

"relatively comfortable level".⁴³ By 1978, China's leadership had reached the conclusion that more extensive use of productive factors was not the best means of achieving rapid, and sustainable, economic growth and development. While the "extensive" growth model had generated overall growth, there had been little improvement in productivity. Personal consumption growth had been limited because of the need to devote increasing levels of resources to investment. Chinese decision-makers concluded that rapid growth and development would require that the economy be restructured so as to enhance the productivity and the efficient use of resources. To achieve this objective, it was decided to adopt market-oriented reforms.⁴⁴ No blueprint for the structure of the economic system on which the reform process would converge was established. Instead, the leadership adopted a cautious and pragmatic approach.

Prior to 1978, there were no large privately owned enterprises in China. All industrial enterprises were owned by the state, either at the national or local government level. State owned enterprises (SOEs) were predominantly located in urban areas, and collectively owned enterprises in rural areas. But in late 1978, China's leadership announced a program to reshape its economy. Since then, economic reform has involved the relaxation of direct planning controls, the decentralization of economic decision-making, increased reliance on markets to set prices and output, the development of non state-owned economic entities and an opening of China's economy to the outside world.

⁴³This goal later was formally adopted by the Chinese Communist Party. Zhao Zhiyang, "Advance along the road towards socialism with Chinese characteristics," People's Daily, 4 November 1987, p.2.

While the average Chinese citizen remains poor, the typical standard of living is substantially higher than that suggested by a per capita income in the vicinity of US \$350-400. 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. 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. Based on World Bank PPP figures (about US \$1900 per capita in 1993), China ranks as the third largest economy in the world. Given the differentials in most growth projections for China and the industrialized economies, it would appear that China could overtake Japan to become the second largest economy in the world early in the next century. See Stephen Lavergne, "China 2000", p.46.

⁴⁴For narratives on China's economic reform experience and prospects, see World Bank Country Study, "China: Reform and the Role of the Plan in the 1990s", World Bank; Washington, 1992; or World Bank Country Study, "China: Between Plan and Market", World Bank; Washington, 1992.