

CYCLES IN THE CHINESE ECONOMY AND THEIR POLITICO-ECONOMIC IMPLICATIONS

TAMIO SHIMAKURA

I. INTRODUCTION

EVENTS in China still appear to be sudden and unexpected, whether they concern economic or political problems. Any number of examples might be cited, such as the recent postponement of the contract to import Japanese plants signed in February 1979, which came as a great shock to Japanese business circles. The attempted escape of Lin Biao, putative successor to Mao Zedong, resulting in his subsequent death in an airplane crash is another.

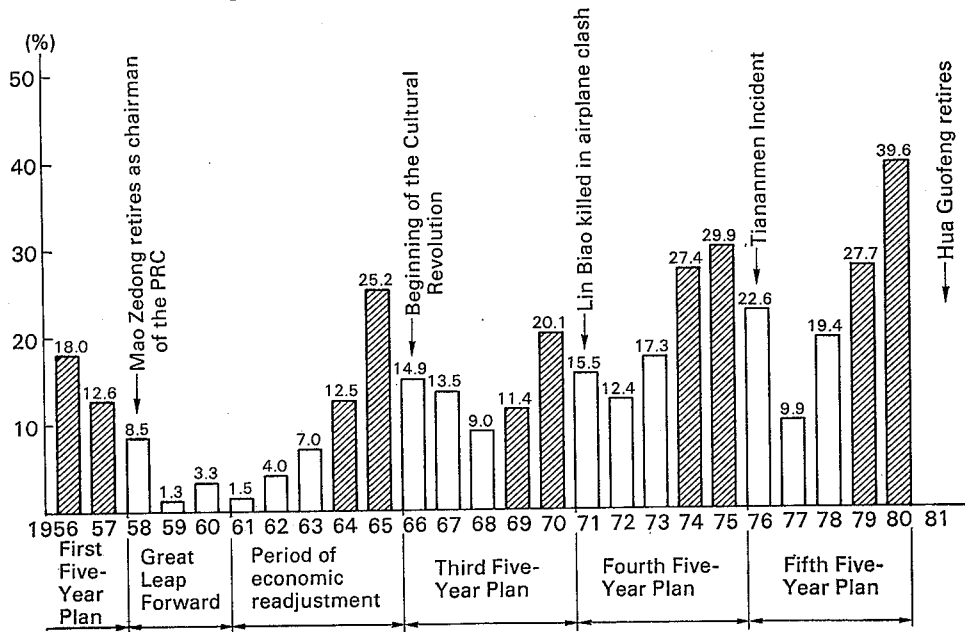
But when one observes the Chinese economy over the long run, one discovers the existence of specific cycles having a fixed periodicity. China's economic system does not allow entrepreneurs to freely engage in business transactions and compete with each other for profit. It is a planned economy in which the State Planning Commission, by virtue of its enormous centralized power, totally regulates and controls economic activity. This may lead one to believe that in China economic cycles free of artificial control do not exist. In fact, economic cycles are found over which the State Planning Commission has no effective control. Were it otherwise, the postponement and revocation of the plant import agreement with Japan could not have occurred. To be sure, China's economy is a planned one, and its economic cycles operate on principles different from those of a market economy. Two distinct types of cyclical economic fluctuation may nonetheless be identified.

The first involves the periodic increase and decrease in the importation of machinery and equipment as measured against total Chinese imports. The existence of this cycle is established on the basis of long-term observations of the pattern of China's foreign commercial dealings.

The second cycle describes the alternating centralization and decentralization of China's economic management system; it consists of fluctuations between decentralized improvements to economic management and the reimposition of centralized controls, followed by a return to decentralization. This cycle is introduced here based on the work of Chinese researchers, and its accuracy has not been independently verified.

Although we will pay careful attention to the latent relationship that exists between the first and second cycles, an effective and convincing explanation of this relationship goes beyond the scope of this paper. Nevertheless, overcoming the political and economic confusion that arises as a result of the interaction of these cycles is indispensable if China is to modernize its economy, and China

Fig. 1. Cycles in the Chinese Economy: Chinese Imports of Machinery and Equipment and Political Changes



Source: [9, p. 37].

Note: Figures are percentages of machinery and equipment exports to total Japanese exports to China, see Table I.

is currently engaged in the process of searching for just such a regulatory mechanism.

In Section II, the author will clarify the cycle influencing in machinery and equipment imports and the political changes accompanying them. Section III will review the cycle of centralization and decentralization affecting the system of economic management. Finally, Section IV will examine the attempts being made to find a mechanism for overcoming the turmoil these cycles produce in the conduct of China's economic policy. It deals, in other words, with the search for a regulatory mechanism.

II. CYCLICAL FLUCTUATIONS IN MACHINERY AND EQUIPMENT IMPORTS

A. *The Machinery and Equipment Import Cycle*

Figure 1 has been compiled from the data in Table I to illustrate the cyclical fluctuation of machinery and equipment imports, the first of the two cycles affecting the Chinese economy. It shows the changes occurring in the value of machinery and equipment imports expressed as a part of total Japanese exports to China between 1956 and 1980. Machinery and equipment fall in the category of SITC section 7 (machinery and transport equipment).

TABLE I
THE PROPORTION OF MACHINERY AND EQUIPMENT EXPORTS
TO TOTAL JAPANESE EXPORTS TO CHINA

	Total Japanese Machinery & Equipment Exports to China (A) (Million Yen)	Total Japanese Exports to China (B) (Million Yen)	A/B (%)
1956	4,360	24,242	18.0
1957	2,754	21,774	12.6
1958	1,549	18,216	8.5
1959	17	1,313	1.3
1960	33	981	3.3
1961	92	5,990	1.5
1962	547	13,846	4.0
1963	1,575	24,470	7.0
1964	6,900	54,986	12.5
1965	22,253	88,213	25.2
1966	16,891	113,454	14.9
1967	13,963	103,786	13.5
1968	10,539	117,158	9.0
1969	15,975	140,689	11.4
1970	41,135	204,796	20.1
1971	31,308	201,875	15.5
1972	23,206	187,548	12.4
1973	48,843	282,895	17.3
1974	159,069	580,522	27.4
1975	200,272	669,805	29.9
1976	112,196	496,599	22.6
1977	52,667	521,068	9.9
1978	122,997	633,035	19.4
1979	222,323	803,877	27.7
1980	451,230	1,140,787	39.6

Source: [3, various issues].

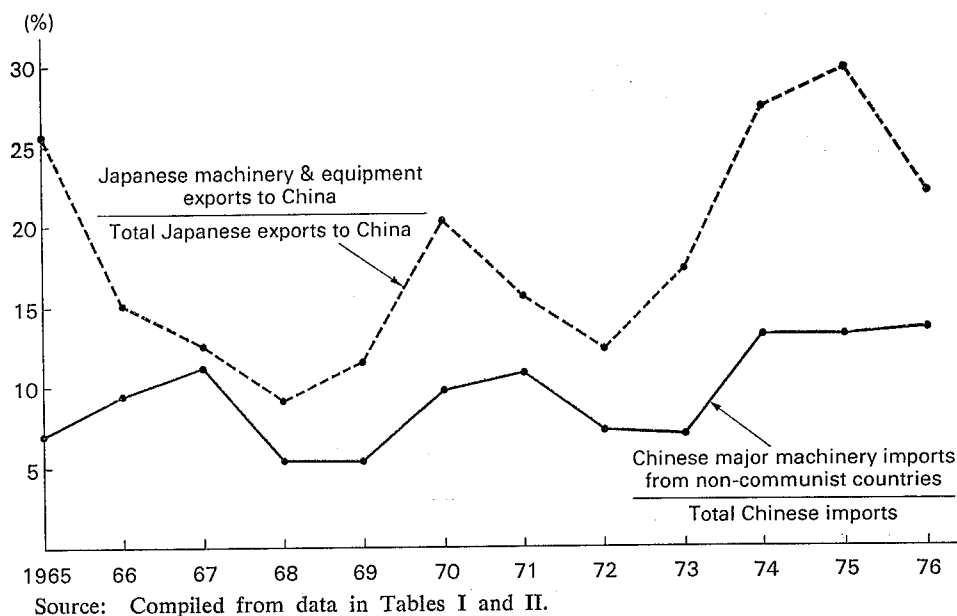
Note: Total machinery and equipment exports fall in the category of SITC section 7.

It is clear from this figure that imports of machinery and equipment have increased steadily in the two years that precede the beginning of each of China's five-year plans, particularly in the last year before the implementation of the plan. Increases in these import values show an unusually high degree of periodicity, the proportions being, in 1965, 25.2 per cent; in 1970, 20.1 per cent; in 1975, 29.9 per cent; and in 1980, 39.6 per cent.

The author has pointed out in an earlier publication that these periodic cycles manifest themselves in the two years preceding the start of each five-year economic plan, specifically, in 1951-52, 1956-57, 1964-65, 1969-70, and 1974-75. At these times, the proportion of machinery and equipment imports to total imports is seen to increase dramatically [7, p. 83].

While waiting for the results of the Fifth Five-Year Plan ending in 1979-80, the author was struck by the extraordinarily high increase in the percentage of machinery and equipment imports to total imports registered for these two years.

Fig. 2. The Proportion of Machinery and Equipment Imports to Total Chinese Imports



The figure for 1979 was 27.7 per cent, that for 1980, 39.6 per cent. These data provided convincing evidence that the machinery and equipment cycle has a period of five years. Based on this observation, the author predicted in 1981 that the proportion of machinery and equipment imports to total imports would decline as a matter of course in relative if not absolute terms in 1982-83 [8, p. 36].

This prediction was based on the fact that, in the past, the value of machinery and equipment imports as a proportion of total imports has declined in the intermediate phase of each five-year plan, specifically in the third year. For instance, this ratio declined in 1955, 1963, 1968, 1972-73, and 1977-78. Projecting this trend into the future, it is quite reasonable to foresee a considerable decline in import values for machinery and equipment in 1982-83. Present indications are clear enough to suggest this as a distinct possibility.

China in the 1970s is of course different from the China of the 1960s or the 1950s. With the opening of its economy, China has begun to engage in a series of far-reaching exchanges with international society. The introduction of foreign capital and government loans are among the many factors that work to modify the economy's five-year cycles. The prediction that, as in the past, machinery and equipment imports will continue to decline in the intermediary years of the present five-year plan must therefore be subject to some reservations. Nonetheless, a look at present trends indicates that the possibility of just such a decline is strong.

Figure 1 and Table I are the results of the author's own observations and analysis of China's trade with Japan; Figure 2 and Table II, however, show machinery and equipment imports as a percentage of China's total foreign trade.

TABLE II
THE PROPORTION OF MACHINE IMPORTS TO TOTAL CHINESE IMPORTS

	Total Imports of Major Machinery from Non-Communist Countries (A) (U.S. \$ Million)	Total Chinese Imports (B) (U.S. \$ Million)	A/B (%)
1965	133.2	1,845	7.2
1966	190.7	2,035	9.4
1967	176.6	1,950	11.0
1968	97.3	1,820	5.3
1969	95.6	1,830	5.2
1970	219.3	2,240	9.8
1971	247.0	2,305	10.7
1972	218.0	2,835	7.7
1973	349.5	5,130	6.8
1974	952.5	7,380	12.9
1975	952.9	7,385	12.9
1976	794.4	6,010	13.2

Sources: For A, [10]; for B, [4, p. 145].

TABLE III
PERIODIC GROWTH AND DECLINE OF MACHINERY
AND EQUIPMENT IMPORTS

Periods of Growth	Periods of Decline
1951-52	1954-55
1956-57	1959-60
	1962-63
1964-65	1967-68
1969-70	1972-73
1974-75	1977-78
1979-80	

In order to facilitate comparison, Figure 2 also includes the movement of machinery and equipment imports in Sino-Japanese trade shown in Figure 1. In Table II, the same regularity found in Sino-Japanese trade may be observed to hold for the whole of China's overseas commerce.

The share of Japanese trade in China's total foreign trade is extremely high: in 1969, Japan supplied 21.4 per cent of China's imports, and by 1979, this figure had climbed to 25.0 per cent. It is therefore not surprising that no perceptible difference exists between the direction of Sino-Japanese trade and the general movement of aggregate Chinese imports. Figure 2 shows this relationship.

Table III summarizes the cycle of growth and decline operative in the machinery and equipment import sector. The interval between the peak and trough of each cycle is three years. The interval between the two peaks of maximum increase is about five years; that between the two troughs of maximum decline is also five years. However, the years 1959-61 correspond with the rupture of diplomatic relations between China and the Soviet Union and a period of unusually disruptive economic turbulence in China. They must therefore be excluded from the purview of our analysis of economic cycles.

B. *Machinery and Equipment Imports and Politics*

As Figure 1 indicates, major political events cannot be dissociated from the periodic cyclical growth and decline of China's machinery and equipment imports. From past events, it is clear that the cyclical increase and decrease observed here is causally related to major shifts in Chinese politics.

An important political change has consistently occurred in the first year of each of the five-year plans. Mao Zedong retired as chairman of the People's Republic in December 1958 and handed over the post to Liu Shaoqi. This event signalled the start of the Second Five-Year Plan and the Great Leap Forward, which also marked the beginning of the people's communes.

Chairman Liu Shaoqi devoted his efforts during the first half of the 1960s to the task of economic readjustment and succeeded in bringing about an upturn in the economy. But in 1966, as the Third Five-Year Plan was getting underway, he lost both his position and power to the Cultural Revolution which Mao Zedong, as party chairman, had set in motion. The Chinese economy then entered a period of confusion and turmoil.

The Cultural Revolution was gradually brought to a close under the joint supervision of party Vice-Chairman Lin Biao and Mao Zedong in 1969. The immediate causes were the need to deal with the national crisis resulting from armed clashes along the Sino-Soviet border and the escalation of the Vietnam War which brought fighting close to the Sino-Vietnamese border. China seemed unable to cope with the internal upheaval caused by the Cultural Revolution and simultaneously confront, externally, both the United States and the USSR. In 1971, the first year of the Fourth Five-Year Plan, Lin Biao attempted his coup d'état and was reportedly killed in an airplane crash on his way to exile in the Soviet Union. The same year, U.S. presidential assistant Henry Kissinger surprised the world by visiting Beijing during which he decided on President Nixon's trip to China the following year.

In 1976, the Tiananmen incident caused the downfall of Deng Xiaoping who had been rehabilitated in 1973 with the winding down of the Cultural Revolution. The incident has been seen as an attack against Prime Minister Zhou Enlai and Deng Xiaoping's followers by the ultra-left Gang of Four. This year was also the first year of the Fifth Five-Year Plan. Finally, in 1981, Chairman Hua Guofeng, Mao's handpicked successor, was forced to retire and hand over political power to the followers of Deng Xiaoping. This year marked the start of the Sixth Five-Year Plan.

Major changes at the very center of political power in China, then, have occurred repeatedly during the first year of each of the five-year plans. Such consistency cannot be ascribed to mere coincidence; these facts point to a cause-and-effect relation between political events and the initiation of the five-year plans. Moreover, as was pointed out earlier, the cycle of growth and decline in machinery and equipment imports is also tied by its periodicity to the implementation of these plans.

It would be natural to suppose that the machinery and equipment import cycle is intimately linked to the cycle of domestic equipment investment. Should this

be the case, then we can easily imagine that the periodic struggles for political power are related to internal rivalries and problems of responsibility-sharing. These conflicts arise at the outset of each five-year plan from the unequal distribution of influence among government bureaucracies, economic organizations, and industrial sectors concerning the question of equipment investment.

However, it is difficult to convincingly identify and demonstrate the configuration of these struggles inside China's central power structure, nor is it the author's intention to do so. Here it will suffice to show, as in Figure 1, that economic cycles and political cycles are unmistakably and closely interrelated.

III. THE CYCLICAL REFORM OF CHINA'S ECONOMIC MANAGEMENT SYSTEM

Chinese scholars have demonstrated that when the centralized controls governing the management system of the Chinese economy are reinforced, the economy becomes rigid and loses its dynamism. On the other hand, when the powers of economic control are decentralized in order to reactivate the stagnant economy, and regional administrative bodies and local enterprises are given a stronger hand in economic management, the economy is thrown into confusion. These scholars has shown that this process is repetitive and cyclic. The author will make use of the works of He Jianzhang [2] and Ren Luosun [6] in particular to illustrate the essential features of this cycle.

According to He Jianzhang, the Chinese system of economic management was originally borrowed from the Soviet Union in the 1950s. It involves the regulation of the economy by purely administrative means, not through the play of economic principles or special economic measures.

The main defect of imposing strict administrative controls on the economy is the lack of coordination and cooperation between sectors that results. Vertically enforced administrative directives implemented on a sectorial basis within the government apparatus cannot adequately meet the objective needs of the economy, and there is an ensuing lack of correspondence. To correct the situation, powers of economic management are subsequently decentralized in areas such as personnel, finance, local industry, and commerce. Regional administrations and enterprises able to grasp reality at the grass-roots level are entrusted with these powers to the greatest extent possible.

Powers of economic control were extended to Chinese provinces, cities, and autonomous regions in 1958. By the end of that year, 87 per cent of enterprises under the direct control of the central government had been decentralized, and the centralized, unified distribution of supplies and materials to the regions had decreased by 75 per cent over the previous year.

During the period of economic difficulties between 1959 and 1962, unified leadership and the reinforcement of centralized control were again stressed, and jurisdiction over personnel, industry, finance, and commerce were readjusted and transferred from local governments back to the central administration. By 1963, both enterprises under the direct control of the center and the unified distribution

of materials and supplies had regained the levels of centralization achieved in 1957, completing one full cycle of centralization → decentralization → recentralization.

A second readjustment of powers between the center and regional governments took place on a relatively large scale in 1970. At this time, vertically decreed directives emanating from each government bureaucracy were abolished and capital construction, matériel distribution, and financial transactions were contracted out, such that almost all directly controlled enterprises, including large-scale projects such as the Anshan steelworks and the Daqing oil fields, were entrusted to local administrative and industrial organizations. By 1972, the unified distribution of matériel from the center had dropped to levels 61 per cent of those of 1966.

Under the Gang of Four, stress was again placed on a united leadership and economic centralization. Powers of management over enterprises were once again raised to higher levels of centralized control, and powers over the use and distribution of raw materials and productive goods, until recently entrusted to local-level organizations, were all brought back under direct state management. Since He Jianzhang's analysis was written in the spring of 1979 and the Gang of Four were arrested in October 1976, it can be inferred that the move toward recentralization took place between 1977 and 1978. In any event, in 1977-78 there was a return to centralized control following the phase of decentralization initiated in 1970-72.

He Jianzhang describes the cycle of centralization and decentralization in the following terms:

China's planned management system has basically experienced two periods of decentralized control and two periods of centralization. These reforms are merely adjustments in the limits of powers of economic management carried out between the central and regional governments within the framework of the central state apparatus. They entail either the transfer downward of powers of enterprise management or the shifting upwards of these same prerogatives; they also involve the extent of control, i.e., whether the state or the regions control greater or lesser areas of the economy. The result is that "when the economy is centralized, it becomes rigid; when it is decentralized, it is thrown into confusion." This brings a return to centralized control which in turn produces greater rigidity. [2, p. 37]

In other words, the readjustment/reform of the Chinese economic management system involves the alteration between centralization and decentralization and constitutes a cycle.

Ren Luosun's data are nearly identical to the numerical values obtained by He Jianzhang, but in one area, Ren Luosun arrives at slightly different conclusions from different statistical values. Ren says that reforms have been initiated at three different periods, including a minor reform movement in 1964 during which powers of management over supplies and matériel, finance, and investment were devolved to local administrators. For instance, capital construction investment in nineteen non-industrial fields (i.e., transportation, water management, commerce, banking, etc.) was entrusted to local administrations; the products of

TABLE IV
CENTRALIZATION AND DECENTRALIZATION
OF ECONOMIC MANAGEMENT

Periods of Centralization	Periods of Decentralization
Up to 1957	From 1958 on
Up to 1963	From 1964 on
	From 1970 on
From 1976 on	From 1979 on

small enterprises were distributed by local organizations; and the powers of functional regulation over capital and the procurement of production goods and raw materials were returned to regional control.

Ren Luosun's third reform of 1970 (He's second reform) saw powers of control over more than two thousand enterprises, projects, and construction works, all under direct state management in non-military industries, transferred to local control at the provincial level. In the area of basic construction, for example, decentralization of management meant that 40 per cent of total investment was furnished directly by the state's central management organ, 30 per cent by various central bureaucracies after consultation with the regions, and the remaining 30 per cent by the local areas themselves. A fixed proportion of local financing was left partially in the hands of the regions which were then free to use these receipts as they wished.

The reform of China's economic management system, then, was carried out via a process of alternating periods of centralization and decentralization. It is particularly interesting to note that Chinese scholars refer to the periods of decentralization as "reforms," acknowledging decentralization as a positive direction in which to steer economic action. According to He Jianzhang, however, "the basic cause [of cyclical repetition] lies in the fact that China has attempted to resolve economic problems through administrative management, whether at the central level (centralization) or the regional level (decentralization). Because China attempts to control the economy in function of administrative stages, plans, and expedience, the solutions proposed do not conform to the objective relations inhering in the economy, and fundamental solutions to economic problems cannot be found" [2, p. 38].

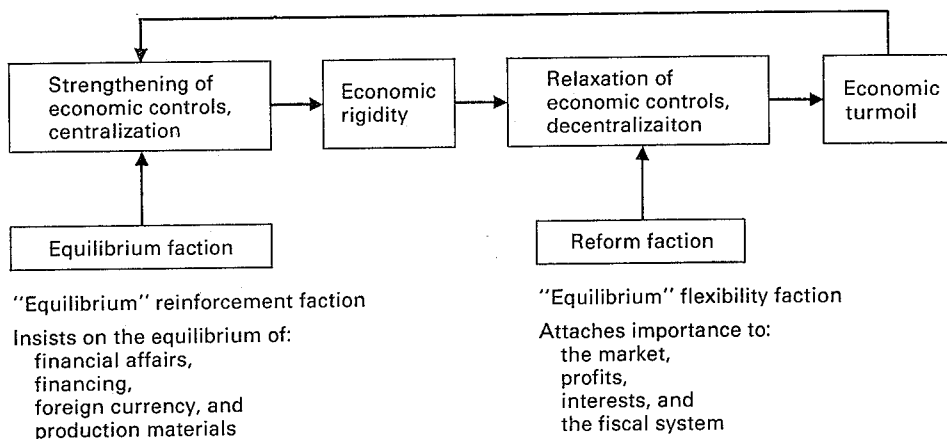
Table IV indicates the cyclical phases of centralization and decentralization in the economic management system.

IV. ECONOMIC CYCLES AND THE STRUCTURE OF ECONOMIC DECISION MAKING

A. *The Equilibrium Faction and the Reform Faction*

The cycle of centralization → decentralization → turmoil → recentralization as described in the preceding section is illustrated in Figure 3. If we start from the situation described at the end of the last section, the process of overcoming economic turmoil, i.e., excessive decentralization, by reimposing centralized controls is called in China a "period of readjustment." The important feature com-

Fig. 3. Cycles in the Chinese Economy: Reform and Disposition of the Chinese Economic Management System



mon to the period of economic readjustment of the early 1960s (see Figure 1) and the readjustment period that began in 1979 and which will require the first half of 1980s to work itself out is that both began with the need to restore centralized restraints as a way of dealing with the chaotic situation caused by a decentralization process the center was no longer able to hold in check.

Here we must note two points. First, “local” means not only geographically specific but organizationally localized, as opposed to the center. Thus, local enterprises are those which the center cannot directly control. These include enterprises which, even though located in the capital, are not directly under the jurisdiction of the State Planning Commission. Accordingly, decentralization is synonymous with a decrease in centralized control and the expansion of autonomous power at the local level.

Second, as described in the preceding section, the repetitive fluctuation between centralization and decentralization indicates conclusively that the transfer or return of powers between the center and the local regions by administrative means is not sufficient to remedy the chaotic economic situation. What is called for is the transformation of the economic management system itself. This can be accomplished only by shifting from administrative to economic means of control. While administrative measures tend toward centralization, then, economic measures lead to greater decentralization.

1. *The equilibrium faction*

In the process of readjusting to overcome economic turmoil, a “equilibrium faction” arises to insist on the recovery of equilibrium in the economy, as shown in the lower part of Figure 3. The main theoretician of the equilibrium faction is Vice-Chairman Chen Yun. Chen Yun’s thinking can be summed up by two articles published in *Beijing Review* [5] [11].

Chen Yun opposes expanded economic equilibrium, especially in the period of readjustment. He argues for a passive equilibrium theory. In his own words, “real comprehensive equilibrium can be achieved only when the equilibrium is

established by taking the comparatively weak areas of the economy as the norm" [5, p. 21]. Peng Hao, who introduces Chen Yun's theory, stresses that: "Advocating positive equilibrium is actually the same as advocating the expansion of disequilibrium. To oppose passive equilibrium is to oppose comprehensive equilibrium" [5, p. 21]. In addition, Peng accuses the advocates of the positive equilibrium theory of insisting on correcting the imbalance and bringing about high economic growth by promoting economic policies based on their theory. He also asserts that: "The excessive scale of Chinese capital construction is related to the acceptance of the theory [of positive equilibrium]. Even today some sectors and districts are still increasing the scale of capital construction without paying sufficient attention to their funds and resources. This is because the theory still influences our activities. . . . If positive equilibrium is pursued, then even if a temporary high rate of growth is brought about in any particular sector, the entire national economy may become further unbalanced, economic efficiency may decline, and finally this imbalance may retard the development of all other sectors, resulting in a more severe economic crisis" [5, p. 21]. Chen said: "So long as the total equilibrium is kept, it is not necessary to worry about low growth indices. Even relatively low indices are better than high indices which do not correspond to real conditions" [5, p. 21].

This in a nutshell is the theory of the equilibrium faction. It is best summarized by Zhou Jin: "There must be an overall balance in planning. . . . Accordingly, a proper ratio should be maintained between the national income and accumulation, between the national income and state budgetary revenue, between the state's budgetary expenditure and capital construction investments. In other words, there is the need to achieve the four major balances between financial revenues and expenditure, between bank loans and repayments, between the supply and demand of materials, and between foreign exchange earnings and spendings" [11, p. 28].

2. *The reform faction*

Economic rigidity and stagnation due to the enforcement of administrative controls and bureaucratic management brings the "reform faction" into action to insist on decentralization and the expansion of local autonomy. After the arrest of the Gang of Four, scholars were liberated from pressures against free expression. They have since sought greater liberalization and intellectual freedom and have organized many variations of the reform faction. We will take He Jianzhang as representative of this group and use his writings [2] to clarify the salient points of its program.

He Jianzhang suggests three major innovations for the reform of the economic control system. First, the expansion of powers of management control at the local level should be accepted by enterprises. Concretely, powers should be conferred over (i) planning and decision making, (ii) product sales, (iii) the control of funds, (iv) the disposition of labor and wages, (v) the revision of prices, and (vi) the average quotas set by the administrative organs. These measures entail the considerable expansion of local autonomy.

Second, he recommends the establishment of various corporations in specific areas of economic activity. This would develop the division of labor and expand the market. The promotion of stratified economic organizations is essential for overcoming the barriers existing between different sectors of production and districts. Relations between these stratified corporations should be contractual.

Third, the economic laws specific to a commodity economy should be assigned more importance and the economic plan changed from a command to an indicative plan. Socialism can be defended equally well by a plan that provides guidance instead of orders.

He Jianzhang insists that the state's unified plan should be limited to regulations affecting the main proportional relations operative in the national economy. These include the ratio of accumulation to consumption; the equilibrium between industries and within a given industry; the equilibrium between production and construction; and the equilibrium between social purchasing power and the volume of commodity supply.

According to He Jianzhang, while striving to achieve general equilibrium, the state should direct credit, price, tax-income, customs, and foreign currency policies. It should also offer guidance concerning the redemption of funds, the payment of wages, profit distribution, and the use of enterprise funds. The state should intervene equally to direct the weak areas of the economy and, in the event this does not have an immediate effect, engage directly in investment or import and export activities. Finally, the state should retain, when required, administrative powers and take a direct hand in running enterprises. The measures advocated by the reform faction are therefore not far removed from the economic policies of Western countries.

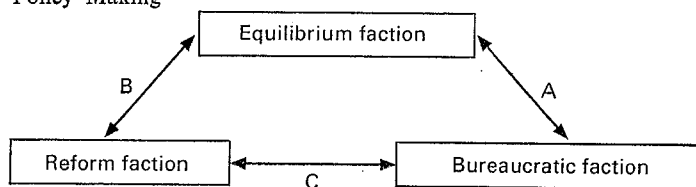
B. *The Structure of Decision Making*

Economic management involves two essential functions: stimulating and activating the economy and restraining and slowing it down. These functions can be compared to the accelerator and brake in a car. In China during periods of economic readjustment, the equilibrium faction, emphasizing equilibrium, acts as a brake. The reform faction, which seeks decentralization and the expansion of local autonomy, serves as an accelerator in the economy, as shown in Figure 3. The efficient coexistence of both factions is indispensable.

But the Chinese economy is managed by an immense administrative bureaucracy introduced from the USSR at the beginning of the 1950s and characterized by a high degree of centralization. The economic bureaucrats have been active in every field of production in the thirty years since the creation of new China. They have set up powerful organizations and created a large class of experts. Finally, working out of the central economic offices of the state, their base, they have created a solid and enormous, vertically structured central government organization. After thirty years of working toward this achievement, these bureaucrats in their role as experts in the field of economic management appear to be eminently conscious of being at the center of power.

The equilibrium faction insists on the restraining effect of economic manage-

Fig. 4. The Structure of Cooperation and Opposition in Economic Policy Making



A

Cooperation: maintenance of controls, centralization
 Opposition: administrative reform, budgetary reductions for projects

B

Cooperation: criticism of administrative economic management and of lack of concern with efficiency
 Opposition: positive expansion of equilibrium or maintenance of absolute equilibrium

C

Cooperation: involvement in the administrative organization of the State Council
 Opposition: expansion of autonomy in enterprises and districts, and structural reorganization of government bureaus

ment while the reform faction insists on economic activation, but the agents who actually execute these moves as a matter of policy are members of the "bureaucratic faction." Returning to the analogy of the car, this group forms the chassis. Whether the first two factions can control the bureaucratic faction and make it work or not is the key to success in managing the economy and controlling the cycle of alternating periods of turmoil and rigidity that threatens to intervene as the economy gears up for the Four Modernizations.

Figure 4 shows the interrelation of the bureaucratic, equilibrium, and reform factions. Each faction includes members with different views on the economy and economic policy. Although the author has taken Chen Yun as representative of the equilibrium faction, the factions should not be too narrowly identified with a specific theory or personality. They are best regarded as three vectors indicating approaches to Chinese economic management. The three vectors share areas of cooperation, but they are also in opposition with each other. These relationships are briefly described as A, B, and C in the lower part of Figure 4.¹

The equilibrium faction insists on the firm maintenance of the four big equilibria and stresses that powerful controls and centralization are required to achieve this balance. This approach is no doubt congenial to the central economic bureaucracy. But when the equilibrium group insists on the need to simplify the administrative apparatus, reduce personnel, postpone or suspend projects through its adjustment policy, and reduce budgets, it encounters opposition and resistance from the bureaucratic faction (A in Figure 4).

¹ Concerning the "structure of cooperation and opposition in economic policy making," the author described the more in detail in [9].

C shows the relationship between the reform faction and the bureaucratic faction. The group presently holding power, which includes Premier Xiao Ziyang, head of the State Council, and Yao Yilin, minister of the State Planning Commission, is thought to belong to the reform faction and is steadily carrying out the reform of the administrative apparatus and the economic management system. Its basic characteristic is a respect for market principles. Its domestic economic policy leans toward decentralization and the expansion of enterprise autonomy, and its foreign economic policy aims at the liberalization of the economy. This faction promotes the creation of "special economic zones," which rely more on market principles than the tenets of economic planning [1].

The distribution of greater powers of autonomy to enterprises and districts and the reorganization of the system have meant the dismantling over the last thirty years of each of the bureaucracies in the central economic organizations, and this has amounted to a reorganization of bureaucratic rights and prerogatives. This process has obviously encountered opposition from the bureaucratic apparatus (C in Figure 4).

B shows the relationship between the equilibrium and reform factions. Both are composed of people who resisted the left radical economic line of Mao Zedong and the Gang of Four, were excluded from power and then rehabilitated under Deng Xiaoping, and in order to promote modernization are now trying to reform economic mechanisms that have long disregarded profits and neglected efficiency. Opposition arises over the pace at which these reforms are to be carried out. The equilibrium faction insists on stability and equilibrium rather than speed whereas the reform faction tends to insist on an actively expanding equilibrium and does not worry about possible economic disruption or the widening of social differences. Both factions are fully capable of cooperating with each other.

Significantly, it is reported that in January 1982, Vice-Chairman Chen Yun invited five persons, including Yao Yilin, minister of the State Planning Commission, to a round-table discussion on the planned economy [12]. The meeting may be seen as an attempt to find common ground between the opinions of leaders of the equilibrium and reform factions. Chen Yun commented that: "Ours is a socialist planned economy. . . . Industry must mainly practise planned economy and agriculture is no exception. . . . The state has only this sum of money and there should be plans in using it" [12, pp. 16-17]. This opinion is not surprising for an advocate of the equilibrium theory.

On the other hand, Yao Yilin remarked that: "The present management system built up on the principle of combining planned economy with regulation by the market is different from either our past practice of rigid control or the market economy of capitalism. It is because of this, we can gradually control the economy but the control is not rigid, activate the economy without leading to confusion. . . ." [12, p. 18]. This opinion is in keeping with an advocate of the reform theory.

V. CONCLUSION

In China, a new round of large-scale machinery and equipment imports at the start of each new economic plan signifies political changes at the center of political power. Although the interlocking of economic and political factors cannot be adequately explained, the existence of distinct cycles is an observable fact and cannot be ascribed to coincidence. Chinese scholars themselves have shown the presence of a cycle in which the intensification of economic controls, causing the economy to stagnate, is followed by a relaxation of controls, causing economic confusion. This cycle persists and has not yet been overcome.

China is once again pursuing economic adjustment policies and rushing to modernize in an attempt to control or eliminate the economic cycles which bring about, in alternating periods, political and economic turmoil. China seems to be searching for a mechanism capable of regulating economic management and controlling the magnitude of the cycles. The reform faction, which acts as an accelerator activating economic controls, must coexist and work together with the equilibrium faction, which acts as a brake preventing the economy from overheating. Only their combined efforts can set in motion the economic machinery of the socialist bureaucracy which is so prone to rigidity. For this purpose, a powerful political center aided by a competent driver capable of managing the economy is required. Whether the center of Chinese political power can acquire such a driver is the big problem.

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