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CHINA IN THE ASIA-PACIFIC CENTURY: UNDERSTANDING CHINA'S ECONOMIC STRATEGY*

Ericson M. Baculinao

Introduction

We gather here today to discuss the momentous changes in the People's Republic of China, which could have a major impact on our well-being as a nation. These changes are taking place as the world's economic center of gravity is shifting to the Asia-Pacific region.

In the late 1970s, North America's trans-Pacific trade surpassed the trans-Atlantic trade for the first time, signifying indeed a historic shift of the world's greatest battlegrounds for trade and economic growth to the Asia-Pacific region. The rise of China as the fastest growing economy and potentially the biggest market in the world, has accelerated that global shift.

China used to be the sick man of Asia. Feudal and colonial depredation kept the country backward, driving generations of

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Chinese to seek better opportunities overseas, for instance. The Chinese people's unremitting struggles led to the republican revolution of Sun Yat-sen in 1911, and later to the communist-led revolution which won in 1949.

The economic road map taken by the People's Republic of China was a tortuous one. True, the vast mainland China was unified at last, national sovereignty was restored, and hundreds of millions of landless peasants were given land. But the search for the formula of rapid economic success has proved to be a painful, at times, tragic process, as borne by the experience of the Great Leap Forward and later the Cultural Revolution.

When we landed in China in 1971, it seemed we saw the ideal society where everyone was equal. But it was also equality in a sea of poverty and scarcity we realized after visiting or working in many people's communes and factories. The model of socialist planned economy borrowed from the Soviet Union ensured that China becomes the leading nation in the world in the production of ration cards for everything – from rice to cooking oil. China's difficulties and limited options then were also caused by Cold War-era embargoes and blockades against China.

Before Mao Zedong and Zhou Enlai died, they propounded in 1975 the strategic goal of realizing the economic modernization of China. But it was only in December 1978, with the return to power of Deng Xiaoping, that a long-needed breakthrough in economic strategy was achieved.

In some ways, the geopolitics of the late 1970s aided Deng Xiaoping's open door and reform policies. The *de facto* Sino-American united front against the Soviet Union, conceived by Mao, would later help in generating initial enthusiasm and support in the West for Deng's reform and open door policies. The influx of investments and technology from Western countries, interrupted temporarily by the 1989 tragedy at Tiananmen Square, has proved to be an essential part of China's modernization strategy.

The key to understanding China's economic revolution is

Deng's concept of socialist market economy, developed according to the realities and characteristics of China after summing up the failures of Soviet-style centrally planned economy. It takes into full account the past failed attempts to leapfrog historical stages of developments in so large a country with a very uneven, weak, and relatively backward economic foundation.

This strategy, sometimes referred to as Deng's theory of socialism with Chinese characters, is a product of past struggles and debates.

The PRC, of course, began with a carbon copy of Stalinist economic strategy. By the late 1950s, Mao began to introduce changes to this strategy, by prioritizing the development of agriculture and light industry over heavy and defense industries. He further raised class struggle and mass movements as necessary instruments of economic construction, best exemplified by the Cultural Revolution model.

When Deng launched the initial phase of his reform in the late 1970s, he had to contend with a necessary compromise with the central planning school spearheaded by Chen Yun, best known for his "bird cage" theory. Chen and colleagues were decisive allies of Deng in the overthrow of the radical "Gang of Four." Chen believed that the economy, the bird-market, should have freedom but only within the socialist cage.

For a period of time in the early 1980s, central planning still remained a dominant factor with the market forces viewed as supplementary. It was only in the late 1980s and particularly after Deng's so-called "Southern Sojourn" in 1992, that the clear-cut strategy of socialist market economy was confirmed.

It is worth noting that the Tiananmen 1989 crisis presented the most severe test for Deng's strategy. The aftermath of Tiananmen was marked by the biggest campaign against "peaceful evolution," against the bourgeois liberalization of China. For some conservative and "leftist" factions, the campaign was a rare opportunity to target important aspects of Deng's reform. But

Deng saw the threat and, almost single-handedly, revived the reform momentum with his 1992 "Southern Sojourn." The rapid recovery and growth of China's economy since 1992 effectively silenced Deng's conservative opponents at home and proved decisive in breaking up the United States-led front to isolate and sanction China after Tiananmen.

Is Deng engaged in capitalism or capitalist restoration? The overall situation in China suggests that such simplistic description does not do justice to the unique development model that has been marked with great success.

True enough, China's economic revitalization has necessitated the rapid growth of the private, foreign-invested, and other non-state sectors. But there should be no mistaking that China is not about to give up the overall strategic position of the publicly-owned economy.

The dynamics of China's socialist market economy hinges precisely on the necessary combination, contradictions, and balancing of these various economic sectors and forces, under the strategic leadership of a political party which has not changed its official name, to say the least. The overriding goal is to accelerate the growth of China's national economic strength and uplift the people's well-being.

While upholding the commanding position of the publicly-owned economy, China's leaders recognize the enormous challenge of boosting its performance. Indeed, as China approaches the next century and the reform advances to a higher stage, China's leaders will devote greater efforts to developing and testing better organic links between public ownership and market economy, and accelerating the market-oriented operational reform of state-owned enterprises. The goal is to deepen, widen, and perfect the market mechanism in all industries throughout the country and enable the state sector, led by a select batch of highly efficient and profitable corporate groups, to grow in co-existence and in competition with non-state sectors.

I belabor this point because there may be some misconception about the real or long-range economic strategy of the ruling political party in China. The publicly-owned sector, which employs some 100 million workers, controls 80 percent of strategic industries, and yields 65 percent of state revenues, is still held as a crucial economic base of sovereignty and political power. Massive privatization, bankruptcies, and unemployment in this sector will erode that power and with it the ability of the government to steer the economy effectively for the common good. The reform of the state-owned sector, therefore, can only proceed step by step, starting first with small or non-strategic industries, and with emphasis on mergers of takeovers of weaker companies by highly efficient and profitable state-owned companies, while opening opportunities for foreign equity participation and limited privatization.

This is not at all to understate the deep-going market-oriented transformation of China's economy.

When we arrived in China in 1971, all goods from bicycles to toilet paper, were priced according to a central state plan. Today, over 95 percent of consumer items are priced by market supply and demand. The once-banned private sector now employs some 30 million people, and there are even over a million millionaires in mainland China now. The state sector has had its share of total industrial output decline to 43 percent, from over 80 percent in the 1970s. The semi-private or collective township and village enterprises have sprouted across the land, employing over 140 million, mostly surplus labor from the farms, with one-fourth share of gross domestic product and 40 percent of China's exports.

There are now more than 260,000 foreign-invested enterprises employing 17 million in China, with some USD 158 billion in direct foreign investments, representing 42 percent of total capital inflow into Asia. China, which takes in some USD 100 million foreign investments every day, is now the world's biggest recipient of foreign capital after the US.

Indeed, the growth of the foreign-invested, private, and collective sectors far outpaces that of the state-owned sector. The agricultural sector, now largely characterized by family farming, maintains steady growth so that the country remains basically self-sufficient in grain and other food supplies.

China's critics may disagree, but, by and large, Deng's formula has been vindicated by the ever rising income and economic boom visible across the country.

The initial beneficiaries of this boom were the coastal areas spearheaded by various special economic zones (SEZ), which, by design, were first established in southern China in the early 1980s. The experience and strategy of special economic zones have already been extended further north, and in particular, China is now building the biggest and most ambitious SEZ in Shanghai. In this connection, it is said that Deng himself regretted the failure to open up Shanghai a decade earlier. In the next century, Shanghai will serve as the head of a development dragon that will pull along the heartland of China, the inland provinces along the Yangtze River. With richer experience, China's leaders are boldly pushing for opening up more areas in the interior, like Xinjiang in the northwest frontier, to spread even wider the benefits of reform and narrow the income gap between the coastal states and the interior.

The figures are staggering. China's economy has been expanding at an annual rate of about 10 percent in real terms for the past 17 years, or 12 percent in the last five years alone, lifting a nation of one billion people from poverty in a generation's time. The goal set in 1980 of quadrupling China's gross national product by the year 2000 was achieved five years in advance; it doubled in 1988 and doubled again in 1995.

Based on standard exchange rate conversions, China's economy ranked 10th in the world last year. But many economists now believe this traditional method grossly understates the real size of China's economy. They propound the concept of "purchasing power parity" as a more accurate basis for calculation. Based on this criterion, China is now the third largest economy after the

US and Japan. And if the growth differentials between them continues, China is likely to surpass Japan in 10 years and the US in 15 or 20 years.

The explosive growth of China's economy, the opening up of its vast market, obviously presents enormous opportunities, particularly to its Asian neighbors. Hong Kong and Taiwan investors have taken the lead in exploring these opportunities, but others in Southeast Asia, notably from Singapore, Thailand, and Malaysia, are following suit. Even Philippine investors, according to some sources, have more than USD 1 billion in contracted investments in mainland China. The largest investments in China, in fact, come from overseas Chinese, who account for some 70 percent of total foreign investments in the country.

Hong Kong has a special place in China's economic strategy. Hong Kong is the biggest investor in China, with about USD 40 billion investments, while China earns nearly 40 percent of its foreign exchange through Hong Kong. China, in turn, is the biggest foreign investor in Hong Kong, with stakes exceeding USD 40 billion. Hong Kong, the world's third biggest financial center and eighth largest trading economy, will revert to Chinese rule next year, adding to the overall economic strength of the People's Republic of China. China, however, will maintain Hong Kong's capitalist system for at least 50 years, and has pledged to respect Hong Kong's high degree of autonomy, including fiscal and financial autonomy, under the principle of "one country, two systems." The principle, of course, prohibits China from exporting its socialist market economy or socialist political system to Hong Kong, while Hong Kong will not be allowed to export its capitalist system and appurtenant political or ideological system to China.

Some critics of China argue that its economic record has been achieved at the expense of fair trading rules. The US has been obstructing China's accession to the World Trade Organization (WTO) supposedly because China rejects the American demand for wider market access. Indeed, the US trade deficit with China has been large with USD 34 billion recorded last year, second only to Japan's USD 60 billion, and about USD 40 billion estimated for this year. On the WTO issue, China has stood firm, defending its status and rights as a developing country, and has engaged the United States in tit-for-tat negotiations. China's firmness is paying off as recent reports indicate a new flexibility and softening in the American position.

Ladies and gentleman, China is on the march but serious challenges lie ahead. The reform of its vast state-owned sector, the threat of polarization and unemployment, the need for a protective nationwide social security system, the shift from extensive to intensive mode of economic growth to remain competitive, the deficiencies of the legal system, the scourge of corruption, among others, are critical issues facing China's new generation of leaders. We can only wish China stability and success in managing these challenges, for any major setback and instability in China will surely dim the promise of the Asia-Pacific century.

The Philippines, of course, has the advantage of proximity to China, and it is high time to tap more fully that advantage, all for our common goals of economic emancipation and prosperity. Expanded economic partnership with this neighbor can only multiply our opportunities for development. Before the Western colonizers came, China had been our major commercial partner. Let us relive that past in the golden era of the Asia-Pacific Century.

Let us, therefore, hope that our discussion on China today may serve as a little contribution to the development of a new Philippine policy that seeks to maximize the benefits of friendship between our two countries, minimize potential conflict, and promote the Filipino people's well-being in the family of Asia-Pacific nations.

