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The Quest to Realize the Rule of Law and Fairness

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As the distortions brought about by China's reforms toward a market economy are becoming apparent, an economic debate has surfaced between the right and the left over how to evaluate these reforms and their future path. However, experts on both sides agree that the country should seek a "good market economy" premised on the rule of law and fairness, and the key is whether the Chinese economy will be able to change direction from its sharp leaning toward efficiency.

The reforms launched in 1978 to transform China into a market economy have brought about double-digit annual growth. Yet income disparity has widened and discontent is rising among the common people who are not reaping the benefits of this growth. There is now major controversy, pulling in the mass media and the Internet, over how to evaluate these reforms and the future path they should take. The debate does not stop at the disparity issue - it spans out into the privatization of state-owned enterprises, policies toward foreign investment, and reforms in health care, education, and housing.

The major debate between the Neo-liberalists and the New Leftists

These debates are mainly being fought between the Neo-liberalists and New Leftists, centering upon efficiency versus fairness. The Japan Center for Economic Research recently analyzed the debates from the viewpoints of their content, background, and policy implications in a study report titled "The Great Economic Debate in China - Seeking a Balance between the Market and the Government" (co-chaired by Zhou Jianrong of Toyo Gakuen University and the author).

Contrary to China's claim to be a socialist country, its policy-making is greatly affected by the Neo-liberalists, who value efficiency, and they are the mainstream force in academic circles. On the other hand, the New Leftists, who place weight on fairness,

are popular among the common people but are resigned to a non-mainstream position in academia. Although the Neo-liberalists do not ignore the concept of fairness completely, they stress equality of opportunity, whereas the New Leftists emphasize equality of results as the benchmark for fairness.

Points at issue between the Neo-liberalists and New Leftists

	Neo-liberalists	New Leftists
Efficiency vs. fairness	Prioritize efficiency Fairness means "equal opportunity"	Prioritize fairness Emphasis on "equality of results"
Government vs. market	Small government Have strong faith in the market mechanism	Large government Distrust of the market mechanism
Causes of inequality	Evils of the old system Government monopoly and interference by vested interests hamper the establishment of market mechanism; corruption is rampant	Problems in marketization itself Market-opening reforms have weakened the power of the government, leading to a decline in its ability to govern, corruption among bureaucrats, and a delay in responding to social problems
Privatization	Support State-owned enterprises are usually inefficient, and the resulting deficits undermine fiscal sustainability. Opposition from critics can be reduced if corporate performance improves after privatization	Oppose In the absence of a proper legal framework, the interests of those in power will be given priority in the process of privatization, leading to a polarization of income distribution

(Source) The author

While neither camp disputes the point that Chinese society has become unfair, their views differ on the causes and how to remedy the situation. The Neo-liberalists take issue with the insufficient thoroughness in the shift to a market economy, and call for the establishment of a private ownership system and for income distribution based on the market mechanism. On the other hand, the New Leftists believe the problem lies in the move to a market economy itself, and insist maintaining the public ownership system.

On privatization, the Neo-liberalists believe that if management efficiency at companies fails to improve so long as they are owned by the state, it is better to transfer their ownership to those who will take better care of them. In contrast, the New Leftists criticize managers and bureaucrats for abusing their positions and doing as they please with state-owned assets.

On globalization, the Neo-liberalists are in favor, championing free trade and a division of labor in line with comparative advantages, while the New Leftists are against, calling for the need to protect infant industries (especially those in high-tech areas), which are supposed to have strong growth potential. The Neo-liberalists stress the benefits of an inflow of foreign investment such as technology transfer and job creation, but the New Leftists fear a "Latin Americanization of the Chinese economy," wherein incoming foreign companies will not only grab opportunities in the domestic market but also impede the chance for growth of Chinese companies.

Demands for the realization of a "good market economy"

As the debate clarifies the two camps' conflicting views, the common understanding is gradually spreading that a "bad market economy" with power and capital as bedfellows should be avoided in favor of pursuing a "good market economy" based on the rule of law and fairness. In order to realize such an economy, changes are necessary in the current transition strategy.

First, consideration must be given to not only efficiency but also fairness. The administration of Hu Jintao and Wen Jiabao has made the establishment of a "harmonious society" its goal, so that all citizens can reap the fruits of reform. Consequently, a shift in the ideal of development and the development strategy was incorporated into the "Resolutions on major issues regarding the construction of a harmonious socialist society" that was adopted in October 2006 at the sixth plenary session of the 16th Central Committee of the Communist Party of China.

In other words, a change was made from prioritizing efficiency to securing a balance between fairness and efficiency; from the concept of having a few people get rich first to that of making everyone richer together; and from prioritizing economic development to ensuring harmonious development of both the economy and society. At the same time, the leadership changed course from prioritizing the coastal regions to securing a balanced development of all regions; from prioritizing urban growth to having balanced development in both urban and rural areas; and from placing absolute importance on gross domestic product to seeking harmony between man and nature.

Second, reform in which insiders hold power and monopolize information must be changed so that more citizens participate in the reform process. Expanding disparities brought about by reforms are not simply a policy mistake, but are closely linked to the traditional reform method. Ownership reform of state-owned enterprises has been turned into "the capitalization of power" by insiders. In the new stage of reforms, checks and balances must be strengthened through active citizen participation.

Third, the role of government must also change as the market economy takes root. Specifically, while functions such as providing public goods and services (in addition to social security, health care, and education, these include maintaining market order and protecting property rights), stabilizing the macroeconomic environment, and redistributing income need to be strengthened, the government must refrain from "unnecessary intervention in the market," which is a hotbed for corruption.

The contradiction between the changes on the economic front and the dictatorship of the Communist Party in the political sphere is becoming highly conspicuous. Without political reform, abolishing vested interests will be difficult and economic reforms may well flounder. Political reforms, starting with the rule of law and democratization, can no longer be avoided in a China that seeks both economic growth and social stability.

Fourth, China needs to review the transition strategy of "gradual reform" that has been implemented thus far. In contrast to the radical "Big Bang approach" adopted by Russia and Eastern European countries, China's gradual reform strategy has focused on maintaining the old system while attempting to nurture a new one.

However, at the current stage, wherein reforms have permeated the country's economic fabric, the various evils of gradual reform in which old and new systems coexist are becoming apparent. For example, state-owned enterprises are benefiting from both the profits of monopolization and those of the move to a market economy, but consumers are forced to pay higher prices. Typical of this pattern are medical care and education, in which entry by private investment is strictly regulated, and housing, in which the most important factor of production, "land," is controlled by the government in the name of public ownership. In the new reform stage, it is necessary to shift from partial reforms undertaken in the order of easy implementation to coordinated reforms that seek to ensure harmony among the various parts.

More progressive theories sought

Finally, the constraints brought about by traditional ideology must be removed. Chinese leaders have until now been unable to present clear reform objectives due to these constraints and many reforms have been undertaken in the absence of legitimacy. Many reform measures, such as privatization of state-owned enterprises, have to be implemented under all kinds of pretexts.

Reformists have been placed in politically weak positions and grew passive out of fear of attack from conservative forces, and in many cases reform opportunities have been lost. Moreover, reform policies have often been implemented without sufficient deliberation. Many taboos still exist, especially in the areas of social sciences other than economics, and it has been difficult for academics to participate in reforms. As a result, their knowledge has not been utilized, and political and social reforms have been unable to keep step with economic reforms.

Fortunately, a progressive shift in theories has been undertaken in the reform process and traditional ideology is undergoing revision. Typical of such theories are the "primary stage of socialism," "socialism with Chinese characteristics," and "three representatives" which have incorporated capitalist elements. These theories would have been criticized as "revisionist" during the Cultural Revolution, but they are now symbolic of a socialism that advances with the times. Further breakthroughs on the ideology front such as abandoning public ownership and one-party rule are needed to establish a "good market economy."

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