

# CONTEMPORARY CHINA'S TRANSFORMATION FROM PLAN TO MARKET\*

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## ABSTRACT

Contemporary China's economic system was planned economy from 1949-1978. After 1978, China began to transfer to market economy. The process was very long. In 1992, the aim of market economy was established formally. Understanding the change of contemporary China is necessary to understand contemporary China's economic history.

**Keywords:** *China economy, group central budget economy, socialist market economy, planned economy*

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## Why China chose the planned economy after the year 1949

This issue is academically attractive and is still widely discussed by scholars, both Chinese and otherwise.

China's choice of planned economy after 1949 was mainly decided by the complicated historical milieu and the particular vibe at that time.

By the time that the new China was established, the economy was weak and people were extremely poor. It was estimated that the economy of 1949 was merely 10% of the whole economy. In addition, inflation had been quite severe since 1937. Together, these greatly influenced China's economic recovery and further development.

For example, in 1937, one hundred yuan could buy two oxen. In 1948 however, the same amount could only buy three sacks of rice. To control the inflation and reduce the price index, the group of central budget and economy (GCBE) was quickly organized.

The GCBE collected the economic resources as fast as possible. It carried out strict measures to regulate rice and cotton, mainly focusing on Shanghai, which was the center of the whole country's economy and finance. Through its endeavors, the price index began to go down and inflation was arrested. In the process of controlling inflation and lowering the price index, a system of highly centralized budget and economy, which was the key of the planned economy, was gradually established.

The country's industrialization became a more pressing task after the recovery of the national economy. Under the concrete background of the international and domestic development, China ultimately chose the road of state-led industrialization and put heavy industrialization as the core of its development, which

needed the state to necessarily centralize the economic resources and form the system of planned economy. Objectively speaking, China developed rapidly on the basis of the system of planned economy, especially in the aspect of industrialization. By late 1970, poverty and illiteracy were turned around. Industrial fixed assets reached more than RMB 300 billion.

However, the system of planned economy had some defects. Management was too centralized and not flexible; and the imbalance of the first, second, and third industry, and living standards were not improved quickly and not proportional to the development speed of industrialization. With the development of the times and the change of development conditions, China began to step into the road from plan to market.

### **How China realized the transformation from plan to market**

China was still a long way from being a socialist market economy. After the third plenary of the 11<sup>th</sup> central committee of the CPC, which is a crucial turning point of contemporary China's development, the transformation from plan to market, from closed to opening up, began.

In the whole eighties of the 20<sup>th</sup> century, the household contract system of responsibilities linked to production was formed in the rural areas, greatly improving peasants' production activities and enthusiasm.

On another note, another system innovation of agricultural production was the free transfer of right to land, operating under the premise of not changing the essence of the land use. The economy of individual ownership, which made great use of China's rich labor resources, began to flourish in the urban areas.

Gradually, private economy and the economy based on foreign capital and cooperation between foreigners and Chinese also emerged rapidly.

All these changes indicated that the economy of diverse ownership, including state, individual, private and foreign and cooperative ownership, naturally and necessarily demanded changes in the system of economic resource allocation, that is, from plan to market.

In the process of this change, there were two important events. One was in 1984 when China formed the notion of socialist commodity economy based on the value law rather than production economy. This new notion had great influence on contemporary Chinese economic development. The second was in 1992 when the 14<sup>th</sup> national congress of the CPC established the socialist market economy as the target of economic reform. This was significant to the development of contemporary China.

Clearly, the change of system of economic resource allocation from plan to market was correspondent with the change of economic life since the economic reform began at the end of the 1970s.

### **The hard process of establishing the market system in China and the present tasks**

From 1992 onwards, China experienced the hard process to explore the path of market economy.

In 1993, a very important official document was issued – an outline of guiding the path of China's access to market economy. The document detailed, among others, the basic role of the market in the allocation of the economic resources, the establishment of a domestic market system, the transformation of government

functions as a necessary consequence thereof, and the building of new social welfare. It also emphasized that the market system did not mean the worship of the market economy because the market economy had its own defects, which should be kept in mind clearly. Also, abandoning the planned economy did not mean giving up the plan in the economic development.

Following this document and through hard endeavor of more than 20 years, China established its system of socialist market economy through which China's economy developed rapidly and sustainably. However, the task of perfecting the market system is still very hard and needs more time and energy to be engaged in.

In 2004, another important document was issued – dealing with the perfection of the socialist market economy. The document introduced the new concept of putting people at the core position in the development and perfection of the market economy. According to this new document, the key is to correctly recognize and deal with the relationships between the economic development and society's development (especially social welfare, livelihood construction, and social management innovation), the social and economic development and the building of ecological civilization.

With more than 30 years' development of market economy, China knows that the market is practically and theoretically not omnipotent; there are many things that the market cannot solve automatically.

The market cannot deal with problems such as the balance of economic gross output, the timely adjustment of economic structure, monopoly resulting from competition, and ecological development and social fairness. Government's strong interference is needed to solve these problems on the basis of insisting further on market reform. Obviously therefore, China must further

develop the economic reform of market economy, improve the active role played by the market economy, and make economic development more adapted to the law of market economy. On the other hand, it also needs to strengthen the macro-management of the market economy and restrict the negative role of market economy. That is to say, there exists an issue of how to tame the market economy. In this sense, we should clear the distinction of the plan and the planned economy.

Planned economy, as a particular economic system, is already inappropriate to the development of the times and to China. However, this does not mean denial of a planned economy. Scientific plan still has a great role in the process of development of modern market economy. State plan, as the important means of macro management, has no contradiction with the market economy. Undoubtedly, the more scientific plan is needed, the more the government rational interference should operate.

In conclusion, contemporary China's transformation from plan to market is a great success, which provides the firm and strong base for China's stable, healthy and sustainable development.

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