

Lecture 13 – Lecture Notes - China Embraces the World: Deng Xiaoping's Economic Reforms (1978 - 1989) - History of International Politics (East Asia focus)

Course Leader: Dr. Senan Fox

Telephone number: 264 -5764

Email Address: senanfox@staff.kanazawa-u.ac.jp

Room: Room 309 (General Education Hall – GEH - 総合教育 1 号館)

Consultation Times: Please email Senan Fox in advance if you wish to meet to discuss your work and studies.

NOTE: The following lecture notes are largely based on the class textbook – Warren Cohen (2000), 'East Asia at the Center – Four Thousand Years of Engagement with the World', New York: Columbia University Press.

Lecture 13: China Embraces the World: Deng Xiaoping's Economic Reforms (1978 – 1989)

Deng Xiaoping secured the top leadership position in the People's Republic of China (PRC) in 1978. Deng was one of China's longest serving political elites ever since the establishment of the **Communist Party of China (CCP)** in the early 1920s. The **diminutive** leader (only 150 centimetres tall) was also a **veteran** of the legendary **Long March** (October 1934 to October 1935), the Second Sino-Japanese War (1937–1945), and the Chinese Civil War (1927 to 1950). As such, he was a figure of considerable respect and influence within the CCP. Deng had also witnessed **first-hand** the dangers of **radicalism** and an **intransigent adherence** to ideology rather than **pragmatism**. He, and numerous other Party elites, such as Liu Shaoqi, who had dared to criticise Mao's economic policies had been **purged** during the Cultural Revolution. Deng's son, Deng Pufang, had also been left **paralyzed** by the Red Guards who **allegedly** threw him out of a third floor window after he was accused of being a 'capitalist roader'. After a period of political **exile** in Jiangxi province, he was permitted to return to Chinese politics by Premier Zhou Enlai (a Deng supporter) in 1974. When Zhou Enlai died in January 1976, Deng's support base was weakened, and the **Gang of Four** (led by Mao's wife, **Jiang Qing**) organised another purge aimed at removing Deng from the centre of power. Deng however survived this purge, and when Mao died in September 1976, Jiang Qing and her supporters were politically isolated. In October 1976, the Gang of Four were **ousted** in a *coup d'état*. Within a matter of weeks, Deng was the **de-facto** leader of communist China. In 1978, Deng **brushed aside** the less influential and less **charismatic Hua Guofeng** (whom Mao had **nominated** as his **successor**).

From 1978 until his retirement in 1992, Deng was the '**paramount leader**' of the country. This period witnessed Deng and his supporters cautiously embark on a program of economic reforms that were to have a major influence on China and on the world. In the late 1970s, the Chinese communists chose to abandon economic policies that were centred on **inward-looking self-reliance** and **dogmatic ideological convictions** in favour of more **pragmatic** and **outward-looking** economic strategies. Deng and his **reformist** supporters' objective was to secure the rapid but realistic

industrialisation of China, and to ensure the country's economic development and progress **via** an opening of the Chinese economy to the outside world. Through these economic reforms and through stronger ties with the world's major economies, Deng and the reformists hoped to improve the standard of living of all PRC citizens and to build China up into a major political and economic power. Moderate and pragmatic Chinese political elites felt that valuable and painful lessons had been learnt by the failure of campaigns such as the disastrous **Great Leap Forward** (1958 to 1961) and the **turmoil** and instability caused by the **Cultural Revolution** (1966 to 1976). Deng Xiaoping's pragmatic attitude towards economic reform (while remaining opposed to **hurried** or major political **liberalisation**) was arguably best summed up in a speech he made at the Guangzhou conference in 1961, when he said *'It doesn't matter whether it is a white cat or a black cat, a cat that catches mice is a good cat.'*

While Mao and his supporters had placed a priority on **class struggle** and **socialism**, Deng and other reformers argued that domestic political stability and economic development should be China's number one objective (see '**Deng Xiaoping Theory**'). Deng was a committed communist and thus did not reject socialism. Rather he argued that *'socialism does not mean shared poverty'* and aimed to find a middle ground between a **market economy** and a political system that was still faithful to **Marxist-Leninist** principles. This difficult **intermingling** of two very different economic system and a political system was referred to by Deng as *'socialism with Chinese characteristics'* or a vaguely defined *'socialist market economy.'* The Chinese leader also called on people to **'seek truth from facts'** based on study and research rather than strict ideology (**without reference** to evidence and experience). Deng and his supporters **longed for** the day when China could return to its historical position as a leading global economic, military, and political power. Since the late 1920s and early 1930s and the days of **the Great Depression**, China had largely been a **second-tier** state economically where the real trading power resided **predominantly** with the **free market capitalist** economies of the US, Japan, Western Europe, and other countries that adopted similar economic models (note for example the 'Four Little Dragons' – Hong Kong, Singapore, South Korea, and Taiwan). Communist party **traditionalists** and **hard-line ideologues** within the PRC however worried that major economic reforms and opening up could leave China **vulnerable** to **exploitation** by foreign states as had happened during the 'Century of Humiliation' (1839 – 1949). As Cohen observes, *'those who argued that China could be strengthened by importing foreign technology and **expertise** without sacrificing its political principles **prevailed**, but the tension **persisted** for more than a decade after Mao and Zhou Enlai were gone'* (Cohen, 2000: 442).

One of Deng's most immediate objectives after coming to power in 1976-78 was to repair the economic and **reputational** damage and political instability caused by the Cultural Revolution. As Cohen states, *'they were supported by party leaders less **receptive** to **integration** in the world economy, less comfortable abandoning the Soviet-style planned economy, but equally as convinced that Mao's **utopian** visions had brought the country to ruin'* (Cohen, 2000: 442). The cautious but powerful traditionalist **elements**, though recognizing the need for change if the PRC was to progress and become stronger, often forced Deng to slow the pace of his reforms. Despite differences about the pace and direction of reform, the party leadership was determined that China should achieve modernization in the fields of i) agriculture, ii) industry, iii) science and technology, and iv) defense. This objective is referred to as

the ‘**Four Modernizations**’ (first proposed by Zhou Enlai in 1963). Their first success came in the area of agricultural reform where the reformists addressed the **dire** poverty of many of the PRC’s rural peasantry by **incrementally** shifting from a Mao-inspired **collectivist** farming system (note the negative consequences of **collectivization** during the Great Leap Forward) to one centered around family ownership of land. Under the new system, poor Chinese peasants were given control and ownership of the **crops** they grew, were given more money for food **quotas** they fulfilled, and could **lease** land from those collectives still under the administration of the government. Once they achieved their quotas for the government, the peasantry could then sell any surplus **food** and **produce** in legal free markets, which meant more money **at their disposal** and a greater **incentive** to work hard and produce more. As a consequence of these positive changes, there was a dramatic rise in agricultural output and the standard of living of millions of peasants. The extra money made available to millions of Chinese peasants also witnessed a much higher demand for consumer goods, which benefitted and facilitated the rise of the manufacturing and industrial sectors.

The communist leadership also decided to accept **foreign direct investment (FDI)**, foreign loans, and foreign assistance. They also permitted the **evolution** of a private non-state enterprise sector, which competed with **state-owned enterprises (SOEs)**, thus gradually improving the competitiveness and quality of the PRC’s industries and companies. Another positive initiative was the creation of ‘**Special Economic Zones**’ (**SEZs**) since 1980 in coastal areas and cities such as Shenzhen, Zhuhai, and Shantou (in Guangdong Province), Xiamen (in Fujian Province), and Hainan province. In these SEZs, the Beijing government permitted the establishment of **preferentially treated** free market export-orientated economies, which were hugely successful in encouraging investment and business growth. In the 1980s, the 1990s, and the 2000s, the number of SEZs increased dramatically, and included inland and border region Chinese areas such as the Yangtze River valley (see also **the Shanghai Pudong New Zone** which was set up in the early 1990s). With the huge and potentially extremely valuable Chinese market place open to the world for business, billions of US dollars and other foreign currencies flowed into China. Foreign investors and companies **flocked** to the PRC hoping to **capitalize** on its massive market, immense population, and enormous low-wage and **non-unionized** work force. The **influx** of foreign technology and expertise meant that the Chinese could acquire technological advancement in a much shorter time than if they had waited to develop it on their own. The success of other East Asian states such as Japan, and the ‘Four Little Dragons’ (Hong Kong, Singapore, South Korea, and Taiwan) provided Deng and his supporters with some valuable lessons and examples for how to gradually rise as an economic power and to successfully trade with the outside world.

Following the examples of East Asia’s wealthiest economies, Deng placed a high priority in **cementing** positive relations with the United States. As we discussed in a previous class, Beijing and Washington ties went through a period of **rapprochement** in the late 1960s and early 1970s. This **culminated** in President Richard Nixon’s surprise visit to China in February 1972. Despite this, domestic political instability and distractions in both countries however meant that the process of rapprochement slowed dramatically in the mid-1970s until Deng assumed power in 1978. After this, the reform era Chinese and the Americans succeeded in shelving the **thorny** issue of Taiwan and commenced formal diplomatic relations in 1979. This new relationship

had an almost immediate influence on the PRC's economic growth with foreign and particularly US money and investment flowing into the giant country.

Friendship with the United States also proved important as the communist Chinese engaged in a war with their former ally, Vietnam from February until March 1979 (see [the Sino-Vietnamese War](#)). The PRC decided to attack Vietnam (an ally of the Soviet Union) in response to Hanoi's decision to invade and occupy [Khmer Rouge](#)-controlled Cambodia (an ally of China) in December 1978 (see the [Cambodian-Vietnamese War](#) from April 1977 until September 1989). The war started [ostensibly](#) over the mistreatment of ethnic Chinese people within Vietnam, and Vietnam's earlier occupation of some of the PRC-claimed [Spratly Islands](#) in the South China Sea. At a wider [geo-political](#) level however, Beijing [suspected](#) that the Vietnamese occupation of Cambodia was part of a Moscow-[backed](#) strategy of extending Soviet influence in South-east Asia via its ally, Vietnam. Both the Americans and the Chinese had an interest in preventing the USSR (a mutual [adversary](#)) from strengthening its influence in the region. When the Soviets decided to stay out of the Sino-Vietnamese conflict (and not to support its allies in Hanoi), it showed to the Chinese that Moscow was unwilling to risk a major war with a powerful friend of the United States [i.e.](#) China. Beijing also learned some other valuable lessons from the conflict, particularly the realization that the PRC's armed forces, the [People's Liberation Army \(PLA\)](#), badly needed to upgrade and modernize its capabilities. Chinese forces suffered heavy casualties in the war, and had serious problems [mobilizing](#) men and equipment into areas of fighting. On a wider level however, it appeared as if the PRC had [tipped the balance](#) in the Sino-Soviet split in favor of China, and justified Beijing's decision to improve relations with Washington. American investment, aid, and goodwill played a huge role in reform era China's rise and economic development. Examples of this support included the transfer of [much needed](#) technology, and the training of [countless](#) numbers of PRC scientists and engineers in American universities. The US marketplace, the largest in the world, also became the [principal](#) destination for Chinese goods and products as the PRC's export sector grew dramatically in the years after the late 1970s. This was reflected in the export statistics with as much as one third of all Chinese exports going to the United States. Despite occasional but manageable tensions over issues such as Taiwan, the overall atmosphere between the two giants for most of the 1980s was positive, with economic, social, and cultural ties becoming stronger year after year.

As Cohen notes: *'China's economic growth and the speed with which it became a major trading country and an important participant in international capital markets was [extraordinary](#). Its nine per cent rate of growth in [gross national product](#) for the years 1978 to 1993 was the fastest of any country in the world (not excepting Thailand whose [GNP](#) grew faster for the late 1980s). Despite continued low [per capita](#) income, the gross national product of China's billion [1000 million] people overtook that of Germany, placing China third in the world behind the United States and Japan. Many analysts predicted it would have the world's largest economy by the middle of the twenty-first century. Its international two-way trade [soared](#) from less than \$15 billion in 1977 to more than \$115 billion in 1990 and nearly \$200 billion by 1993. China joined the World Bank, the International Monetary Fund, and the Asian Development Bank to become [eligible](#) for low-interest loans and economic and technical advisers. In the late 1980s, it became the largest [recipient](#) of United Nations Development Programme funding. Its exports were three times that of India's and it*

was obtaining a hundred times as much foreign direct investment. And its people were eating far better than they had in Mao's day' (Cohen, 2000:444). From the mid-1980s until the mid-2000s, the income of **urban** residents has increased by 14.1% and the income of **rural** residents has increased by 11%, reflecting a significant improvement in the standard of living for communist China's citizens. The fastest growing group in the PRC since the late 1970s has been a more educated and **politically-informed** urban **middle class** (80 million or 6.15% of the total population in 2007), which has played a major role in feeding consumer spending by acquiring the symbols of middle class life such as modern city apartments, a university education, books and newspapers, holiday packages, cars, televisions, **and so forth** (for more details, see Pages 85 and 86 of *Rana Mitter, Modern China – A Very Short Introduction*, Oxford University Press, 2008). According to another source, in the years from 1981 to 2005, the percentage of the PRC's population who live on less than one US dollar (\$1) fell from 85% to 15%. This meant that about 600 million Chinese citizens were lifted out of **poverty** as a result of the economic changes created by the **reform and opening up** era (see Anup Shah, 2010 <http://www.globalissues.org/article/4/poverty-around-the-world#WorldBanksPovertyEstimatesRevised>).

Divisions within China however (within the political elite between conservatives, party ideologists, and reformers and also at the street level) meant that Deng had to proceed slowly and carefully through uncertain and unprecedented changes for the Chinese dragon. The PRC leader famously referred to this challenge as “*crossing the river by feeling for stones*” during his famous southern tour of China in 1992. On a negative side, there were numerous problems, which have accompanied China's economic rise and prosperity. Major issues include **rampant corruption** and environmental pollution and **degradation**. Rapid economic development has placed a heavy strain on the availability of natural resources such as oil, gas, and water. This has created frictions within China and between the PRC and its neighbours. Many people fear that the economy is **over-heating** and that China's **property boom** will soon end and result in a **property bust** and then economic recession. There was also a very apparent ‘**income gap**’ and income **inequality** between people who live in the cities of China, particularly along the east coast, and those who continue to live in the countryside. The PRC's income gap is one of the worst amongst the developing countries of the world, and has resulted in growing **frustration** amongst the country's poor people with the Chinese Communist Party and the direction of reform. As China's economy became more liberal and more vulnerable to the international market, the traditional social securities of communist life in the years before the reform period were also threatened and challenged, for example the traditional guarantee of life-time employment and healthcare. Many wealthy overseas economies complained about the huge **influx** of cheap Chinese products and called for measures to protect local and domestic manufacturers. In addition, Washington and Beijing have experienced serious disagreements over the PRC's alleged **artificial undervaluation** of the Chinese currency, the yuan (renminbi), so as to make Chinese exports cheaper than competitor economies.

Key Points:

- The deaths of Chairman Mao Zedong (1893-1976) and Premier Zhou Enlai (1898-1976), as well as the downfall of the 'Gang of Four' marked the end of the Cultural Revolution (1966-1976) and a very **turbulent** 'ideological' period in domestic Chinese politics.
- By the late 1970s, Deng Xiaoping emerged as the 'paramount leader' of the PRC. His leadership and economic reforms **heralded** in a period of unprecedented economic growth in China. Gross Domestic Product (GDP) from 1978 onwards grows by 10% per year. This economic change had a major influence on the **make-up** of Chinese society and on China's global power and influence by the late 1980s.
- Pragmatic economic growth and development were the priority objectives for Deng and his reformist supporters. This was based on a so-called 'socialist market economy.' Communist ideology was **toned down** in favour of prosperity and the raising of living standards.
- Deng sought to **emulate** wealthy neighbours (such as Japan and the 'Four Little Dragons') through a process of economic reform. Success in the economic field was not seen as being necessarily **conditional** upon major political reform (ex. greater **democratisation** and **liberalisation**).
- There was also a strong emphasis on improved ties with former enemies such as the United States and Japan. Friendly relations with leading economic powers and neighbours were viewed as helpful in terms of economic growth and stability. Positive relations lasted until **the Tiananmen Massacre** of June 1989. Major political reforms were not on the **agenda**. China's additional wealth and interests as well as the decline in the Soviet threat on the PRC's western borders witnessed a shift in defence strategy toward the east and maritime areas. By the late 1980s, Beijing controversially approved extra spending toward improving the country's armed forces, especially the navy.