 (April 1994), p.80.

<sup>13</sup> 'Zhongguo jingji fazhan', p.2.

<sup>14</sup> *Ibid.*

<sup>15</sup> CIA, *China's Economy in 1993 and 1994*, p.9.

<sup>16</sup> The share of GDP from services rose from 20.6% in 1980 to 28.1% in 1989. See Lin Li, ed., 'Contradictions of the dual structure and economic development in the nineties', *Jingji yanjiu* 7 (20 July 1993), pp.3-14, translated in *JPRS Report: China*, JPRS-CAR-93-088 (14 December 1993), p.12. My assumption is that by 1994, given the great economic boom, the share of GDP from services has finally surpassed 30%.

Breaking a long-standing economic taboo, for the first time there was a free labour market for both enterprises and workers, meaning that since 1992 people in all walks of life, especially in the CCP and government, have begun changing their careers and abandoning their jobs to start businesses and work in the private sector, a practice called 'leaping into the sea' (*xiabai*). By mid-1992 as many as 120,000 persons had reportedly left public administration to work in the private sector.<sup>17</sup> Engineers and scientists in large numbers started new businesses, some 1,500 of them forming several hundred new companies in Tianjin.<sup>18</sup> Fifty professors from Zhejiang Provincial University became managers in new companies. In Beijing eighteen PhDs in science and engineering formed a consulting company for new companies. In Shantung's Yentai city a newspaper advertising for managers with master's degrees in business administration received 160,000 applications in one month, including many from CCP cadres, government officials, and even members of the CCP's central committee.<sup>19</sup> For the first time since 1949 people were not punished or harassed for leaving the Party and government to become self-employed or work for others to earn a profit.<sup>20</sup>

Leaping into the sea continued. Government ministries allowed public wealth to help new companies go into business at home and abroad. For example, the 999 Pharmaceutical Company, which had close links with the Chinese military establishment, was bringing in products through San Francisco, planning a factory in Florida, and negotiating a research venture in San Diego.<sup>21</sup> Chinese magazines reported the rags-to-riches transformations of many ordinary people.<sup>22</sup>

Needless to say, the regime had its own spin on this new phenomenon. On 7 January 1993, the *Economic Daily* stated:

Leaping into the sea is to march into the central battlefield of economic construction. In a deeper way, this term should be understood to mean the liber-

<sup>17</sup> *Ibid.*, p.5.

<sup>18</sup> *Ibid.*, p.40.

<sup>19</sup> *Ibid.*, p.42.

<sup>20</sup> *Ibid.*, p.90.

<sup>21</sup> E. S. Browning, 'China drug company with ties to military is expanding to U.S.', *Wall Street Journal*, 7 September 1994, p.A-8.

<sup>22</sup> Take the incredible story of Chang Ming-yü from Taiwan, who used US\$1,000 given him by his fiancée, went to Tientsin in 1992 and purchased 620,000 ha. of old salt fields. Several months later he was able to resell this land at a value many times what he originally paid, making him extremely wealthy. How an individual from Taiwan could buy public land on the mainland to resell at a profit is never explained in this report. See Huang Hui-chuan, 'Xiao zuben chuanguzao da zuchan' [Small capital creates great wealth], *Zhongsbi zhoukan* 139 (28 August-3 September 1994), pp.42-5.



ation of ideas, the development of human potential, and the promotion of more rapid growth and productivity. Liberating basic ideas is really the essential meaning of this term. Had it not been for the Party Central Committee's third plenum and eleventh meeting and Deng Xiaoping's southern tour, leaping into the sea would never have been possible.<sup>23</sup>

Movie stars and other entertainers also began leaping into the sea.<sup>24</sup> Liu Shaoqing, a female movie star, set up her own company, used her name to advertise its products, and then branched into real estate, becoming a millionaire. Writers and novelists organised companies, hoping to strike it rich. University students took part-time jobs and tried their hands at new enterprises. Those who succeeded were called 'the economic man on campus' (*xiaoyuan jingjiren*) instead of 'the big man on campus' (*xiaoyuan daban*). One student compiled a *Collection of Literature (Wengu)* and marketed it, earning 400,000 yuan, which enabled him to rent a hotel suite and come to classes in a taxi.<sup>25</sup>

The 1992–94 economic boom began as markets opened, foreign and domestic investment increased, the money supply expanded, and economic taboos ended. It overheated the economy but created new jobs and opportunities on a scale never before seen in China. Many publicly admitted that this 'take-off' would have been impossible without Deng Xiaoping's trip to the south in January 1992, which helped persuade the CCP leadership to chart a new direction for the economy.<sup>26</sup> And Deng's new vision appealed to the majority élites, who were weary and disillusioned with Mao's transformative dream of building a socialist Utopia through unending class struggle. Therefore, Deng's ability to persuade the CCP leaders and élite succeeded, with the Party committing itself to build a new economic system of a kind never before attempted in China.

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<sup>23</sup> Chen Ruying, ed., *Xiabai kuangchao* [The mania for leaping into the sea] (Beijing: Tuanjie Chubanshe, 1993), p.47.

<sup>24</sup> *Ibid.*, p.2.

<sup>25</sup> *Ibid.*, p.4.

<sup>26</sup> Suisheng Zhao, 'Deng Xiaoping's southern tour: élite politics in post-Tiananmen China', *Asian Survey* 33.8 (August 1993), pp.739–56. Zhao argues that Deng and Chen Yun were involved in a major power struggle to influence the Party's agenda and 'line' at the Fourteenth Party Congress, held in late 1992. To seize the moment, Deng orchestrated the southern tour and succeeded in eliciting CCP élite support for accelerating economic reform and building the socialist market economy, in essence rejecting Chen Yun's strategy to maintain a planned economy.

## *The Great Discourse and Experiment*

In a context of ideological, political and economic change the CCP leadership began building a new economic system that was neither planned nor capitalist, aided, in 1993–94, by the press, economic journals and the publishing industry, which examined every conceivable aspect of how the Party and government should create a socialist market economy and, particularly, how it should perform. At the same time, the State Council initiated experiments and economic reforms. These events can be reviewed under five key headings:

1. The normative standards needed to evaluate the performance of a socialist market economy.
2. The appropriate mixture of property rights.
3. How economic enterprises should be formed and behave.
4. How prices should be decided.
5. Which economic institutions are necessary to adjust and control the socialist market economy.

### 1. *Normative Standards*

Deng insists that socialism means a highly productive economy and that for too long Chinese socialism has had only poverty. But Deng also believes in a socialism without income polarisation, exploitation and poverty (but rarely mentions its effect on the environment). Taking their cue from Deng, many élites now stress that socialism means fairness and equality, not to mention equal opportunity.<sup>27</sup> In other words, developing socialism means enabling everyone to become wealthy at the same time, avoiding the income and wealth extremes of other societies and alleviating poverty.<sup>28</sup>

Left-wing élites, however, have attacked the stress on productive forces, saying that it neglects the 'ownership system, regime, and spiritual civilisation'. They argue that 'if the ownership system is just a means and means can be changed, then we can conclude that any ownership system, including public

<sup>27</sup> Yang Shujin, 'Zhongguo shehui zhui shichang wenti tantao' [An inquiry into the essence of the market economy system of Chinese socialism], *Jingji yanjiu* 5 (1994), pp.11–15.

<sup>28</sup> He Hui, 'New understanding of the essence of a socialist society', *Jingji shehui tizhi bijiao* 5 (10 August 1993), pp.53–6, translated in *JPRS Report: China*, JPRS-CAR-93-084 (23 November 1993), pp.1–4. He affirms the standards set forth by Deng but does not mention the environment.

ownership, and even the entire socialist system, can be changed'.<sup>29</sup> Still other critics of the reforms attacked efforts to construct a new system of ownership', complaining, 'Why do we have to hand them [publicly-owned enterprises] over to private ownership in order that they may belong to somebody?' Similarly, they disapprove of enterprises contracting in the market, pointing out that 'individual contractors have managed to be responsible for profits but never losses, so that the assets of many state-owned enterprises have been seriously eroded'.<sup>30</sup> They also resist any downsizing of publicly-owned enterprises.

Although such complaints represent a minority view, it is not known how deeply entrenched such resistance is and whether it can obstruct the ongoing reforms in the State Council. If the current economic boom can be sustained and controlled, and if the reforms produce prosperity without severe income inequality and unemployment, these leftist voices will be ignored. Should the reforms stumble, economic conditions worsen, and a power struggle erupt in the Party, however, these critics will be a force to be reckoned with. Meanwhile, a thornier issue is that of property rights.

## 2. *Property Rights*

The CCP under Mao tried to eliminate all private property, and not until the early 1980s did private enterprise and contracts, particularly of the long-term leasehold variety, revive in agriculture and flourish. The future for private property rights and contracts with private or foreign enterprises now seems bright as the leadership allows the growth of diversified forms of property rights. Recent surveys confirm that private enterprises are growing dynamically; a late-1993 survey of fifteen provinces found that early that year more than 150,000 enterprises were registered as private.<sup>31</sup> (However, 30% of this sample had close connections with publicly-owned firms.)

Surveys in 1994 found that between 1992 and 1993 the assets of private enterprises grew more rapidly than did those of collective and publicly-

<sup>29</sup> Zhang Qinduo, 'Standards for distinguishing between social systems', *Zhenli zhuixun* 11 (11 November 1993), pp.9-15, translated in *JPRS Report: China*, JPRS-CAR-93-090 (22 December 1993), p.1.

<sup>30</sup> Jiang Yifan, 'Without state enterprise, there is no socialism', *Zhenli zhuixun* 9 (11 September 1993), pp.6-9, translated in *JPRS Report: China*, JPRS-CAR-93-084 (23 November 1993), p.10.

<sup>31</sup> Bao Yueyang, 'Survey of privately owned enterprises in fifteen provinces reveals new features in developing China's private economy', *Jingji cankao bao*, 28 September 1993, p.1, translated in *JPRS Report: China*, JPRS-CAR-93-085 (30 November 1993), pp.28-9.

owned firms.<sup>32</sup> In some provinces, private enterprise increased its share of industrial output. In Guangdong province, for instance, private enterprises in 1991 produced 29% of gross industrial output, compared with 15% and 20% for state and collective industries,<sup>33</sup> and its production value grew 45% a year, compared with 71% from state and collective enterprises.

Some élites have criticised this new trend of private property rights, arguing that:

Absolutely exaggerating the role of productive forces and believing that once we have developed our productivity forces we would not slip to the capitalist road no matter what ownership system we have adopted, is as much a mistake as absolutely exaggerating the role of production relations and believing that with a large and collective organisation we would make the transition to a communist society despite our backward productive forces.<sup>34</sup>

In addition, many élites fear that affirming the appropriateness of diverse property rights will undermine public ownership of property. One critic asserted:

Integrating a basically socialist system and a market economy requires firmly upholding the position and leading role of the public ownership system. Firmly upholding the position and leading role of the public ownership system requires enlivening medium and large-sized, state-owned enterprises. This accords with the logic of theoretical and practical developments.<sup>35</sup>

Others, although denigrating the concept of private ownership,<sup>36</sup> have few

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<sup>32</sup> Cao Hong, 'Private businesses play a subsidiary role', *Cbina Daily*, 12 March 1994, p.4, translated in FBIS, *Daily Report: Cbina*, FBIS-CHI-94-050 (15 March 1994), p.58. See also Hu Deqiao, 'Positive progress in reform of property rights system', *Renmin ribao*, 25 February 1994, p.2, translated in FBIS, *Daily Report: Cbina*, FBIS-CHI-94-053 (18 March 1994), p.53.

<sup>33</sup> 'A new understanding of the private economy', *Inside Cbina Mainland* 16.2 (issue 182) (February 1994), p.40.

<sup>34</sup> Yun Xiliang, 'Comments on "ownership as a method, not an end"', *Zhenli zbitqiu* 13 (11 February 1994), pp.2-6, translated in *JPRS Report: Cbina*, JPRS-CAR-94-032 (17 May 1994), p.3.

<sup>35</sup> Wang Ruiyu, article in *Xuexi yu yanjiu* 4 (15 February 1994), pp.5-6, translated in *JPRS Report: Cbina*, JPRS-CAR-94-031 (13 May 1994), p.8.

<sup>36</sup> Liu Runwei, 'Clarifying the concept of "ownership mentality"', *Zhenli zbitqiu* 8 (11 August 1994), pp.26-7, translated in *JPRS Report: Cbina*, JPRS-CAR-93-079 (29 October 1993), pp.10-11. This Maoist, Utopian writer argues that community-shared wealth and ordinary people adhering to 'selfless spirituality' are the hallmarks of the natural, evolutionary course that socialist China should follow.

concrete suggestions for invigorating the debt-ridden, inefficient publicly-owned enterprises.

The debate continued about the optimal property rights mix for the new economy, and in 1993–94 leading economists convened to address the issue. Unable to agree on any overarching system, they concluded that 'ownership reform could go through a very long and difficult process, but the pace of reform must be accelerated'.<sup>37</sup> A majority agreed they should focus on developing a 'shared cooperative system' of property rights that could be legally defined, used in the market-place, and approved by Party theorists. These economists agreed that everyone must be educated to understand that 'property rights are sacred and inviolable', irrespective of the ownership system. They also agreed that as diverse forms of property rights evolved, both the state and the enterprise as well as the government and capital should be separate. Those conferences marked an important breakthrough, legitimating for the first time diverse forms of property rights but not identifying the socialist market economy with any particular form of property right.

There is, of course, already in China a system of shared or cooperative property rights as seen in county-township enterprises in manufacturing and services; in the villages, where a mix of private property, cooperative, and leasehold contracting operates; and in the small and medium industries and services of the cities. But the shift in the composition of property rights for industrial enterprises between 1980 and 1991 has been dramatic.<sup>38</sup> Thus, the true debate over property rights centres on the old state-owned enterprises, most of which were established before the 1980s.

The question becomes, then, how can the old state-owned enterprises be transformed into efficient, modern enterprises that have cooperative property rights alongside some public ownership? Somehow, property rights must be redefined. Another breakthrough occurred recently when commentators agreed that 'separating the ownership rights of investors and the property

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<sup>37</sup> Gao Lu, 'Call for reform of ownership, property rights—brief account of seventh, eighth symposiums at "Forum on China's market economy"', *Jingji ribao*, 2 November 1993, p.1, translated in *JPRS Report: China*, JPRS-CAR-94-006 (21 January 1994), pp.13–15.

<sup>38</sup> Fang Xiangdong, 'Enterprise reform under the existing economic pattern', *Jingji yanjiu* 5 (20 May 1993), pp.24–31, translated in *JPRS Report: China*, JPRS-CAR-93-069 (17 September 1993), p.1. Between 1980 and 1991 the output value of industrial enterprises under state ownership fell from 76% to 59.9%, while for township and county collective enterprises it rose from 9.9% to 25.6%. Individually-owned industries only accounted for 5.7% in 1991, but the percentage accounted for by services was much higher, though the precise figure even the authorities do not seem to know.

rights of the enterprise as legal person' was the key.<sup>39</sup> (Only in the last two years has the term 'legal person' become acceptable in this discourse.)<sup>40</sup>

As the dialogue evolved, the State Council adopted the following procedures for according the old, publicly-owned enterprises new property rights. First, all the assets of the old publicly-owned enterprises must be evaluated as well as their liabilities; having evaluated their net worth, the assets must be delineated, particularly if they are held by different forms of ownership such as merged enterprises and so on; and finally, the identified assets must be assigned to a new form of ownership. If the new ownership wants to trade those assets, markets, laws and professionals must manage the market transactions. Because more than 100,000 enterprises would be affected by these procedures,<sup>41</sup> the State Council decided to experiment to find the best means to carry out this monumental transfer of property rights in an effort to establish new, modern enterprises that would be productive, compete efficiently in the market, and not violate the normative standards for the socialist market economy.

### 3. Economic Organisations

Never has such a complex economic revolution taken place more peacefully or more rapidly than the one in China in 1993–94. At the heart of these reforms is the restructuring of the old state enterprises, of which a third are profitable, another third receive state subsidies to stay afloat, and the final third conceal their debt by accounting subterfuges.<sup>42</sup> The State Council has adopted various strategies to carry out this monumental restructuring: allowing state firms to

<sup>39</sup> Lu Dong, 'Corporate property rights for enterprises are the foundation for the modern enterprise system', *Jingji ribao*, 11 May 1994, pp.1–2, translated in *JPRS Report: China*, JPRS-CAR-94-041 (26 July 1994), p.12.

<sup>40</sup> According to Lu Dong, the term 'legal person' was used in reports emanating from the 3rd plenum of the Fourteenth Party Congress.

<sup>41</sup> *Ibid.* Many articles show that a consensus was emerging in 1993–94 on how to transform state-owned enterprises into new corporate entities and how to operate in the marketplace. See Guo Peng, 'Privatisation—key issues in enterprise reform in 1994—a conversation concerning establishing a modern enterprise system', *Jidian ribao*, 4 March 1994, p.2, translated in *JPRS Report: China*, JPRS-CAR-94-027 (2 May 1994), pp.4–6; also 'Reform and incorporation of large and midsize state enterprises', *Jingji gongzuo tongxun* 2 (30 January 1994), translated in *JPRS Report: China*, JPRS-CAR-94-026 (27 April 1994), pp.2–5.

<sup>42</sup> Jiang Yifan, 'Give strong emphasis to development of state owned enterprises', *Zhenli de zhuigqiu* 8 (10 August 1994), pp.21–3, translated in *JPRS Report: China*, JPRS-CAR-94-049 (14 October 1994), pp.1–2.

merge; allowing them to exit the market through bankruptcy; allowing them to adopt different property rights and management structures to operate in the market-place; experimenting with pilot projects to measure their assets and transfer those assets to new ownership-managerial forms; and allowing cities to intervene to assist them to operate in the market-place.

In 1993 some 6,226 enterprises had merged.<sup>43</sup> Although only 130 firms had been encouraged to exit the market through bankruptcy between 1989 and 1990, some 710 did so in 1993.<sup>44</sup>

By the end of 1993, China had over 10,300 experimental share-holding enterprises in all fields, with 182 joint-stock companies from more than twenty provinces and autonomous regions throughout China listed in Shanghai and Shenzhen, for an overall stock market value (for A shares) of about 400 billion yuan.<sup>45</sup>

In 1994 the State Council permitted 3,800 enterprises to experiment freely with three types of property rights arrangements: 47% chose to grant shares to their staff and workers; 46% assigned property rights to a legal person having limited liability; and 7% issued property rights to the public.<sup>46</sup>

Equally important, in the spring of 1994 the State Council—trying to find a way to reform the old enterprise structure by 1996–97—selected, as part of a pilot project, one hundred state enterprises that would then proceed to cut their ties with the state.<sup>47</sup> Various government departments and units valued the enterprises' assets and funds, delineated their property rights, liquidated their debts, and began seeking investor-owners. The State Council then designated certain commodities and the enterprises that produced and distributed them as 'state-owned cooperatives'. Most firms in the project, however, are being reorganised as limited-liability companies (legal persons), and only a few will become stake-holding companies, monopolising an industry or

<sup>43</sup> Hu Deqiao, 'Storming the fortifications: reform of China's property rights system', *Zhongguo guoqing guoli* 3 (28 March 1994), pp.12–13, translated in *JPRS Report: China*, JPRS-CAR-94-038 (28 June 1994), p.7.

<sup>44</sup> Wang Wuyi, 'Analyzing factors influencing the bankruptcies of China's state-owned enterprises', *Jingji yanjiu* 6 (20 June 1994), pp.41–7, translated in *JPRS Report: China*, JPRS-CAR-94-045 (19 August 1994), p.18.

<sup>45</sup> Hu Deqiao, 'Storming the fortifications'.

<sup>46</sup> Interview in *Zhongguo gaige* 2 (13 February 1994), pp.11–13, translated in FBIS, *Daily Report: China*, FBIS-CHI-94-053 (15 March 1994), p.51.

<sup>47</sup> Bai Yingzi, '100 Pilot-project enterprises engage in key endeavor to set up a modern enterprise system', *Qiye guanli* 152 (1 April 1994), pp.9–10, translated in *JPRS Report: China*, JPRS-CAR-94-038 (28 June 1994), pp.9–11.

merging with a group of enterprises.<sup>48</sup> The State Council also drafted guidelines for new administrative structures, as follows: shareholders, board of directors, board of supervisors, and managers, each having specific functions of oversight, executive authority, accountability, and so forth.

Meanwhile, the State Council surveyed the state assets and funds of ten thousand ageing, publicly-owned enterprises in 1993 and planned to do the same for another ten thousand in 1994.<sup>49</sup> The Council, which used more than one thousand accounting and auditing agencies in the country to provide asset evaluation services, designed and authorised enterprise asset evaluation certificates for each surveyed enterprise.

In early 1994 the State Council began another experiment using 3,199 large and medium-sized state industrial enterprises in ten cities.<sup>50</sup> With government help, city officials are guiding these firms to reduce their debt, eliminate excessive functions, modernise, and, finally, if necessary, prepare for bankruptcy. Because cities depend on key state enterprises, the government hopes they can render direct and immediate help to struggling firms, bringing ageing state enterprises into the new market economy. In an experiment in late August 1994, the State Council also tried to reduce the debt of state enterprises in eighteen cities.<sup>51</sup> Thus, in a variety of experiments—attrition, direct government support, city assistance, and evaluating state enterprise assets—the State Council has been pressing to change the property rights, ownership, and management of publicly-owned enterprises.

Can the political leadership continue its reform and establish a modern corporate sector, dependent solely on the market, whose diverse ownership will satisfy the critics who fear the withering away of public ownership? The intent to reform exists; the CCP has empowered the State Council to reform

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<sup>48</sup> *Ibid.*, p.11.

<sup>49</sup> Wang Haiyan, 'The current problem of enterprise losses and its solutions', *Jingji wenti tansuo* 2 (February 1994), pp.14–15, translated in *JPRS Report: China*, JPRS-CAR-94-033 24 (May 1994), p.9.

<sup>50</sup> 'Leaders speak—optimise capital structure, increase enterprise strength, strive to do a good job with large and medium-sized state enterprises—speech given by state Economic and Trade Commission Director Wang Zhongyu', *Jingji gongzuo tongxun* 6 (30 March 1994), pp.9–11, translated in *JPRS Report: China*, JPRS-CAR-94-038 (28 June 1994), p.5.

<sup>51</sup> Sun Shangwu, 'State farms need aid for good of economy', *China Daily* (9 September 1994), p.1, translated in FBIS, *Daily Report: China*, FBIS-CHI-94-175 (9 September 1994), p.51. See also 'Report on current events', Beijing China Radio International in Mandarin to Asia 0900 GMT, 27 August 1994, translated in FBIS, *Daily Report: China*, FBIS-CHI-94-168 (30 August 1994), p.34.



the urban, state-owned enterprises. But élite fears persist that expanding shareholder ownership and allowing excessive privatisation will destroy the essential character of this socialist system. In 1994, Liu Guoguan, a respected economist-reformer, addressed those fears:

If only the state can maintain its position as the holder of controlling shares in terms of the total amount of a corporation's capital, the leading role of the state sector will not only not be weakened but will be strengthened, and the impact of the state sector will also expand.<sup>52</sup>

But when the newly created shareholding companies began operating in 1993, the value and profit of their assets greatly increased.<sup>53</sup> By the end of 1993 there were some 9,440 new shareholding enterprises, of which 2,968 were limited stock companies, 6,472 were limited liability companies, and 1,776 were internally held stock companies. Did the government control sufficient stock in those firms to ensure that the state would not be enfeebled but strengthened (Liu's standard)? We as yet lack the information to answer this, for it is too early to evaluate whether the property rights of the modern corporate system now evolving, along with a refurbished state enterprise system, will be greatly or lightly controlled by the state. If in the next six years this transformation occurs as the State Council anticipates, it will be a remarkable transition indeed. Although it is too early to predict success, it is a vision of great significance and magnitude.

#### 4. *The Price System*

By the end of 1992, the government controlled the retail prices of only 5.9% of commodities in society, the prices of 12.5% of all agricultural products sold by farmers to the state, and the prices of 18.7% of capital goods sold by industrial enterprises.<sup>54</sup> At the same time, the industrial products that farmers could purchase with the same (1978) basket of farm goods increased by

<sup>52</sup> 'Construct solid actors in the socialist market economy—an interview with Professor Liu Guoguan, a prominent economist', *Gaige* 1 (20 January 1994), pp.5-9, translated in *JPRS Report: China*, JPRS-CAR-94-018 (18 March 1994), p.13.

<sup>53</sup> Xiao Feng, 'The shareholding system reform achieves eight types of progress in '93—throughout the nation there are nearly 10,000 newly added shareholding enterprises, reaching a grand total of more than 13,000', *Zhongguo xinxi bao* (4 March 1994), p.1, translated in *JPRS Report: China*, JPRS-CAR-94-035 (3 June 1994), p.9.

<sup>54</sup> Zou Xiangqun, 'Words written at the top—how can the government manage price?', *Jingji ribao*, 8 April 1994, pp.1-2, translated in *JPRS Report: China*, JPRS-CAR-94-036 (10 June 1994), p.17.

60.9%, and some 95% of the price of imported goods bore a direct relationship to international market prices. The majority of goods and services (except those provided by the state) are now determined by market forces.

Chinese officials complain that speculation, hoarding, and a lack of market integration distort the price allocation system; for example, steel firms expand their supply when investment inflates in response to demand from the construction industry and then suffer high inventories when the construction price boom collapses.<sup>55</sup> These officials hope, however, that as markets integrate and consumers pay the full price to use the market-place, price volatility will recede. Prices for energy, railroad transportation and other services are subsidised by the state rather than increased to cover costs. Until per capita income rises, the state will continue to keep prices low.

For the foreseeable future, then, the state will monitor prices, fix prices of critical goods and services, and stockpile grain, petroleum, and other goods in anticipation of possible future scarcities.<sup>56</sup> But the political leaders now depend on the market to improve productivity, increase supply, generate income, and teach enterprises how to organise and earn profits.

### 5. *Economic Institutions*

If prices are now primarily determined by the domestic and global economy, what macro-reforms are needed to manage this socialist market economy? Experts and élites realise that the fiscal and monetary institutions that served the planned economy must be reformed and that new institutions must be created to manage the market system. First, the fiscal system must be made to match up with the evolving market economy.<sup>57</sup> Tax experts acknowledge that the present fiscal system lacks uniformity, fairness and efficiency, with

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<sup>55</sup> Ibid.

<sup>56</sup> Ibid., p.19. This official explains that the state will maintain a 'reserve system for important commodities such as grain, cotton, and petroleum' to use in the market to regulate prices. The state will also have an 'adjustment fund for the prices of grain and nonstaple foods to be used to reduce prices when large increases or declines occur in their prices'. The state will try to regulate and encourage fair market competition through laws and their enforcement. A system will be established to provide price information. The state also must encourage enterprises to utilise the market more effectively, and the state will intervene in the market to protect consumers and ensure the supply of essential capital goods. The State Council already monitors the prices of twenty commodities and services vitally affecting living standards.

<sup>57</sup> Lou Jiwei and Li Keping, 'Basic approach for building a new macro-economic regulation and control, and a state-owned assets management system', *Gaige* 5 (20 September 1993), pp.18-29, translated in *JPRS Report: China*, JPRS-CAR-93-091 (29 December 1993), pp.10-20.

one official allowing that more than one-third of the country's 500,000 tax-collecting officials supervise a private sector that yields only 8% of industrial and commercial tax revenue.<sup>58</sup> To make matters worse, the new enterprises and specialised markets are grossly undertaxed, and the country has no unified income tax code for households and enterprises. Even so, a new income tax passed in 1994 established a '35%–50% progressive tax rate on excess profits earned by individually-owned workshops and stores and giving special care to low-income earners'.<sup>59</sup>

By devoting its efforts toward reform and supporting the ageing state enterprises which had generated most of the government's income, the state has neglected to instruct central and local administrations in how to tax and collect tax revenues.<sup>60</sup> Therefore, with state expenditure exceeding tax revenue, the state feverishly now tries to tax the dynamic parts of the Chinese economy in an effort to cool inflation as well as to expand the tax base and increase tax revenue. For example, to deal with skyrocketing land values and real estate speculation, the State Council announced a high value-added tax that calls for taxing a land developer's sales as well as the profits realised by appreciating market value: 'If the value added on the property's sale price is below 50%, the value-added tax is 30% of the value added and rises progressively until the value-added tax is 60%'.<sup>61</sup> In early 1994 the State Council also passed an industrial and commercial tax law setting the enterprise income tax rate at 33% (compared with an earlier 55% proportional rate). (To show consideration to small firms, two lower tax rates were set.)<sup>62</sup> The new tax also

<sup>58</sup> 'Individual tax collection and administration faces new circumstances and new problems—record of conversation with ranking person in the Collection and Administration Department, State Administration of Taxation', *Zhongguo shuiwu bao*, 19 July 1993, pp.1–2, translated in *JPRS Report: China*, JPRS-CAR-93-073 (30 September 1993), p.24.

<sup>59</sup> Wang Shujie, 'A study of adjustment to make some people better off first and to achieve common prosperity', *Caimao jingji* 5 (11 May 1994), pp.311–33, translated in *JPRS Report: China*, JPRS-CAR-94-045 (19 August 1994), p.40.

<sup>60</sup> Zhang Wen, 'Perfecting the taxation system: effectively dealing with the relations in the intended tax assignment system', *Tangtai* 35 (15 February 1994), translated in *JPRS Report: China*, JPRS-CAR-94-034 (26 May 1994), p.13.

<sup>61</sup> K'ung P'u, 'Two different choices the mainland faces today', *Cbitu-shib nien-tai* 3 (1 March 1994), pp.42–3, translated in *JPRS Report: China*, JPRS-CAR-94-031 (13 May 1994), p.26.

<sup>62</sup> Zan Fuxiang, 'The new features of the new industrial and commercial tax system', *Jidian ribao*, 2 April 1994, p.2, translated in *JPRS Report: China*, JPRS-CAR-94-033 (24 May 1994), pp.33–4.

aimed at delimiting jurisdiction over central and local revenue and tax management and imposed value-added taxes on commodities. This complex example of fiscal streamlining and unification, which requires more analysis than space allows here, reflects the State Council's efforts to modernise the fiscal system while trying to control severe inflation.

Similarly, special banking studies were being undertaken that would reform the banks and build a more effective central banking system.<sup>63</sup> In August 1993 the State Council agreed that state banks should begin the transition to becoming commercial banks, able to operate in the market economy. By December 1994 that important reform had not yet taken place, perhaps stymied by the vested interest groups within the banking system that oppose such a reform.<sup>64</sup> The State Council also studied ways to improve non-bank financial institutions and develop a capital market where corporate stock could be exchanged and corporate bonds issued and purchased.<sup>65</sup> An important breakthrough occurred in early 1994, when, as mentioned earlier, the PRC moved from the old dual exchange rate system to a single exchange rate,<sup>66</sup> reducing the turnover of foreign exchange and increasing its supply. (The foreign exchange certificates of the former system were reclaimed.) The state established an interbank foreign exchange market in five major cities, and other cities entered the system after 1 April 1994. These actions reveal a state determined to improve the operation of its domestic and foreign financial markets to attract foreign investment.<sup>67</sup> Finally, plans are underway for a new

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<sup>63</sup> Xie Ping, 'On reform of the specialized banks', *Jingji yanjiu* 2 (2 February 1994), pp.22-8, translated in *JPRS Report: China*, JPRS-CAR-94-033 (24 May 1994), pp.6-33.

<sup>64</sup> This information is based on conversations with the Chinese economist Wu Jinglian of the State Council's Development Research Center.

<sup>65</sup> Li Yang, 'Establishing a highly efficient capital market is an important component of financial reform', *Jingji cankao bao*, 15 February 1994, p.4, translated in *JPRS Report: China*, JPRS-CAR-94-024 (15 April 1994), pp.20-2. There is no mention of the serious indebtedness of banks as they index depositors' accounts while paying inflationary interest rates of 22% to 26% but charge low interest rates of 8% to 10% on their loans. If this is a ticking time-bomb of possible banking collapse, the economic reforms indeed rest on shaky financial foundations.

<sup>66</sup> Wang Zhi, 'Reform of the exchange rate system moves into high gear', *Jingji ribao*, 1 April 1994, p.3, translated in *JPRS Report: China*, JPRS-CAR-94-037 (17 June 1994), pp.23-4.

<sup>67</sup> For other financial reforms, see discussions of the Central Bank's new open market operations in Liu Keqian and Zhang Fengxi, 'Open market operations—a major reform of China's Central Bank regulation and control of the money supply', *Liaowang* 14 (4 April 1994), pp.10-11, translated in *JPRS Report: China*, JPRS-CAR-94-037 (17 June 1994), pp.37-9.

social security system to replace the rapidly disappearing Maoist-type corporate enterprise and 'unit' (*danwei*) system of social welfare imbedded in the old state enterprises.<sup>68</sup>

The discussions, studies and reforms of fiscal, financial and monetary institutions of the last two years attest to the CCP's vigorous determination to establish new economic institutions, facilitate an expanding market economy, and avoid market failures. This socialist state will intervene in the market whenever the experts and authorities are convinced it is necessary. Equally important, the current dialogue and experiments aim to improve financial markets and expand their operations in urban and rural China. If these economic reforms succeed, by the year 2000 the Chinese economy will resume the structure and form of Taiwan's economy in the 1970s. In other words, the CCP's socialist market economy is nothing more than the Sun Yat-sen-style state-guided market economy to guarantee the people's welfare (*minsheng*), which the Guomintang accomplished in the Republic of China on Taiwan.

### *Some Reflections*

The concept of a socialist market economy is an oxymoron in Western parlance, but to the Chinese, such phrases convey imagination, visionary undertakings, and paradoxes, as well as contradictions. By adding *Chinese characteristics* to that socialist market economy, the Chinese remind us that culture counts and that we devalue it at our peril. Failing to understand the values, orientations and feelings of the Chinese leadership means misinterpreting or misunderstanding what the Chinese say. A new economic system now evolves before our eyes. The old planned economy is dead; yet capitalism as defined by private-property-dominated enterprises does not exist. What kind of property rights and state controls will characterise the economic sector by the year 2000 will determine whether this so-called socialist market economy can perform according to the standards of its founders.

The complex dialogue of the past few years is intelligent, analytic, usually devoid of ideology, and deadly serious. That dialogue contains a strong normative rhetoric on how the new economy should behave—namely, it

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<sup>68</sup> Joint Project Research of the Zhejiang Provincial Department of Finance and the Scientific Research Institute of the Ministry of Finance, 'A study of improvement of enterprises' social security system', *Catsheng yanjiu* 7 (5 July 1994), pp.15–21, translated in *JPRS Report: China*, JPRS-CAR-94-050 (21 October 1994), pp.19–25.

should be productive and innovative but be competitive and not produce greater income inequality. The Chinese have been making normative statements for the past five thousand years and are not about to change as the twenty-first century approaches.<sup>69</sup> At the same time, the discourse reveals a refreshingly open, honest appraisal of current problems, past mistakes, and the challenging alternatives that loom ahead. Experienced officials, economic experts, and scholars freely ventilate their views. Differences of opinion are tolerated; critical evaluations flourish. Yet there is an optimism, sometimes bordering on Utopianism, that the nation can achieve the impossible by avoiding the pathologies associated with a planned economy and a capitalist market economy.

This discourse also covers nearly all aspects of a market economy, as the above review suggests, except how losers in the market will exit and how productive forces can be expected to expand unlimitedly. One senses that the Chinese have only recently discovered the wonders of the market-place and recognised its advantages. It is not always clear that they understand the costs of using the market-place (what Ronald H. Coase refers to as those different transaction costs that must be handled by creating institutions, organisations, and so forth, either within the enterprise or external to it). But they are gradually realising that markets must be created, because without them it is impossible to modernise and expand the forces of production.

In-depth study and review, conferences of experts and officials, and pilot projects as well as large-scale government experiments in 1993 and 1994 will, it is hoped, pave the way for a socialist market economy by the year 2000. The scale and complexity of these experiments are prodigious and extend to all the major cities of the country and beyond; at their core is the conversion of tens of thousands of state-owned enterprises into modern corporations functioning in different markets. There seems to be a consensus of the State Council, its experts, and supporting research institutes on the sequence of procedures necessary to implement the difficult transfer of state-enterprise property rights to new forms of legal property rights. Many of these procedures have already begun, with much of their success depending on a complete and accurate assessment of enterprise assets. If such nationwide procedures falter or are incomplete, like the many land-ownership surveys in the imperial era, the reforms will fail.

Then there is the possibility that the economy will be mismanaged because

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<sup>69</sup> These observations owe much to my conversations with Thomas Metzger over the years.

of human error, unpredictable social disturbances, natural disasters, or unforeseen national and international crises and political reversals. Meanwhile, enemies of reform express their views in the ongoing discourse by criticising the reforms' ideological impurity and emphasising that serious socioeconomic troubles could overwhelm the leadership. In late summer 1994, a group of CCP conservatives hostile to the reforms met in Zhengzhou city, Honan province, to publicise, through articles and speeches, how Deng's socialist market economy has undermined socialism's foundations—public ownership and common prosperity.<sup>70</sup> One article in the press, written by an academic sympathetic to Maoist ideas, complained that 'some people have disregarded the national situation and borrowed the capitalist market economy in its entirety'.<sup>71</sup>

In the fall of 1994 a book entitled *Looking at China through a Third Eye* was published by Shanxi Province Publishing House but was immediately banned and withdrawn.<sup>72</sup> The author, whose name transliterated from Mandarin is Luo Yi Ningeer, allegedly a famous German Sinologist, is unknown in China. The book describes a Chinese economy out of control, swamped by hundreds of millions of rural people looking for work, and a society in which socialist values are fast disappearing and the institutions that kept the rural people on the land fast breaking down.<sup>73</sup> Other such predictions of gloom are frequently sounded in the PRC. Critics of the Deng reforms predict disaster, and democracy activists complain that the emerging market system must make rapid political reforms or the country will be swept away by crises. The complaints of the right and the left feed hysterical rumours and highlight only the dark sides of Chinese society.

No communist-party-ruled country has yet successfully made the transition from socialism to a prosperous, stable and democratic society without

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<sup>70</sup> Willy Wo-lap Lam, 'Leading conservatives reportedly discuss reversing reforms', *South China Morning Post*, 6 September 1994, pp.1, 10, translated in FBIS, *Daily Report: China*, FBIS-CHI-94-172 (6 September 1994), p.43.

<sup>71</sup> *Ibid.*

<sup>72</sup> Patrick E. Tyler, 'Bold book tells a tale of change in China', *New York Times*, 9 October 1994, p.10-Y.

<sup>73</sup> See Joseph Fewsmith's review of Luo Yi Ningeer, 'Disanzhi yanjing kan Zhongguo' [Looking at China through a third eye], in *Journal of Contemporary China* 7 (Fall 1994), pp.100–4. The book's core thesis is the following, according to Fewsmith: 'The reform period has corroded faith in Marxism/Leninism, undermined the power and authority of the party and state, and unleashed a host of social problems—including corruption, crime, economic polarisation, and moral decay—that the government, given its weakened authority, is increasingly unable to deal with'.

experiencing enormous political and economic difficulties. Observing the collapse of the Soviet Union and the chaos that followed in 1989–90, the CCP leadership became convinced that the Soviet Communist Party had lost control because it failed to develop a productive economy that provided prosperity for its people and strong national security.<sup>74</sup> How to make this transition has so far eluded every Marxist regime in the twentieth century. But Marxist regimes are not the only societies confronting awesome challenges. Western societies also seek a middle path between a state-dominated socialism and a privatised market economy to revitalise economies with declining standards of civilisation and deep human alienation.

Minxing Pei argues that communist systems have great difficulty making a transition to the new because their leaders rely on 'the existing institutions of the communist party-state to serve as the instruments of change'.<sup>75</sup> According to Pei, a successful transition from communism requires that communist reformers correctly sequence their reforms and build new institutions. They must also build social and political support for the changes they promote. So far, the PRC's leaders and élite have fulfilled these tasks, but they should also learn from the successful Taiwan modernisation and democratisation experience.

Through the ages, China has stood apart from other civilisations. When unified, its leadership has been characterised by a powerful ruler striving to project a sage-like image, a bureaucracy regulating the society and economy, and an élite debating how to perfect a moral society based on sacred, moral principles rooted in Confucianism. Central to this debate was how to organise the leadership's relationship to the society and the economy: whether to allow the society to become differentiated, market-oriented and pluralistic in its thoughts and institutions, or whether to make it communal, simple in lifestyle, and monodoctrinal in thought and beliefs. According to Thomas A. Metzger, these competing visions shared by China's élites originated from Confucianism and, respectively, were accommodative of the outer world or transformative of that same world.<sup>76</sup>

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<sup>74</sup> Jialin Zhang, 'China's response to the downfall of communism in Eastern Europe and the Soviet Union', *Essays in Public Policy*, no.48 (Stanford, Calif.: Hoover Institution Press, 1994), p.26.

<sup>75</sup> See in particular Minxin Pei, *From Reform to Revolution: The Demise of Communism in China and the Soviet Union* (Cambridge, Mass.: Harvard University Press, 1994), pp.205–6.

<sup>76</sup> For the articulation of these concepts see Thomas A. Metzger, *Escape from Predicament: Neo-Confucianism and China's Evolving Political Culture* (New York: Columbia University Press, 1977). The discussion developed here is principally based on the conceptualisation and research of Metzger.



But through the ages, various individuals violently installed themselves as emperors and either used radical means to transform the society and human beliefs or relied on gradual, flexible means to permit society to evolve but under the watchful eye of the state. At the same time, these rulers and élites tried to impose their absolute, personalised authority on society by appealing to ideology and arbitrarily using their power.<sup>77</sup> For these complex reasons, Chinese society never established any basic rules in the polity independent of the ruling authority and the power holders. Without such rules and perpetually embracing institutions and a culture that guaranteed the arbitrary use of power by the ruler and élite, Chinese rulers and élite through the millennia vacillated between transformative and accommodative patterns of thinking and policy-making.

A major reason China's rulers and élite never broke out from the cycles of autocracy and chaos was that they never evaluated and analysed in any pragmatic, non-Utopian and rational way how to establish a rule-compliant polity, society and economy. It is remarkable, then, that only the Chinese society of Taiwan under Guomindang rule made the successful transition to modernity and a consolidated democracy.<sup>78</sup> After 1950 the KMT created the basic rules enabling the society first to build a market economy along with an ideological market-place, followed in the mid-1980s by a political market-place. By correctly sequencing these developments, establishing rules, building new political, educational and economic institutions, and winning social support, Taiwan began to behave in a rule-abiding way. Enough élites became pragmatic and non-Utopian to assist the ruling party to carry out its modernisation mission.<sup>79</sup> The Guomindang, having learned bitter lessons from its defeat by the CCP, reorganised itself and adopted an instrumental rationality that emphasised rule-compliance in policy-making and institution-building.<sup>80</sup>

The key question for the PRC is whether the CCP leaders and the élites,

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<sup>77</sup> For a good account of this Chinese pattern of autocratic rule, see Zhengyuan Fu, *Autocratic Tradition and Chinese Politics* (Cambridge: Cambridge University Press, 1993).

<sup>78</sup> Linda Chao and Ramon H. Myers, 'The first Chinese democracy: political development of the Republic of China on Taiwan, 1986-1994', *Asian Survey* 34.3 (March 1994), pp.213-29.

<sup>79</sup> See Thomas A. Metzger and Ramon H. Myers, 'Two diverging societies', in Ramon H. Myers, ed., *Two Societies in Opposition: the Republic of China and the People's Republic of China After Forty Years* (Stanford, Calif.: Hoover Institution Press, 1991), pp.xiii-xiv.

<sup>80</sup> Thomas A. Metzger, 'The Chinese reconciliation of moral-sacred values with modern pluralism: political discourse in the ROC, 1949-1989', in Myers, *Two Societies in Opposition*, pp.3-56.

at the present historical crossroads, can adopt a similar mindset and in a sober, pragmatic, realistic way build a new economic system. Or will the élite and opponents subject the current reforms to Utopian standards and try to delegitimise the reformers and their reforms, thus plunging the country into power struggle and possible chaos? If the CCP's rulers and élite can establish rules and institutions to build a new market economy and, eventually, ideological and political market-places, China just might escape disaster.

### THE GEORGE ERNEST MORRISON LECTURE IN ETHNOLOGY

The George Ernest Morrison Lecture was founded by Chinese residents in Australia and others in honour of the late Dr G. E. Morrison, a native of Geelong, Victoria, Australia.

The objects of the foundation of the lectureship were to honour for all time the memory of a great Australian who rendered valuable services to China, and to improve cultural relations between China and Australia. The foundation of the lectureship had the official support of the Chinese Consulate-General, and was due, in particular, to the efforts of Mr William Liu, merchant, of Sydney, Mr William Ah Ket, barrister, of Melbourne, and Mr F. J. Quinlan and Sir Colin MacKenzie of Canberra. From the time of its inception until 1948 the lecture was associated with the Australian Institute of Anatomy, but in the latter year the responsibility for the management of the lectureship was taken over by the Australian National University, and the lectures delivered since then have been given under the auspices of that University.

#### *The following lectures have been delivered:*

- Inaugural: Dr W. P. Chen (Consul-General for China in Australia), *The Objects of the Foundation of the Lectureship, and a Review of Dr Morrison's Life in China*, 10 May 1932
- 2nd: W. Ah Ket (Barrister at Law), *Eastern Thought, with More Particular Reference to Confucius*, 3 May 1933
- 3rd: J. S. MacDonald (Director, National Art Gallery, New South Wales), *The History and Development of Chinese Art*, 3 May 1934
- 4th: Dr W. P. Chen (Consul-General for China in Australia), *The New Culture Movement in China*, 10 May 1935

- 5th: Dr Wu Lien-teh (Director, National Quarantine Service, China), *Reminiscences of George E. Morrison; and Chinese Abroad*, 2 September 1936
- 6th: Dr Chun-jien Pae (Consul-General for the Republic of China), *China Today: with Special Reference to Higher Education*, 4 May 1937
- 7th: A. F. Barker (Professor of Textile Industries, Chiao-tung University, Shanghai, China), *The Impact of Western Industrialism on China*, 17 May 1938
- 8th: Professor S. H. Roberts (Vice-Chancellor of the University of Sydney), *The Gifts of the Old China to the New*, 5 June 1939
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