

enterprise reform cannot begin until this burden is removed from these establishments.

Finally, while reformers have moved to break the iron rice bowl by providing new state sector employees with jobs on a contract basis rather than for life, virtually no other progress has been made in the area of labour market reform. Most workers continue to be assigned jobs, and movement between geographical areas remains highly restricted. Even movement between enterprises within one geographical area is difficult, because of non-transferability (or non-portability) of accumulated non-wage benefits and housing. While workers can now be fired, at least theoretically, it remains difficult for most to change jobs of their own volition. These suggest three areas of primary focus: conversion of non-wage benefits into wages and the separation of services provided by enterprises; further gradual relaxation of the labour allocation system; and continued attention to the removal of anti-employment policies, especially those that encourage high capital/labour ratios, such as low input prices and interest rates, and policies that discriminate against township and village enterprises.

5. The Chinese Way: Some Conclusions on Economic Reform

It is clear that the Chinese approach has worked well given the initial conditions under which it was launched. This is not to say, however, that the outcome was optimal. Significant resource misallocation persists in the strict economic sense. It must also be stressed that several of the key favourable features of China's initial conditions at the start of the reform process were the absence of a need for harsh macroeconomic stabilization measures, the absence of simultaneous external shocks, and ample room for agricultural growth and industrial development outside the state-controlled system of production. That said, there would appear to be five key features that contributed to the success of the Chinese reform experience which may have some wider applicability, and that are independent of conditions that are unique both to China and its approach to reform.

5.1 Key Features

At the start of the reform program, China had built an extensive industrial base, but was nevertheless fundamentally a rural economy. Moreover, a reasonable technical/infrastructural base had been developed in the agricultural sector, but growth was stunted by a lack of incentives. It was thus ripe to respond to radical reform. These factors supported the appropriateness of the decision to use agriculture as the critical entry point for the reform process. Not only did agriculture respond rapidly, but it generated the rural savings and surplus labour necessary to launch the next phase of reform, and created a constituency for reform.