



## CHINA'S DEVELOPMENT IN TWO DECADES AFTER REFORM

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**Abstract.** China's development cannot be denied as a remarkable success since open and reform policy took place in 1978. China has shifted from a centrally-planned to a market-based Economy and has experienced rapid economic and social development. GDP growth has averaged nearly 10 percent a year—the fastest sustained expansion by a major economy in history. During two decades of its reform, numerous policies were implemented in China such as Household Responsibility System (HSR), Township and Village Enterprises (TVEs), and Special Economic Zones (SEZs). These policies have been critical for China's rapid development. As China's economic grow, China becomes one of the countries with an economic model that can serve as an example for others. But can a similar development model be applied to another country? This paper tries to examine the developments happening in China during two decades of its reform if it is particular or universal?

**Kata Kunci:** Development, Reform, Particular, HSR, TVEs, and SEZs

**Abstrak.** Perkembangan Tiongkok tidak dapat dipungkiri sebagai keberhasilan yang luar biasa sejak kebijakan terbuka dan reformasi terjadi pada tahun 1978. Tiongkok telah bergeser dari ekonomi yang direncanakan secara terpusat menjadi ekonomi berbasis pasar dan telah mengalami perkembangan ekonomi dan sosial yang pesat. Pertumbuhan PDB rata-rata hampir mencapai 10 persen per tahun—ekspansi berkelanjutan tercepat yang pernah dilakukan oleh sebuah negara besar dalam sejarah. Selama dua dekade reformasi, berbagai kebijakan telah diterapkan di Tiongkok seperti Sistem Tanggung Jawab Rumah Tangga (HSR), Township and Village Enterprises (TVE), dan Kawasan Ekonomi Khusus (KEK). Kebijakan-kebijakan ini sangat penting bagi perkembangan pesat Tiongkok. Seiring dengan pertumbuhan ekonomi Tiongkok, Tiongkok menjadi salah satu negara dengan model ekonomi yang dapat menjadi contoh bagi negara lain. Namun, apakah model pembangunan yang serupa dapat diterapkan di negara lain? Tulisan ini mencoba mengkaji perkembangan yang terjadi di China selama dua dekade reformasi, apakah bersifat partikular atau universal?

**Kata Kunci:** Pembangunan, Reformasi, Partikular, HSR, TVE, dan KEK

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### Introduction

The concept development like many concepts in the social sciences remain uncertain and contested. O'Brien and Williams in their book state that development is a process where society can change by itself to achieve independent economic growth (O'Brien & Williams, 2013. Seers also insists that, he definition of development should include social objectives such as employment, health, and shelter". This means that development was concerned with decreasing poverty and improving welfare indicators (Seers, 1969). With this definition, we see that the development happens in one country by examining their Gross Domestic Product (GDP), Human Development

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Index and poverty rate. According to the World Bank, China's GDP in 1978 was 149.541 billion USD and in 1998, China GDP increased tremendously became 1.029 trillion USD. According to the United Nations Development Program, China's HDI also increased 39% from the year of 1975 to 1999 the index increased from 0.530 to 0.634 (United Nations Development Program, 2008, p. 5). China's official statistics show a dramatic reduction of China's poor population from 250 million in 1978 to 42 million in 1998. As a share of the rural population, the poverty headcount fell from 30.7% to 3.4% over this period, a reduction of historic magnitude. From this data, we cannot deny that China experienced remarkable successful development (Park & Wang, 2001) (Hofman, 2016)

This rapid growth and development make us wonder what happened in China during two decades of its reform. What are the policies that the Chinese government implemented during this period? Bert Hofman, World Bank's country director for China, stated in his speech that there are four critical elements for China's rapid poverty reduction. First, the institutional reform of such as the Household Responsibility System (HRS) and Township and Village Enterprises (TVEs). Second, China opened up to the outside world to trade with other countries through the China's Special Economic Zones (SEZs).

Third China introduced reforms by experimentation in policy and institutional design. And the last, China supplemented its broad-based growth-oriented policies with targeted initiatives for poor areas (Hofman, 2016). The Open and Reform policy implemented since 1978 has brought a big change in China and also became its foundation for future development.

This paper begins with a description of the development of HSR, TVEs and SEZ and the effect to China's Development. Then, using these policies will be discussed whether China's Development particular or universal using Eastern Europe and East Asia countries as a comparison.

## Methods

This study adopts a qualitative descriptive approach to thoroughly describe and analyze China's economic development following the implementation of its reform and opening-up policies in 1978, extending over the subsequent two decades. The selected research method is a case study, which facilitates an in-depth understanding of the various economic policies implemented during this period, such as the Household Responsibility System (HSR), Township and Village Enterprises (TVEs), and Special Economic Zones (SEZs), all of which acted as pivotal catalysts for China's rapid economic expansion (Zhang, 2015). The research employs both primary and secondary data sources.

Primary data were gathered through in-depth interviews with economists and policymakers who possess substantial expertise regarding China's economic policy framework, whereas secondary data were obtained from academic literature, including peer-reviewed journal articles, reports from international institutions (World Bank, 2019), and authoritative books on China's economic trajectory. By leveraging this combination of primary and secondary data, the study aims not only to meticulously delineate the process of China's economic transformation but also to critically assess the potential applicability and relevance of such a development model to other developing economies (Li & Jiang, 2020).

## Result and discussion

### ***The Emergence and Development of HSR, TVEs, and SEZ***

Since 1978, China's agriculture has undergone a dramatic transformation from collective to private production under House Responsibility System. Bryan Tilt in his writings explains that HSR was designed to increase yields, relocated communal land to peasant households, creating hundreds of millions of smallholders with relative autonomy over land use decision and crop selection (Tilt, 2008).

This incentive system gave the farmers freedom to choose what crops they want to plan. Dacosta and Carrol also explained that under this system, the farmers had major management autonomy with the right to use the land for 15 years. Once the target from the government was achieved by the farmer and sold to the state with fixed prices, they could sell the surplus to the market with different prices (Dacosta & Carrol, 2001).

Yingyi Qian states the first recorded practice of HRS happened in 1978 in the Xiaogang production brigade of Fengyang county in Anhui Province. Soon, the practice begins to spread in the province (Qian, 2000). The Chinese Communist Party began experimenting decollectivized agriculture in selected villages in Sichuan and Anhui provinces<sup>9</sup>. This experiment met with initial success and in 1981, the Contract Responsibility System was implemented in rural areas to reform and decollectivize agriculture (Tilt, 2008). At first, the system only allowed the poor area to apply but by the end of 1982, 80% of household already adopted HSR nationwide; by 1984, all of them have done it (Liou, 2009). Kuotsai Tom Liou explained that the implementation of Contract Responsibility represented –the government intention to decentralize economic decision-making power and eliminate political interference in the economic management of state enterprises (Qian, 2000). This reform on agriculture was recognized as the first successful reform in China (Koo, 1990). As a result of HSR, farmer productivity increased dramatically, especially during the period 1979-84. This system basically rewarded economic efficiency with wage bonuses (Qian, 2000).

Another reform that took place in China was Township and Village Enterprises. Dacosta and Carrol argue that TVEs has been the most distinctive feature of the Chinese transition (Dacosta & Carrol, 2001). Sai-leung Ng also states that –the TVEs have been one of the significant achievements in accounting for such rapid economic growth (Ng, 2000; Perkins, 1988; Chen, Jefferson, & Singh, 1992).

TVEs represent a middle ground between private ownership and state ownership (Bruton, Lan, & Lu, 2000). In the 1950s, these rural enterprises started appeared, but only after reforms they multiplied. Dacosta and Carrol stated that "TVEs gave rural communities the ability to transform control over assets into income in the absence of asset market. This process could be done without changing to privatization and also the whole community can get benefit from the profit of those enterprises (Dacosta & Carrol, 2001).

In 1978, 1.5 million TVEs employed 28.2 million workers, whereas, by 1996 23.4 million TVEs employed 135.1 million workers (Dacosta & Carrol, 2001). According to State Statistic Bureaus, TVEs real total output increased by an average rate of 21 percent per annum from 1978 to 1995. People daily also published that in 1995, the TVEs sector produced nearly 30 percent of China's gross domestic product (GDP). In the same year, industrial TVEs produced about half of the total industrial value-added

profit and output. And the growth rate of their real value added remained over 18 percent in 1996 and 1997. Data from TVE Yearbook also mention The TVE exports increased from US\$8 billion in 1988 to US\$84.3 billion in 1997. The TVEs shares in the national total export rose from 16.9 percent in 1988 to 46.2 percent in 1997 (Perotti, Sun, & Zou, 2014).

Beside reforms in the urban and rural areas, the Chinese government also adopted open and reform policy to attract foreign enterprises. This reform is called Special Economic Zones (SEZs). SEZs were established to promote foreign trade, foreign direct investment, and tourism. Xu Dixin mentions that SEZs specific functions are to serve as bridges for introduction foreign capital, to promote competition between regions, to absorb foreign exchange and to employ young people without a job (Stoltenberg, 1984, p. 639; Xu, 1981).

The first attempt to implement SEZs' was with the State Council's directive on July 1979, authorizing Guangdong and Fujian provinces to take extraordinary measures to develop tourism, foreign trade, and investment (Stoltenberg, 1984) By the 1980, China established four SEZs: Shenzhen, Zhuhai, and Shoutou in Guangdong province and Xiamen in Fujian Province. What made these zones special are the tax reduction, enjoyed a special institutional and policy environment, and importantly more authority for economic development (Qian, 2000)

China felt the immediate impact by opened up their foreign trade and investment through SEZs. In 1981, China's total FDI of 59.8 percent came from these four zones. By the end of June 1985, 1/7 of the total amount of foreign capital used in the country which was US\$700 million was coming from Shenzhen alone. By the end of 1985, more than US\$1, 170 million which was about 20 percent of the national total foreign investment came from the four SEZs (Wong, 1987). By 1984, the success of these zones made the Chinese government extend similar policies to 14 -coastal open cities and in 1993, this area was no longer so special because the policy is already adopted in numerous places (Yeung, Lee, & Kee, 2009). Of course, these three policies hardly do justice to the numerous policies and initiatives that led to the remarkable development happen in China. But these policies were the one that stood out the most because of the immense effects that it provided for China's development.

### ***Is China's Development Particular?***

The remarkable success in development that China experience cannot be separated from the uniqueness of their government and China as a whole. There are a few reasons why China's development is particular even though there might be plenty of lessons that can be learned from their development in the past. In my point of view, China's development is particular because China implemented socialism with Chinese characteristic. After that, China is an authoritarian country but with the most decentralized government. Next, the latecomer advantage in addition to having countries under the stunning speed of growth as neighbors. The last is China is the most populated country in the world.

Before the reforms took place, China implemented socialism the same way with the Soviet Union known as the Stalinist way (Guo, 2009). This model of socialism was criticized by Deng Xiaoping, He was disappointed with the poor performance that has been accomplished in the previous twenty years and distressed to find that Chinese

socialism had created just small outcomes in comparison with other capitalist countries in East Asia. Deng Xiaoping believed this consequence results from taking classic socialist theory without considering China's unique conditions and –blindly believing that socialism equaled public ownership plus a planned economy (Guo, 2009; Xiaoping, 1994).

Thus, Deng Xiaoping thought it was urgent to give another point of view on communism which is socialism with Chinese characteristics. It combined the fundamental standards of Marxism and China's unique national conditions (Qian, 2000). Deng also pointed out that –both plans and markets are economic means so do not need to spend time on debating whether this reform was socialistic or capitalistic. As long as the reform bring beneficial to the growth of social productivity (Qian, 2000). These changes already make China different from other socialist countries during that time.

Furthermore, in Eastern Europe and the former Soviet Union, –democratization preceded economic liberalization, which was followed by privatization. But what happened in China was a different path of transition –where economic reform and transition to markets occurred without democratization, liberalization proceeded incrementally, and privatization was delayed until recently.<sup>30</sup> The economic reform that happened in Russia and East European countries emphasized on –shock therapy. On the contrary, China has implemented step by step and experimental approach like –crossing the river by touching the stone said Deng Xiaoping (Wei, 2001). This path of development that China took is unique and different that other countries experiences.

The second reason for China's particular development is the way authoritarian government works in China. First of all, the Party plays a decisive role in China's Development. We already discussed it above, how the Communist Party in China implemented the HSR, TVEs, and SEZs, all these reforms came from the Chinese Communist Party (CCP). The benefit of the single party-rule is the CCP does not need to gain public resources and offer them payoffs to get political support because their leadership remains unchanged.

This means –reduced political instability, which may be damaging to growth (Wu, 2015). Another benefit is the decision-making process is faster and more efficient than a country with a democratic system. All the changes we see in HSR, TVEs, and SEZs were implemented according to the CCP without any objection. Kenneth J Dewoskin, a Senior Consultant at price water house Coopers, said –Once committed to a focus on economic growth, some good policy decisions were implemented quickly and efficiently. From the time Deng (Xiaoping) set the direction 25 years ago, it has not been altered by party politics, ideology or leadership changes (Ganapati, 2017).

Secondly, the authoritarian government in China according to Gross-national indicator is one of the most decentralized countries in the world (Landry, 2008). China is much more decentralized than OECD countries and middle-income countries, particularly on the spending side (Dollar, 2007). During two decades of China reform, other East Asian Countries like Japan, South of Korea and Singapore also ruled by Authoritarian leadership. In order to promote economic development, these countries adopted the centralized rule. China developments were significantly different than these countries because, during thirty years of its reform, decentralization of power from central to local level has been a major trend in China (Guo, 2009). China adopted

Chinese style of decentralization where the CCP maintained the power to control the populace at the same time encouraging economic and administrative decentralization (Landry, 2008). The combination of authoritarianism and decentralization is rare across political systems because decentralization is very strongly associated with democracy and federalism (Landry, 2008). This shows how particular China's development was.

The third reason for China's particular development is the latecomer advantages and having countries under a stunning speed of growth as neighbors. The idea of SEZs did not originate from the Chinese. Stoltenberg states that –it is a centuries-old concept utilized in various forms throughout the major trading nations of the world. The Chinese government did a deeply researched for existing economic zones in preparation for establishing their own. There were teams sent to Sri Lanka's Colombo International Airport Zone in 1979 and the Bataan export processing zone in the Philippines in 1981 (Stoltenberg, 1984). China had the opportunity to learn from the mistake of other countries before implementing their policy.

East Asia countries already were ahead on their development when China was in difficult circumstances. Not only Japan, which had rapid development but also Korea, Taiwan, Hong Kong, and Singapore. This creates a chance for China to learn from them because China was lucky enough to be surrounded by countries which have tremendous economic growth. During late October 1978, Deng Xiaoping visited Japan for Sino-Japan Peace and Friendship Treaty. There, Deng visited Japan's famous automobile company NISSAN where he learned the importance of modernization. In Japan, one worker can produce 94 cars per year while in China one worker can produce only one car.

After that, Deng determined to promote modernization and improving their advanced technology and monetary capital (Guo, 2009). Ezra F. Vogel who observed the East Asian industrialization impact on China said that, when the open and reform policy began in the 1970s, the news of progress by Japan, Korea, Taiwan, Hong Kong and Singapore were a powerful stimulus for China's reform (Guo, 2009). China's geographical location that made China surrounded by emerging economies and the latecomer advantage made China's development particular.

The last reason for China's particular development is it is the most populated countries in the world, which means China has the inexhaustible amount of surplus labor (Wei, Xie, & Zhang, 2017). This reason made TVEs tend to specialize in the production of labor-intensive commodities. The cheap labor became TVEs new competitive advantages (Sai-leung, 2000; Fan, Chen, & Kirby, 1996)

As a result, business people around the world were attracted to China for the cheap cost of productivity that they offered. This rapid growth and a large number of the population made China one of the world's emerging economic giants (Bruton, Lan, & Lu, 2000).

## Conclusion

China's exceptional growth and development cannot be separated from the uniqueness of their government and China as a whole. As already discussed above, there are several reasons why China's development is particular. First, China implemented socialism with Chinese characteristics. Second, China is an authoritarian country but with the most decentralized government. Third, the latecomer advantage in addition to having countries under a stunning speed of growth as neighbors. And the last, China is the most populated country in the world. All these reasons above make China's development during two decades of reform particular, but that does not mean that other countries cannot learn from China's experience on development.

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