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"China in the New Era: Strategies for Sustainable Economic Growth and Business Responses to Regional Demands and Global Opportunities"

Craig Ernest Maddron
General Dynamics- AIS
Coalition/ Combined/ NATO Ops SME
USJFCOM/ J9/ White Cell
116 Lakeview Pkwy.
Suffolk, VA. 23435
Craig.Maddron@je.jfcom.mil

ABSTRACT

Economic development is the primary objective of the majority of the world's nations. China's economic growth potential is enormous, but social investment and domestic consumption remain sluggish, because of fairly strong structural restrictions.

The focus of this paper will be China's economic transition and market economic structural strategies and the role of knowledge based technology. In addition, the structural changes and privatization of enterprises: ownership, governance and organizational issues will be addressed.

The market economies transitional effects and problems encountered will be addressed, along with an explanation of the basic economic/ market structures.

The explanation of the importance of the Perfectly Competitive, Monopolistic and Oligopolistic economic models are clarified. However, the focus of the paper is not to suggest any policy solutions, but to give a more theoretical interpretation of the emergence of diverse types of economic/ enterprise groups in China.

To sustain its economic reform, China needs to establish and enforce laws that would significantly curtail the CCPs, (Chinese Communist Party), power. The preservation of a one-party state and the implementation of the rule of law are fundamentally incompatible. Yet, the task of subjecting the CCP to the rule of law is further complicated by the state's extensive control over the economy. (Pei, Minxin, 2002).

There is little doubt concerning China's historical economic transformation. This rapid transformation was introduced by the market economy/ mechanisms, which involve; evaluating managers and allocating investments according to profit criteria, not planned economic fulfillment; making them find their own customers and compete for sales; allowing prices for products to fluctuate so that they better reflect relative scarcities.

China's attempt to complete two transitions at once—from a command to a market economy, and from a rural to an urban society—is without historical precedent[1].

The concept of single party dictatorship, which focuses on preserving and promoting indefinite public ownership, is rapidly failing in China. This failure is a direct result of market mechanisms that reflect relative scarcities. Market mechanisms; therefore, are defeated by redistributive practices inherent in public ownership. State/ public ownership creates a dual dependency, in which, the state and firms are locked into positions of dual dependence: the state depends on the

[1] World Bank Report: China 2020, p. 97.

firm to produce goods for other enterprises, to maintain employment, fund social services, contribute tax revenues. Simultaneously, the firm depends on the state to set conditions that determine its success and prosperity; setting marginal tax rates, granting investment and setting rates of repayment. Constant bargaining between state and firms led to countless exceptions to tax and financial rules, resulting in a fiscal system that continued to redistribute revenue and opportunity from the more profitable to the less profitable. (Kornai, 1990a, 1990b, 1991).

Market reform is not a panacea for China's stability and future growth. Even in economies that undertake market reform, officials benefit disproportionately because of their control of valuable assets, contracts and licenses. This control can lead to the mismanagement of power and create the desire and opportunity for self-gratification. (Szélenyi and Manchin, 1987).

Economic reform in China suffers from an epidemic of corruption among local government officials. Surprisingly, it seems that tolerance of corruption together with the threat of punishment has been an effective way to induce local officials to promote economic reform.

In order to continue the desired rapid and sustained growth; however, China must complete two fundamental transitions: from a traditional planned economy to a socialist market economy; and from extensive growth, based on increases in inputs, to intensive growth, driven by improvements in efficiency[2].

In the planned economic system, system officials receive rents. These rents are a direct reflection of their positions within the system. System officials

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[2] World Bank Report: China 2020. The World Bank: Washington D.C.; c. 1997, p. 18.

use their power to defend and expand these rents and if market opportunities open up new sources of income, they would use their power to extract rent from these activities as well, stunting the development of a market economy and derailing reform. (Winiecki, 1990). It was; therefore, highly unlikely that market reform under Communist rule could progress to the point where it could positively affect these economies. The interests and abilities of the powerful militated strongly against it. (Brus, 1989).

The major problem in current economic performance is the structural contradiction that needs to be resolved by the Chinese government through conforming to reality and the requirements of economic transformation.

The market system contains three (3) basic economies, which affect the economies competition base.

OLIGOPOLISTIC	**MONOPOLISTIC**	**PERFECTLY COMPETITIVE**
Few sellers	One seller	Large number of sellers
Large number of buyers	Products are nonsubstitutable	Large number of buyers
Access to the product restricted	Large number of buyers	Product homogeneous
Access to information restricted	No access to the product	Access to the product
Workers are not transferable	No access to information	Access to information
High barriers to entry	Workers are not transferable	Workers are transferable
High barriers to exit	High barriers to entry	No barriers to entry
No one firm sets price	High barriers to exit	No barriers to exit
Firms do not compete	One firm sets price	No one firm sets price
Low levels of R&D investment	Low levels of R&D investment	High levels of R&D investment
No advertising against each other	Low levels of advertising	High levels of advertising

Competition will reset the prices of the different types of labor and capital and using the personal factor titles, a new personal income distribution will emerge.

Competition will yield winners and losers, both in terms of factor claims and in terms of regions or provinces. Income differences will press people to migrate. This mechanism will take some steam off the income inequality problem that comes with free markets in China. (Raa, T., Pan, H., 2001).

Increasing market competition in China can be traced to three origins.

- Market oriented reform since 1978 transformed the planned economy into a market economy featured by excess supply rather than by supply shortages as in the past.
- Market-driven integration of the domestic economy substantially reduced the notorious provincial protectionism.
- Strong new entry by private firms contributed to increasing market competition. (Lee, Keun and Donghoon, 1999)

Perfectly Competitive markets are largely defined as a “dog eat dog”, where “only the strong survive”. In this structure, there are both a large number of sellers and buyers, so competition drives this market. This market is characterized by basic market functions of supply and demand mechanisms. The vast number of firms in this market maintains equal access to the product and all relevant information concerning the product or service –

- Firms know their costs and what opportunities exist in other markets.
- Consumers know the price charged by every seller.

The products are homogeneous – consumers do not perceive any difference between the products sold by rival firms. The firm that delivers the highest quality product at the lowest cost survives.

The workers/ employees of the firms in perfect competition are transferable. In definition; workers can be relocated, geographically, without further costs in training and education. They can, in effect, begin work tomorrow. This is noteworthy, because the costs of further training/ education must be successfully passed on to the consumer. These costs transfers may prohibit the transfer of employees in a Perfectly Competitive model.

The Perfectly Competitive model contains the “allowance” for costs of entry and costs of exit. Cost of entry; (location establishment, introduction payroll, inventory, administrative and advertising costs), are relatively low and reasonably affordable by the entrepreneur. This variable increases the number of firms in the industry and further defines the competition variables in their “struggle” for market share.

The fear of failure in the Perfectly Competitive model is “addressed” in its ability to provide low cost of exits. By definition, low costs of exit allow and entrepreneur to leave/ exit the Perfectly Competitive market without total financial “collapse”. Profits act as a signal regarding whether to enter or exit an industry.

In the “dog eat dog” environment, where “only the strong survive”, each firm is consistently under pressure to deliver a higher quality/ less expensive product or service than their competitor. In this regard, each firm in a Perfectly Competitive model is focused on Research and Development (R&D) of its products and services. This on going demand incurs the sacrifice of time and salaries of smaller and medium sized firms in their efforts of establishment and survivability.

Firms are price takers – no firm is large enough to influence the market price through its output decisions. Firms take price as given in their decision-making.

Even a large domestic market such as China's, it was not large enough to spur strong internal competition in the absence of vigorous competition from abroad. Protected home markets turn monopolistic or oligopolistic, because the minimum efficient scale of production often represents a large proportion of the home market. Domestic enterprises, unchallenged by foreign competition, rely on state largess rather than their own efforts to survive. In the absence of vigorous competition from abroad, home markets can rapidly turn into monopolistic or oligopolistic markets. (Bajpai, Nirupam, 2002).

A single seller characterizes the Monopolistic model. This single firm has market share dominance and provides products and services to a large number of buyers. The products and services are nonsubstitutable. In this model, the monopolist has complete control of the information and access to the product or service. This can be completed by the dominance/ use of raw materials, trademarks, copyrights or patents. These products and services are differentiated.

The Monopolistic market structure is characterized by the nontransferrability of workers. In definition; workers cannot be easily transferred/ relocated without further training and education. This can also be contributed to by plant, lab and facility location.

The monopolist is not concerned with competition, as in the Perfectly Competitive model; therefore, enjoys total market share. The barriers to entry and exit are too high for competing firms. These barriers will not provide the needed investment capital, because of investor's knowledge. They simply will not provide/ contribute the required equity and debt capital structures.

Total market share delivers the ability for a firm to "set" and control prices. They may charge over and above the fixed/ variable costs formulas and charge exuberant fees. Monopolistic total market share make further research and development (R&D) and advertising unnecessary. Monopolistic industries are have been criticized for corruption and low efficiency. In order to pursue more intensive growth, which involves increasing productivity, lowering costs, and introducing higher quality products, Chinese policymakers plan to increase resources allocated to advancing technology[3].

Few sellers characterize the Oligopolistic Market with a large number of buyers. The firms with the oligopoly act as team or group. They have total market share as a group and share dominance of a product or idea. The Oligopoly shares many of the same characteristics of the Monopolistic Market, with a few distinctions.

The member firms of the oligopoly do not advertise against each other. This reduces theirs costs and increases their group structure. All members agree upon prices for products and services. Although each member can control their production, they cannot affect price.

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[3] World Bank Report: China 2020, p. 39.

Knowledge based technologies also must be embedded into the Chinese market system. The technologies involve telephones, electronic mail, and facsimiles. They link and transcend national boundaries. As technical capabilities increase, markets will be able to overcome barriers to communications imposed by distance, time and location and enhance their abilities to communicate effectively. (Alberts and Papp, 2001)

The technologies in the market revolution must also entail the information revolution. The main technologies that must be advanced are;

1. Advanced semiconductors
2. Advanced computers
3. Fiber optics
4. Cellular technology
5. Satellite technology

Advanced semiconductors. Necessary to store, process, and communicate information. Semiconductors are made by implanting electronic switches into silicon wafers. This wafer is then divided into as many squares as possible; the larger the circular wafer and the more squares that can be cut from the wafer, the better. Small electronic switches are the assembled on the cut square wafer. The final product is the semiconductor.

Advanced computers. Beginning in the early 1970s, the perfection of very large-scale integrated circuits permitted hundreds of thousands of components to be placed on one chip. This development lead to fourth generation computers, which were followed in the late 1970s and the 19780s by fifth generation computers. As computer performance improved during the 1980s and 1990s, computer technology has doubled every 18 months.

Fiber optics. Extremely thin glass fibers, carry light pulses from a sending source to a receiving destination. Fiber optic cables experience lower attenuation and leakage than copper wire, and can carry much more information and data than earlier copper wire or coaxial cables.

Cellular Technology. The combination of miniturazation, local radio nets, advanced networks, and improved transceivers that make up cellular and related technologies is rapidly "cutting through" limited communications. Nations are utilizing this technology without expending resources on land based telephone lines.

Satellite Technology. Direct broadcast satellites and store-and-forward satellites are the two main types of communication satellites. A direct broadcast satellite acts a repeater of information, allowing a broadcast site to send information to satellite and have that information redirected elsewhere in the world. Store-and-forward satellites allow information to be sent to a satellite, have that information stored until a later time and transmit that information exclusively to authorized recipients.

CONCLUSIONS

The Chinese government should direct the elimination of market access restrictions on private enterprises, trying to reduce discrimination and improper interference in establishing, registration, and the operation of private enterprises.

While perfecting governmental and social supervision, to break up monopolies, the government should introduce competition, lower costs and improve quality of services, encouraging private enterprises to enter traditional public services.

China has made significant progress in adopting reform mechanisms in breaking up monopolies and encouraging competition.

China's strengths continue to aid its economic transition; however, several obstacles present a formidable opposition to success. Presently, China is "midstream in its transition to a market economy."[4] China is still in the process of decentralizing its government in order to allow the market efficient room to operate. Initiating the proper reforms to make the transition from a command economy to a strong market-based economy is an immediate priority for the Chinese policymakers.

China's transformation to market driven economies must be cognizant of unintended consequences. Policies intended to decentralize economic decision-making and lead to improved production, can lead to increased confusion and economic uncertainty. Policies originally intended to increase production, may actually decrease overall productivity.

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[4] World Bank Report: China 2020. p. 18.

"China's continuing reform, increasing competitiveness and smooth leadership transition are propelling the country's integration into the global economy. The World Economic Forum supports this through the constant engagement of all actors in China – from the private entrepreneurs, to the government, to the reforming state enterprises. As such we continue our deep presence in Asia as a platform for regional trade and economic integration," said Klaus Schwab, Founder and President of the World Economic Forum.

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