

China: Open for Business

By Tamio Shimakura

Sino-Japanese economic exchange surged to boom proportions in 1984 as Japan's exports to China expanded 47% over the preceding year. Yet despite this feverish economic interaction, some Japanese business people are apprehensive.

The first cause for concern is the violence of China's economic policy swings. The speed with which China proceeded with deregulation, decentralization and liberalization astonished many a foreign observer. Some even wondered whether China was preparing to abandon socialism altogether.

The second cause for apprehension is whether China will continue its liberalization policy even after Deng Xiaoping, already more than 80, passes from the scene.

Reform of economic system

The gravity of the problem posed by China's drastic liberalization can be understood by looking at the "Decision on Reform of the Economic System" adopted at the Third Plenary Session of the 12th Central Committee of the Chinese Communist Party on October 20, 1984. For a decision by the central committee of a communist party, its substance is nothing short of astounding. A few extracts should suffice:

(1) "If our aim of becoming affluent together is interpreted to mean perfect equality with everyone becoming affluent at the same speed, it would be totally wrong. That is impossible. If we try to do it, we will end up becoming poor together."

(2) "Differences in wages by industry and occupation must be widened."

(3) "Enterprises are judged and evaluated directly by a broad segment of consumers in the marketplace. Excellent ones will remain and inferior ones will be weeded out."

(4) "If enterprises owned by the people of China were to be placed under direct management and control of State organs, it would lead inevitably to undesirable

egoism and bureaucratism, and the energy and vitality of the enterprises would be suppressed."

(5) "A planned economy does not consist of mandated planning." "The scope of mandated planning must be reduced and the scope of guided planning expanded appropriately." "Planning activities shall emphasize medium-range planning and long-range planning, and the planning shall be suitably simplified..."

Deng Xiaoping was once criticized by the Red Guards for remarking, "Be it black or white, a cat that catches mice is a good cat." This statement was cited as an important reason for his downfall during the Cultural Revolution. His belief that boosting production capability must be China's first and foremost consideration flows consistently through the decision adopted by the Central Committee. Those who called him "an advocate of the production-first principle" during the Cultural Revolution were not far off the mark.

The fact that statements such as those quoted earlier were written into an official document of the Central Committee and publicly announced to the world argues persuasively that "revolutionary" change has come to an economic system which for more than 30 years had followed a Soviet-style system of economic control. The economic philosophy laid down in the document is a far cry from that once advocated by Mao Zedong.

Mao stressed the need for "narrowing the three major disparities," that is, the disparity between industries, the disparity between different regions of the country, and the disparity between classes of people. Mao also stressed the need for reducing the disparity between inland industry and coastal industry. Yet the recently adopted decision states that "differences in wages must be widened." And under the policy to open the economy to foreign countries, special economic zones have been designated along the Pacific coast and priority given to developing coastal industries. This is irrefutably contrary to Mao's thinking.



China's senior leader Deng Xiaoping

If people who read this decision were to ask whether China is giving up socialism, what would be the answer? There was indeed a time when orthodox Marxists questioned whether even Mao Zedong was a genuine socialist.

Mao, after all, organized landless tenant farmers and poor peasants and incited violence. He succeeded in his revolution by using peasants to encircle the cities. Orthodox Marxism had assumed that organized workers of urban manufacturing industries, the vaunted proletariat, would form the nucleus of the revolution. Mao, who was Deng's predecessor, was long regarded as not being an orthodox socialist, and even if Deng were today called a non-socialist, he would probably simply ignore the charge. What Deng has in common with Mao is the idea of introducing capital and technology from advanced countries and using them to modernize economically poor China.

Post-Deng China

The second apprehension harbored by the business people cashing in on the China boom is that the Chinese pendulum might swing back to control and

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seclusion after Deng is gone. Deng himself has made an interesting statement on exactly this point. At the Third Meeting of the Party Advisory Committee held two days after the adoption of the "Decision on Reform of the Economic System," he reportedly said, "It is better not to publicize that I played a special role in this decision. If such publicity is spread, people will wonder whether the policy might change when Deng is gone. In fact, other nations are already worried. Whenever I meet foreign guests nowadays, I try to assure them that the policy will not change but will continue. However, they don't seem convinced. This is a big problem. Therefore, I don't want to be too active. There are two advantages to holding myself back. The first is that I will be able to live longer, and the second is that it will show that even if I am not in the driver's seat, others are able to keep things moving satisfactorily."

China's external liberalization policy went into high gear after Deng's faction overwhelmed the Hua Guofeng faction at the Third Plenary Session of the 11th Central Committee in December 1978. At this meeting, it was decided to accept loans and direct investment from other countries. In July 1979, the Joint Venture Law came into force. After Deng gained power, the liberalization policy was accelerated even further.

Deng, however, is not the real instigator of China's liberalization policy. It was Richard Nixon and Henry Kissinger who took the lead in improving U.S.-China relations while Mao and Zhou Enlai were still alive. Nixon became president of the United States in 1969, and is said to have launched moves to improve relations with China just two weeks after his inauguration. In June 1971, Kissinger surprised the world by flying to Beijing. It is already 15 years since Mao and Zhou began to implement their strategy to improve China's relations with Western capitalist nations and to utilize their capital and technology for the modernization of China.

The practical-minded Chinese people and their leaders will probably continue to use Western capital and technology for years to come. Needless to say, the degree of China's liberalization will fluctuate from time to time. But that does not mean it will be reversed. The advocates of the Cultural Revolution and the Gang of Four may have been negative about liberalization. But even in the first half of the 1970s when the Gang of Four was at the zenith of its power, Japan exported industrial plants to China for ethylene, ammonia, urea, synthetic fiber

and steel rolling. While it is understandable that there is apprehension as to the course of China's liberalization after Deng's death, the correct reading appears to be that the basic tenor of Chinese policy will not change.

Long-range development strategy

Under Deng's leadership the Chinese economy has achieved impressive results. On the basis of its present strong economic performance, China is now drafting a long-range vision for the 21st century. It is already well known that China's target is to quadruple its gross national product by the year 2000. Here we will elaborate on two key goals of China's long-range economic development strategy.

The first concerns the Pacific basin economic sphere. China is convinced that the Pacific basin economy will grow dramatically in the 21st century. Its decision to import capital and technology from foreign countries by establishing open economic zones along its Pacific coast is in line with this belief.

The second point in China's long-range economic development strategy is the fostering of new and high-tech industries. The new industrial revolution founded on microelectronics is now spreading from the West Coast of the United States to Japan and on to Asian NICs and the ASEAN states. China plans to introduce high-tech industries in her coastal open economic zones, while one of the principles China has set for economic exchange with foreign countries is a so-called "marriage of technology and trade." This principle calls for linking trade to the introduction of technology. What it means in practice is that China will reward foreign enterprises which are willing to cooperate in transferring their foremost industrial technology with access to the vast Chinese market. The degree of access will parallel the degree of cooperation in the transfer of technical know-how.

Cycles in the Chinese economy

A number of socio-economic cycles can be observed in China. One is the cycle of attempts to reform the economic system. The "Decision on Reform of the Economic System" adopted in 1984 was so bold that it stunned the world. But while the People's Republic has attempted to reform its economic system at least three times since its founding, each time

the system has eventually reverted to its pre-reform state.

When economic control is tightened and economic management powers are concentrated excessively in the hands of the central government, the economy loses its vitality and stagnates. The Chinese call this stage of economic stagnation "death." In order to resuscitate the economy from the state of "death," the central government relaxes its control and delegates various economic management powers to regional and lower-echelon organs. This, in other words, is a "release" of powers to the lower ranks. The economy soon regains its vitality, but economic confusion also ensues. This is the state of "chaos." But while the period of "chaos" appears outwardly to be a time of disorder, the economy is in fact bursting with vitality. When the "chaos" reaches a certain level, it leads to a return to tightened control and centralization of power. This is called the period of "control" for bringing the state of "chaos" to an end.

At the start of the new cycle of adjustment and tighter control, i.e. the "control" period, capitalistic "spiritual pollution" is denounced and newspapers carry news about crackdowns on corrupt government officials. In this period, the opening of import letters of credit often takes a sudden nosedive. Signs have recently begun to appear that China may in fact now be in a "control" period.

The guiding principles of economic management in the period from "release" to "chaos" are generally attuned to vigorous and rapid economic growth. The use of the market mechanism, profit indicators, interest rates and the taxation system as policy instruments is advocated without fear of a temporary loss of equilibrium in various economic sectors or of widening disparities of all sorts. Under Deng's leadership, China has gone through a five-year period of "release" since the start of the 1980s.

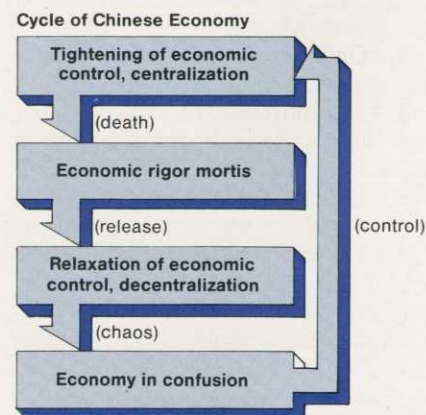


Table 1 Component Ratio of Machinery in Japan's Exports to China (unit: %)

Third Plan	1966	14.9	Fourth Plan	1971	15.5	Fifth Plan	1976	22.6	Sixth Plan	1981	43.3
	1967	13.5		1972	12.4		1977	9.9		1982	25.8
	1968	9.0		1973	17.3		1978	19.4		1983	23.0
	1969	11.4		1974	27.4		1979	27.7		1984	35.8
	1970	20.1		1975	29.9		1980	39.6		1985	41.8

Source: Customs Clearance Statistics

Notes: 1. Machinery refers to the aggregate of machinery, rolling stock, ships and aircraft.

2. 1985 figures represent estimated aggregate for January-April period.

3. 1980 figures are carried over into 1981 due to the suspension of plant export contracts.

Table 2 Japan's Exports to China in Value (change from the year before) (unit: times)

Third Plan	1966	1.29	Fourth Plan	1971	0.99	Fifth Plan	1976	0.74	Sixth Plan	1981	0.98
	1967	0.92		1972	0.93		1977	1.05		1982	0.78
	1968	1.13		1973	1.50		1978	1.21		1983	1.34
	1969	1.20		1974	2.05		1979	1.27		1984	1.47
	1970	1.46		1975	1.15		1980	1.42		1985	2.05

Source: Customs Clearance Statistics

Note: 1985 figures represent percentage changes in January-April aggregate from the period one year before.

The guiding principle of economic management in the period from "control" to "death" calls strongly for maintaining equilibrium at all costs. The faction advocating the "four major equilibriums," namely, fiscal, financial, foreign exchange, and raw materials, becomes predominant as the focus shifts to moderate economic growth and an insistence that economic growth should be down-paced to the growth rate of the weakest link in the economic chain. Chen Yun, first secretary of the Central Commission for Discipline Inspection of the Chinese Communist Party, whose long standing in the party equals that of Deng, is a champion of the "four major equilibriums." And whereas Deng cannot by any means be called an economic expert, Chen is widely regarded as an economic theorist.

All past attempts to reform the economic system have ended up as nothing more than a phase in this over-arching cycle. Past reforms were unable to liberate the Chinese economy from government control. This time, however, Chinese economists are saying the current reforms must liberate the economy from the hands of the government and place it on a new footing determined by economic factors.

Prior to the decision to implement the current economic reforms, a proposal was made to "separate the party from the government"—in short, to separate the duties and functions of party leaders from those of government administration—as a means of revitalizing the technocracy. Recently, the separation of the government and enterprises has also been proposed to accord businesses greater independence, including greater responsibility for factory managers. Without success in separating government from business, the current reforms will end as a mere repetition of the old cycle.

Cycles in Japan-China trade

The cyclical factor can also be observed in trade. In 1984, China's foreign trade increased by 24.5% over the preceding year, reaching \$49,970 million. The increase in imports alone was a dramatic 40.7%. China's imports from Japan leapt 47% and its trade deficit with Japan climbed to \$1,260 million. It was China's first trade deficit with Japan after three years of surpluses.

Japan-China trade in the first four months of 1985 has already produced a balance of \$1,543.8 million in Japan's favor. Japan's exports to China in the same four-month period registered a dramatic 105% increase over the corresponding period in 1984. This flood of imports from Japan has alarmed the Chinese government, which has already begun taking steps to reign in trade. As Tables 1 and 2 show, Japan-China trade moves in cycles, and the 1984-85 period falls under the part of the cycle in which Japanese exports to China increase.

In the two years preceding the start of a five-year economic plan, particularly the year immediately before it starts, China's imports of machinery and equipment increase dramatically (Table 1). The years 1970, 1975, and 1980 all saw a sharp increase in China's imports. Because of this five-year recurrence, it would not be at all strange if 1985 brought a sharp 40% rise in Japanese exports to China. Table 2 shows percentage changes in the value of Japan's exports to China. The trend revealed here is similar to that seen in Table 1. Japan's exports to China increase in the fourth or fifth year of a five-year economic plan, but growth slackens in the first or second year. Judging from Tables 1 and 2, it is natural that Japan-China trade should increase remarkably in 1984-85, especially Japan's exports to China. But

in 1986, the first year of China's seventh five-year plan, it can be expected that the somewhat overheated Japanese export boom to China will subside.

Deng Xiaoping has begun to show signs of impatience over the slow results of the policy to open China's economy to foreign countries. He is particularly irritated by the slow tempo and small scale of the joint ventures with foreign interests through which China hopes to attract foreign capital and stimulate the transfer of technology.

Deng made his feelings known to Chinese and foreign participants in the "Symposium on China's Economic Cooperation with Foreign Countries" held in October 1984. "In spring this year," Deng told the gathering, "I made a small complaint to Japanese Prime Minister Nakasone. I told him that Japanese companies may be doing exceptionally well, but they seem to be too interested in making profits. In doing business with China I wish they would be more venturesome." It is probably true that Japanese enterprises are overly cautious. But their caution comes from their sad experience with big swings in Chinese policy in the past.

Even though cyclical changes have occurred in China's economy and society, the nation's economic exchange with foreign countries has continued to expand step by step. The impression today is that the season of politics is over and the season of the economy has begun. Zhou Enlai stated repeatedly that "nobody can stop the tide of history." It seems that the Chinese economy's march toward liberalization is part of that tide. Given China's internal needs, the expectations of the advanced nations of the West, and the prospects for the Pacific basin economic sphere, China's economic exchange with other nations will likely continue to stride ahead, despite the ups and downs along the way.