On the right track
Author's return visit

China's decade of economic reforms

by Gordon F. Boreham

In August 1981 the author travelled to the People's Republic of China in the company of seventeen Canadian academics with different backgrounds. This group visited factories, plantations, communes, schools, hospitals and private homes in Guangzhow (Canton), Hangzhou, Xian, Loyang, Beijing (Peking) and Shanghai. In May 1987 he revisited China under the aegis of the People to People International program, established in 1956 by US President Dwight D. Eisenhower. Professor Boreham was the only Canadian in a 41-member party of economists, mostly from the United States, chosen to look at economic reforms in China. Besides visiting many industrial sites, this group met with academics, government officials and representatives from organizations concerned with investment in China and China foreign trade in the cities of Beijing, Dalian, Chongqing (Chungking), and the Shenzhen Special Economic Zone, which is located just thirty kilometers north of Hong Kong's New Territories. This article reflects both of these visits to a country which is changing like no other.

One of the most significant developments on the world scene during the last quarter of the twentieth century has been the restructuring of the economy of the People's Republic of China from a centrally planned to a more market-oriented system. And judging from the visible improvements in everyone's standard of living, the outlook for further economic experimentation in China is optimistic.

Reform of the Chinese economy began in October 1978 when the Third Plenary Session of the Eleventh Central Committee of the Chinese Communist Party approved a plan proposed by the new "Paramount Leader," Den Xiaoping, to modernize China. The main elements of the short- and medium-term strategy for achieving this objective are internal management reforms and the development of economic relations and trade with foreign countries.

Over the following nine years, the executive branch of the Chinese government sought to pursue the "Four Modernizations" of industry, agriculture, defence, and science and technology originally suggested by the late Premier Chou En-lai in 1964. In a series of stages, the State Council introduced a number of measures for improving the initiative of large-scale enterprises. To begin to correct the inefficiencies and waste of the Soviet-style management system, in vogue in China since 1950, the government gave state-owned enterprises more control over their own profits and losses. It also made clear that managers and workers must accept more responsibility for their performance.

"Contract-responsibility system"

Under the "contract-responsibility system," industrial enterprises are allowed to retain about 10 percent of their profits; they have some say in the selection of products and some discretion in the production of new products and in the production and marketing of commodities after fulfillment of their assigned production quotas; they have some freedom in the acquisition of land, labor and capital inputs and in personnel policy. Enterprises are also encouraged to compete with each other on the basis of "cooperation and mutual support." These policy shifts have allowed most Chinese enterprises to operate more like profit-maximizing firms in a modern market economy and to discard the "iron rice bowl" system (the former practice of guaranteed lifetime employment no matter how ill-suited the worker).

The liberalization of China's methods of industrial management have had other results. For example, a state-run factory in Shenyang, a key industrial city in the northeast, was declared bankrupt in 1986 (this was the first bankruptcy in China since 1949) and another was leased to individuals to manage. Three collectively owned but badly run small stores were sold at auction by the city government to private persons. Today some 130 businesses in Shenyang have become capital stock companies. (Private share ownership, however, is limited to 10 percent of the stock issued.) And the city has established a rudimentary market for both stocks and bonds.

Freedom to farm

In an effort to offset the misuse of farmland and low productivity, the government abolished the "peoples communes," set up in the late 1950s, and lifted the state monopoly on the purchasing and marketing of farm produce. Today all farm products not purchased under state contracts at the state purchase price are disposed of by farm households in free markets at prices determined by the demand and supply conditions. Under this version of the "responsibility system" each farm household has control over the land assigned to it (all land in China is either "state owned" or "collectively owned"; no private enterprise or individual owns any land), and can choose what to produce and how to market its products. According to official Chinese figures, total agricultural output value has increased at an average annual rate of 9 percent since 1978. Farmers' average per capita incomes, with price increases factored in, have risen at a rate of

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