

Deng's economic revolution, 1976–89

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Introduction

Within two years of Mao's death, Deng was re-established in the leadership of the CCP, and quickly became the dominant force in both Party and government for the next ten years. As his economic policies were rolled out, it became increasingly clear that many – if not most – of the aspects known as 'Maoism' were being replaced by what had previously been condemned as the 'capitalist road'. By the time of his death, in 1997, Deng had overseen a tremendous restructuring of the Chinese economy, in both agriculture and industry, and had laid the foundations for China becoming a modern country able to successfully compete with advanced Western economies in the world market.

However, there remains the question of the exact nature of the state that resulted from his policies: was it still 'communist' (some would argue it had never even been socialist). Various historians and political commentators have used a variety of terms to describe Deng's China: 'authoritarian capitalist', 'state capitalist', or 'bureaucratic capitalist'. In fact, the debate about what kind of China Deng was creating begs the question of just how socialist Maoist China was by 1976.

Private ownership of the economy – both industrial and agricultural – had been effectively ended by as early as 1956. Unlike Stalin, Mao believed that more than industrial development was needed to create a socialist and then communist society. This explains his attempts to create the right attitudes among the people, to ready them for socialism.

Yet, contradictions between modernisation and socialism emerged. In particular, there was a contrast between a powerful bureaucratised central state, and the workers' self-rule which Marxists thought would result from the 'withering away of the state'. This lack of 'socialist democracy' in Mao's China (though it nevertheless kept alive a socialist vision of the future) indicated that the political pre-conditions for socialism had not *been* created. Thus many historians have preferred to describe China under Mao as 'post-capitalist', rather than as socialist. Some have argued that, as China had not become socialist under Mao, Deng was not so much moving China from socialism as moving it even further away – arguably back to capitalism.

TIMELINE

- 1977 Aug:** Deng's speech for the 'Four Modernisations'
- Oct:** 28th anniversary of the Chinese Communist Revolution; Hua Guofeng's first economic reforms
- 1978 Feb:** Hua's Ten Year Plan
- Aug:** Principles of the Ten Year Plan and the Four Modernisations incorporated into Party constitution
- Dec:** Third Plenum of CC; 'Open Door' policy announced
- 1979 Jun:** Ten Year Plan 'modified'
- 1980 Jun:** CC accept the Household Responsibility System for agriculture
- Aug:** National People's Congress accept establishment of first Special Economic Zones
- Sept:** Hua replaced by Zhao Ziyang as premier; official start of 'one child' policy
- 1981 Apr:** Hu Yaobang appointed General-Secretary of CCP
- Jun:** Sixth Plenum of 11th CC sees start of critical review of Mao's record; Hua resigns as CCP Chairman
- 1982 Sep:** 12th Congress of CCP approves Deng's economic plans for Phase 2
- 1984 Jun:** Deng's 'Socialism with Chinese Characteristics' speech
- Oct:** Start of Phase 2 economic reforms
- 1986 Mar:** Official announcement of Seventh Five-Year Plan
- 1989 Nov:** Deng resigns as chairman of the Central Military Committee

KEY QUESTIONS

- What economic policies were followed by Hua in the period 1976-78?
- What were the main features of Deng's 'Revolution', 1979-89?
- How successful were Deng's economic reforms?

Overview

- Although for most of 1977 and 1978, it seemed that Hua was in control, Deng was in fact rapidly re-establishing his authority. Most of the economic policies announced by Hua during this period were heavily influenced by Deng and his support for the Four Modernisations.
- In early 1978, Hua announced an ambitious Ten-Year Plan to massively increase both agricultural and industrial production.
- In December, the Third Plenum of the CC saw Deng become dominant; the plenum also approved the 'Open Door' policy on trade with capitalist states. Problems with aspects of Hua's Ten-Year Plan led to it being officially dropped in 1979.
- In 1980, Hua and his main supporters were replaced by those close to Deng. In that year, Deng pushed forward economic reforms such as the Household Responsibility System in agriculture, and the establishment of Special Economic Zones.
- In 1982, Deng's policies were approved by the 12th Congress of the CCP. He then began planning for Phase 2, and this began officially in 1984.
- In 1986, a new Five-Year Plan was officially launched by Deng.
- Deng's reforms in agriculture and industry during the period 1978–89 led to significant increases in production, and to increased trade. However, they also led to national indebtedness and to poverty for many in rural and especially urban areas.

7.1 What economic policies were followed by Hua in the period 1976–78?

According to historians such as Maurice Meisner, the Maoist economic record, though flawed, compared favourably with comparable stages in the industrialisation of Germany, Japan and Russia, which had previously been seen as the most successful examples of late modernisation. This was an especially notable achievement as it was

largely the result of China's own efforts, with little or no outside assistance – not even from the Soviet Union, with which Communist China had fallen out in the early 1960s (see Chapter 6).

The Four Modernisations

After the overthrow of the Gang of Four, Deng – in theory under Hua's direction – began to put into effect the economic policies associated with the Four Modernisations. In fact, similar policies had been first put forward by Deng in the 1960s; once Zhou had officially announced the Four Modernisations in 1975, Deng had issued three documents setting out more specific ways in which to achieve Zhou's aims. These had been quickly condemned as 'deviationist' by the Gang of Four, who had re-named them the 'Three Poisonous Weeds'. Once the Gang had been overthrown, Deng and his pragmatic supporters began to re-introduce these ideas.

Deng's plans were intended to overcome some of the problems resulting from the Great Leap Forward and the Cultural Revolution, and to make the Chinese economy more efficient and productive. By 1976, 20 million people in China were unemployed, and 100 million were undernourished. China also had a 6.5 billion *yuan* deficit; while science, technology and the military were all old-fashioned compared to the advanced countries. All this had led to significant disenchantment among many Chinese citizens (as shown in Source 7.1), and Deng clearly hoped that successful reform would result in renewed support for the Party.

The Four Modernisations focused on four areas of the economy: agriculture, industry, science and technology, and the military. One essential difference between these policies and those that had often been implemented before 1976 was that they were based more on pragmatism than ideology. Deng and his supporters justified this by claiming that Mao's emphasis on ideology had led to negative economic results – though such criticisms tended to ignore what was achieved by Mao.

SOURCE 7.1

Major problems faced the new Deng administration: the government now had a 6.5 billion yuan deficit; 20 million Chinese were unemployed; and an estimated 100 million were undernourished. The military was woefully out of date, as was China's own technology and scientific research. Thousands of CCP members and wide segments of the population questioned the decisions of the Party leadership... If the legacy of the [Maoist] revolutionaries was to mean anything, new approaches to China's many problems were imperative... Deng and his supporters realized that without economic advances, the future position of the CCP would be untenable.

Benson, L., 2002, China Since 1949, London, Pearson Education, p.46.

As well as affecting domestic economic policy, Deng's approach also involved the linked issue of foreign trade and relations with Western capitalist states. This had been another important factor in the struggle during the late 1960s and early 1970s between Leftists and Rightists.

China's economy in 1976

Despite some real economic gains under Mao, by 1976, the Chinese economy was suffering from many problems: inefficiency, technological backwardness, waste, low productivity, overstaffing and bureaucratic stagnation. While the political struggle – between Hua and the 'Whateverists', and Deng and the Rightists – was taking place in the period 1976–81, both factions were attempting to address some of China's economic problems. There was some agreement between both groups on the general economic policies that needed to be followed. Essentially, both groups wanted to implement the Four Modernisations by adopting more pragmatic economic policies.

Hua's approach was based on the acceptance of Zhou's comments in 1975 that revolutionary principles, if applied too rigorously, could cause economic growth to slow down or even cease altogether. Thus, while publicly expressing continued support for Maoism, Hua quietly abandoned several aspects of late Maoism. Instead, he reverted to a modified 1950s' form of early Maoism. For instance – in something similar to the Hundred Flowers campaign's initial approach to culture and education – Hua allowed films, operas and plays that had previously

been banned to be shown again, and allowed the re-appearance of literary and scholarly journals. He also allowed the publication of short stories by young writers – known as the ‘wounded generation’ – which described their experiences during the Cultural Revolution.

Unfortunately for him, this more relaxed approach allowed the emergence of an increasingly influential pro-Deng and anti-Maoist (and thus anti-Hua) body of opinion. While this weakened him, it strengthened Deng. This helped Deng in the mostly behind-the-scenes struggle between his ‘Practice’ faction (which emphasised practical outcomes over ideology and theory as the main criteria for judging the ‘correctness’ of economic policies) and the Hua ‘Whateverist’ faction.

Hua's economic policies

Initially, Hua decided to concentrate on agriculture, and several conferences were held in 1977 to decide what to do. Peasant family plots were restored, their size was increased, and subsidies were also increased, to boost agricultural production. As a result, agricultural productivity increased by 8.9% in 1978, and by 8.6% in 1979. This was *before* Deng's Household Responsibility System policy, which wasn't really widely adopted until the early 1980s, had been introduced (see Section 7.2).

In industry, wage differentials and greater specialisation were introduced for the same purpose. There was also a 10% wage increase for all, announced on 1 October 1977, at the 28th anniversary of the Communist Revolution.

As Source 7.2 shows, these changes led to intense debate among historians, economists and political commentators over the implications of these policies for the future direction of the Chinese Revolution. For example, both Burton and Bettelheim (an economics professor) were supporters of Mao but came to differ over what Deng's intentions were. Bettelheim had earlier resigned as president of the Franco-Chinese Friendship Association because of his concerns over the policies of the new leadership of the CCP.

QUESTION

Given the origin and possible purpose of Source 7.2, what are its value and limitations for historians trying to study Deng's intentions during the period 1976–78?

ACTIVITY

Using this and the previous chapter, try to identify and then list the names of the 'capitalist roaders' referred to in Source 7.2.

SOURCE 7.2

And let's not be too quick to label those [leaders of the CCP] who do not quite measure up... as 'revisionists,' 'capitalist roaders,' or what have you... the present leadership... is at this very moment implementing new regulations to alleviate the economic insecurity of city-dwellers in the lowest income categories through a re-adjustment of wage scales.

In your letter you raise the specter of the advances of the Cultural Revolution being wiped away. Some of its products will indeed be dropped, others modified – some for the right reasons, some not. And since classes and class struggle are going to be with us for some time to come, it's even conceivable that a revisionist line – a real revisionist line – might gain the upper hand for a time... But could the really important gains of the Cultural Revolution ever be submerged for long? Not a chance! ... They infuse Chairman Hua Kuo-feng's speeches.

Extracts from an Open Letter, dated 1 October 1977, by Neil Burton, a Canadian working in China, to Charles Bettelheim, a French economics professor, on the likely course of China following the defeat of the Gang of Four. In Bettelheim, C. and Burton, N., 1978, China Since Mao, New York, Monthly Review Press, pp.34–5

Even at this stage, Hua's economic policies were largely based on policy documents Deng had drawn up in the autumn of 1975, before his temporary fall in 1976. These included a big increase in the amount of modern technology purchased abroad. But Hua also claimed to be continuing Mao's legacy. In early 1977, Hua proclaimed his 'Whateverist'

position. This eventually played a part in his downfall, as most senior people in the Party, government and army had been unhappy about the Cultural Revolution, and increasingly supported Deng, who wanted to give some kind of justice to its victims. Yet, Hua's main support base was precisely those in the lower levels who had risen during the Cultural Revolution. Hua and Deng had been united in bringing down the Gang of Four – but once this had been accomplished in 1976, there was little to keep them together – and Deng's supporters were stronger and more numerous.

The Ten-Year Plan

When Deng fell from favour in 1976, as a result of the Qingming Festival (see Chapter 6), the introduction of further and deeper reform was put on hold. However, as early as 1977 (when Deng was again restored to his positions), there were moves towards implementing some of those reforms favoured by Deng. These in turn led to further political changes. Under Hua, at the 11th Party Congress in August 1977, Deng made a speech reiterating the importance of the Four Modernisations.



Figure 7.1: Chinese leaders at the 11th. Party Congress, August 1977: Hua Guofeng is on the left, with Deng Xiaoping in the centre.

In February 1978, Hua announced an ambitious new Ten-Year Plan, to cover the period 1976–85. This was designed to implement the 'Four Modernisations', and its basic principles were incorporated into the Party constitution in August 1978. This economic plan was largely based on a document drafted for the State Council by Deng in 1975. It focused on specific sectors of China's economy, especially heavy

industry, where state control would retain socialist principles, while relaxing such principles in smaller enterprises.

The intention was to create 120 massive industrial projects. Targets were set for the period 1978–85, with the aim of greatly increasing production. Steel production, for example, had fallen significantly as a result of the Great Leap Forward. It had been 21 million tons in 1973, but was to increase to 60 million tons by 1985, and to 180 million tons by 1999. High targets were also set for oil, petroleum, coal and non-ferrous metals, electricity, railways and water transportation.

It would require massive public works in order to provide the necessary infrastructure to meet these ambitious targets. This could not happen, however, without the modernisation of agriculture – by improving irrigation and mechanisation, a more efficient agriculture would release workers for industry. According to Hua, China's industry would catch up with the world's most advanced nations by 2000.

Significantly, Deng was put in charge of carrying out these reforms, and he soon announced that 100 000 construction projects would be implemented, at a cost of 54 billion yuan. However, the targets were too ambitious, and the costs too high – Hua had not developed any plan to raise the massive sums needed to invest in this expansion. The first year of the plan alone had cost 37% of GDP – this was too high a figure for the government to sustain. Consequently, the Ten-Year Plan soon proved unworkable. Its problems played a significant role in Hua's downfall and the rise of Deng – even though Deng had been closely associated with the Plan.

The end of the Ten-Year Plan

The Third Plenum of the CC in December 1978 was a turning point, as Deng was appointed the chairman of the People's Political Consultative Conference. As well as confirming his return to top-level politics, this post was crucial as it carried the main responsibility for carrying out economic reform. The meeting also saw a significant number of Deng's supporters elected to the CC and the Politburo. This gave Deng effective control of both these bodies and thus of the Party as a whole.

While most of Hua's supporters at first remained in post, they lost many of their main economic and political responsibilities. As stated in Source 7.3, the Third Plenum of December 1978 also accepted Deng's own plan to implement the 'Four Modernisations', which stepped up

and replaced Hua's economic policies. Thus, Deng's economic reform programme effectively began in 1979. The most dramatic indication of Deng's supremacy in economics came in June 1979, when the Ten-Year Plan was dropped.

SOURCE 7.3

...the Third Plenum of the Central Committee of the CCP... proved to be a landmark in China's post-Mao reformation. The decisions reached at the plenum meant a new departure for the People's Republic of China... [The] resolutions of the Third Plenum clearly meant that the Cultural Revolution had been abandoned. Deng Xiaoping's personal success at the plenum, in obtaining the full support of the CCP for his proposals, also showed that he was now the outstanding figure in Chinese politics. This was soon recognised by the CCP by its conferring on him the honorary title of 'paramount leader'. This had no specific functions attached to it but was all the more powerful because of that. He feigned humility by declining to accept formal positions while knowing that he had the influence and connections to remain in control of developments. He was now in a position to begin what was to become known as the Deng revolution.

Lynch, M., 2008, *The People's Republic of China, 1949–76*, London, Hodder Education, pp. 156–7.

KEY CONCEPTS QUESTION

Significance: Why was Deng's appointment as Chairman of the People's Political Consultative Conference so important?

ACTIVITY

Carry out some further research on Hua's economic policies, and those favoured by Deng, in the period 1976–79. Then draw up a table with two columns (headed 'Hua' and 'Deng') briefly summarising their economic policies. Then produce a mindmap which displays the main differences and similarities.

7.2 What were the main features of Deng's 'Revolution', 1979–89?

Deng's main approach to economics was pragmatic, and several slogans were associated with the period of his influence, which lasted until 1992. These included: '*It doesn't matter if a cat is black or white, as long as it catches mice*'; '*To get rich is glorious*'; and '*Not introducing reforms will take us down a blind alley*'. The evidence suggests that a *democratic socialist* alternative to the centralised command economy was never seriously considered. What *was* on the agenda were various schemes for economic decentralisation, and the introduction – to a greater or lesser extent – of 'market' mechanisms.

However, there has been – and continues to be – considerable debate about the ultimate aims of Deng and his supporters. Some, such as Carl Riskin, stress the number of Deng's supporters who seemed captivated by the 'wonders of the market'; while Charles Bettelheim (in Source 7.4) argues that Deng was intent on moving back to capitalism. On the other hand, others – such as Maurice Meisner – argue strongly that while Deng had no intention of building socialist democracy in China, he also had no desire to restore capitalism.

According to Meisner, Deng's aim was not to restore capitalism, but to decentralise the inefficient centrally controlled command economy, in which government bodies made most of the economic decisions about investments and production levels. This, in Deng's opinion, would eventually create the conditions for socialism.

Many of Deng's supporters were encouraged in part by the reform communists in Hungary and Yugoslavia who had adopted 'socialist market' models in the 1970s – these had apparently introduced market mechanisms without weakening Party control of the 'commanding heights' of the economy. Later, though, such changes in those two countries soon led to a weakening of political control and the fall of those Communist governments in 1989.

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SOURCE 7.4

...the political changes which have taken place in China since October 1976... have become clearer than they were: in particular, it is more obvious what policy has triumphed as a result of the elimination of the Four, namely a bourgeois [capitalist] policy and not a proletarian one...

Secondly, alongside the announcement that the Cultural Revolution is over, the measures which have been taken since more than a year ago, and the themes expounded in official speeches and in the press, constitute a de facto negation of the Cultural Revolution. There has been a veritable leap backward. These two aspects of the present situation are obviously not accidental. They are the product of profound tendencies, the result of a certain relation of forces between classes and also of a political line which forms part of this relation of forces and reacts upon it.

Extracts from Charles Bettelheim's response, The Great Leap Backward, dated 3 March 1978, to Neil Burton's open letter on the likely course of China following the defeat of the Gang of Four. In Bettelheim, C. and Burton, N., 1978, China Since Mao, New York, Monthly Review Press, pp.38–9.

Deng's economic approach

In June 1979, Deng persuaded the government to announce a three-year period in which some aspects of the Ten-Year Plan would be 'modified' – though the main aspects of the Four Modernisations would be retained.

This time, however, Deng wanted to concentrate on agriculture, light industry and consumer goods, rather than heavy industry. In particular, he believed that by encouraging farmers and factory workers to become rich, and allowing them more freedom and initiative, they would work harder and so help increase production and efficiency.

Like Gorbachev in the Soviet Union, he also believed that for these economic reform plans to work, it would be necessary to reduce the central bureaucracy's power over some aspects of the planning system. The aim – as explained in Source 7.5 – was to make the state bureaucracy the servant, rather than the master, of the economy.

SOURCE 7.5

Thus, in the discussions among Communist leaders and intellectuals in the politically victorious Deng camp around the time of the Third Plenum, a genuinely socialist alternative to the command economy was never seriously considered. Only reformist measures which could be accommodated within the existing political system were discussed. These included various schemes for economic decentralization and the introduction of market mechanisms...

The decentralization of economic administration and decision making... posed no threat to general Communist rule... Nor was the market the mortal threat to the Communist political system that it was assumed to be by many foreign observers...

That a market economy inevitably breeds capitalist social relationships, and all the inequitable consequences of capitalism, was well known to China's Communist leaders in the late 1970s. But Deng Xiaoping and his reformist associates did not envision a capitalist future for China... most did not champion a market economy or a capitalist regime because of their intrinsic virtues. Rather, they saw the mechanism of the market as a means to eventual socialist ends, as the most efficient way to break down the stifling system of centralized state planning and to speed up the development of modern productive forces, thereby creating the essential material foundations for a future socialist society.

Meisner, M., 1991, Mao's China and After: A History of the People's Republic. New York, The Free Press, pp. 451–2.

QUESTION

Meisner, in Source 7.5, suggests that Deng was attempting to create a more decentralised – but not a more democratic – economic system, in order to achieve a developed socialist economy. In view of the current situation in China, do you think Deng's belief that his market reforms would not end in the restoration of capitalism was a realistic one?

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Implementing the Four Modernisations

To put his long-held economic reform ideas into practice, Deng readjusted the Ten-Year Plan's goals: 348 heavy industry projects, and 4800 smaller ones, were put on hold; though many of the core ideas were retained. In particular, he decided to concentrate on short-term projects that could earn foreign capital, which would then be used to finance other projects. This approach was facilitated by Zhou and Mao's decision, in the early 1970s, to 'open up' relations with the US and the West. It thus became possible for China to export goods to non-communist countries, and to receive some foreign investment capital for its own projects. This generated extra capital to make more improvements, though there were still problems with energy and transportation.

These changes were accompanied by various techniques, which began to raise the question of whether or not the new leaders of China were still communists. These techniques included incentives and bonuses; allowing peasant farmers to grow crops on small leased commune plots, and to sell any surplus produce for profit to the state; and also allowing more scope for individual initiatives in industrial and scientific sectors. The following sections will focus on the two Modernisations that relate to the economy: agriculture and industry.

Agriculture

After the initial setbacks suffered by the industrial aspects of the Ten-Year Plan, the leadership decided that agriculture was the economic sector most in need of modernisation. This area became Deng's main concern during the period 1978–84. Although China's population had increased rapidly between 1955 and 1977, and thus so too had total grain production, the per capita figure was still at the same level. In addition, 80% of China's people were still based in the countryside, making China still a largely agricultural economy.

A more efficient and productive agriculture would release people to work in the factories. So the leadership's plan was to encourage peasants to move away from traditional methods (based on extensive manual labour), and instead to adopt mechanised farming. To assist these moves, incentives, and plans for diversification, were approved.

The first steps had been taken in December 1978, when the vast communes (set up in 1958 by the Great Leap Forward) were broken up into smaller production units. The policy of collectivisation was maintained: this had been a core element of the 1949 Revolution and, although not very efficient, could not easily be abandoned. However, Deng began to persuade the bureaucrats that the production units should be allowed more freedom to make decisions. He also substantially raised the subsidies and prices paid to farmers for their agricultural products.

Central planning continued, with the government setting targets and quotas, and issuing directives on how to achieve greater productivity. The plan was to increase agricultural production by 4–5% per year, and to increase food production to 400 million tons by 1985. The plan also aimed to mechanise 85% of farming, promote a greater use of chemical fertilisers and to improve irrigation of fields. In addition, the government wanted to improve the distribution of food products – so 12 commodity and food base areas were created.

Household Responsibility System

In 1979, the government resurrected a plan from the 1950s, which had been stopped by Mao. The Household Responsibility System (HRS), was officially adopted by the June 1980 CC meeting – and has been seen as the first attempt to introduce capitalism into the countryside. Deng ensured that one of his closest supporters, Wan Li, was put in charge of the new plan.

Wan Li (1916–2015):

Wan joined the CCP in 1936 and, after 1949, held a variety of important government and Party positions. He was purged during the Cultural Revolution; after being rehabilitated, he was put in charge of Anhui province, where he reformed agriculture via what became known as the 'Household Responsibility System'. During the 1980s, he was a strong supporter of Deng's economic reforms.

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In 1980, he became vice-premier, and supported Hu Yaobang and Zhao Ziyang in rolling out the Household Responsibility System to the rest of China. In 1988, after his appointment to the Standing Committee of the Politburo was blocked by conservatives/'leftists', he accepted the post of chairman of the Standing Committee of the National People's Congress.

While he was sympathetic to some political liberalisation, he eventually gave his reluctant support to the suppression of the Tiananmen Square demonstrations in June 1989. He played an increasingly limited role thereafter, and retired in 1993.

At first, Wan applied it to the Anhui province – where, in 1978, 18 peasant families in Xiaogang village had unilaterally decided (in defiance of the local authorities) to implement what they called a 'responsibility system', in order to increase production. After it proved successful, it helped persuade those in the Central Committee who were doubtful of Deng's reform ideas, that it should be applied to the whole country.

Though there was still no private ownership of land, the HRS meant each farming family would be able to rent a plot of commune land they could use – to an extent – as they wanted. In late 1982, a new state constitution transferred the administrative functions of communes to township or county governments, which were to be the new units of central state administration. These were called *xiang*, and they effectively replaced the communes. Each *xiang* still had to meet state food production quotas, but this was now to be done by individuals and their families, who contributed their share of the local quota. Once they had met this, and paid their taxes, they were free to sell any surplus produce for private profit.

Families then contracted annually with their local *xiang* to provide a certain amount of work, and to plant a specified amount and type of crops. A fixed quota would then go back to the commune in return for being able to lease the land. In 1984, the lease was increased to 15 years. Families would control their own labour any way they wished, and were free to keep or sell any surplus produce, either to the commune or in the local market.

QUESTION

What were the main aspects of the Household Responsibility System?



Figure 7.2: A 'free market', where families could sell their own farm produce, in Kasha, a city in Xinjiang, western China.

In 1980, the government decided to set aside 15% of agricultural land for this scheme of family plots, instead of the previous 5%. This effectively resulted in the virtual dismantling of the communes established by the Great Leap Forward, with farmers having more and more control over the land they farmed. Although it began as a voluntary scheme, it soon became compulsory.

By 1983, over 90% of farming households were involved in the scheme, and it was official policy '*to make the peasants rich*'. These changes led to a significant increase in living standards for the rural population, although there were regional variations. In 1983, the government allowed families



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to rent out 'their' lease – and also allowed farmers and workshop owners to hire wage labourers. Thus, new classes of sub-tenants and wage labourers reappeared in rural China, after having been abolished under Mao.

Industry

Deng hoped that the Ten Year Plan would result in a vastly improved infrastructure, and a level of industrialisation that would be at least as good – and hopefully superior – to what had taken place in the decades after 1949. In addition, the leadership wanted to catch up with, and even exceed, the industrial development of the advanced capitalist states in the West. However, industry proved more difficult to reform than agriculture. This was partly because the industrial workers had been the main beneficiaries of the 1949 Revolution. Each worker was hired as part of a *danwei* (work unit), and could ensure his children would be employed when old enough. This led to high job security, reasonable wages, and social wage benefits such as subsidised housing, medical care, pensions and other benefits.

Deng's economic reforms in industry involved two phases: Phase 1, 1978–84, and Phase 2, begun in October 1984.

Phase 1, 1978–84

These reforms were partly meant to 'improve the attitudes' of industrial workers: in practice, this meant getting them to give up their relatively privileged position. The reforms also involved moving away from detailed central planning to less restrictive guidelines.

The process was overseen by Zhao Ziyang, another strong supporter of Deng. He had been Party Secretary in Sichuan province, where he had applied a 'responsibility' system similar to the one that Wan was introducing in Anhui. The success of his 'Sichuan Experiment' led him, in 1980, to be appointed to the State Council. In September 1980 he became premier in place of Hua Guofeng, who slipped into the background.

Zhao's methods were then applied to industry. Over 400 000 factories were given more 'responsibility' (i.e. more freedom and independence) to set wages and prices, and produce goods, which the state would then buy. Any surplus over the quota set could then be sold for a profit. This was then applied to China as a whole.

Similar to the HRS in agriculture, the Industrial Responsibility System created by the government was based on establishing a supervisory body for each State-Owned Enterprise (SOE). Each SOE (or factory) had a contractual agreement, under which part of the production and/or profits would go to the state, with the surplus being kept by the SOE. This created an incentive to improve productivity. Later, contracts were used to try to address the issue of quality as well.

By 1980, 6 600 reformed SOEs had been created. However, workers were dubious about the reforms, as the existing system had provided them with job security, along with many social benefits such as housing and medical care. Even factory managers were not keen on the idea of a market-based system – especially those in heavy industry.

The 'Open Door' policy

It had soon become obvious that China's economy alone could not generate all the capital investment funds needed to fulfil the ambitious goals of the Ten-Year Plan. As early as 1979, targets had been revised downwards and, in practice, the Ten-Year Plan was largely set aside. The earlier rapprochement with the US, resulting from Nixon's visit in 1972, was thus very helpful, as it led to increased trade and especially much-needed foreign investments.

When the UN recognised the People's Republic of China in October 1971 – as the US no longer vetoed it – China's isolation ended. Moves were then made to open up China even further to Western countries. It is this area more than any other that supports the argument that China was gradually becoming capitalist. Between 1971 and 1974, China's foreign trade increased by more than 300% – most of it with non-communist countries. Foreign trade increased even further under Hua's rule. From 1978–88, under Deng's supervision, it increased by over 400%, and continued to rise thereafter.

In December 1978, the Party officially adopted the 'Open Door' policy, to open up China to the world even more. By engaging in trade with the West, China could earn cash from exports – and develop and/or import science, technology, capital and managerial skills.

Deng and his supporters decided to diversify exports, raise the quality of goods, devalue the *yuan* (which would make Chinese exports cheaper, and thus easier to sell), and build up currency reserves. Beginning in 1978, China began to link its currency – known officially since

1949 as the renminbi ('people's currency'), but usually referred to as the yuan – to foreign exchange rates, in order to facilitate trading in the international currency markets. Until 2005, its exchange rate was linked to the \$US. Later, in 1980, China secured its first loans from the International Monetary Fund and the World Bank. This provided money to upgrade industrial machinery and set up new enterprises.

Many Western nations quickly saw the advantages of moving into the massive new Chinese market – first Japan and Taiwan, soon followed by West Germany and the US. Hong Kong, with its connections to both China and the West, was able to take advantage of this new policy. By adopting capitalist-friendly policies, Deng hoped Taiwan – which also had a thriving market economy – might eventually be returned to China.

China's leaders still felt that more foreign capital was needed for the country's economy to be fully modernised and expanded. So, while trying to maintain state ownership of the 'commanding heights' of the economy, they tried various ways to encourage Western firms to invest in China. However, it was decided that all joint ventures with foreign firms had to be at least 50% Chinese-owned. This would allow China to retain control over its economy.

QUESTION

Why was the 'Open Door' policy seen as being important for China's rapid economic development?

Special Economic Zones

In 1979, the government also created Special Economic Zones (SEZs) in coastal areas in the south of China. Here, economic policies were more 'liberal' (i.e. more friendly to capitalist economic mechanisms) than in the rest of the country. This included special tax concessions: 15% tax was waived for the first two years of profitability, and 50% exemptions for years three and four; and no import duties were applied to production materials or equipment.



Figure 7.3: China's administrative regions and Special Economic Zones, as well as Hong Kong, Macao and Taiwan.

These zones were almost like 'states within a state', as they were given regional autonomy – non-residents needed special permission and an internal passport to travel to them. This was because Deng was also aware that the SEZs would become more and more like capitalist Hong Kong, and that workers there would come into contact with Western ideas. Hence the policy of limiting access for other Chinese people, so that 'bad influences' – such as democracy – would not spread to the rest of the country.

Inside the SEZs, the government built roads, railways and port facilities to help attract foreign companies. These companies liked the idea of a large pool of disciplined, educated but relatively cheap workers and the promise of profit-friendly regulations and policies.

The aim of these zones was to increase the chances of direct foreign investment, and expand the import of advanced modern technology.



Figure 7.4: Shenzhen, the first Special Economic Zone created in China in 1980.

The SEZs also gave China access to important world export markets. It was also hoped that local Chinese managers – including those who had studied abroad – would learn the latest management methods from these foreign firms; while workers would learn how to use the latest technology and machinery.

The first ones established were in 1979, in the Guangdong and Fujian provinces; they were in Shenzhen (just across the border with Hong Kong) and Zhuhai (near Macao) in the south, and in Shantou and Xiamen (across from Taiwan) in the north. These were approved by the National People's Congress in August 1980. In the 1980s, a fifth was established on Hainan Island, off the southern coast.

KEY CONCEPTS ACTIVITY

Change and continuity: Carry out further research on the SEZs of the 1980s, using the internet and whatever books are available to you. In particular, try to evaluate the extent to which wages and working conditions have changed in these areas; and then compare your findings with what the situation in the rest of China was like during this period.

Criticism and Deng's response

These policy directions led to a resurgence of concerns about 'taking the capitalist road' in the Party. Several leaders feared they would lead to the restoration of capitalism. Others feared that foreign domination of China – which had existed in the 19th and early 20th centuries – would soon reappear. The ending of foreign domination had been one of the main achievements of the 1949 Chinese Communist Revolution.

In 1980, Deng responded to this growing criticism by resigning his formal positions of power (officially on account of his age), thereby forcing potential opponents (most of whom were of a similar age) to do the same. In this way, he was able to remove from power those who opposed his economic policies. Their places were taken by younger, more pragmatically minded leaders. However, Deng remained incredibly powerful, informally, as the behind-the-scene 'paramount leader'. His approach seemed to be based on the Marxist view that capitalism provides the base for the construction of socialism. In fact, as early as September 1956, at the 8th Party Congress, Deng had argued that class divisions – and thus class struggle – had been virtually eliminated. He had thus argued that all that was left to deal with was China's backward productive forces in order to be able to move on to advanced socialism.

Deng's power was further consolidated by the events of 1981, which included the ending of the trial of the Gang of Four and the passing of the resolution that Mao was '70% good and 30% bad', which made it possible to move forward and away from Maoism. Deng's power was also strengthened by Hua's resignation as Party Chairman.

By 1982, when Deng had secured full control of both Party and government, he was able to push ahead with the policies he favoured, which were intended to make China wealthier and so able to advance to full socialism.

Communism or capitalism?

To achieve his aims, Deng favoured introducing aspects of a 'free' market economy, which would enable China to compete with the West in production and economic efficiency. He therefore pushed for Western-style, capitalist industrial policies. This does not necessarily mean, however, that Deng and his supporters were capitalists – the accusation thrown against them by the Maoists and Leftists in the period before 1976.

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Indeed, Marx – and until Lenin's death in 1924, Soviet communist leaders – had always said that socialism could only emerge in developed capitalist economies. Deng argued his policies were necessary as China still had feudal hang-overs. However, such policies began a still on-going debate about whether China has now become a capitalist country in all but name.

Deng's approach was based on the concept of 'economics in control', rather than the Maoist idea of 'politics in control'. In other words, economic pragmatism was more important than political dogma (or 'Practice' versus 'Whatever'). In September 1982, the 12th Congress of the CCP approved Deng's economic plans, as well as various personnel changes. He was then in a position to introduce the second phase of his plans for industry.

DISCUSSION POINT

Do you think that Deng's use of market mechanisms, and allowing the existence of privately owned firms and enterprises, automatically meant that China was likely to become a fully developed capitalist economy? To discuss this in any depth, you will need to do some research on key terminology and definitions – such as 'capitalism', 'socialism' and 'market mechanisms'.

Industry phase 2, 1984–89

In October 1984, the 'Resolution on the Reform of the Economic System' began Phase 2. This further reduced state control over enterprises, though they still remained under public ownership. Deng also made it clear that unprofitable enterprises would be closed down. To make profits easier, the state tax on enterprise profits was reduced from 55% to 33% in 1983–84.

This emphasised that ownership and management were two separate aspects, and that managers could be given some freedom in selecting ways to improve production. In particular, it allowed private groups to lease small- and medium-sized enterprises, though the largest ones remained under direct government control. The government also introduced a legal framework that protected private investment. This meant more people were prepared to put money into enterprises. As the incomes of many people increased during this early period, there was an

increased demand for more consumer goods, which provided a stimulus for small family-based enterprises.

Seventh Five-Year Plan

In June 1984, Deng had made a speech at a meeting with a Japanese delegation, at which he had said that China was 'building socialism with a specifically Chinese character' (see Source 7.6).

SOURCE 7.6

What is socialism and what is Marxism? We were not quite clear about this in the past. Marxism attaches utmost importance to developing the productive forces... Therefore, the fundamental task for the socialist stage is to develop the productive forces... Socialism means eliminating poverty. Pauperism is not socialism, still less communism...

Capitalism can only enrich less than 10 per cent of the Chinese population; it can never enrich the remaining more than 90 per cent...

Our political line is to focus on the modernization programme and on continued development of the productive forces... The minimum target of our modernization programme is to achieve a comparatively comfortable standard of living by the end of the century... To do this, we have to invigorate the domestic economy and open to the outside world...

We therefore began by invigorating the economy and adopting an open policy... We adopted this policy at the end of 1978, and after a few years it has produced the desired results. Now the recent Second Session of the Sixth National People's Congress has decided to shift the focus of reform from the countryside to the cities...

We have opened 14 large and medium-sized coastal cities. We welcome foreign investment and advanced techniques. In general, we believe that the course we have chosen, which we call building socialism with Chinese characteristics, is the right one.

Extracts from Deng's speech, 'Build socialism with Chinese characteristics', 30 June 1984, to the Japanese businessmen's delegation at the second session of the Council of Sino-Japanese Non-Governmental Persons.

Source: <http://english.peopledaily.com.cn/dengxp/vol3/text/c1220.html>

In 1985, Deng drew up a Seventh Five-Year Plan, to cover the period 1986–90, with slightly different goals from those in the 1984 Resolution. This was officially announced in March 1986. In particular, he said he had three main aims:

- 1 to give more autonomy to state enterprises, and more emphasis on making a profit
- 2 to 'smash the iron rice bowl', and so increase the productivity of workers by introducing the fear of unemployment
- 3 to allow prices of goods – especially food and consumer goods – to be determined by 'market forces'.

The plan was based on the idea of removing state subsidies. This would force state enterprises to become competitive and profitable, by forcing them to cut costs and increase productivity. However, this would be at the cost of workers' wages and jobs. The reference to smashing the 'iron rice bowl' (with 'iron' meaning 'long lasting', and 'rice bowl' referring to 'living standards') meant the idea – and practice – of ending guaranteed job and wage security for industrial workers. Full employment – like the idea of a social wage that included subsidised prices for food and electricity and rents – had always been one of the main planks of Communism, and had been part of Mao's GLF.

To underline the need for competition between state enterprises, new short-term state contracts replaced the longer-term ones. Deng's approach was based on observing that when younger and reform-minded party officials had been given greater freedom to try new approaches, the results had been mostly spectacular – especially in the provinces of Sichuan and Guangdong.

His main aims, as set out in the new Plan, were to:

- increase gross agricultural and industrial output by 38% over the period of the Plan – at an average growth rate of 6.7% per year (4% for agriculture and 7.5% for industry)
- increase gross national output by 44%, at a yearly average of 7.5%
- increase import and export volumes by 35% by 1990
- expand both foreign investment and the import of advanced technology

- increase food and consumer goods consumption for China's population by 5% a year
- spread the 9-year compulsory education system, in order to train 5 million professionals – twice the level of the previous plan.

However, as Gorbachev in the USSR discovered, having ambitious aims and plans doesn't mean that they can be implemented. Nor, if they are implemented, does it necessarily mean that they will be successful.

ACTIVITY

Carry out some further research on Deng's main economic policies from 1978 to 1989. Then draw up a table to summarise the main points under these three headings:

- Agriculture
- Industry
- Foreign trade and investment.

7.3 How successful were Deng's economic reforms?

According to official government figures, Deng's reforms were highly successful, with tremendous results and achievements. While to a large extent this seems to have been true, the overall results were mixed. Government statistics claimed an average annual growth rate of 11% for agriculture and industry. By 1985, China's GNP was 778 billion *yuan*. In certain sectors of the economy, the growth rates were even higher – especially in the heavy industry areas of steel, coal, oil and electricity. By 1985, government investment in publicly owned enterprises had reached 530 billion *yuan*.

Agriculture

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replace the commune as the economic unit of production – and farmers were now rewarded by how hard they worked for themselves rather than for the community as a whole.

According to official statistics, agricultural productivity increased by 15%, above the targets set by the Ten-Year Plan – and 5% of that increase was down the HRS policy. Production increased by an average of 6.7% each year, and grain output rose to 500 billion kilograms in 1996. This made China the largest agricultural producer in the world – based on the world's largest smallholder farming system.

Given the successes of the HRS, it has continued to the present day.

Year	Grain production (millions of tonnes)	Meat production (millions of tonnes)	Index of gross output compared to base of 100 in 1952
1978	304.8	8.6	229.6
1979	332.1	10.6	249.4
1980	320.6	12.1	259.1
1981	325.0	12.6	276.2
1982	354.5	13.5	306.8
1983	387.3	14.0	330.7
1984	407.3	15.4	373.1
1985	379.1	17.6	385.7
1986	391.5	19.2	398.9
1987	404.7	19.9	422.0
1988	394.1	21.9	438.5
1989	407.8	23.3	452.0

Figure 7.6: China's agricultural production statistics, 1978-89. Lynch, M. 2008, *The People's Republic of China 1949-76*, London, Hodder, p.160.

Township and Village Enterprises (TVEs)

The increases in agricultural production resulting from these new policies allowed more farmers to leave their family plots. However, they mostly stayed local, becoming involved in developing local factories or the revival of local crafts. These are known as 'Township and Village Enterprises' (TVEs).



Figure 7.7: A Township and Village Enterprise in rural China.

By 1989, these new small-scale industries accounted for 58% of the total value of rural output. Over 25% of TVEs were run by rural women, allowing them to make a huge contribution to family incomes. Overall, by 1984, official figures claimed 4 million people were employed or self-employed in these industries, with more than 32 million in urban collective enterprises.

It was through these, rather than through standard farming, that rural living standards initially improved. Yet most of these were in fact owned by and/or managed by private capitalists and local governments – all operating on a capitalist basis in both the national and international markets.

De-collectivisation

Agricultural land use in China had clearly been privatised by Deng's reforms. However, land *ownership* – in theory – had not, as land remained in state hands. Once leases expired, the land reverted to the state. Thus, many people were reluctant to put much effort into improving their land, or to invest in long-term projects to give better yields.

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As a result, many farmers stuck to traditional methods, rather than embracing the modern equipment and techniques wanted by the government. Consequently, leases were increased from one year to 15 years, then to 30 years and, after 1984, to 50 years. Farmers who did not want to farm their plots were allowed to rent them out to other farmers. More controversially, Deng allowed land-lease contracts to be passed on to farmers' children – thus creating almost a *de facto* free market in land, with land dealt with as if it were virtually private property that could be 'inherited'.

Stagnation

After 1984-85, growth in grain production actually declined, as farmers found it more profitable to grow those crops receiving higher subsidies – such as rice. Meanwhile, others were still reluctant to put massive effort into land which, ultimately, they did not own. This led to food shortages, and wide fluctuations in price and, in turn, to much anger in some rural areas as living standards began to fall.

Agricultural production then virtually stagnated. The changes in the countryside also gave rise to problems for the official 'one-child policy'. This had been adopted in 1980, to fight 'the enemy within the womb', in an attempt to slow down China's rapidly growing population. It imposed penalties on women and families who had more than one child.

However, the new freedom to 'pass' land on to children down the years led rural families to want more children – especially sons which, despite women having equal rights, were still seen in many areas as the 'natural' owners of farms. These traditional outlooks about inheritance led to abortions and the infanticide of girl babies.

So, in 1985, the government relaxed the 'one-child policy': in effect, allowing families to have two children. Yet, this undid the original plan to stabilise China's population at 1.2 billion by 2000. Later, in March 2011, the government announced that the 'one-child policy' would officially end in 2015.

There were also some severe implications for the environment resulting from industrial expansion, including pollution of the air and rivers, deforestation and subsequent flooding in many areas. These problems were compounded by rapid industrial growth, and later fed into the growing political demands of various movements for more democracy.

Industry

As Figure 7.8 shows, Deng's industrial policies and reforms had a significant impact on China's GDP and manufacturing output. However, because of continued reluctance by many officials to fully implement the reforms, by 1990, over 50% of industry was still directly controlled by the state.

Year	GDP (in billions of Yuan)	Annual GDP growth rate (%)	Annual inflation rate (%)	Annual manufacturing output growth rate (%)
1979	732.6	7.6	6.1	8.6
1980	790.5	7.9	-1.5	11.9
1981	826.1	4.5	7.0	1.6
1982	896.3	8.5	11.5	5.5
1983	987.7	10.2	8.3	9.2
1984	1130.9	14.5	12.9	14.5
1985	1276.8	12.9	1.8	18.1
1986	1385.4	8.5	3.3	8.3
1987	1539.1	11.1	4.7	12.7
1988	1713.1	11.3	2.5	15.8
1989	1786.7	4.3	3.1	4.9

Figure 7.8: China's industrial performance, 1979–89. From Lynch, M. 2008. *The People's Republic of China 1949–76*. London, UK: Hodder, p. 162.

Losing the 'iron rice bowl'

It took time for entrepreneurs to find opportunities to make profits, but soon small workshops and businesses emerged. These small businesses then hired workers and operated in what was essentially a market economy framework. However, many workers were reluctant to lose their 'iron rice bowl', which was seen as a positive gain from the Communist Revolution of 1949. Consequently, there was often obstruction and lack of cooperation, which meant it took longer to implement the reforms. It was not until 1986 that the government was able to put in place a labour-contract scheme that linked wages to effort and productivity. Even then, it only applied to new employees – not those already employed. The government also provided unemployment

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insurance to encourage acceptance. However, even as late as 1992, only 20% of the 80 million employees in SOEs were covered by the new contract.

These problems also helped contribute to the student-led democracy demonstrations that occurred in China in 1989. As in Poland and Czechoslovakia, these demonstrations were increasingly supported by disgruntled workers.

The impact of Special Economic Zones

The SEZs caused various problems – including the sometimes savage exploitation of Chinese workers and reduction of trade union rights. However, initially, they led to a significant increase in direct foreign investment in China. At first, funds came mostly from Hong Kong and Taiwan, and China also received considerable aid from elsewhere abroad. The success of the SEZs – especially the one at Shenzhen – led the government to authorize 14 other coastal towns to offer special privileges to foreign investors. Soon, almost the entire Chinese coast had been opened up in this way, along with some inland regions. The SEZs have had a much bigger impact on China's industrial economy than Deng's other reforms.

Year	Imports	Exports
1978	10.9	9.8
1979	15.7	13.7
1980	20.0	18.1
1981	22.0	22.0
1982	19.3	22.3
1983	21.4	22.2
1984	27.4	26.1
1985	42.3	27.4
1986	42.9	30.9
1987	43.2	39.4
1988	55.3	47.5
1989	59.1	52.5

Figure 79: China's Foreign Trade, 1978–89. From Lynch, M. 2008. *The People's Republic of China 1949–76*. London, UK. Hodder, p 161.

At first, the main types of work carried out in the SEZs was basic manufacturing, with foreign firms using Chinese workers as cheap labour for unskilled work. Also, most of the goods were then sold in China, rather than being exported as Deng had planned. However, eventually, skill levels increased, along with the quality of goods and exports. Some Party leaders who were initially sceptical of these developments soon became less critical. Instead, they made profitable connections with foreign joint venture partners. They also found jobs for their relatives in the SEZs, where wages – though low by international standards – were higher than in the rest of China.

The result of Deng's industrial reforms – especially the SEZs – was a dramatic increase in China's international trade. Between 1978 and 1989, exports grew by over 500%, and foreign investment increased by 400%.

However, as Source 7.7 shows, the rapid economic growth and industrial expansion created some serious economic problems, and to limited improvements in living standards in comparison to those of other developing Asian nations.

SOURCE 7.7

Instituting the responsibility system, increasing the role of the market in determining economic activity, 'opening to the world', and other changes have pushed growth of the gross national product to an overheated 13 per cent by 1984, the highest rate of any country in the world. But continued growth too rapid for the economy to support and assimilate without severe penalties has led to economic conditions often characterised today as 'chaos'.

Over the nine years 1979–1987 China's state revenue and per capita income approximately doubled... but there are numerous and serious economic imbalances within the overall situation... In fact, China, with a GNP in 1987 of US\$277.50 per capita, ranked in the bottom 20 per cent of nations, and its peoples have not experienced the even greater growth of affluence found in some other Asian countries.

Ethridge, J. M., 1990, China's Unfinished Revolution: Problems and Prospects Since Mao, San Francisco, China Books, p.46

In addition, young specialists, often trained abroad, found it difficult to apply their new knowledge to China's more old-fashioned equipment. Meanwhile, older workers – many of whom had received little education during the Cultural Revolution – were resentful of these younger workers, who got promotions. In addition, despite greater consumer choice and better quality goods, the impact of inflation on real wages led to resentment.

The 'Open Door' policy necessarily favoured coastal towns and areas. This led to many wanting to move from rural areas to the coast. In addition, the rapid economic growth put increasing pressures on China's infrastructure. For instance, there were problems with transporting large quantities of raw materials to the factories, which hampered manufacturing.

The impact of high unemployment and inflation led to declining living standards for many, and an increase in worker discontent and even unrest. In the SEZs, workers were often employed on short-term contracts, to avoid giving them the same benefits as full-time workers. If they objected to the worsening working conditions, there were plenty of poor unemployed migrant workers ready to take their place. Also, the huge concentration on economic growth and increased production led to a deterioration of the environment – soon, pollution and environmental issues began to become important to many younger Chinese people.

QUESTION

What negative impacts have the industrial reforms of the 1980s had on the urban workforce – both inside and outside the SEZs?

Unemployment and poverty

Inflation became a serious problem; from late 1988 this forced the government to slow down economic growth. This led to high unemployment (officially said to be 20% in the cities) and reduced living standards.

One result of this was a widening of the gap between rich and poor – especially in rural areas. The de-collectivisation of agriculture showed that about half of the 400 million who worked on the land were surplus to requirements. About 100 million eventually found work in the TEVs. There, they usually did not receive the benefits enjoyed by those in state enterprises, such as medical care and retirement pensions. In addition, their wages were lower, even though their working hours were longer.

The remaining 100 million either became under-employed casual wage labourers getting irregular work, or they became a mass migrant labour force, moving to the cities, living in shanty towns and working for very low wages – or ending up in prostitution or criminal activities.



Figure 7.10: A slum area in Shanghai in the 1980s.

Many of China's cities also saw the re-emergence of stark contrasts (typical of capitalist states in the West) between rich and poor – as mentioned by Source 7.8. For instance, many of those working for private concerns were paid subsistence wages, while begging and prostitution – virtually eradicated under Mao – reappeared.

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...Premier Zhao Ziyang's 'coastal strategy,' which loosened central financial controls over local governments after 1985 and encouraged regionalism, vastly expanded opportunities for official profiteering and the growth of bureaucratic capitalism, especially along the southern coast and in the Yangzi delta. A new urban bourgeoisie thus began to take shape in the mid 1980s, a class which in addition to bureaucratic capitalists included the rapidly growing number of large and small private entrepreneurs... they are socially and economically distinct from the great majority of the urban population... their distinctiveness as a class in Chinese society expresses itself in a taste for luxury – and the means to satisfy those tastes in expensive restaurants and nightclubs, in new and spacious apartments, and in exclusive boutiques... And the contrast between wealth and poverty in Chinese cities today is probably as great, and certainly as glaring, as it is in the metropolitan areas of most Western and Third World capitalist countries. The Dengist prediction that 'some must get rich first' has come to pass with a vengeance.

Meisner, M., 1991, Mao's China and After: A History of the People's Republic, New York, The Free Press, p.477.

China's debt

Deng's reforms at first led to increased borrowing. By 1989, China's external debt was almost US\$ 45 000 million. This was a major transformation, as China had been a debt-free nation before the 'Open Door' policy. By world standards, its debt is relatively modest. However, it meant that China was now increasingly dependent on fluctuations in the – capitalist – world market.

China also became subject to economic pressures from international (but US-controlled) lending organisations such as the IMF and the World Bank, to reduce social spending and to adopt policies to benefit foreign firms investing in Chinese industry. Such organisations were not renowned for favouring the establishment of socialist societies.

Theory of Knowledge

History and ethics:

'*Property is theft*' – this famous quotation is from P-J Proudhon (1809–65), who first raised the question whether the concept of private property is ethical. Do economic policies and principles adopted and enforced by a society – such as whether property should be privately or socially owned – affect the ethics and morality of society? Consider, for example, human rights, justice, social responsibility, equality and freedom. Is it possible to argue that one economic system is, in principle, more just than another?

Corruption

The various economic developments – and even the problems associated with the 'one-child policy' – resulted in growing corruption among Party and government officials.

As well as often flouting the 'one-child policy', they also began to benefit from links with Western businesses. As the Party élites became more bureaucratised and less revolutionary, many began to award themselves various perks which allowed them to live privileged lives. For instance, their children automatically got into universities, and were exempted from military service. Also, local and national officials took commissions and bribes from foreign firms for arranging deals in the SEZs.

This corruption and profiteering became so prevalent that it gave rise to a new term, *guan dao* ('official profiteers'). In 1985, the governor of Hainan Island, who got round the regulations for limiting the importation of motor vehicles, was dismissed. In the following years, there were several prosecutions of high-ranking officials for corruption. The children of leading Party members – even those of Deng and Zhao – were sometimes involved. While some of the money ended up in private Swiss bank accounts, a lot was invested in private enterprises in China itself by these budding Chinese capitalists. The emergence of these 'crown princes and princesses' led to growing anger.

Despite the negative impact of the economic reforms, by 1989, the Tiananmen Square protests had been set to

However, the economic reforms, with political liberalisation, culminated in the Tiananmen Square protests of 1989 following

Despite the slower-than-planned progress, and all the difficulties and negative features mentioned in this chapter, China nonetheless made significant progress in terms of modernisation and increased efficiency. By 1989, as a result of these economic policies, it seemed that China was set to become a leading industrial nation by 2040.

However, in the late 1980s, as Deng continued pushing through his economic policies, the increasing discontent among workers combined with political discontent among students. The growing dissatisfaction culminated in the pro-democracy movement and the 1989 protests in Tiananmen Square. These political issues will be examined in the following chapter.

Paper 3 exam practice

Question

Examine the impact of Deng Xiaoping's economic reforms between 1978 and 1989. [15 marks]

Skill

Using your own knowledge analytically and combining it with awareness of historical debate.

Examiner's tips

Always remember that historical knowledge and analysis should be the *core* of your answer – details of historical debate are desirable extras. However, where it is relevant, the integration of relevant knowledge about historical debates/or interpretations, with reference to individual historians, will help push your answer up into the higher bands.

Assuming that you have read the question carefully, drawn up a plan, worked out your line of argument/approach and written your introductory paragraph, you should be able to avoid both irrelevant material and simple narrative. Your task now is to follow your plan by writing a series of linked paragraphs that contain relevant analysis, precise supporting information based on your own knowledge and, where relevant, brief references to historical debate interpretations.

For this question, you will need to:

- give a *brief* explanation of the problems facing China in 1978
- offer a brief *resumé* of Deng's main aims
- outline the main economic policies implemented under Deng during the period 1978–89
- provide a consistently analytical and balanced examination of both the positive and negative *impact/ results* of his various policies.

Such a topic, which has been the subject of some historical debate, will also give you the chance to refer to different historians' views.

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Common mistakes

Some students, aware of an existing historical debate – and that extra marks can be gained by showing this – sometimes just simply write things like: 'Historian x says ... and historian y says...' However, they make no attempt to evaluate the different views (for example, has one historian had access to more/better information than another, perhaps because he/she was writing at a later date?); nor is this information integrated into their answer by being pinned to the question. Another weak use of historical debate is to write things like: 'Historian x is biased because she is American.' Such basic comments will not be given credit – what's needed is explicit understanding of historians' views, and/or the application of precise own knowledge to *evaluate* the strengths/weaknesses of these views.

Remember to refer to the simplified Paper 3 mark scheme in Chapter 10.

Sample paragraphs containing analysis and historical debate

From about 1978 until 1989, Deng was the main driving force behind the economic policies introduced by China's government – in fact, he continued to have considerable influence on economic issues until 1992. In December 1978, the Third Plenum of CCP's Central Committee appointed Deng to the position of chairman of the People's Political Consultative Conference, recognised him as 'paramount leader', and accepted his economic plans to implement the Four Modernisations. This put him in a strong position to carry through what, according to historians such as M. Lynch, became known as the 'Deng Revolution'.

As historians such as L. Benson have pointed out, China faced many problems at the time of Mao's death in 1976. These included out-dated technology, a massive deficit (of over 6 billion yuan), 20 million unemployed, and over 100 million people who were undernourished. It was problems such as these that Deng was determined to overcome, by making China into a prosperous industrial nation to rival those in the West.

Overall, Deng's policies had a big impact on three main areas of China's economy: agriculture, industry and foreign trade and investment. However, while most historians accept that China witnessed significant – and often spectacular – growth between 1978 and 1989, opinion is divided over what impact his policies have had on the nature of the Chinese state. In particular, there is a

sharp debate over the question of whether or not his economic reforms – regardless of his aims – transformed China into a capitalist state of some kind.

EXAMINER COMMENT

This is a good example of one way of using historians' views. The main focus of the answer is properly concerned with using precise own knowledge to address the demands of the question. The candidate has also provided some brief but relevant knowledge of historical debate that is smoothly integrated into the answer; however, there is no attempt yet at evaluating these views.

As regards agriculture, Deng's various reforms from 1978 – which were intended to move China's peasant farmers to adopt mechanised farming methods, in order to increase total production and to release agricultural workers for employment in industry – had a significant impact. In particular, the Household Responsibility System was adopted in 1980. This allowed peasant families to rent or lease plots of land from the communes. In the main, they could use the land as they wished – provided a quota of their produce was given to the commune. They were then free to keep or sell any surplus. To encourage these farmers to improve the land and so produce more, leases were gradually extended – first to 15 years and then, in 1984, to 50 years.

One immediate impact was to virtually dismantle the commune system established by Mao in the Great Leap Forward. In 1980, Deng decided that 15% of all commune lands should be leased out and, by 1983, over 90% of farming households were part of this new scheme. In that year, the government also allowed peasants to rent out 'their' lease to others, and to employ wage labourers. This was a massive social impact as it led to the emergence of sub-tenants and agricultural wage labourers in rural China – these had been effectively abolished under Mao.

However, economically, such reforms led, – according to official statistics – to great increases in agricultural productivity. Annual increases averaged nearly 7%, resulting in total grain output rising from about 300 million tonnes in 1978 to just over 400 million tonnes in 1989. Most of this increase was said to be the result of the HRS, and so it was continued.

In addition, Deng's agricultural reforms had the desired result of releasing large numbers from agricultural work. However, most stayed in their rural areas, to develop or work in local factories or craft industries which grew up as part of the Township and Village Enterprise (TVE) scheme. By 1984, the government

claimed that more than 4 million people were employed in these small-scale industries; by 1989, they were accounting for almost 60% of total rural output. In addition, these small industries had an impact on the position of women, with over a quarter of TVEs being run by women...

[There then follows examples – supported by precise own knowledge – of both the positive and the negative economic and social impacts of Deng's industrial policies, and of the 'Open Door' policy as regards foreign trade and investment. However, these sections – like the one on agriculture – make no reference to relevant historians and/or their views.]

However, as well as the obvious economic and social impact of Deng's economic policies during this period, there is also a much-debated one concerning the political impact of his economic reforms. This relates to what China has – or has not – become as a result of his policies. The economist, C. Bettelheim, for instance, argued as early as 1978 that what was taking place in China was a 'Great Leap Backward' from Mao's goals of socialism and communism.

This is partly challenged by historians such as M. Meisner, who has argued that, although a bureaucratic capitalist class emerged in the SEZs, China itself did not become a fully-formed capitalist economy. Instead, what Deng did was to use de-centralisation and certain market mechanisms to modernise China's centralised command economy...

EXAMINER COMMENT

In addition to a brief reference to the views of two other historians/commentators, these paragraphs – like the others – have analysis supported by good own knowledge.

Activity

In this chapter, the focus is on writing an answer that is analytical, and well-supported by precise own knowledge, and one that – where relevant – refers to historical interpretations/debates. So, using the information from this chapter, and any other sources of information available to you, try to answer one of the following Practice Paper 3 questions using these skills.

Paper 3 practice questions

- 1 Discuss the political and economic reasons why Hua Guofeng was gradually forced out of power by Deng and his supporters.
- 2 Evaluate the results of Deng's attempts to reform agriculture in China in the period 1976–89.
- 3 Examine the ways in which Deng attempted to reform China's industrial economy in the period 1979–89.
- 4 To what extent was Mao's economic legacy abandoned by the CCP in the years 1976–89?
- 5 'The decisions to adopt an 'Open Door' policy towards the West, and to create Special Economic Zones, showed that Deng and his supporters were intent on restoring capitalism in China.' To what extent do you agree with this statement?