

The Comparison of Economic Transition in China and Eastern Europe

CAIZHI LU*

Shanghai Lixin University of Accounting and Finance, China

Abstract

The discussion about the economic transition in eastern European countries especially after the dissolution of the Soviet Union becomes more important when it compares to the reform and open policy in China. The paper presents a described methodology to demonstrate different economic development levels between eastern Europe and China. We apply the comparison methodology to the background and methods that China and eastern Europe took.

Keywords: transition reform comparison

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1. Introduction

The international transition economics' discussion is based on transition issues between classical liberalism and Keynesianism. During the ten years that eastern European countries changed their socioeconomic systems, the two theories came up with "Washington Consensus" and "Post-Washington Consensus". Meanwhile they gave their own explanation to differences and similarities in China and eastern European countries' strategic transition. But it seems that they both believed China and eastern Europe adopted "planned economy", the only difference was two sides chose different reconstruction method. However, maybe the difference for the transformation way was not very important as for the direction of the economic reform, but the difference before the transformation was more significant, which could account for reconstruction performance? The purpose of this article is to demonstrate that the first responsibility of the economic reformer is to identify his own country's economic uniqueness and limitations rather than only copy other's successful experience.

2. Command Economy or planned economy

In the past, people thought traditional economy was autarkic, but capitalism broke this rule by universal trade and produced market economy. The enlightenment and the scientism caused by industrial civilization made people to design an optimal allocation of economic resources, that was planned economy.

In general, the difference of rational planned economy, command economy and market economy can be a list as follows:

* **Email:** 646224773@qq.com

	error-correcting scheme	output efficiency	Utility gain efficiency	accumulation efficiency	innovation efficiency
Market economy	timely	High	Best	General	High
Rational planned economy	In advance	High	Low	High	Low
Command economy	unable	low	lowest	high	general

3. Initial condition

The Revolutions of 1989 and the Dissolution of the Soviet Union are direct international causes of the eastern European countries' economic transition.

The eastern Europe had chance to get rid of the Soviet Union and carry out its own domestic and abroad policy including the economic reform. On the home front, countries in the eastern Europe made political transition from single-party system to multi-party system, which provided economic transition with opportunity. The dissolution of the Soviet Union was different from dynasties changing in China or parties alternating in democracy. It was totally review to the past political and economic model. —the Soviet pattern had already came to an end especially in the economic structure and development strategy.

Highly-focused socialist industrialization and agricultural collectivization lead to the serious unbalance of industrial structure. This system ignored the regulation of market mechanism, violated the objective law of economic development.

In essence, the disadvantages of the Soviet pattern came from the leaders couldn't deal with the productivity and productive relations. They believed that superior socialism can bring superior productivity all the time. So the priority of their work was to rise the intensity of the public ownership rather than the productivity level. The rigidity of the thinking attributes to the rigidity of the system and then results in many social contradictions.

The financial performance of China was horrible before the reform in 1978. The living standard increased slowly because of the unbalance of each department of national economy. China must concentrate on adjusting this extensive economic development after the Cultural Revolution.⁵⁵The main difference between China and eastern Europe was that the level of central planning and central management was much less than eastern European economy. The local government has more autonomous right, which decides that China has different target of the economic transition.

4. Goals and measures

A country's specific national conditions determine its choice of the transformation target model which will further determine the adoption of strategies, methods. In the way of transformation, the way can be roughly divided into two kinds: radical and

gradual. And most Eastern European countries have adopted a more radical "shock therapy" which the government achieves macroeconomic stability and curbs inflation through carrying out the tighten monetary policy rather than the price regulation. Besides, the government restricts economic activities of state-owned enterprises but abolish restrictions on private enterprises. In this way, the government can effectively alleviate the growth of vicious inflation in a short period of time, and reduce the resistance of the administrative system, and finally give full play to the regulatory role of the market mechanism. There are some main reasons as follows why "Shock therapy" is so popular in Eastern Europe. First, the long period of gradual reform has not been successfully, and the radical economic reform is a reaction to the failure of the gradual reform. Second, the new political party gained widespread social support through radical reforms to consolidate its power and position. Third, most Eastern European countries are faced with the start of economic reform of a serious inflation. Russia, for example, adopted this strategy unwillingly against the bad social, economic and political situation of the late Soviet Union. In this context, orderly reform is simply impossible, and the only remaining and urgent thing is how to deal with the crisis. However, the situation in China is quite different from this. First of all, in the early days of reform and opening up, the Communist Party of China has just stabilized its political power by the end of class struggle. In addition, to shift the focus of work to economic construction does not mean that drastic economic reforms must be carried out at once. At the same time, without the direct experience of other countries, China's economic transformation should be difficult in exploration. Secondly, for a big agricultural country, the reform in China should begin naturally in the agricultural sector. In 1980s, after the success of rural economic reform, the economic reform in China has begun to turn to the city. And then the reform of the industrial sector has begun. In the early 1990s, the proposal to construct socialist market economy system has been raised for the first time in the conference of CPC and the central documents. Until the late 1990s, China has realized the reform of state-owned enterprises and established the modern enterprise system. So the China's economy liberalization grows slowly and the dominant role of public ownership never changes. The government's macro-control plays an important role like keeping the speed and intensity in economic transition.

5. Enlightenment

According to the macro characteristics of China and eastern Europe's economic transition. We can reach a conclusion: Economic reform cannot rely on fixed model, each country should come from its own reality, try its best to make economic reform with the synchronous of social development and find a scientific way.

“Washington Consensus” guided the reform policy and practice of eastern Europe.

“Beijing Consensus” illustrated that China's successful experience had been acknowledged by western countries. The transformation process of two consensuses is exactly economic transition in eastern Europe. Both of China and eastern Europe are successful by the achievement, but there is no doubt that China's progressive

strategy reflects a guiding ideology derived from social stability and people's interest. During the whole period of the reform, there was no obvious recession or instability caused by unemployment and inflation. The key reason is that the change of China's economic transition is a long-term process and China had already learned from mistakes in the first thirty years from 1949 to 1979 and found the most suitable way to match with itself.

Deng regarded development as the aim, reform the driving force and stability the premise. How to summarizing the historical and other countries' experiences? It is a question that every economist needs to consider.

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