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Introduction

Shinichi Ichimura, Tsuneaki Sato

This introduction offers the reader a brief summary of the main arguments in the following chapters and gives in advance a bird's-eye view of the comparative studies of two historic experiences of transition from socialist planned economies to capitalist market economies in the Central and Eastern European countries (CEECs) and East Asia.

Part I offers a *general framework for comparison of the two types of transition experiences* with three papers written by authors who are familiar with studies by both European and Asian scholars. Chapter 1: Convergence and Divergence in Transformation by T. Sato starts with a reconsideration of the conventional wisdom among European American economists that serious reform of the socialist economic system is impossible without *radical* changes in the political system: abolishing one-party rule. This became possible in the Soviet Union and Russia only after the breakdown of the party-state there in 1991. He contrasts this with the successful Chinese *gradualist* way of reforming the socialist economy under the rule of the CPC. It is a contrast between “polity first, economy next” vs. “economy first, polity next.” He points out that the transformation in the CEECs is in some ways a *resumption of interrupted capitalist development*, as well as a catch-up with the developed West. China's initial conditions were different from those of the CEECs—in that it had little historic experience of capitalist development and was predominantly an agrarian economy. Thus, the two groups of countries were very divergent in their initial conditions and choice of transition strategies. Both have aimed, however, at realizing the same type of industrialized economy with efficient market systems, and are converging through different paths on similar goals.

Chapter 2: China's Transition to a Market Economy: How Far Across the River? by J. Wu gives an excellent survey of the two stages of economic reform in China and the related problems. The first stage began with Deng Xiaoping's influential words: *reforms and openness* in late 1978. The aims were four modernizations: namely, those of agriculture, industry, science and technology, and the military. The first reform was undertaken in

agriculture by giving farming households land use rights and then allowing the free establishment of collectively owned township and village enterprises (TVEs). With the notable success of these policies, the Chinese authorities decided to move on to industry by permitting both the establishment of private enterprises and foreign direct investment (FDI). This historic decision was made in November 1993 in the “Decision on Issues Concerning the Establishment of a *Socialist Market Economic Structure*,” which was adopted by the Third Plenum of the Fourteenth Congress of the CPC. This was the clear watershed that marked the shift of the Chinese economic system from the old socialist form to a modern market economy. The *socialist market economy* became an officially affirmed goal of reforms in China. The Chinese economic development of the 1990s was unprecedented and surprised people worldwide. The paper traces the strong performance of non-state enterprises resulting from the *incremental reforms* that contributed most to this miraculous growth. Nevertheless, the road to reform was not smooth everywhere. In particular, the financial condition of state-owned enterprises (SOEs) worsened and still poses very serious problems. Unless the Chinese government overcomes them, the author cautions, it will not cross the *Rubicon*.

Chapter 3: Two Reforms under Mono-Party Political System by L. Szamuely compares the Hungarian *new economic mechanism* (NEM) of the 1960s–70s with the Chinese reforms of the 1980s–90s. It is a valuable experiment of a kind hard to find in the body of transition literature. Both countries attempted market-oriented reforms, but while the former failed, the latter succeeded. The author points out that the most serious source of failure in Hungary was the limited nature of its state sovereignty, a problem that China did not face.

Part II takes up the central problems of transformation; namely, *ownership reform* and *privatization* with two substantial papers on China and one unique paper on Vietnam.

Chapter 4: SOE Reform And Privatization in Transition: China in Comparative Perspective by K. Nakagane gives a balanced and informative assessment of the performance of SOEs and efforts at reform as regards changing the ownership structure—or privatization—in China in comparison with those in the CEECs. The paper also offers a useful survey of some theoretical discussions among transition experts in America/Europe and Asia and takes up some important issues for policy choices, such as *shock therapies* vs. *gradualism*, and three different schools of thought on transition strategies: the *market school*, *property rights school*, and *gradualist market school*. Nakagane basically endorses the ways in which China chose gradualism and shifted step by step from the market school to the property rights school, but argues that this might not have been the case with the CEECs.

Chapter 5: Vietnamese Gradualism in the Reform of State-Owned Enterprises: The First Phase of Doi Moi by Tran Van Tho gives an appraisal of SOE reform in Vietnam from a somewhat different perspectives from that of

Nakagane. In both China and Vietnam the term *privatization* is not officially used, but China's reform is getting increasingly closer to de facto *privatization*, whereas Vietnam's is not quite yet. *Socialism-oriented market economy* in Vietnam and *socialist market economy* in China must be pronounced differently, as a Chinese academician joked, with accent on market in China but on socialism in Vietnam. The author points out that the SOEs retain much more power in Vietnam and the impressive growth in Vietnam might even be termed SOE-led, at least until 2000.

Chapter 6: From Public to Private Savings: Decline of State Ownership in the Chinese Corporate Sector by C. Zhang takes up the problem of the transfer of ownership in the SOEs mainly from its financial aspects, from the points where Wu and Nakagane leave off, namely, how the SOEs could overcome the serious debts that they owe to the state banks. It delves into the sensitive area of SOE management and is really a unique piece of work which shows some ways out for the difficulties that the Chinese SOEs face in the near future.

Part III deals with *the role of the state and market in transition*. In the early phase of transformation an obsession with *market fundamentalism* tends to prevail, but the correct role of the state itself receives little attention. This explains many serious mistakes committed by some transition countries. The immediate negative impact of transformation is severe unemployment. Urgent policy priorities should be concerned with the social safety net. Available resources often become more limited after transition and naturally this is one of the most important issues in both the CEECs and China.

Chapter 7: The Social Safety Net in China by S. Ito goes knowledgeably into details of various kinds of social security and their financial status. He points out the current and future difficulties of maintaining even funds at the present level or more in order to be able to collect the necessary benefits from them.

Chapter 8: The State and the Transformation of Economic Systems by B. Dallago offers one of the best expositions of the varied but appropriate roles of government in the course of transformation of CEECs with different historic heritages. He points out the varied environments of different countries that determine the appropriate functions of the state at different stages of transformation such as the level of economic development, position vis-à-vis the developed economies, resource endowments, the size of the domestic market, etc. Depending on these factors, he conjectures which type of state might be appropriate for a specific nation; the minimal state, competitive state, Keynesian state, corporative state, authoritarian state, or development state.

Chapter 9: Can the Japan Inc. Model Be a Middle Course for Transition?: Industrial Policy and Postwar Economic Development of Japan by Y. Okita offers his own answer to the question raised by Russian officials when a team of Japanese experts was invited to Moscow and asked to give their opinions

independent of the International Monetary Fund (IMF) or American economists. Wartime Japan was almost as tightly controlled by the government as a socialist economy, so its postwar reconstruction experience might be thought to provide a good model for the Russians to adopt. However, after giving an incisive description of the Japanese government's role in guiding manufacturing industries through its industrial policy, and the views of many foreign and Japanese experts on the subject, the author ascribes the success of Japanese recovery and development to the particular conditions prevailing in postwar Japan and is cautious of recommending its industrial policy to transitional economies. His argument may be controversial, because some argue in favor of that as a means of dealing with *deindustrialization* phenomena.

Chapter 10: Market and Political Justice in Postsocialist Poland by W. Morawski discusses the social justice in distribution after transformation on the basis of empirical opinion polls in Poland and other countries. The author distinguishes two kinds of justice: one to be called *microjustice* and another to be called *macrojustice*. The former is related to the reward in proportion to the input of actors, while the latter is related to what the market delivers to the participants according to the rules of fairness. He carefully traces the alterations in Poles' responses to the changing social conditions in Poland that caused the change of governments as a result of the national election of October 2001. This is one important problem for any post-socialist society to face and solve. It is evident in China and many other countries.

Part IV summarizes *lessons beyond the first decade of transformation*. The two papers attempt to shed light on major aspects of transformation and derive some *lessons*, both positive and, mostly, negative. Chapter 11: Facts and Lessons of Ten Years of Transformation in Central Europe by T. Morita carefully reviews the experiences of transformation in three major Central European countries: Hungary, Poland, and the Czech Republic and concludes that the various failures in these countries are a result of the principle of *allocation* inherent in socialist economics, which is fundamentally different from the principle of exchange in the market system. But since transformation, they have already achieved through taxation the same level of income redistribution as most Western European countries. This paper also offers also a comparative picture of the performances of many CEECs in about 2000.

Chapter 12: Czech Republic 1990–2000: Lessons from the Economic and Political Transformation by F. Turnovec is brief in length, but is an incisive, critical, albeit restrained, account of the Czech transformation and derives some valuable lessons from it. He is quite critical of *voucher privatization* and seems to favor a *state capitalism* model for the first stage of transformation. It is an interesting topic, but one which he is yet to explore fully.

Thus, the book covers a variety of issues of transformation in the CEECs and East Asia and compares the two types of processes. By no means can we pretend to have exhausted the important problems of transformation or to have offered enough suggestions for policies for the years to come. Since, however, all of the papers give references to the relevant articles, books, and data sources, readers will find many materials for further study. We have laid only a foundation for comparative studies of the European and Asian experiences of transition.

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