

# Conclusion

## *China's Divergence from the Former Soviet Union and Eastern European Countries*

The Chinese government resorted to armed repression of the Tian-anmen demonstrators in order to protect the existing regime. This violent action naturally drew strong protests and condemnation from many countries around the world, and China found itself facing economic sanctions imposed by the West. Its international isolation increased the gloomy atmosphere prevailing inside the country following the political and psychological impact of the Tian-anmen incident; and this was further accentuated by the austerity and stringent policies imposed by economic adjustment.

While repression and gloom prevailed in China, the old regimes in Eastern Europe and the Soviet Union were collapsing one after another. The Tian-anmen incident served as a negative teacher to these countries. Their leaders recognized that harsh repression like the Tian-anmen action would invite worldwide condemnation, and not a few such leaders even volunteered to join the democratization movements. Thus these movements exploded in these countries, leading even to the collapse of the Soviet regime that had lasted for more than seventy years. While the Chinese people were feeling battered and suppressed, the people in Eastern Europe and the Soviet Union were feeling inspired by the hope that they were entering a new era.

But later developments have hardly satisfied the expectations of the people of Eastern Europe and the Soviet Union. After the disintegration of the latter, the former Soviet republics have found it painfully difficult to transform their economic systems to market economies. In Russia the inflation rate reached

2,200 per cent in 1992. Russia also suffers from a serious foreign exchange shortage. Even daily necessities are not adequately supplied. Though the old economic system has been demolished, a new system has not yet been put into place.

The former Yugoslavia, once proud of its self-managed socialism based on the principle of fraternity, has long been ripped by civil war. Even Poland which is said to have succeeded in marketizing its economy, is staggering under U.S.\$45 billion in foreign debts (as of early 1991), and needs further financial assistance from abroad. Although the hyper-inflation of 700 per cent experienced in 1989 has been overcome, the price index in Poland is still rising at 40–60 per cent a year. The Polish people have suffered severely from the contradictions and conflicts inherent in the transition to a new system, and they are becoming critical of the “shock therapy” administered under the guidance of the International Monetary Fund and a number of Western economists.<sup>1</sup>

The Eastern European countries and the former Soviet Union pleased the West with their quick moves toward democracies and market economies. But they now find themselves in turmoil. Meanwhile China, which was harshly treated by the West, has enjoyed a relatively stable supply of consumer goods and shown excellent performance in its external economic relations especially with the Western countries including the United States, such as foreign trade and foreign investment. This is truly ironic.

The conversion from a one-party dictatorship to a democratic system and from a centrally controlled economy to a market economy is an historical necessity for the present stage of the former socialist countries. However, chances of success are slim if a country dashes off toward a new system without considering its own historical characteristics and social realities, and without understanding the interrelated circumstances that its old system functioned under. Legal arrangements needed for introduction of market systems can be introduced rather quickly; but it will take many years and many steps will have to be taken before such arrangements truly begin to function.<sup>2</sup>

Converting an economic system is not like assembling or disassembling toys. The system is living flesh and blood. It would be futile if the patient died of exhaustion in a thorough-going and bold operation even if it is successful in removing the cancer. It is therefore essential to cushion contradictions and conflicts that inevitably accompany the transition process.

#### *After the Victory of the Market Economy System*

From the autumn of 1991 through the spring of the following year, China's top party leaders and elders visited Guangdong, Fujian, and Shanghai to appeal for promotion of reform and the open-door policy. China is now heading toward the full functioning of the market mechanism. What type of market economy will emerge is still a matter of conjecture, but sooner or later the time will come when China has completed its conversion to a market economy.

This book has focused on China's process of conversion to a market econo-

my, and has shed light on the contradictions and difficulties accompanying this process. But it must be said in all frankness that other serious difficulties await China after realization of a market economy.

First, if the reform and open-door policy is carried out as intended, central control will be further loosened and give way to regional decentralization. Hong Kong will return to China in 1997 adding more vigor to the South China Economies. Enjoying more benefits from preferential measures promoting external economic relations, other coastal areas such as Shanghai, Shandong, and Liaoning and areas along the Chang-jiang River will also receive more foreign investment. By contrast, the central government, suffering from poor revenues, will have to cut subsidies for inland areas. In Japan, the government's investment in transportation, communications and other infrastructure played an important role in expanding and maturing markets. In China, however, it has been precisely this area which has proved to be the bottleneck in economic development.<sup>3</sup> But infrastructure construction may become increasingly difficult as the position of central government finances is undermined.

China may thus see a number of coastal economies, each with over 100 million people, grow like newly industrializing economies (NIEs) while the economies in inland areas and national minorities areas fall into poverty. Can China maintain political and social stability under such circumstances?

Second, it is doubtful whether China itself, let alone its neighbors, could be unreservedly pleased with continued expansion of the Chinese market economy. China already has quite high diffusion rates of consumer durables despite its low per capita GNP (which stands at about one sixtieth that of Japan). Based on urban household statistics, the rate of TV sets is 100 per cent, that for electric washing machines is 76 per cent, and that for refrigerators 36 per cent. If this vigorous appetite for consumption spreads to rural areas, huge amounts of resources would be exploited. Based on China's Ten-Year Development Plan, its energy consumption will be the equivalent of 1,760 million tons of standard coal by the year 2000, almost four times as much as the Japan's current energy consumption. With 72 per cent of energy used in China coming from coal, even now China discharges fourteen–fifteen times as much sulfur dioxide into the atmosphere as Japan causing acid rain.<sup>4</sup>

The Sanxia Dam in the upper stream of Chang-jiang River, whose primary construction plan was just approved in the spring of 1992, will, on completion, generate about the same amount of electric power as all the hydroelectric power stations in Japan generated in 1982, one of the peak years for hydroelectric generation. In Japan most rural families acquired TV sets during the Tokyo Olympics in 1964 following the nearly 100 per cent diffusion rate in urban districts in 1959.<sup>5</sup> By the year 2000 when the Olympic Games are scheduled to be held in Beijing, the world may find China a resources-guzzling and environment-polluting superpower.

Once a market economy booms, China with its huge population will certain-

ly have an extraordinary impact on global resource distribution and environmental pollution. However, the developed countries have no right to tell developing countries to suppress their economic growth while the former continue to enjoy their current level of consumption. It is apparent, therefore, that after the market economy with its pursuit of mass production and mass consumption has conquered the whole world including Eastern Europe, the former Soviet Union, and China, the time will certainly come when the people of the world will be compelled to ask fundamental questions about this economic system and the values it rests upon.

### Notes

- 1 Hiroshi Watanabe, "Pōrando no shijō keizaika no shiren" [Poland's ordeal in creating a market economy], in *Kyū Soren Tō-Ō shokoku shijōka no shiren* [The ordeal of the former USSR and Eastern Europe in creating a market economy], ed. Soren-Tō-Ō bōeki-kai (Tokyo: Soren-Tō-Ō-keizai-kenkyūsho, 1992), p.31. The view of gradualists on the economic transformation of the centrally planned economies is supported in Tsang Shuki, *Against Big Bang: Theoretical and Practical Arguments*, Hong Kong Baptist College Business Research Centre Working Paper Series No.ES91020 (March 1992).
- 2 Yoshiaki Nishimura, *Shijō keizaika to taisei tenkan—Soren Tō-Ō Chūgoku* [Marketization of the economy and system conversion—USSR, Eastern Europe, and China] (Tokyo: Japan External Trade Organization, 1992), pp.22–23.
- 3 Ryōshin Minami, *Chūgoku no keizai-hatten* [China's economic development] (Tokyo: Tōyō-keizai-shimpōsha, 1991), pp.61–67.
- 4 Shin Suzuki, "Chūgoku no kankyō mondai no genjō, 2" [The present situation of China's environmental problems, part 2], *Nitchū keizai kyōkai-hō* (Tokyo), March 1991, p.31.
- 5 Reeitsu Kojima, "Chūgoku no keizai kaikaku to kaihō seisaku (1)" [Economic reform and the open-door policy of China (1)], *Ajia keizai*, Vol.27, No.7 (July 1986).