Deng Xiaoping: Economic policies and the Four Modernizations

How was Deng Xiaoping able to re-emerge as a dominant force in Chinese politics?
Introduction

➔ Deng Xiaoping was a long-time member of the CCP.
➔ His fortunes varied while Mao was alive, but he was able to take control of the state within a few years after Mao’s death.
The political career of Deng Xiaoping

➔ How did Deng survive the Cultural Revolution?
➔ Deng Xiaoping had been an influential member of the CCP since 1923.
➔ He was a veteran of the Long March and the Chinese Civil War and had been a key member of the ruling élite, especially in the period of reconstruction following the GLF.
➔ Along with Liu Shaoqi, he had been victim of the Gang of Four during the Cultural Revolution.
➔ He was condemned as a ‘capitalist roader’
Deng and his wife were exiled to Jiangxi Province in 1969 and placed under house arrest.

Their son, a university physics student, had been badly beaten by the Red Guards.

Only in 1971 was he returned to Deng and his wife, paralysed.

Deng’s other children, who had been exiled in the countryside, were slowly allowed to return to their parents.

Deng was brought back into frontline politics by Mao in 1973, following the death of Lin Biao (Defence Minister btw 1969 and 1971), and thought to be Mao’s chosen heir at the time.

By 1975, Deng was appointed Vice-Premier and a member of the Standing Committee.
He was also **Vice-Chairman of the CCP** and **Chief of Staff** of the armed forced.

Deng was mostly quiet about his years of exile and his family losses.

Deng suffered a brief setback in the aftermath of the **Tiananmen Incident**.

He delivered the eulogy at Zhou’s funeral.

Because of this, he was labelled as ‘rightist’ by Maoists and the Politburo.

He was stripped of his political posts again.

However, Mao and the Gang of Four were not powerful enough to get rid of Deng entirely.

Deng enjoyed the support of powerful figures such as the Defence Minister, Marshal Ye Jianying.
Political career between 1976-81

A sign of how much support Deng had among the cadres and the party hierarchy, in the aftermath of Mao’s death, is that by 1977, the *People’s Daily* was running pro-Deng articles.

There were also pro-Deng demonstrations in Tiananmen Square in the 1st anniversary of the death of Zhou Enlai.

Deng’s political comeback was sealed in 1977, when the Eleventh Congress of the CCP formally announced the end of the Cultural Revolution.

He was granted all his previous posts.

Hua probably helped to restore him with the hope of gaining his support in the CCP.

Deng and the ‘rightists’ worked quietly to undermine Hua and the ‘Whateverists’
Symbolic of the increasing dominance of Deng’s faction was the Third Plenum of the Eleventh Central Committee of the CCP in Dec 1978.

Official line of the Tiananmen Incident was changed and victims of Mao’s purges such as the former Defence Minister, Peng Duhai, were formally rehabilitated.

For the 1st time, it was admitted that Mao had not been immune from making mistakes.

The economy was weak as a result of the Cultural Revolution since much production had ceased.

Deng’s famous quote ‘poverty is not socialism’ gave impulse to making Chinese economic development the top priority.

Deng walked a fine line between criticizing Mao and at the same time reaffirming the Maoist dictum ‘practice is the sole criterion of truth’.
China under Deng Xiaoping: economic policies and the Four Modernizations.

1- The background of the Four Modernizations

➔ *Why were the Four Modernizations introduced?*

➔ Deng appeared an unlikely figure to launch an economic revolution.

➔ He had barely survived the Cultural Revolution.

➔ By the time of the Third Plenum of the Eleventh Central Committee of the Chinese Communist Party (CCP) in 1978, he was over 70 years old.

➔ His long career in the CCP had been built on knowing how to navigate political controversy.
Many historians see Deng as a **far sighted realist**.

The most famous quote attributed to him is “*it does not matter if a cat is black or white, as long as it catches mice*”.

In other words, in terms of economic policy, Deng was more interested in outcomes than ideology.

He was armed with the knowledge that Maoist economic policies had failed.

He was presiding over a rising population approaching 1 billion in 1978.

¼ lived in a state of abject poverty.

Deng decided to act.
2. Political support for the Four Modernizations

How did the Four Modernizations affect the PRC’s politics?

The Four modernization were a set of economic priorities that had originally been established by Deng’s political mentor, Zhou Enlai, at the Fourth National People’s Congress in Jan 1975.

Zhou started that it was essential that significant resources be devoted to national defence, agriculture, science and industry.

Zhou’s priorities reflected a concern of many Chinese politicians, including Deng Xiaoping and Hua Guofeng.

It was realised that only by matching the West in terms of economic growth and technological advancement could China hope to emerge as a great power once again.
It would take all of Deng’s political finesse to maintain the political priorities of the CCP as a communist system and at the same time apply the economically liberal reform policies needed to make the Four Modernizations work.

It was at the Third Plenum of the Eleventh Central Committee of the CCP in 1978 that Deng’s reforms gained political support to transform China.

This was extraordinary, because for the 1st time class struggle as an ongoing focus took second place to economic reform.

The Four Modernizations led to the following political and economic changes:

- The political focus of the CCP should be the Four Modernizations and not class struggle.
- The continuation of revolution under the dictatorship of the proletariat now took second place to economic reform.
The volume of trade needed to be increased by opening up China’s internal market.

China had to focus on export-oriented growth.

Advanced technology and management expertise had to be acquired.

3. Reaching out to the West.

Once he had succeeded in having the Four Modernizations and its political ramifications approved by the Central Committee in 1978, Deng implemented this programme.

The economy was rapidly opened to foreign investors.

This was known as the Open Door Policy.
What motivated Deng was his awareness of the economic success of neighbouring capitalist economies like Hong Kong, Singapore and Taiwan.

His pragmatic interest in economic policies that were successful, as opposed to following Marxist doctrine, meant Deng would consider some level of capitalism to help China to develop.

At a national science conference held in 1978, Deng indicated that he was willing to develop relations with the capitalist West to achieve his aims.

4. Communism vs pragmatism

What ideological changes were needed to implement the Four Modernizations?
The implementation of the Four Modernizations meant the start of a new period of ideological development in China.

The ideological challenge consisted of integrating Marxism-Leninism with pragmatism in order to address the actual economic conditions of China.

In 1978, Deng Xiaoping stressed that the entire party should revisit Maoist doctrine without criticizing it, or as he put it, to ‘seek truth from facts and unite as one’.

The facts were undeniable, as China, despite decades of communism, was still an economically undeveloped country.

By the time the Twelfth Central Committee convened in 1982, Deng formally put forward the proposition of ‘building socialism with Chinese characteristics’.
Deng made a rather convoluted attempt to fit together capitalist policies with Marxism.

He argued that a true socialist revolution could not occur until a bourgeois revolution had first taken place.

This is in fact what Karl Marx had originally proposed in the middle of the 19th century.

Mao had discussed this with his followers in the early days of the CCP, but persevered with his ideas of a peasant revolution, rather than wait for a proletarian one.

Mao’s programme, however, failed to solve China’s poverty and it took Deng and his carefully worded Four Modernizations to begin the process of economic reform.
How did the Four Modernizations transform China politically and economically?

From 1978, the Four Modernizations became more directly associated with Deng than with Zhou.

Both men sought to modernize four areas of the PRC’s economy: agriculture, industry, science and technology, and national defence.
1. Agriculture

How did the Four Modernizations aim to end poverty in the countryside?

In 1980, about 90% of the PRC’s population still lived in the countryside, where radical reform was an economic necessity by the end of 1970s.

Greater agricultural productivity was needed.

This was because:

◆ The PRC relied on grain imports.
◆ The population was rising.
◆ The PRC possessed only 0.25 acres of land per capita, compared with 2.1 acres per capita in the USA.

The Third Plenum of the Eleventh Central Committee marked a real turning point.
It sanctioned reforms in rural areas and announced that local village markets, which had been prohibited since 1960s, were necessary. This meant that farmers could grow crops for profit rather than only to fulfil government production quotas, and sell their produce at local markets. It was evident that the CCP had become less hostile to at least limited capitalism to address certain economic requirements.

a) Household responsibility system

In 1979, the household responsibility system was introduced in order to begin structural reform in China. (from 1980, peasants were allowed to lease land from the state and to generate a profit by selling surpluses)
The system of communes and collectivization in agriculture began to be dismantled.

Peasants were allowed to lease small plots from the state.

The CCP made the ideological point that peasants were merely *using* land rather than *owning* it.

Initially, peasants negotiated with the communes about what to produce and had to hand over a quota of their crop.

As the process of decollectivization advanced, the really important innovation was that farmers could sell any surplus for profit.

They could even hire wage labourers.

It created a great incentive to produce, but also had limitations.
Excerpt from *China and the Crisis of Marxism–Leninism*, sixth edition, by Franz Michael, Carl Linden, Jan Prybyla and Jürgen Domes, published by Westview Press, Colorado, USA, 2000, page 65. Michael was a Professor of History at University of Washington and National Chekiang University in Hangchow, China. Linden is a Professor Emeritus of Political Science and International Relations at George Washington University. Prybyla was a Professor of History at Pennsylvania State University. Domes was a Professor of Political Science at the University of Saarland, Germany.

[The] idea that 1 acre per family is socialist but 2 acres is capitalist has not been fully exorcised. Since 1980, however, progress has been made on that front. Consolidation of land parcels and their expansion are now permitted, if still carefully watched for possible capitalist abuses.

According to Source D, how was capitalism in rural areas defined?
→ **Improvements in output**

→ By 1984, 98% of peasants farmers had adopted a new, more entrepreneurial system.

→ In the southern province of Guangdong, agricultural incomes doubled between 1978 and 1982 and this was not an isolated example.

→ In 1984, China’s grain harvest topped 400 million tonnes for the 1st time, despite the fact that many farmers were not beginning to diversify into other crops.

→ **Improvements in the standard of living**

→ To improve the standard of living, subsidies to food producers became predominant after 1979 in order to keep urban food prices stables as agricultural prices and the cost of producing food increased.
Basic industrial goods and urban food tended to be under-priced while non-basic consumer goods were over-priced with profit margins of 30-60% compared with 5 to 10% for the former.

An indicator of an improved standard of living after 1976 is the decline in child mortality rates due
to the much improved quantity and quality of available food, rising incomes and household consumption, reduce illiteracy and expanded education child vaccination programmes improves water supplies more medication
b) Long term leases

By the end of the decade, the initial restrictions of the household responsibility system had been loosened.

From 1987, land could be contracted out or leased for 50 years, encouraging people to feel that they owned the land they farmed and could improve it, instead of relying on the state to do so.

In fact, the gov cut its investment in agriculture from 25 billion yuan to 18 billion yuan from 1981 to 1985.

In irrigation, the gov went from investigating $\frac{2}{3}$ of the state agricultural investment in 1980 to $\frac{1}{3}$ in 1986-90.

These cuts were not replaced by investment on the part of the farmers.
Irrigation and drainage systems failed to be replaced or repaired, with predictable results.

Without clear land ownership, many peasants were probably less interested in long-term investment than in purchasing consumer goods.

c) Other factors

Further reforms included the right of farmers to sub-lease land that they did not wish to farm to others.

Also, the Law of Succession in 1985 allowed for contracts to be passed on from generation to generation within a family.
The Maoist ideal of egalitarian peasant communes in which there was no private enterprise was over.

As the historian Edwin E. Moïse has stated: ‘collective agriculture was virtually dead’; the family had replaced the commune as the main economic unit in the countryside.

2. Industry

How did the Four Modernization affect industry?

Under the Four Modernization, industry changed:

- individual enterprises expanded
- State-owned enterprises (SOEs) changed to collective ownership
Some enterprises operated under joint ownership (state and individuals, state and foreign companies).

Some enterprises became privately owned.

Event those that remained SOEs were more exposed to market forces in the 1980s and were now allowed to sell any surpluses, over and above their quota, for a profit on the open market.

This was known as the Sichuan Experiment because it was pioneered by the reforming Premier Zhao Ziyang when he was Party Secretary in Sichuan province.
SOURCE F


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What can be inferred about the Four Modernizations from Source F?
a) The labour market

It became more flexible.

Before 1981, workers were controlled by party bureaucrats, or cadres, who were responsible for each SOE.

Workers needed permission from these cadres if they wished to transfer or leave an industry.

Rural workers had to obtain a letter of approval from a cadre to even visit a city.

A new labor contract system began in 1981, when urban workers were given more freedom to search for jobs on their own and SOEs were given more freedom to terminate worker contract.

In 1984 Zhao Ziyang advocated further loosening of the restrictions on SOEs.
The Central Committee announced that SOEs should be totally responsible for their labor force and have freedom to determine prices of goods produced and worker wages.

By September 1986, enterprise managers were allowed to enter into contracts directly with workers instead of accepting workers that had been assigned to the enterprise by gov labor bureaus; these had often been contracts for life.

Now managers could contract workers for different time spans and dismiss them if the enterprise no longer needed them or if they were inefficient.

Managers were also allowed to use profits to raise wages for more productive workers.

All this meant the abolition of the traditional CCP economic principle that had guaranteed permanent employment for state sector workers.
The success of town and village enterprises (TVEs) created a mass migration from the countryside to urban areas of people searching for non-farm work.

b) Town and village enterprises (TVEs)

One of the most significant of Deng’s economic reforms within the Four Modernizations was the creation of TVEs all over the country.

These allowed ordinary people to establish small business outside the control of the state and the party.

Often these were small carpentry shops, grocery stores, lumber yards, ceramics kilns, slaughterhouses, truck and bus systems and more.

It was now possible, for what was in effect a new bourgeoisie, to sell goods outside their home districts, as well as to take loans from state banks.
In 1985, 17 million small businesses were registered compared with a mere 100,000 in 1978.

By 1992, there were 20 million TVEs employing 100 million people.

These small businesses generated jobs, soaking up excess rural labour.

By the end of the decade, private enterprise was no longer confined to small business section and the TVEs were providing real economic competition for SOEs.

**c) Special Economic Zones**

In order to further economic reforms, Deng successfully argued the idea of a **Special Economic Zones (SEZs)** at a Central Committee conference in April 1979.
The SEZs were designated areas of the country in which it was hoped foreign companies would make significant investments.

The positioning of these first SEZs were in the prosperous southern coastal belt. It was deliberate so as to make them more attractive to overseas investors.

There were

- Zhuhai near Macau
- Shenzhen near Hong Kong
- Shantou and Xiamen, adjacent to Taiwan.

SEZs functioned as self-contained entities.

For example, non-residents needed an internal passport to visit the SEZ.
The SEZ did have a significant impact on the rest of the PRC’s economy. The experiment was so successful that it was extended to a further 14 cities in 1984. The 24 million migrant workers who arrived in the SEZs btw 1978 and 1988 had an economic ‘ripple effect’ as their remittances (money sent back by worker to a town or village of origin to support family members) often sent back to villages away from the prosperous coastal belt, helped to raise living standards in rural areas. By 1985, PRC exports were worth $25 billion per annum compared with $10 million in 1978.
Foreign investment

A law on joint ventures (when two or more parties engage in an economic activity together by sharing control, investment and profits) was passed in 1979 allowing foreign investment in PRC enterprises.

Deng went even further in 1982, announcing that he has no objections to ‘enterprises wholly owned by foreign businessmen’ in the PRC.

Tax reductions and devaluation of the yuan, whose value almost halved against the US dollar btw 1980 and 1985, also made China attractive to multinational companies.

Coastal Development Plan

In 1988, the programme was widened.
The plan called for the development of export-oriented manufacturing industries.

This introduced further foreign capital, advanced technology and training into the country.

Map showing the SEZ
3. Science and technology

How did the Four Modernizations affect science and technology?

An important part of the Four Modernizations was to improve science and technology.

The changes starting in 1980 were consistent with the Open Door Policy regarding economic development.

The PRC had to ensure access to world-class technology for economic development to proceed.

To that end, economic incentives to develop and share technologies were included in the Four Modernizations’ reforms.

The state began to sponsor research in technological innovation, in conjunction with business objectives.
The PRC held a National Science and Technology Conference in 1978, where a serious government commitment to become competitive in the world market was launched.

A state science and technology commission was created to this end.

By mid-1980, scientists could travel abroad and communicate freely internationally in order to create new technology ventures in the PRC.

The state made available the funds required for research institutes and universities and put in place competitive procedures for public funding of research projects.

This created an incentive for scientists and technology experts to join the business world by commercializing new knowledge and technology.
In 1980, a further incentive was granted with the promulgation of the patent law to protect intellectual property rights.

4. Defence

How did the Four Modernization affect defence?

During the period of border incidents and tension with the USSR in the mid-1970s and the failed invasion of Vietnam in Feb 1979, it became clear that the army, known as the PLA had weaknesses that needed addressing.

China required a modern, capable army with a hierarchy that supported the other reforms taking place.

By the end of 1970s, over 70 top-ranking army officers had been dismissed.
The army’s leadership was restructured. More army officers were appointed to the Central Committee and the other administrative positions in the country. The economic reforms as a result of the Four Modernizations contributed to the well-being and efficiency of the army and helped to modernize it and increase its professionalism. For example: salaries increased to be competitive with the civilian world. In 1989, the army proved its loyalty to the CCP and its leaders by supporting the gov against demonstrators in Tiananmen Square. It successfully integrated into the economy and defence industries.
The impact of the Four Modernizations

➔ To what extent did the Four Modernizations change the PRC?

➔ By the late 1980s, the PRC had the appearance of a vigorous capitalist economy, presided over by the CCP.

➔ This obvious contradiction was the source of discontent within the CCP during the 1980s, especially by its older members.

➔ Chen Yun, the architect of the FYP in the 1950s felt that Deng’s economic reforms were moving too quickly and that the free market should ‘be in a cage’ - in other words, tightly controlled and regulated at all times.
Deng relentlessly referred to the PRC's new policy of modernizations as a new interpretation of Maoist doctrine to end the PRC poverty. This view ultimately reigned over opposition in the Politburo and the CCP. The PRC, in Deng’s view, was not meant to become a fully fledged capitalist economy. At the end of 1980s, for example, it did not process definitions of property rights, a bankruptcy law or a stock market.

1. Two economies
In many ways, by the late 1980s, the PRC had two economies. SEZs had helped to create real prosperity along coastal areas and many had become cities in their own right by the end of the decade.
Shenzhen for example, had grown from a fishing village across the border from Hong Kong into a manufacturing hub housing millions of migrants.

The SEZs were tied into the world economy and had created a new class of managers who were familiar with the workings of global capitalism.

There were up to 50,000 PRC managers running factories to foreign investors by the end of the decade.

Outside the SEZs and in the PRC’s interior, agriculture still dominated the economy and SOEs remained uncompetitive.

Rural areas and most cities in the PRC remained poor compared to the SEZs.

2. Inflation
Rapid economic growth created a demand for consumer goods, raw materials and housing that could not be immediately met.

Btw 1987 and 1989, despite the vigorous reforms in the economy, problems in agriculture, inflation, unemployment, income inequalities, gov corruption and worsening urban living standards became apparent.

Naturally, the CCP sought to control these market forces by returning to strict price controls and even rationing.

Inflation had reached btw 18.7% and 30% by 1988.

This necessitated strict price controls from the gov in order to bring it down.

According to historian I. Hsü, those living in urban areas saw their purchasing power decline by 100% btw 1983 and 1988.
Many workers in the SOEs lost their jobs in efforts to make industry more efficient and profitable. 

As in most developing countries, there was a large amount of migration to cities from rural areas across the decade as the average industrial worker earned up to 8 times more per month in the early 1980s than the typical peasant.

The influx from the countryside created an urban underclass (the lowest socioeconomic group in a city of poor, often unemployed, people) of up to 1 million in Beijing alone by 1989.

They did not qualify aid from the state as they were non-urban official residential.

3. Corruption
Corruption was a major problem during the period of economic development.

By the end of the 1980s, the phenomenon of companies operated by the children of senior party officials was commonplace.

Deng’s own son had a conglomerate with over 100 subsidiaries until it was shut down in 1988 when allegations about non-payment of taxes were made public.

Corruption became an established feature of political and economic life in the 1980s.

Over 40,000 cases of economic corruption were reported in 1983-4.

In 1987, 150,000 CCP members were punished for corruption or abuse of authority.