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KIKUCHI, Michiki / 菊池, 道樹

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## **Chinese-type of Market Mechanisms —Performance and Prospects**

**Michiki Kikuchi**

*Faculty of Economics, Hosei University*

### **I. Introduction**

Twenty years have passed since China began to transform its central planned economic system toward a market-oriented economic one. During these years, China's real GDP has increased at an average annual rate of 10.8%. This is the highest growth record of any country during this period. While many developing countries with the notable exception of the NIEs and ASEAN countries have failed to reach the take-off of economic development, China has been launched onto a high economic growth orbit. In addition, China has succeeded in transforming its economic system from central planning toward market mechanisms, adopting a 'gradualist' approach in contrast to the 'radicalism' taken by the former USSR and Eastern European countries. We can say that China's economic development has been realized through transformation of the economic system, and therefore China has been victorious in two events, namely economic development and the transformation of the economic system.

Incidentally, I must state that it has been a curious type of development, because this high rate of economic growth has been accompanied with the strictest birth control policies that human beings have never been subject to. Chinese leaders, whether of conservative or reformatist factions, have all favored birth control. We may say that modern Chinese leaders share the same apprehensions that Malthus felt at the end of 18th century. The Chinese government has feared that China might fall into a 'Malthusian trap'. Meaning that the huge food demand brought by large scale population increase may arrest capital formation and quickly bring about economic stagnation.

On the other hand, in the autumn of 1994 I had a chance to see an interesting automobile show which was run by the Chinese government in Peking. The government invited the leaders of major automobile companies from advanced countries to take part in the show by bringing blueprints for a compact size car for the Chinese people. It was a glorious show with the major companies presenting their own cars with great effort. They made every effort to be chosen as partners of Chinese car makers and to have their model adopted as a popular national car. To these Western automobile companies, on the verge of the 21th century, China's market is no doubt the key to survival. Before and after the show, leaders of large-scale companies from

around the world in various industries could be seen visiting Peking to be allowed to enter the Chinese market. I was impressed, it seemed like a modern tributary foreign policy initiated by the Chinese government. Needless to say, China's economic performance will exert great influence not only on its Asian neighbors, including Japan, but also on the rest of the world.

In this article, I will try to throw some light on the characteristics of Chinese market mechanisms that have brought about this remarkable economic performance, and analyze their future prospects.

## **II. Development through Transformation of the Economic System**

### **1. Phases of Economic Development**

To start with, I will briefly trace the process of the economic development of the past twenty years. Based on the decision adopted on the third plenum of the 11th Central Committee of the Chinese Communist Party (CCP), held in 1978, the Household Responsibility System for Agricultural Production gradually took the place of collective farming under the People's Commune system. The aim of the introduction of this system was to give incentives to peasants by allowing them to freely sell their agricultural products after delivering the contracted products to local government. This shift in agricultural production system led to constant increases in crop production, and made the non-agricultural township and village enterprises (TVEs) prosperous. As a result, the purchasing power of Chinese peasants raised conspicuously. Their desire for consumption stimulated domestic demand for consumer goods, such as apparels, shoes, daily necessities, and houses, etc. These goods were mainly supplied by the TVEs. Thus in rural areas, a positive circulation between goods and money emerged. That is to say, a cycle was created of increase of peasant's income leading to an expansion of demand for consumer goods, and an increase of savings leading in turn to an enlargement of equipment for production by TVEs, and this in turn to a further increase in the income of peasants.

In this way, Chinese economic growth in the first stage, during 1979-84, was fundamentally achieved by the increases in an agricultural productivity that prompted by the introduction of the Responsibility System for Agricultural Production.

The second stage started in October, 1984. At the third plenum of the 14th Central Committee, the CCP embarked on a plan to transform the management mechanism of state-run enterprises. While the effect of the transformation, as a whole, has not been so favorable, the average income level of urban workers has continued to raise. From 1984 on, it has been one of the most important factors behind the high rate of economic growth, by enlarging domestic demand. Repeating the pattern of peasants, urban dwellers have been induced to buy consumption goods and particularly, 'three new riches,' namely TV sets, refrigerators, and washing machines. This ardent desire for durable consumer goods has stimulated domestic demand. Moreover, the rapid increase in the income of urban residents has created a shift in the composition of savings, from 80 % (rural) to 20 % (urban) in 1980, to 20 % (rural) to 80 % (urban) in 1997 (State Statistical Bureau, 1998). This suggests

that the rapid growth of the number of urban residents has contributed to capital formation.

In addition to the expansion of domestic demand for goods and of the capital supply, we must consider foreign trade and investment as a basic factor behind economic development.

The trade/GDP ratio has been increasing constantly since 1978. It rose from 12.5 in 1979 to 45.5 in 1997 (State Statistical Bureau, 1998). Thus China is now ranks as one of world's countries with highest trade/GDP ratio, and generally seen as a country with an outward-oriented development strategy. In the process of development, the structure of exports and imports has greatly changed. In terms of export structure, the percentage of raw materials and agricultural products has decreased, whereas that of manufactured products, including machinery, and electric apparatuses, has increased remarkably. In terms of import structure, the percentage of raw materials, including crude oil, has been on an rising trend.

As for foreign finance, and in particular direct investment, the sum and the investment field have remained limited. It was not until Deng Xiaoping's 1992 grand tour of southern areas that foreign direct investment became full-fledged. From 1993 on, the rate of increase of foreign direct investment compared to the previous year has been more than 20% on average (State Statistical Bureau, 1998). In 1997 this sum reached US one million dollars, and China became world's largest acceptor of foreign investment. Of course, this was the main impetus behind China's rapid economic growth. So we may call this period the third phase in the process of economic development.

This short survey of the past twenty years tells us that it is not precise to assert that China, like the NIEs, realized economic development by adopting an export-oriented strategy.

## **2. Non-Market Factors in the Chinese Market System**

It may be common sense that market mechanisms brought this remarkable performance of economic development after the failure of the central planned economic system. However, the following facts indicate that we cannot simply attribute the performance to market mechanisms, but that we need to pay attention to the base and conditions wherein market mechanisms worked effectively. Needless to say, I do not intend to support the central planned economic system. Instead, I want to make clear is how market mechanisms have come to operate and to bring about these positive results.

### **1) Premature Heavy Industrialization**

First, I would like to take as an example the former growth rate of National Revenue (NR, GDP minus the service sector's value added) as evidence that we cannot ignore continuity from the past. The NR growth rate was not so low even in the central-planning period, except for the Second Five-Year-Plan period (1958-62) when the Great Leap Forward caused minus growth. During each Five-Year-Plan period, the Chinese national economy maintained a relatively high rate of growth: during the first period (1953-57) NP growth was 8.9%, in the Economic Adjustment period (1963-65) it was 14.7% in the third period (1966-70) 8.3%, the fourth period (1971-75) 5.5%, and in the fifth period (1976-80) was 6.1% (State Statistical Bureau,

1985). These facts suggest that it was during the central-planning period that the preparations for rapid growth were conceived. Of course, we must remember that the economic growth in those days was unstable, mainly owing to political fluctuations. Moreover, there was neither striking progress in efficiency of production nor in improvement in product quality, because of a lack of incentives for both managers and workers for effort. Moreover, copying Stalin's model of central-planned economy. The Chinese government pursued an industrialization strategy which concentrated investment mainly into the heavy industry sector, resulting in a distorted industrial structure with a fragile light industry sector's base.

We have learned that Chinese people experienced many miserable and unforgivable things in the process of the development of heavy industry.

In spite of the distortion of the industrial structure, we should take into account the existence of premature industrialization, and the full-set type industrial structure. That unexpected effect of this has been an adequate preparation for the present high speed development. Objectively speaking, we cannot disregard the completion of heavy industry as a precondition for economic growth. Without such an industrial base, it would have taken more time and money to realize such excellent economic performance.

## 2) Land Reform and Irrigation

China's recent economic prosperity would not have been possible without the precondition of the re-distribution of the right to utilize arable land by individual households. Under the People's Commune system, arable land was collectively owned and utilized. The type of collective farming helped to solve a few problems, particularly increases in food production to emancipate the growing population from starvation. Though subsistence was maintained, it was difficult to raise living standards, because of a lack of incentives for peasants to increase agricultural production. This was why the CCP decided to allow each household to take the initiative for agricultural production. Thus rural households became the fundamental unit of agriculture, based on the re-distribution of arable land. Although the CCP still does not allow the private ownership of land, the right of peasants to utilize their allocated land is guaranteed substantially as if they were owners. At the fourth plenum of the 15th Central Committee held in October in 1998, the CCP decided to prolong the terms of allocated land utilization for an additional thirty years.

On this point, China's experience in terms of land reform is essentially the same as that of Japan, Taiwan and Korea, although the backgrounds and methods were not necessarily the same. The experiences of these four economies tells that land reform, if smoothly accomplished in the short term, successfully creates small-holders, who can play a decisive role in economic development, not only as producers but also consumers who sustain domestic demand. I think that wider and deeper research needs to be conducted on the role of land reform as a precondition for industrialization, from the point of comparative analysis.

With regard to agricultural development, we cannot overlook the basic conditions for production. The distribution of arable land and construction of agricultural infrastructure such as dikes, waterways, roads etc., were products of the People's Commune system. Those physical improvements were indispensable for sustainable increase of agricultural production under the Responsibility System for Agricultural

Production. It is widely accepted that the People's Commune system reduced peasant's willingness to work and thus led agricultural production stagnate under the principle of egalitarian distribution. In addition, the projects to make vast wasteland into arable land and to construct the infrastructure were carried out by mobilizing working people without compensation. Needless to say, the faults, pains and oppressive control over peasants under the People's Commune system should not be denied. It would be overly simplistic, however, to conclude that collective farming was wrong, and to say that the introduction of household farming suddenly boosted agricultural production, while ignoring capital formation under the People's Commune system.

### 3) The Ambiguity of Property, and Close Relations with Local Government

TVEs are seen as enterprises of natural products of the market mechanisms. It is widely accepted that the high growth of TVEs has been fundamentally due to their management principles, self-financing basis and self-responsibility for profits and losses. Such an estimation, however, is correct as a comparison with state-run enterprises. Moreover, even those who insist that TVEs are adaptable to market mechanisms recognize that they have ambiguous ownership. This raises an issue regarding the theory of New Institutional Economics (NIE), namely, why have TVEs grown rapidly despite their ambiguous properties ownership. Some scholars are now proposing interesting concepts to throw light on the issue.

Weitzman and Xu (1994) have proposed a concept of vaguely defined ownership in contrast to traditional ownership. That ownership comes from the 'cooperative culture' of the Orient, which has its own capability for solving the problems that enterprises face.

David D. Li (1996) said as follow: facing a uncertain market, the entrepreneur may want to include the government as an ambiguous owner; in other words, the arrangement of ambiguous property rights is a response to the grayness of the market, which is a form of market imperfection.

And Jiahua Che and Yingyi Qian (1998) understood local government ownership as a response to imperfect state institutions, a way of reducing the adverse effects of state predation in the absence of institutions to constrain the state.

Their discussions suggest that Chinese economic development has taken place in a different environment from the Occident. At least, they share a consensus that private ownership is not an absolute condition for economic development.

Another issue is that TVEs are closely tied to local government, and substantially inseparable from it.

Oi (1995) proposed a unique concept, local states corporatism. Using this concept, she explained that local governments treat TVEs within their administrative purview as components of a larger corporate whole, and that local officials act as the equivalent of a board of directors.

Weingast (1995) stressed that modern Chinese local governments have the function of maintaining a market-preserving federalism, and play the role of shareholding companies for TVEs. According to him, this function and role of local governments induced competition among local regions, and in contrast to Latin America, there is no room for attempts at rent-seeking.

There are also been many hypotheses on the relation between TVEs and local

government, especially from the viewpoint of corporate governance, such as the 'M type enterprise' (Qian and Xu, 1993). In addition, some scholars have focused on the Chinese type of leadership as a factor for the development of TVEs (Nee, 1989. Parris, 1993)

As with the issue of the ownership of TVEs, the relation of TVEs to government is not clearly explainable with any paradigm that is adaptable to the experience of developed countries. Much remains to be understood regarding the partnership between TVEs and local government.

### **III. Chinese-type of Market Mechanism**

#### **1. Market Mechanism as an Ideal System**

Deng Xiaoping's 1992 "grand tour" of South China in support of the reform process was followed in November 1993 by the decision of the third plenum of the 14th Central Committee of the CCP to proceed with the construction of a 'socialist market economic system'. In its decision, the Central Committee stressed that the establishment of a system of modern enterprises was the single most pressing problem facing the country, and concluded that enterprises should be weeded out on the basis of market competition, and that priority should be given to efficiency while "giving consideration to" the system of equal distribution of income. Thus, the CCP took competition as its guiding light, and affirmed the bare, primitive market principle of the survival of the fittest. Thereafter, in the decision of 15th general meeting of the CCP in 1997, this principle was more clearly expressed as follows; 'Through the encouragement of mergers, regulations for bankruptcies, lay-offs and personnel cuts, increases of profits and re-employment, a system of competition among enterprises based on the principle of the survival of the fittest should be created.' This, accordingly, became affirmed as a national principle, leading to the de facto eradication of restrictions on economic activities on the grounds of their infringing upon socialist ideals.

#### **2. Primitive Principles**

The 'socialist market mechanism economic system,' although qualified as 'socialist', is substantially a collection of primitive market mechanism factors. Once motivation for profit was officially approved, an atmosphere of mammonism spread in China. The desire for durable consumer goods has, on the one hand, contributed to enhancing domestic demand and has led to the high economic growth rate, but on the other hand, it has transformed values and caused social problems especially in the fields of culture and education. Many people think little of culture and education, and young people tend to steer away from jobs to these fields, like teaching. Since teachers' income level is low, it is not rare in rural areas for teachers, already in short supply, to abandon their jobs. Pupils who can't pay the money required by teachers—though most of these requirements are illegal—are forced to quit school. One elder professor, who has long lived in Peking, sighed as he described this atmosphere, telling me that money was usually required when asking for a favor even from neighbors and colleagues.

The work environments in some private enterprises and in foreign-owned

enterprises demonstrate the typical characteristics of primitive market mechanisms. I will take an example which I witnessed in 1993 in Wenzhou (a city located in southern Zhejiang province), which was very famous as its private sector was quite powerful. Most factories were filled with noises and bad smells, and they discharged untreated waste into a river. A manager in one factory confessed that most workers could not work for more than three months because of the poor environments. In spite of the poor environments, large numbers of young workers were coming not only from neighboring villages but also from remote provinces such as Sichuan and Anhui. They said that the high income level was very attractive, and that they would work as many daily hours as possible. It seems common all over China at present for workers to prefer to work longer and gain more income than to improve labor conditions and their life environments. Kristof and Wudunn also explained why central and local governments have not introduced minimum wages systems (Kristof and Wudunn, 1995).

### 3. Regionalism

One of the interesting facts about the series of economic transformations taken by China is that, while market principles are sinking in and domestic distribution networks are growing, economic blocs, which are a feature of feudal economies, are developing. Authorities in some provinces have clearly announced that they will forbid such actions. The CCP and central government often call for a breaking down the divisions and closed doors to regional and sectoral markets.

These feudal-style economies are believed to have emerged in large part due to the ongoing change away from the conventional centralized system, wherein the national government held nearly total control over economic activities to a system where the economy is controlled at both the central and local levels. Along with the increase in the authority of local governments and the self-management rights of enterprises, enterprises have come to rely more heavily on the local governments, and the local governments in turn have extended protection to the local enterprises, acting as "patriarchs" of the region. This relationship is considered to be one of the reasons why there has been no change in the excessively soft budgetary restraints, as seen typically in state-owned enterprises, and for the obstruction of interdependence in management (Macro Economic Management Issues Group, 1988).

The tendency toward closed-door regionalism goes beyond economics, and into the judicial and the administrative sectors as well. Even local courts sometimes cancel indictments against local officials and act in a manner advantageous to themselves (People's Daily [Renmin Ribao], Oct. 26, 1993).

### 4. Tradition

As market mechanisms spread, some traditional systems have been revived, and some traditional organizations have reappeared in slightly changed forms. In particular, in rural area, some traditional socioeconomic systems such as joint hold-companies (股份合作) and fixed-days markets (專業市場) etc. have come to play important roles in developing the rural economy.

One type of private enterprise is the joint holding company, which is said to be an ideal type, suitable for market mechanisms.

Chinese have a tendency to organize groups composed of people from the same



village, or prefecture. Through such groups, they can help each other at which faraway from home. It is a traditional system in China. Even today, in some big cities like Peking, Shanghai and Guanzhou, there are places with names such as Zhejiang village (浙江村) or Wenzhou street (温州街). The names come from the places where they were born. Those who come from the same town or village, and are engaged in small size commerce, and manufacture, helping each other.

This type of group is suitable for people engaged in commerce and industry in remote regions. They can live by providing mutual aid to each other, including giving and receiving information, debt and credit on capital, in order to avoid risk.

Some 50 years ago, the late Yuji Muramatsu gave a unique view of Chinese attitudes toward market mechanisms, as follows; Generally speaking, the Chinese lack the spirit of savings and are apt to enjoy consumption. Under the principle of laissez-faire market mechanisms, excess competition appears among petty merchants and artisans. Local government doesn't have a public function, and those who govern become eager to pursue their own profits on their bases of private arms. Under the duplicated relations between central and local government, the share of financial income of local government tends to increase, and this is the just main factor behind the weakening of central authority.

In China, market environment is not regulated by government, the monetary system is not united, and the financial order is unstable. People engaged in business must endeavor to keep their profits safe from various dangers without relying on state or government. They do this by forming groups with people who are from the same village, or prefecture. The motivation to form such groups is clearly selfish. As factors behind the formation of these communities or groups, blood bonds and non-profitable bonds are not so important. Muramatsu saw the Chinese as extremely 'individuate' (not individual in the meaning of modern Western world) and mammonist (Muramatsu, 1949, re-edition, 1975).

Many people may be critical of Muramatsu's views, but his effort to propose a paradigm, with which one could have a more proper understanding of the patterns of Chinese economic activities, can be highly estimated.

## **IV. Return to the 'Classical Economic World'?**

### **1. A New Type of Abundance World**

Kei Takeuchi criticized the neo-classical economists' view that market mechanisms are almighty, and he emphasized that the internal contradictions of capitalism would lead to an end to economic growth all over the world. He recognized that the Chinese economy had the potential to attain the same levels of per capita GDP as today's Japan and U.S.A, and focused attention on the fact that very conditions that made this high economic growth possible, namely, limits on supplies of raw materials and energy, oversupply of production faculties brought about by the huge size of machinery and equipment, over-competition and distortion of employment, difficulty in securing food, and destruction of the natural environment, etc. would ultimately destroy capitalism itself. He illustrated this by showing that if China develops to the level of the advanced industrial countries like Japan, its annual production of steel would be 1.2 billion tons, surpassing today's total world production by 50%, and the

annual production of automobiles would be more than one hundred and fifty million per year. This situation is beyond all imagination (Kei Takeuchi, 1995).

In any case, the most serious short-term problem facing China will likely be food shortage in relation to population. The Chinese government is so afraid of falling into the 'Malthusian trap' that it has consistently maintained a severe birth control policy. Even if the national economy prospers, as a result of rapid increases of population, it will sooner or later begin to be fall into a 'trap' consisting of the following circulation: economic growth → population increase → increasing demand of food → decrease of savings → slowdown of capital formation → economic stagnation.

## 2. Food and Population

It is ironic that Lester Brown has supported the Chinese government's birth control policy, because he reached a pessimistic conclusion regarding the prospects for food supply, contrary to the confident views of the Chinese government. As is well known, Brown concluded that China's food supply will be deficient by about 2025, because of the largely increase in food demand (Brown, Lester R., 1995). The increasing demand would be caused by absolute population increases, as well as by increasing demand for high quality food, meat and fish etc., owing to the rising level of income. As for the possibility of increasing the food supply, there is little uncultivated land which is potentially arable, and in fact there is cultivated land at present which is in danger of being turned into housing and factory lots. One might think that the technology for cultivation of rice and wheat could be increased, but China has reached the highest level in the world, so there is no room for raising the productivity of grains. Other countries which export grains today, including U.S.A, Canada, Australia, etc. have no room for augmenting quantities. In other words, there is no country capable of feeding the Chinese people. Moreover the effect of China's grain shortage could seriously affect food conditions in some African countries that have to import food. If China starts buying grains on the international grain market, the cost would rise. It would become tremendously difficult for those African countries to obtain food, because they will not have sufficient exchangeable foreign exchanges.

Following the publication of this Brown's article, which was taken up sensationally all over the world, the Chinese government became severely critical of his view and thereafter Chinese policy-makers and researchers have continued to put forth various counterarguments to his outlook. The main points of the dispute are estimates of the quantity of food demand, size of increase of population, and extent of improvement of nutritional food life. Given the fact that the estimates are quite different, the results necessarily vary wildly. In any case, while the Chinese government has criticized Brown's calculations about potential food production, the fact that such debates continue indicates that the food situation in the near future is not bright, and on this point Brown and the Chinese government authorities are unexpectedly in agreement. In the summer in 1996, China bought so much corn on the international market that prices skyrocketed. Many Japanese poultry farmers were hurt and some had to abandon their jobs. This suggests that Brown's fear is not imaginary.

For the Chinese government, Brown's support of its birth control policy may be very welcome. While many people in Western countries condemn China for this policy, from the viewpoint of human rights, Brown has been understanding of the importance of maintaining the balance between the supply and demand of food, and

has insisted on the maintenance of the birth control policy in order to prevent population growth. Of course, not only he but also others concerned with Chinese population and food issues tend to see limiting the rate of population increase as an indispensable precondition to falling into a serious food crisis. However, as Takeuchi has pointed out, today's strict one-child policy may lead to a fall in the Chinese population to size of its present half in the near future, greatly distorting the labor structure (Takeuchi, 1992). Moreover, as the social security system has adopted the principle of the beneficiary paying for oneself, the role of the family will become more and more important. Under this system, each child will have to care for two parents and four grandparents.

The Chinese government has officially stated that the one-child policy would be required until the population stopped increasing in 2030. But recently there have been slight changes in the restriction, the government has begun allowing couples in some cities to have two children, as test cases. By contrast, some Chinese people have come to say that the young urban generation actually have come to prefer to have one baby rather than two or more, and they focus much on their own lives. Even if this tendency becomes clear, will it be possible to prevent a reaction against the former restriction? There is no denying that baby booms appear after a ban is removed. Additionally, one must not forget the presence of unofficial "forbidden" babies. It is said that in rural area, the average family has two children in northern parts, and three in southern parts of the country.

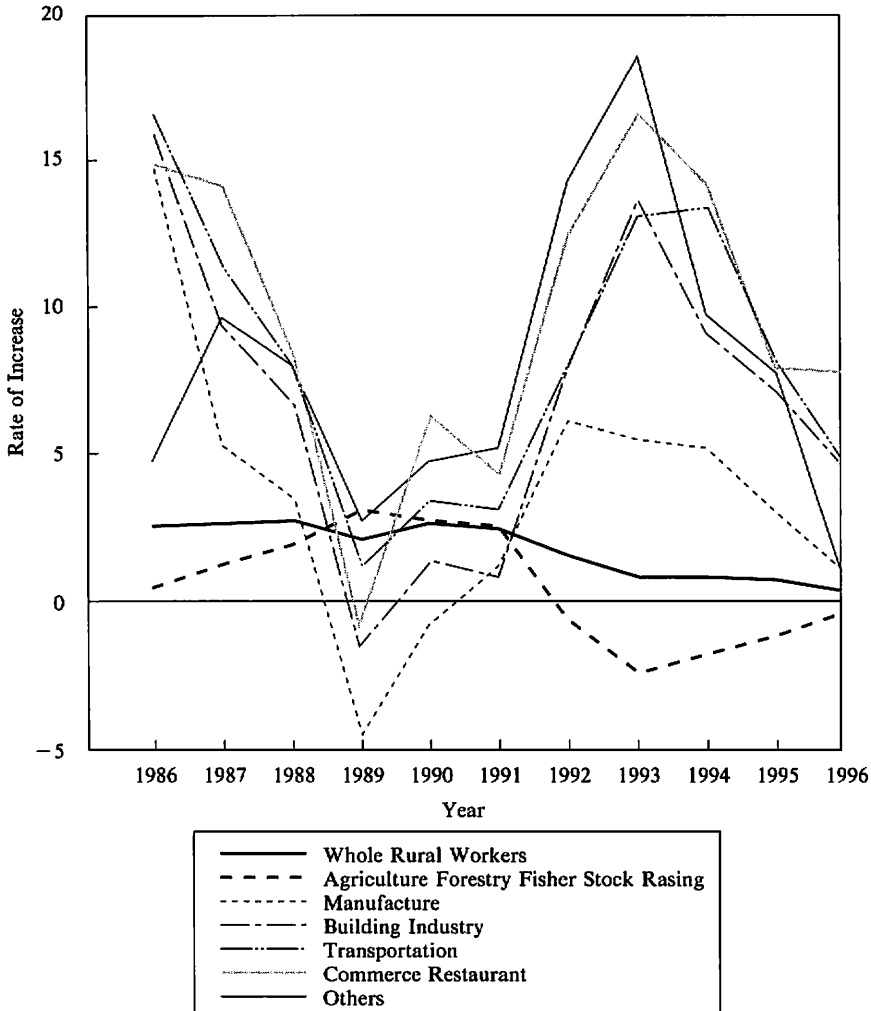
### 3. Unemployment

Another serious problem is employment. It is generally said that some 30 percent of the workers at state-owned enterprises are superfluous, and that in rural areas one hundred million people are substantially disguised unemployed.

In 'the 9th Five-year plan and Long-term Objectives for 2010,' the CCP and central government project that in the next five years 40 million new jobs will be created, and that it will be necessary to move 40 million agricultural laborers into non-agricultural sectors, and to maintain the rate of unemployment at 4% in urban areas. They point out that in order to realize those objectives, it will be necessary to develop TVEs and to encourage private enterprise. Now I would like to examine the feasibility of the plan:

During the past 20 years, the number of newly-employed workers per year was at a minimum of 7,880,000 in 1993, a maximum of 16,760,000 in 1985, for an average record of 13,270,000. The main sectors which absorbed these new workers were agriculture, TVEs, state-owned enterprises and private enterprises. The annual average absorption of these sectors during the past 12 years is shown in Fig. 1: 2,520,000 in agriculture, 6,810,000 in TVEs, 2,480,000 in state-owned enterprises, and in private enterprises, 1,260,000 in rural areas and 681,000 in urban areas. There is a mutual supplementary relation in the size of worker's absorption between agriculture and TVEs. While the number new workers in agriculture increases in recessions and decreases in business upturns, those of the TVEs show an opposite trend. This elasticity of absorption in agriculture resembles that of modern Japan, whereas it functioned as a reservoir for superfluous labor. As for the TVEs, their capacity to absorb labor continues to decline, as a natural result of the rationalization of enterprises. Though the TVEs have been seen as a type of labor-intensive enterprise, the capital/labor ratio

**Fig. 1 Trend of Labor Absorption**



has been rising rapidly. From now on, they will increasingly become labor-saving type enterprises. Thus, they are not expected to have a strong labor absorbing effect even if they continue to develop.

In contrast to the TVEs, as shown by Fig. 1 shows, private enterprises have come to contribute to absorbing laborers in both rural and urban areas. Needless to say, they only have a certain capacities for labor absorption. Many of them are petty enterprises, mostly run by family members relatives.

Though the reduction of state-owned enterprises is regarded as a key point for the final success of the transformation of the economic system toward market mechanisms, workers at state-owned enterprises have increased by two or three million over the last several years. It only started to decrease in 1996.

It goes without saying that market mechanisms involve constant competition, and lay-offs are naturally part of the strategy of any enterprises. The CCP and central government are recommending that workers employed in state-owned enterprises and in governmental organizations find other jobs themselves in tertiary industries, and especially in service sectors. For example, CCP Secretary General, Jiang Zeming, at

the 15th Congress of CCP held in 1997, said that in the long run it would be in the interests of the working class to promote the policy of cutting back on workers employed in state-run enterprises, though for the time being many of them would inevitably fall into poverty.

The CCP and government have no choice but to say this, because the central and local budgets are under strict constraints, and cannot create job opportunities. The experiences of the past several years tells us that those who changed occupation have found it very difficult to maintain their previous life. Jobs in service sectors, including restaurants, retail, repair shop, and taxi driving, etc. involve such fierce competition that most workers, fail to obtain enough earnings, and on top of this they are not guaranteed social welfare.

## V. Conclusion

In spite of the optimistic projections of Chinese scholars and statesmen regarding development, there remain quite a few serious problems in promoting China's. In particular, I would like to point out that China is confronted with several factors that may bring it back to earth. For example, its rising population might make its economy stagnate.

China can no longer try to rebuild socialism. There is no other way but to maintain the market-oriented and free trade policy. However, is it really certain that the more widely and sharply market mechanisms and the free trade system are introduced, the more smoothly the problems that China faces will be solved and the more excellent its economic performance will be?

In the near future, as it begins to participate in to the WTO, China will enlarge its foreign trade and international finance relations. With the development of foreign economic relations, some coastal regions will be favored at the expense of interior and mountainous regions. As a result, the income differentials between coastal and other regions will grow more and more, spurring on regionalism. If the necessary counter-measures are not taken, the centripetal force of the national state as a framework of the national economy will become weakened.

The dismantling of the People's Commune system and the reform of the system of state-run enterprise has caused people to find themselves without assistance. Without support by the state or collectives, they are going to work and living literally 'with an independent spirit' as was emphasized in the period of the Cultural Revolution. While efforts continue to establish new systems, and regional institutions for social welfare, it is inevitable that individuals and families will bear a heavy burden. The leaders of the central government have sometimes expressed the idea that the family should be responsible for social welfare in rural areas, using the traditional spirit of respect for the elderly. In urban area, it seems increasingly widely accepted that individual beneficiaries should bear the expense for their benefits. Thus individuals and families are obliged to make independent efforts to maintain their own lives. It may be that people in various levels of governments will begin to exercise their powers to get profits. So on the one hand, the central and local government are being expected to play a more important role than merely 'modest intervention to market, on the other hand, its functions must always be monitored by people.

As one of China's intellectuals have recognized, the present high level of economic growth may be thanks to the postponement of the solution of some serious problems.

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