Fifthly, by using the gradual approach, and by not subjecting the state sector to major shocks at any point in time, China has for the most part successfully avoided severe social unrest during its transition to date. The Chinese effort has focused much less on changing old enterprises and more on generating new opportunities and letting these new forces gradually reform the state sector through competition in the market place. Moreover, the postponement of social reforms until later in the reform process has given the government the opportunity to develop over time an institutional framework for a new social security system. The key question, however, is whether China is able and willing now to address the more fundamental issues related to the state enterprise sector and the reorientation of the existing social support system. Nevertheless, it is clear that the approach followed by the Chinese leadership since the late 1970s has avoided to date some of the serious social consequences that could have undermined the case for further reform if rapid structural adjustment had been pursued throughout the economy simultaneously. The government must adopt a constant and increasingly coherent approach to reform over a prolonged period on time. The process requires patience and staying power.

5.2 Is the Process Sustainable?

There is some question as to whether or not Chinese reformers can sustain the economic reform program over the medium to long term. Chinese policy makers need to address five issues. First, there is a danger that the Chinese economy could face a financial crisis triggered by the insolvency of some large banks, as they acquire increasingly weak portfolios by funding the losses of state enterprises, with limited capital bases and small loan loss provisions. Second, so long as the still dominant state enterprises remain protected and in control of the commanding heights of the economy, they will never be able to achieve efficiency at internationally competitive levels. Third, the possibility exists that social tensions will mount as increasing provincial autonomy and self-sufficiency lead to a further increase in the growing regional disparities in China. Fourth, while the fight against poverty in China is showing some gains, many persons, including potentially volatile urban populations, are only just above the poverty line. Continued reforms and increasing financial difficulties for the central government could cause the present social safety net to collapse, pulling millions back into poverty. Fifth, there are growing concerns about the environmental sustainability of China's economic growth.

The gradual approach has limitations, and China may eventually reach its frontier. The possibility that one, or a combination, of the five obstacles cited above could force the Chinese government to abandon its gradualist approach, and require that it undertake its own "big bang" program for reform (in particular, in the industrial and financial sectors) cannot be dismissed. Nonetheless, over the reform period to