

## THE LOGIC PROCEDURE OF CHINA'S TRANSITION

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### **Abstract**

*The present paper deals with the logic procedure of China's economic transition by concentrate on the basic elements of relations of production, principle of distribution, and the economic running model, discusses the key problems before and after the reform, and expresses the different opinions around it, finally come to the point that the prospects of China's economic transition have to be taken into considering in the world wide condition of globalization, and it is connected with the future of our earth.*

**Key words:** *Economic transition, Relations of production, Principle of distributive, State regulation and market orientation.*

### 1. INTRODUCTION

When we talk about economic transition, we know there were at least two main economic transitions in China in 20th century, the first one is from half-feudalism, half capitalism and half colonialism to be transformed to socialism, which started in 1949 and almost finished the transition period in 1956 that is after 7 years China's Communist Party come to power, no matter what Western Scholars regard the period of 1956-1978 as a real socialism or not, at least the main character of this period is public ownership with equal income allocation, this is a historical political-economic transition. The second one is from socialism to socialist economic reform, which begins in 1978 until present, and leded by CCP, this is a historical economic transition. The economic transition I discuss here is the second one, why it has to happen, and what would be the possible perspective of this transition, I try to answer these questions by analyzing the main line and the logic procession of this transition.

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## 2. THE BACKGROUND OF THE ECONOMIC REFORM

We try to understand the general background of the economic reform from the points of relations of production in the form of ownership and the principle of distribution both in the areas of natural resources, means of production allocation and income distribution, these two points contain the problem and the main line of the economic reform.

From 1949 to 1956 China have almost finished the first economic transition, the newly set up public ownership ended private ownership both in the city and in the countryside. Public ownership not only guaranteed the relationship between workers with the factory, parents with the land, which means labor right are ensured with the relations of production, as well as education, medication and pension etc. This kind of relations of production continued until 1978, the economic running model of this period is central planning based on some sense of labor value, because the natural resources and the means of production are allocated according to the central planning, and workers income are almost equal, but the production are still be priced according to its product value theoretically.

Also, theoretically the principle of income distribution according to Marxism for the primarily stage of socialism is allocation according to contribution, which means contributive reward distribution, while not equal distribution which means distribution without considering contribution, only at the high stage of socialism the principle could be "From each according to his ability, to each according to his needs." <sup>2</sup> Actually in reality what practiced was not the principle of distribution according to contribution, but only egalitarian principle that is equal distribution without considering contribution.

If we take into considering both the principle of allocating natural resources and means of production, and the principle of income distribution, we see the economic activity from both individual side and economic unit (factory) side are limited, which to some sense has slowed down economic development, except the very beginning of the period by which people were warmed up with high socialist ethos working hard regardless of reward. The relative backward of economic development of Russian, Eastern Europe and China was very clear in 60S, 70S, in China, worried about this situation, the economic reform started at the year of 1978.

The phenomenon of high equality and low economic efficiency, with lacking of technical reform is the basic character of the period of traditional socialism. Compared with capitalism, the supposed social coherence and harmony has been realized to some existence, but the supposed high speed of economic development has not been realized for a long run (after the high speed motivated with socialist enthusiasm at the beginning, then for a decade's period it cool down). Socialism dose not exist in a island, it exists in a global village, no matter what other factor

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<sup>2</sup> Karl Marx: 'Critique of the Gotha Programme', *Selected Works* Vol. 3. Progress Publishers, Moscow, 1990, p. 19.

(political) may be, the factor of economic comparison between socialism and capitalism would have to force or stimulate the idea of economic reform.

### **3. THREE STAGES OF THE REFORM AND THE CHARACTER OF SOCIALIST MARKET ECONOMY**

From 1978 to present, China's economic reform regarding the different character could be divided into three stages: the first stage is from the year of 1978 to the year of 1992, The second stage is from the year of 1992 to the year of 2001, The third stage is from the year of 2001 to present, now we try to show the main character of this three stages.

The first stage of the economic reform started in 1978 from countryside as an experiment, the main character of this stage in the countryside is to use contract to enhance the responsibility of parents with the land so that to increase productive activity by combing their self-interest with their responsibility. Then reform moving from countryside to city, in the city the reform at the beginning is to use monetary stimulation to enhance the activity of workers in the form of bonus, meanwhile for the public factory, the way of stimulation was to replace of handing in interest by handing in tax. Hand in interest means that you are supposed to hand in all of you had earned, apart from necessary needed for continuing reproduction, hand in tax means you can keep what you earn after tax, so that to increase their economic activity.

Very soon with the policy of opening the door, foreign capital has been introduced, which is the primary fountain of non-public ownership in socialist China in the form of joint adventure. 1984 one of Beijing Company and one of Shanghai company were allowed to sell stock to the public, 1990 opened two stock market, one is in Shanghai and the other is in Shengzheng, which not only for the private business to sell their stock on the market, but also gives the public sector a general way to transform part of its property into private hands.

The second stage of the reform began in 1992, apart from the joint adventure we have further open the door by introducing market economy, which means apart from central planning now the price of production, as well as other elements of production, could be regulated by market. At this stage besides foreign capital investment in the form of joint adventure, native private ownership in the form of Business Company have been appeared and grow up, besides joint adventure private ownership basically come from two ways, one is that it naturally grows up from small individual business, the other one is that it comes from the transformation of public ownership into individual hands in all kinds of ways, generally those privileged in political sector were easily take over public property in its own hands.

The appearance of non-public business or private ownership have resulted in the changing of socialist distributive principle from allocation according to contribution to combine it with allocation according to the elements of production in-

vestment income, this principle have been inserted into the new national constitution in 2004. It is clear individual's income now is already beyond living materials, it has reached the means of production, in the form of owning means of production, owning capital in different forms and get profit from the owning, these do not exist in the former socialist period of 1956-1978.

And the appearance of market have also to change the principle of allocation of means of production as well as natural resources in the level of factory or company from allocation according to central planning to exchange it in the market based on its price, but it is still a problem for the public sector, because the borderline of market subject for the public sector is not clear.

2001 China has joined WTO which could be regarded as the beginning of the third stage of the reform, since then China has been more and more involved into the trends of globalization, the growing up native private business together with the state business have been more involved into international co-operation, meanwhile not only the foreign capitals come into China, but also Chinese native capitals go out of the door in the form of capital investment in abroad.

As the result of market system expanding into financial sector, 2010 based on the already opened stock market, China further has opened stock index futures and securities margin trading, therefore besides joined WTO, both from out side or inside, China have almost set up a completely market system, together with the strong government regulation or central planning.

The character of market economy with socialism could be basically understood with the new relations of production and the combining of different principles of distribution, previous highly unity of public ownership has been now replaced by public ownership in the guiding position and accompanied by multiple forms of ownership, such as collective co-operation, joined adventure and national private ownership, and previous principle of equal distribution has been replaced by distribution according to ability, also the interests come from capital investment in production area, and the earning from investment in financial areas are all accepted.

Correspondence with these two new characters, the previous stable relationship between invidious and public ownership has guaranteed the actual working rights for every adult, whoever has the ability to work could get a job, so there is no unemployment insurance needed. Now these kinds of relationship has been changed by the appearance of multiple ownership, therefore the stale relationship has been replaced by the employment based on contract in the labor market, which started already in the first stage of the reform, together with the change of the basic relationship, medication and pension are all transformed from previous public hands in the form of socialist labor insurance to the insurance market.

The result of the economic transition on the one hand has speeded up economic development with relatively high economic efficiency and the using and creating of new science and technology, regarding these we have also to take into considering the international background, on the other hand social differentials has

been grow up in a unimaginable speed, which could be understood from three points□The first one is the essence of market, market competition creates winner and loser, the second one is the hole of system transition, which create opportunity for those in privilege to take advantage to use it, the third one is all kinds of corruption of those in power when political power could be used for economic interest. Only the first one is a normal and legal way of continuing producing social differences.

#### **4. RESULTS OF THE TRANSITION AND ARGUMENTS AROUND IT**

From the transition of these three stages we could see the logic of the reform is to enhance the relationship of subject which could be both laborers and the managers of a company with object in the economic areas, by using contract to combing subject's self-interest with their responsibility, no matter for the public sector or private sector.

The historical transition has now resulted in the different institutional structure with the coming of market economy and the appearance of non-public ownership, together with the change of the principle of distribution, as well as the new insurance system. The fundamental right of labor and insurance, the equal principle of income distribution has now all been put into market, but there are still difference between public sector and private sector, in the public sector the job more stable and the insurance are connected with the job, and the income are more equal. Generally speaking, not in quantity, but in quality, the public sector is still regarded as the leading elements of society.

It is no doubt that the economic reform has speeded up economic development, and also social progress in certain sense, although different kinds of problems have come out as well, around these problems different points of view and arguments come out:

Concerning the problems of social relations, the former socialist harmony relations are threatened by the growing up of social differences, the gap between the rich and the poor could be further influence the social relations in other areas, such as education, medication, general culture and unavoidably political sector. Although the basic security system has been slowly set up to cover all these uncertainty in the minimum necessity; actually the social differentials influence the society in a deep way.

Market competition stimulates individual's self-interest, which could be further split invidious moral judgment and behave. The standard of morality has been also transformed from the former socialist morality which stress collective ethos and obey attitude to the morality that fit market economy which stress self-interest and social responsibility in the economic activities. Although former socialist collective ethos is strongly stressed in the daily social life, actual it is threatened by market competition in economic life.

The wanting of economic developing speed has also threatened the harmony relationship between human being with natural environment by over exploiting natural resources and over pollute environment with the by-effect of the production, this is not a particular question for the market oriented socialist economy, but a question for the life model of human being.

The deeply changed model of social structure has also caused the possibility of traditional economic crisis: on the one hand there are over accumulation, no matter in whose hands, in the hands of state enterprises or in the hands of private enterprises, on the other hand it is the limit of consumer ability coming from relative low income in domestic area, and also coming from decreased demand from abroad, because of international financial crisis, both of these created the possibility of over production with low market demanding, as well as the new possibility of financial crisis, the state owned bank swimming in the market pool driving by profit, creating business which have resulted in over debts, the simple example is the bubble of house price.

The situation could be more complicated and more serious under the trends of globalization, as the result of globalization, generally speaking capital move beyond of one country, which formed transnational classes, both capitalists class and working classes. The transnational capitalist classes now own means of production world widely in the form of transnational co-corporations, such as WTO, also in the form of World financial system, such as world bank, etc. while working class now facing plural employers, either national, abroad or both. The result simply is that the traditional paradox in one country now spread out in the scale of the whole world.

The opened stock market system in domestic in late 80s on the one hand give the opportunity of the society to supervise the business of companies or enterprises both in public and or in private hand, on the other hand also give an great opportunity for those adventurers to concentrate the social wealthy in a unusual speed, the further opened domestic stock index futures and securities margin trading for the purpose of stabilizing the stock market, actually have enlarged the possibility of money concentrating for few and losing for many, resulted in increasing social differentials.

The interact of domestic financial market with international financial market has created a even bigger opportunity for the money concentration in a few and has therefore enlarged social differences in a way out of industrial areas in a world wide scale, the moving of hot money from developed countries like a tornado sweep over developing courtiers. Financial capital is far more efficient for money concentrating for few at the scale of world market, compared with the industrial capital.

Correspondence to the economic globalization, a translational capitalist class also has politicized and has pursued a class project of capitalist globalization institutionalized in an emergent transnational political power, which has no correspondent opponents as in a national state, such as trade union.

Based on this new social situation and also due to the continuing coming of Western ideology through introduced media and through returned visiting scholars or students, instead of former unified opinion, now basically two kinds of voices from different sides come out, one is from the Left side, it could be further divided into the radical Left and the new Left, the other one is from the Right side, it could be further divided into the Right and the lefted Right which is the Left wing of Right, the Right wing in China are mostly lefted.

Generally speaking the Left wing more concern about social progress from the point of equality of the whole society, while the Right wing more concern about economic development and political democratic progress. The basic division between the Left and Right are dealing with the property ownership and the political system.

For the Left wing, the current situation of market economy could be understood from the practical points of view, such as to use market economy as a tool to achieve economic development, to prepare the economic basement for the ripe socialism. Although for those new Left, market economy could be accepted, but they stress on public ownership, Guojin Mintui could be represent their attitude for private business. Their current practical strategy is to combine public ownership and market economy, on the one hand to keep some kinds of social equality, on the other hand to achieve some kinds of economic dynamic to increase economic efficiency.

For the Right wing, in China that is the lefted Right, they are mostly influenced by American new liberalism, opposite to the new Left strategy of Guojin Mintui which means to increase public sector and to minimize private sector, their strategy economically is to privatize of public ownership, from industry to financial sector, politically their strategy is a kind of political democracy in the form of multiple party system.

Connected with the form of property ownership, the big difference between the Left and the Right concerns the running model of market economy. The Right wing contumely wants to minimize government interfere with economy in the way of central regulation, while insist on increasing market orientation, the Left wing stress the importance of public sector and the leading role played by public sector with central government regulation.

Although there are differences between the Left wing and the Right wing, there is also common sense between the two: that is the development of China, but they have disagreement on "how". Both of them have the same idea on economic development, but they have very different view on social progress, due to the different evaluation of social progress. Private ownership and Social differences are accepted by the Right wing in the name of distributive justice with the differentials distributive principle, while for the Left wing they are only temporally accepted unequal distribution and regards it as a strategy towards a more equal society in future.

## 5. PROSPECTS OF CHINA'S ECONOMIC TRANSITION

To analysis the future of China's economic transition, we still have to concentrate on the key points of the logic of transitive procession: that is the relations of public sector and private sector, the relations between State Regulation (central planning) and Market Orientation. These two points could be regarded as how could the new institutional system matched with the new economic structure, correspondence with the new economic structure there are different social security system, and also different principle of distributive justice, both in the areas of individual income and natural resources. Systematically it is different from the socialist system before the reform, now the question could be what would be the dimension of the economic reform, will it goes far away or close not to the former but some sense of socialism, or creates a new dimension for the future? It is an interesting and open question

At least the prospects of the socialist market economy with China's character basically depends on how could we deal with the relations between public ownership and private ownership, the social security system that respectively related to these two different or multiple economic elements, and how could we set up a unified principle of distributive justice that respectively related to these two different or multiple economic elements, to recognize it from theory to practice, from normative standard to different context.

Anyhow under the situation of economic globalization, how China could be on the one hand to continue to insisting on its socialist value, on the other hand to swim in the global pool without wet by the water, it is not an easy task. At least it drives us to further understand the situation both insider and outside, respectively and interactively.

From the point of insider, market oriented economic reform have already created social differences in the sense of legal procession, from the point of outside, the result of Capitalist globalization has formed Transnational Classes, that is capitalist class, working class, as well as so called middle classes, they are beyond of the national borderline, but compared with the appearance of capitalist globalization and world market; there is actually no formal transnational state or transnational system.

Until now what the new Liberals want is only capitalism to be universalized in any angle of our earth, both economically and politically, they want to smooth the movement of capital from one place to anther place guided by the profit pursuing with a so called universal law. While Lefts are divided basically into two schools, one is looking for basic alternative replacement of capitalism with a kind of socialism, and the other is on the one hand criticize capitalist domination, on the other hand suppose a democratic new world system, with accepting of Market economy.

Efficiency and dynamic or motivation of economy are stressed by the Right thinking from the basement of self-interest, social equality and coherence are stres-



sed by the Left thinking from the basement of community, both of them have very different interpretation for the idea of freedom and justice.

May be it is a time to deeply explore the basic elements of our theory and practice with a critic thinking, to global our knowledge under the trends of globalization, the prospects of China's economic transition have to be taken into considering in the world wide condition, and connected with the future of our earth.

### **LITERATURE**

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