

eventually caused economic growth to stagnate. Moreover, China's economic development suffered serious setbacks as a result of the Great Leap Forward of the 1950s and the Cultural Revolution of the 1960s and 1970s. The leadership group led by Deng Xiaoping which took control following Mao Zedong's death realized, as does the next generation of Chinese leaders, that the survival of the Chinese Communist Party depends on raising living standards. Soon after ascending to power, Deng initiated China's economic reform program and opening to the outside world.<sup>22</sup>

The Chinese economy achieved impressive results after the reform process was initiated, with real GDP growth averaging 9.4 per cent per annum since 1980. The economic reform period has been characterized by a recurring boom/bust cycle. Periods of rapid economic growth, accompanied by macroeconomic imbalances and high inflation, were only arrested when the central government imposed corrective austerity programs. The most serious episode took place in 1988 when soaring inflation, increasing corruption and a deteriorating trade balance, forced the government to introduce a comprehensive austerity program that sent the economy into recession in 1990. Concerns about declining output, state enterprise losses and growing unemployment forced the government to begin reflating the economy and led Deng to initiate the latest round of economic reform and rapid growth. Subsequently, the Chinese economy has been growing at a rapid pace, with GDP increasing at an average rate of about 11 per cent per annum since the last quarter of 1990.

The leadership cadre is now attempting, *inter alia*, to develop the instruments and institutions needed to conduct fiscal and monetary policy, renegotiate the fiscal relationship between the central and provincial governments, and address the issues of state enterprise reform and regional disparities. The leadership hopes that China can grow out of these problems. It has only moved to restrain economic growth when it appeared that the economy was in danger of 'overheating', and then only modestly and temporarily. The leadership is well aware of the precariousness of their position, that stability requires continued economic growth, and that continued growth requires stability.

The importance of trade to the overall structure of the Chinese economy has increased markedly over the course of the reform period. Exports as a percentage of GDP increased from 6.5 per cent of GDP in 1980 to 17.5 per cent in 1990, while

---

<sup>22</sup> For a more detailed review of China's reform experience, see World Bank Country Study, Reform and the Role of the Plan in the 1990s, World Bank, Washington, 1990; or Stephen Lavergne, "China 2000: The Nature of Growth and Canada's Economic Interests", Department of Foreign Affairs and International Trade, Policy Staff Paper No. 94/10, May 1994.