

date, Chinese policy makers have generally responded to the problems arising out of the reform experience by introducing new, and deepening existing, reforms. This suggests that, as new problems emerge, reformers will respond with more reform, so that deep crises are avoided. The approach may be sustainable if China "grows out" of its problems. China's use of "marketization" and the vigorous development of the nonstate sector has proved to be quite successful. That said, the program's sustainability will depend on the solutions that Chinese reformers develop with regard to the unfinished reform agenda outlined in greater detail in section 4 above.⁴⁸

The sustainability of the process is also dependent on continued political stability. Stability requires economic growth, but growth also requires stability. The post Deng period could prove fatal to the continuation of the reform process if decision making grinds to a halt either as the result of covert or overt factional infighting at the leadership level. Presumably, that is why the "reform" contingent in the leadership cadre is attempting to push economic reform as far as possible, and entrench it, before Deng dies.

6. China 2000

6.1 The Size of China's Economy Today: Depends on Who You Ask

Converting figures from Renminbi to dollars gives a misleading and downwardly distorted picture of the true size of the Chinese economy. The existence of multiple exchange rates prior to 1994 made a true approximation difficult. Moreover, the average level of prices and, more importantly, the relative prices of many goods and services, particularly necessities, are low. As price reform expands, and the use of fixed prices is reduced, the degree of distortion should decline.

While China remains a relatively poor country, the typical standard of living is substantially higher than that suggested by a per capita income of US \$369. The use of purchasing power parity (PPP) exchange rates to make conversions for use in cross-country comparisons is an attempt to account for differences in relative prices.⁴⁹

⁴⁸ See K.C. Yeh, "Macroeconomic Issues in China in the 1990s", in The China Quarterly, No. 131, U.K., September 1992, pp. 501-44.

⁴⁹ PPP exchange rates are simply the ratio of prices of a product or bundle of products in China relative to the price of the same product(s) in another country. But the calculation of PPP exchange rates for bundles of products is complex. Systems have to be devised to weigh each product in the bundle and to ensure that the average price for each product represents regional variations, important in the case of a country such as China. Variations in quality should also be taken into account.