



# CHINA FROM PLANNED TO MARKET ECONOMY

## THE TIMELINE OF ECONOMIC SYSTEMS IN CHINA

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**Abstract**—This paper clarifies the problem of establishing the typology of economic systems in China from 1949 until now. In this regard, the author made up the "timeline" of China's economical systems, which gives a new perspective in the analysis of Chinese economy, by separating in time the changes suffered.

**Keywords**-China, market economy, planned economy, economic system, timeline

### I. INTRODUCTION

Building-up economic systems is a major discussion theme in the current context, when increasingly more researchers are interested in their evolution in order to highlight the differences of economic and social performance as well as to achieve a better correlation to the human needs. In our opinion, the need to research has grown deeper with the onset of the economic crisis in 2007-2008, that doubtlessly had systemic causes that pushed forth a few critical questions: Regulation – Non-regulation? Centralization - Decentralization? The current theoretical models are a match to reality's new challenges?

### II. CHINA'S ECONOMIC SYSTEMS

On October 1st, 1949, The People's Republic of China was established to put an end to the social havoc that beleaguered China in the past 100 years; it simultaneously set up both a powerful and an efficient administration as well as the basis for the economic development. At that time, the new government was facing an outright disaster - in 1949, the GDP per capita was only 66.1 Yuan, between 1940 and 1949 the GDP average growth rate being only 1% a year, with China's average yield production being only 1.064 kg, noticeably lower than the world average. The labor productivity was low and the industrial output was far behind other nations – the steel production was only 410,000 tons and the crude oil production was only 120,000 tons [1] to a total population of 551.96 million residents [2]. By a series of efficient economic politics, the government unified the monetary and financial systems, matched the balance between the incomings and expenses, and reduced the structural inflation (i.e. suppressed it by planned pricing) that had beleaguered the nation for 13 years. Meanwhile, it extended government powers for resource allocation and decided the relationship between the central and local authorities. After implementing a series of politics and

measures to reform and upgrade the industry, the government was able to rapidly reestablish industrial production that was severely affected by war, broadening the work spectrum and achieving social stability. The Government eliminated the economic privileges enjoyed by the "imperialists", confiscating their capital and establishing a state-owned economy, and by regulation and administration it incorporated the private economy into an economic system that was typical to popular democracies.

After establishing The People's Republic of China in 1949 and taking into account the internal and international environment, the government progressively implemented a strongly centralized planned economy.

The implementation of the Chinese planned economic system was mainly done by the following aspects. First, the forms of ownership gradually decreased, the state property dominating the economic system and excluding all other forms; the state-owned companies held a dominant position in the economy as a whole. Then, considering the operation and administration of the state economy, whether state-owned or collective property, the operational and decisional rights were concentrated to a few government levels, transforming the enterprises into an extension of bureaucracy, thus losing their independence and functioning as a workshop within the gigantic government enterprise [3]. The methods of official economic management used mainly administrative approaches, namely they used administrative decrees to deliver goods and allocate resources. Thirdly, the market ability to allocate resources was very faint and completely failed in this respect in certain cases. Finally, the income was distributed by a heavily centralized and planned system, having been implemented an egalitarian distribution method where all members received the same compensation regardless of the quality and quantity of their work. As a result, neither the enterprises, nor the individuals manifested initiative in production and operation. The research method used for this scientific inquiry was the historical approach in the form of an analysis of the systemic transformation evolution in China in a time span of approximately 65 years.

Between 1949 and 1978, the system's objective was to build-up and upgrade the planned socialist economy. After 1978 and into the present day, the objective of the Chinese economic system was to put up a socialist market economy.



Through a process of methodical transition, China developed a unique set of essential characteristics by inheriting the old culture, using the practical experience and adopting advanced technology and expertise from the outside. In more than 65 years of reforms and opening, the Chinese economic system has undergone significant transformations that I will present hereinafter:

1. The Maoist Era (1949-1976), although having a first five-year plan when significant economic progress was recorded, remained in history as a dark period where more than 40 million Chinese died of malnutrition as a result of the measures adopted during The Great Leap Forward, followed by The Cultural Revolution, an even bigger systemic shock that impelled social anarchy and the propagation of poverty to an unprecedented level. Still, due to the personality cult promoted in that period, but also to some achievements of the government: the fight against population illiteracy, improving access to sanitary products and the diminishing of unemployment and inflation, Mao managed to remain a respected leader in China.
2. Deng Xiaoping distinguished himself by opening to the West and encouraging commercial relations with western countries, as he considered these to have a significant contribution to the economic development of the country. He is seen as the reformer of the Chinese economic system, being the first among the leaders to have accepted the market mechanism as it proved superior to collective principles, and introduced the four improvements program that sought the implementation of reforms in agriculture, industry, defense and education. Thus, Deng initiated the transition from centralized economy to social market economy in China.
3. The Era of Jiang Zemin (1993-2003) marked the onset of the social market economy in China, building-up such an economic system being one of the established objectives of The Chinese Communist Party Convention of 1993. The fiscal reform, extending the process of privatization to the big enterprises, the invitation of entrepreneurs in the party, the integration of private property and rule of law

into Constitution as well as the continuing reorganization of the economy, started off during Deng` Era, have consolidated the economic development of China.

4. The activation of the modernization process by supporting computerization in numerous fields, enhancing rural economy in parallel to sustaining the urbanization process and extending the social insurance system, have marked the consolidation of the social market economic system in China under the leadership of Hu Jintao.

Although the social authority in China didn`t accept it, in our opinion the Chinese economic system has passed through several stages: in Mao`s Era, China was lead by the principles of command economy, Deng being subsequently the authority who initiated the introduction of market economy principles, deeming them superior to planning, but he emphasized on every occasion that the political system would stay the same (thus excluding political freedom and endorsing mono-party system efficiency), causing China to pass to the socialist market economic system. Then, under the leadership of Jiang Zemin, the developing of a socialist market economy is officially marked as a target for the first time within The PCC Convention; in this context, the reformers of The Chinese Communist Party successfully initiate, legislate and regulate the privatization and liberalization processes that have lead to China`s being accepted in the World Trade Organization. These processes cause the gradual implementation of market mechanisms in China, and in the newly created environment takes place the first reformation of the political system by inviting entrepreneurs to join the party and, more than that, even the leadership structure (in the year 2000), a fact that goes against the Marxist principles, as well as the organization of democratic elections in rural areas. The reformation of the political system, associated to the implementation of market mechanisms and the developing of a national social insurance system, have marked, in my opinion, the passing from the socialist to the social market economic system. Although the existence of a social market economy in China has never been officially and internally admitted for political reasons, the international experts place China in the ranks of social market economy countries. To illustrate this, we have created the timeline of economic systems in China, according to Figure 1.

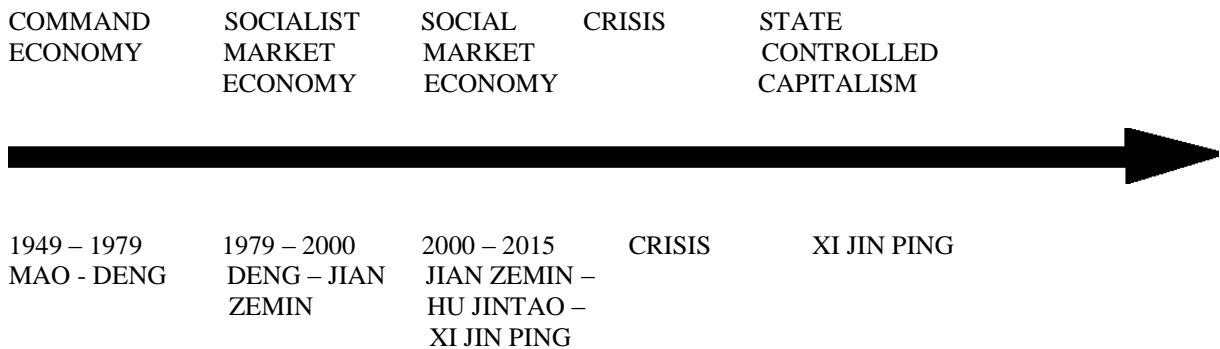




Figure 1 – Timeline of economic systems in China

The timeline of economic systems in China proves that the transition has tacitly triggered the gradual relieving of restrictions imposed over time by The Communist Party in an attempt to control the economic system of the country. By the same token, the transition caused the passing from the command to market economy, a reality hard to believe just 20 years ago [4].

### III. CONCLUSIONS

In accordance with the aspects examined in this article, that have lead to the configuration of a timeline of economic systems in China, this country is headed towards a system of state controlled capitalism, as the continuous transition process from one economic system to another has inherently caused the gradual relieving of the restrictions imposed over time by The Communist Party in an attempt to control the country's economic system.

Although never officially admitted, this type of system – the state controlled capitalism has all the attributes of the French model, but it is named differently; the current president of China himself, Xi Jinping, defines this system as a "state controlled market economy" [5] and draws attention to the „increasing efforts to reform and open the economy, that the authorities of Beijing continually put out". He also underlines that, "The part of the Chinese government is to create and ensure an auspicious political environment and an equitable legal frame for the Chinese companies. Even in market conditions, governments diversely support the growth of their own companies, western countries included, and this type of measures shouldn't all be labeled as subvention" [5]. These

declarations, along with the results of the analysis accomplished in this essay, prove in my opinion that now China is a functional market economy, but denying this status by the European Union and USA is a matter that pertains solely to certain economic reasons of these ones.

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### AUTHORS PROFILE

The author is a PhD student in Economics at Bucharest University of Economic Studies – Theoretical and Applied Economics Faculty and published a lot of papers regarding Chinese and EU economies, starting with 2012.