

The development of the Global Economy

Topic 2: Transformation of East Asian Economies: China (1978-2000)

SAJC History Unit, 2024

Learning Outcomes (from the Examination Syllabus)	5
Essential Questions for this topic:	5
Guiding Questions for this topic:	5
1. Introduction	6
2. China's economy under Mao Zedong (1949-1976)	6
2.1 Orthodox Maoism ("Mao Zedong Thought")	7
2.1.1 Peasants as source of revolution	7
2.1.2 People's War	7
2.1.3 New Democracy	8
2.1.4 Continuous class struggle / Permanent revolution	8
3. Socialist Construction (1949-1957)	9
3.1 Rural sector policies – Cooperatives, Collectivisation	9
3.2 Urban sector policies – Anti-bourgeoisie policies (Five year Plans)	9

9174/01 H2 History Paper 1
Theme II: The Development of the Global Economy

3.2.1	The “Hundred Flowers” Campaign, 1957 and the “Anti-Rightist” Campaign 1958	10
3.2.2	The (failure of) the Great Leap Forward, 1958-1962	10
3.2.3	Mao’s Reaction to the Great Leap Forward	11
3.2.4	The (chaos of) the Cultural Revolution, 1966-1976	11
3.2.5	The succession of Mao	12
	3.2.5a Overview of power struggles within the Communist Party leadership in 1970s	12
	3.2.5b Rise of the Gang of Four	13
	3.2.5c Power struggle after Mao's Death and Rise of Hua Guofeng as his successor	13
4.	The Reform Era under Deng Xiaoping, 1978-2000 and reasons for the rise of China’s economy	14
4.1	Statistical facts of China’s economy before and after reforms began	14
4.2	The Role and Leadership of Deng Xiaoping	16
	4.2.1 Deng’s philosophy / approach = pragmatism and gradualism	16
	4.2.1a Pragmatism	18
	4.2.1b Gradualism	17
	4.2.2 “The Four Modernisations” - Agriculture, Industry, Science and Technology, National Defence	17
	4.2.3 Socialism with Chinese Characteristics	18
	4.2.4 Significance first steps to start reforms = reversal of earlier policies	18
	4.2.4a Rehabilitating the ‘rightists’	18
	4.2.4b Rehabilitating the ‘sent-down youths’ and changes to University education	18

9174/01 H2 History Paper 1
Theme II: The Development of the Global Economy

4.3	Deng's economic reforms	19
4.3.1	Rural reforms	19
4.3.1a	Increasing of payment for and lowering state acquisition of agricultural produce	19
4.3.1b	End of collectivisation and communes & introduction of the household responsibility system	20
4.3.1c	Commercialisation of rural agriculture	20
4.3.1d	Revival of markets and encouragement of rural enterprises and the rise of TVEs	20
4.3.2	Urban market reforms	21
4.3.2a	Less emphasis on heavy industries with more emphasis on light industries	21
4.3.2b	Reforming state enterprises	22
4.3.2c	Gradual privatisation	22
4.3.2d	Price Liberalisation	23
4.3.2e	Rise in prices accompanied by wage increases, state subsidies and the supply of affordable consumer goods	24
5.	Special Economic Zones	24
5.1	The Opening of China's doors (Open Door Policy) – Special Economic Zones (SEZs), Foreign Investment and an export-oriented focus	24
6.	Post-Tiananmen and the significance of Deng's continued leadership and pursuit of economic reforms	25
6.1	Basic Financial Markets	26
6.2	The Rule of Law	26

9174/01 H2 History Paper 1
Theme II: The Development of the Global Economy

7. Deng's political strategies	27
7.1 Gradualism (contrast China as compared to the USSR & Eastern Europe)	27
7.2 Winning over the different sectors of Chinese society	27
7.3 Suppression of dissent	28
8. Market Oriented Reforms	29
9. International Developments (Trends)	30
9.1 Adoption of international strategies and practices	30
9.2 Coastal Development Strategy of the 1980s and 1990s	31
10. Strategic State Intervention	32
11. Conclusion	33

Learning Outcomes

Students are able to:

- evaluate the factors that contributed to the economic transformation of China over time
- Identify the various facets of Mao Zedong China
- Understand why there was a need for change by the late 1970s.
- Understand Deng Xiaoping's changes in ideology for China
- Understand Deng Xiaoping's economic reforms in 3 key areas: Rural, Urban and Special Economic Zones
- Evaluate the significance of continued economic reforms into the late 1980s and 1990s
- Understand Deng Xiaoping's political strategies
- Assess and evaluate the various reasons for China's rise as a new economic power

Essential Questions for this topic:

- *How did the global economy develop?*
- *How did the development of the global economy impact different countries?*

****Questions set will not require candidates to compare the economic transformations of Japan and China.***

Guiding Questions for this topic:

- What are the economic conditions of China in the 1970s, 1980s and 1990s?
- What are the market-oriented reforms that primarily drove China's economic growth between 1978 and 2000?
- What are the international events that played a crucial role in driving China's economic expansion between 1978 and 2000?

- How did the state intervention play a crucial role in China's economic development between 1978 and 2000?
- What are the challenges faced by the Maoist economy that contributed to China's economic expansion between 1978 and 2000.
- What are economic liberalisation measures implemented that attributed to China's economic ascension in the post-Mao Era?
- How did the creation of Special Economic Zones (SEZs) play a key role in driving China's economic growth during the 1980s and 1990s?

1. Introduction

- In 1949, when China turned 'red', the communist bloc was vastly enlarged as Asia's largest country led by Mao Zedong ended decades of civil conflict and more than a century of upheaval to unite and take the socialist path.
- Then within a quarter of a century after Mao's death (1976), China has transformed itself from a desperately poor country into one of the fastest growing and largest economies of the world.
- Hence, more effective than the rise in political power that Mao so craved and sought to establish during his lifetime is China's rise in economic power ever since his successor Deng Xiaoping initiated reforms in 1978.
- Now, experts are predicting that it could possibly overtake the USA as the world's largest economy within the next two decades. In fact, China has just taken over from Japan as the world's second largest economy in early 2011.
- Thus, the question everyone should be asking now is - what were the reasons for the spectacular rise of China as an economic power in the post-Mao era?

2. China's economy under Mao Zedong (1949-1976)

- To understand the context of the rise of the China as an economic power in the post-Mao era, one needs to know briefly the characteristics of China's economy during the Maoist era.
- This would enable us to appreciate the **fundamental shift in policies** and the significance of the changes under Deng.

- Under Mao Zedong's leadership from 1949 to 1976, China's economy was largely driven by socialist principles and policies. The government implemented various economic reforms and initiatives aimed at achieving rapid industrialisation and collectivising agriculture.
- During this period, the Chinese economy experienced significant changes, including the establishment of state-owned enterprises, the implementation of central planning through Five-Year Plans, and the promotion of self-reliance through programs such as the Great Leap Forward.
- However, these policies also led to a number of challenges and setbacks, including widespread famine during the Great Leap Forward and political turmoil during the Cultural Revolution. Overall, China's economy under Mao Zedong can be characterised as heavily centralised, with an emphasis on ideological purity and revolutionary fervour rather than efficient economic management.
- Not all the consequences of the war were bad. Unemployment meant that there was a pool of labour, much of it skilled, available to be directed towards new tasks and the reconstruction of the country. To understand the context of the rise of the China as an economic power in the post-Mao era, one needs to know the **characteristics of China's economy during the Maoist era**.
- This would enable us to appreciate the **fundamental shift in policies** and the significance of the changes under Deng.

2.1 Orthodox Maoism ("Mao Zedong Thought")- Key features

2.1.1 Peasants as source of revolution

- Though Mao was truly a Communist and a believer of Marxist-Leninist theories, he developed a variant of latter which placed emphasis on the rural peasantry instead of the urban proletariat as the main source for revolutionary action.
- This stemmed from his experiences in the civil conflict between the CCP and KMT from the late 1920s until Communist victory in 1949. It was a crucial deviation from the Soviet line of thought.

2.1.2 People's War

- "Power comes from the barrel of a gun," so said Mao. He believed in mobilising the peasants to ensure a successful revolution. This involved guerrilla warfare and the military arm of the party should not be separated from the masses.
- He had come to believe that the decisive factor in human history was human consciousness, i.e. the ideas, will and actions of people. Hence mass mobilisation was critical and as long as the people had the will to do things, they would be able to do it (i.e. carry out revolution).

- Perhaps it was also because of his experiences that Mao had an instinctive dislike of intellectuals, specialists and the elite which often congregated in urban centres. Thus, he rather put his faith in the ordinary people in the countryside. He believed that the masses possessed revolutionary fervour and so they could lead the revolution.

2.1.3 New Democracy

- Mao believed that the overthrow of feudalism and achievement of national independence and socialism could be direct (hence bypassing the capitalist bourgeois democratic rule - a stage which Marx believed necessary). This could be done through the coalition of four classes (blocs) – the proletariat workers, peasants, petty bourgeoisie and nationally-based capitalist.
- Key elements of Mao's New Democracy included land reform to redistribute land to peasants, industrialisation efforts to strengthen the economy, and political reforms aimed at empowering the masses. The concept also emphasised the importance of cultural revolution and education as tools for transforming society.

2.1.4 Continuous class struggle/Permanent revolution

- Mao believed that even with the achievement of socialist rule, there should not be a let-up in revolutionary struggle so as to prevent the capitalists from subverting socialism and seizing power.
- It was also this belief that led him to wage war against his own party when he suspected the leaders of leading the people astray and away from the revolutionary goals. When he did not trust the party to lead and guide the people, he used popular activism against it.
- Mao was also opposed to the Soviet line of “peaceful co-existence” with the West, developed in the late 1950s (after the death of Stalin). He saw himself as a nationalist standing up for China in a hostile world. His deep distrust of the imperialist West resulted in his belief that there should be no let-up in the revolution against the imperialists.
- Furthermore, Mao believed that the Soviet Union under Nikita Khrushchev's leadership had abandoned revolutionary ideals in favour of pursuing detente and cooperation with Western powers. Mao feared that this approach would lead to the dilution of communist ideology and weaken the global socialist movement.
- Additionally, Mao had his own vision for how to achieve communism, which involved promoting revolutionary struggle and supporting anti-imperialist movements around the world. He saw peaceful co-existence as a departure from this revolutionary path and instead advocated for more aggressive and confrontational tactics in order to advance the cause of socialism.

3. Socialist Construction (1947-1959)

3.1 Rural sector policies – Cooperatives, Collectivisation

- The process of socialist transformation began with land reforms where land seized from the rich landlords and peasants were distributed amongst the poor and landless peasants. Many of the landlords suffered beatings and death, the power and existence of the former group as a class was destroyed. The vast majority of peasants were indoctrinated and politicised which would ensure no return to the traditional ways.
- Next, from 1953, the peasants were organised into cooperative units which were pools of between thirty to fifty households working together on the land. It brought about greater output.
- Maximising the momentum, by 1956, the CCP started organising the peasant co-operatives into full socialist co-operatives of a hundred or more families or entire villages.
- The entire farm output of the country's 600 million peasants thus came under state control for the first time. The state took most of the produce (grain requisitioning) and peasants could not keep any extra they produced.

3.2 Urban sector policies – Anti-bourgeoisie policies (Five year Plans)

Mao's urban sector policies in China were aimed at promoting the interests of the proletariat and suppressing the bourgeoisie. The state took a central role in planning the urban economy modelled after USSR's 5 year plan. These policies were implemented as part of Mao's larger strategy to establish a socialist society in which wealth and power were redistributed more equitably among the population.

One key aspect of Mao's anti-bourgeoisie policies was the suppression of capitalist elements within Chinese society. This involved nationalising industries, confiscating property from wealthy individuals, and cracking down on private businesses. The goal was to eliminate class distinctions and create a more egalitarian society where everyone shared in the country's resources.

In addition to these measures, Mao also implemented a series of Five-Year Plans to rapidly industrialise China and improve living standards for the population. These plans focused on developing heavy industry, increasing agricultural production, and expanding infrastructure such as roads and railways. The government invested heavily in these sectors, often at the expense of consumer goods production, in order to achieve rapid economic growth.

3.2.1 The “Hundred Flowers” Campaign, 1957 and the “Anti-Rightist” Campaign 1958

- *‘Let a hundred flowers bloom in the arts, and a hundred schools of thought contend in the sciences.’*
- **Objective:** This was Mao’s attempt to encourage self-critique and especially criticism of bureaucrats who were behaving like elites. Mao Zedong called for intellectuals and other members of society to offer their ideas and criticisms of the government. Mao believed that this would help promote openness and diversity of opinion within the party. The campaign led to an outpouring of criticism from intellectuals and others who had been suppressed during previous political campaigns.
- **Reality:** However, when the intellectual debate and criticism extended to criticism of the entire communist regime, Mao backtracked and ordered a crackdown on the ‘rightist enemies of the state’. Mao launched the "Anti-Rightist" Campaign in 1958. This campaign targeted those who had criticised the government during the "Hundred Flowers" Campaign, labelling them as rightists and enemies of the state.
- During the Anti-Rightist Campaign, thousands of individuals were persecuted, imprisoned, or sent to labour camps for expressing dissenting views. The campaign served to consolidate Mao's power and eliminate opposition within the party.
- **Implications:** The effect would be that it silenced the intellectuals and left few people able to point out the problems the country would face later in the disastrous Great Leap Forward. It also decimated the numbers of those able to help run the economy in a capable manner.

3.2.2 The (failure of) the Great Leap Forward, 1958-1962

- Though China was largely agrarian, Mao believed that the peasantry could be mobilised for large-scale rural capital construction and industrialisation with the goal to “Surpass Britain in 15 years” because “revolutionary enthusiasm will triumph over all obstacles”!

‘People’s Communes’

- In the countryside, armies of peasants were mobilised into communes for large-scale irrigation and water conservation projects like building irrigation works and dams. The peasants’ core business - food production, was even de-emphasised when Mao believed that China had produced beyond China’s needs since official figures suggested a near doubling of production rate between 1957 and 1958.

'Backyard furnaces'

- Peasants in the rural areas were mobilised to work in the new labour-intensive indigenous industries, spectacularly symbolised by the 'backyard' iron and steel campaign where over one million blast furnaces were set up throughout China's countryside and pieces of (useless) steel were made by the tens of millions of peasants enthusiastically melting down previously useful things made of iron.

Implications:

- Neglect of farming the result of belief that China had produced enough.
- Between 1959 and 1961, an estimated 15-20 million people died due to the policies of the Great Leap Forward (a figure acknowledged by officials decades later). However, many historians and sociologists believe the figure to be much higher and closer to 30 million.

3.2.3 Mao's Reaction to Great Leap Forward

- The period 1962-65 marked a retreat from the Great Leap Forward as China sought to recover. Mao withdrew into the background voluntarily as moderates like Liu Shaoqi, Zhou Enlai and Deng Xiaoping took over the running of things.
- These pragmatists focused on stabilising the economy, improving living standards, and repairing relations with foreign countries. They implemented more moderate policies and sought to undo some of the damage caused by the Great Leap Forward.
- However, Mao became increasingly frustrated with his diminishing influence and felt that his revolutionary vision was being compromised. When Mao felt that he was being pushed further into the background due to the moderate pragmatists' efforts to pull China out of "the three bitter years", he struck back and disaster would unfold upon China again. In response, Mao launched what is known as the Cultural Revolution in 1966.

3.2.4 The (chaos of) the Cultural Revolution, 1966-1976

- In 1966, Mao launched the 'Great Proletariat Cultural Revolution' where millions of young people (Red Guards) were given the task of an all-out attack on the "four olds" (old customs, old habits, old culture and old thinking) (anyone perceived as counter-revolutionary or bourgeois). It aimed to purify the Communist Party and eliminate perceived enemies of socialism.
- This movement unleashed chaos and violence across China, leading to widespread persecution, destruction of cultural artifacts, and social upheaval.

- In the economic area, the Cultural Revolution did not disrupt economic activities as much as the Great Leap Forward. Mao returned to the forefront and emphasised his own developmental strategy of economic self-reliance. Rural development and labour-intensive industries were the focus.
- As the Cultural Revolution was taking place mainly in the cities, the countryside and rural production was not really affected though it wasn't doing spectacularly. The factories in the cities however experienced severe disruptions as workers too became part of the movement and formed Red Guard units amongst themselves.
- The Cultural Revolution sought to eliminate all traces of China's past culture and history. Countless historic sites, artifacts, and works of art were destroyed during this period, leading to irreparable losses for Chinese cultural heritage.
- The movement soon spun out of control ... even Mao knew he had to reign them in. Hence, millions of youths / former Red Guards were eventually 'sent down' to the countryside for 'socialist re-education' and to learn from the peasants.
- Economically, though growth figures only became negative in 1967 and 1968, the obsession with ideological purity and the subservience of economic development to political goals damaged government administration and factory management for years. Their attitude that 'Red is better than Expert' had a negative impact on people's general attitude towards work and achievement.
- Perhaps one good lesson that emerged from the Cultural Revolution would be the realization that political and social stability are crucial to economic growth and economic growth cannot take place with too much political and ideological contention manifesting in the mass campaigns and movements. (John Wong, *Understanding China's Socialist Economy*)

3.2.5 The succession of Mao

3.2.5a Overview of power struggles within the Communist Party leadership in 1970s

- During the 1970s, China experienced significant power struggles within the Communist Party leadership. One of the key events was the death of Lin Biao in 1971, who was considered a potential successor to Mao Zedong. Lin's death under mysterious circumstances led to speculation about his alleged coup attempt and strained relations within the party.
- In January 1976, Premier Zhou Enlai passed away, leaving a power vacuum at the top leadership level. This further intensified internal rivalries and competition for influence within the party.

3.2.5b Rise of the Gang of Four

- The Gang of Four refers to a group of four powerful Chinese Communist Party officials who rose to prominence during the Cultural Revolution in China. The members of the Gang of Four were Jiang Qing, Mao Zedong's wife and former actress; Zhang Chunqiao, a propagandist; Yao Wenyuan, a journalist; and Wang Hongwen, a labor activist.
- The rise of the Gang of Four can be attributed to their close association with Mao Zedong and their promotion of his radical political ideology during the Cultural Revolution. They played a key role in supporting Mao's policies and implementing his vision for China by advocating for mass mobilisation, class struggle, and the suppression of perceived enemies within the party.
- However, their reign was short-lived. Following Mao Zedong's death in 1976, the Gang of Four quickly fell from power as they were blamed for many excesses and abuses committed during the Cultural Revolution. In October 1976, the Gang of Four were arrested and placed under house arrest.
- In 1980-81, the Gang of Four were put on trial for crimes against the state, including orchestrating the chaos and violence of the Cultural Revolution. They were accused of undermining party unity, spreading false propaganda, and attempting to seize power for themselves.

3.2.5c Power struggle after Mao's death and rise of Hua Guofeng as successor

- Mao Zedong, the leader of the People's Republic of China, died on September 9, 1976. After Mao's death, a power struggle ensued within the Communist Party as different factions vied for control. This led to the rise of Hua Guofeng as his successor. Hua belonged to a faction known as the "Whatever faction," which was initially seen as a neutral group that supported whoever was in power.
- Hua and his group published an editorial saying that whatever Mao had said and whatever he had decided must be upheld. His main rival – Deng Xiaoping, was not rehabilitated till July 1977. He was from the Right-wing group which had been purged during the Cultural Revolution and their slogan was "Seek truth from facts."
- From 1978-1980, there was a subtle power struggle where the Right-wing group led by Deng gradually rose in power while the Left-wing declined. The Right blamed the excesses of the Cultural Revolution on the radical Left represented by Gang of Four and Lin Biao, but not Mao himself. While pushing to reverse Mao's policies, they did not want to antagonise Hua's 'Whatever' group. However, the re-evaluation of the Cultural Revolution changed more and more and the Red Guards were referred to as "the beating, smashing, and looting elements." And eventually the period was

referred to as "Ten Years of Upheaval".

- Veiled criticisms of Hua began to appear. He was criticised for believing in the "Two Whatevers". The two "Whatevers" referred to were: "firmly supporting whatever policy decisions Chairman Mao made, and unwaveringly upholding whatever instructions Chairman Mao gave." The "Two Whatevers" ultimately became associated with ideological rigidity and blind adherence to Maoist principles, which led to criticism and opposition from within the party.
- In September 1980, Zhao Ziyang replaced him as Premier and in June 1981, Hu Yaobang replaced him as Party Chairman and Deng replaced him as Chairman of the Party's Military Affairs Commission.
- By the time of the Third Plenum meeting of the Central Committee of the CCP in December 1981, Deng and his right-wing group had effectively outmanoeuvred all the Left-wing elements. Hence the moderate reformers came to control China and set it firmly on its way to becoming a "Socialist Market Economy" – the reform era had begun! Ultimately, Deng Xiaoping implemented economic reforms that would open up China to the outside world and pave the way for its rapid modernisation.

4. The Reform Era under Deng Xiaoping, 1978-2000 and reasons for the rise of China's economy (This is when it all begins for China)**

4.1 Statistical facts of China's economy before and after reforms began

Before 1978

- Between 1952 – 1978, average growth rate of 6% p.a. ... but sometimes higher and other times with severe downturns (e.g. during Great Leap Forward and Cultural Revolution).
- Mao's self-reliant development strategy had resulted in no deficits nor external debt. Inflation was almost non-existent. Income distribution was quite equal since no one was allowed to own any assets. **Hence**, the Chinese society and economy was not really in crisis.
- **But** it was also not productive (growth achieved through increase in inputs - capital and labour, and there was no total productivity growth) nor dynamic

nor efficient nor rich nor modernised!

- Therefore, many of the moderate leaders like Deng wanted to introduce reforms to truly modernise China. Politically, there was a feeling that more had to be done to break away from the chaos of Mao's ideologically motivated strategies which had caused much suffering.
- And by the late 1970s, it was the period of détente and China was more open than it had ever been to outside developments. **There was the realisation by the leaders that the Chinese were falling behind to traditionally smaller neighbours (like the Asian Tigers - NIEs) and they had to catch up or be left behind. Thus, China had to carry out economic reforms to modernise and open her doors (改革开放 *Gaige Kaifang*) so as to compete with the rest of the world.**

1992 – after more than a decade of reforms

- In the dozen years after China's reforms began, China's growth rate was about 10% p.a. on average (and growing – 1992's was 12.8%). This was more than the rate the Asian Tigers achieved at a similar stage.
- Foreign trade would rise to \$166 billion and exports rose from \$14.8 billion in 1979 to \$85 billion in 1992.
- Foreign investment grew from zero to over \$20 billion. For the sake of comparison - between 1985 - 1989, Brazil attracted \$6.1 billion while China attracted \$9.1 billion. In 1992 alone, \$11.2 billion was invested. And \$57.5 billion was signed for future investment, with government approval acquired for 47,000 more foreign investment projects!
- At the end of 1991, there were 37, 215 foreign-funded enterprises producing \$12 billion of exports, and that was only just under 17% of the country's total exports.
- Inflation, often a problem plaguing developing economies peaked at half the level experienced by South Korea in the 1970s and 1/100 of that seen in Poland and the former USSR at the same stage.
- **How did China achieve so much so quickly??? How does it compare with Japan, which also had a spectacular growth period? China's success was largely due to one man - Deng Xiaoping – his visionary leadership and reforms he implemented!**

4.2 The Role and Leadership of Deng Xiaoping

- The rise of Deng Xiaoping to position of paramount leader was definitely not a smooth one and he was considered a great survivor in Chinese politics. He was a Long March veteran and had been in and out of the core of Chinese leadership a few times due to his being purged for “rightist” leanings. He was also the target of the most assassination attempts among all Chinese leaders.
- **The development of China to today is really due in large part to Deng’s visionary leadership, how he transformed the Chinese economy and introduced the ‘Socialist market economy’!**

4.2.1 Deng’s philosophy / approach = pragmatism and gradualism

- There are many famous sayings by Deng which actually reflect his highly pragmatic nature and his belief in the gradual process of reforming China:
- *"No matter if it is a white cat or a black cat; as long as it can catch mice, it is a good cat."* 「不管白猫, 黑猫, 逮住老鼠就是好猫。」
- *"Some must get rich first!"* 「一部分先富起来。」
- *"We should do more, and talk less."*
- *"We must seek truth from facts."* 「实事求是。」
- *"To China's problems, the overwhelming priority is stability. Without a stable environment, nothing can be achieved, and what has been achieved will be lost... Democracy is our goal, but the country must remain stable."* 「中国的问题·压倒一切的是需要稳定·没有稳定的环境·什么都搞不成·已经取得的成果也会失掉·.....民主是我们的目标·但国家必须保持稳定。」

4.2.1a Pragmatism

- From a very early stage, Deng was a leader who did not believe in dogma. Hence he was not one to only blindly follow policies associated with Mao. In fact, he was purged more than once because of this.
- His mission was to modernise China, and unlike Mao who believed in continuous revolution and was anti-West, Deng embraced modernity and the need to copy some of the traits of western capitalist countries in order to strengthen China. He was able to justify the use of capitalist methods in his economic reforms and resolve the seeming contradictions between ideology and practice.

"Planning and market forces are not the essential difference between socialism and capitalism. A planned economy is not the definition of socialism, because there is planning under capitalism; the market economy happens under socialism, too. Planning and market forces are both ways of controlling economic activity."

4.2.1b Gradualism

- From a very early stage, Deng was a leader who did not believe in dogma. Hence he was not one to only blindly follow policies associated with Mao. In fact, he was purged more than once because of this. Deng was fully aware of the enormity of China's economy and he did not believe in the 'big bang' approach to reforms as advocated by some western economists. Gradual and incremental reforms were the way to modernise China and avoid societal chaos. Tight political control was to be retained while market forces were introduced.
- This method contrasted greatly to that taken by the USSR and Eastern Europe in the 1980s and 1990s where rapid privatisation took place as shock therapy in order to make the transition to market institutions quickly and avoid abuses usually found in a transitional economy.

4.2.2 "The Four Modernisations" - Agriculture, Industry, Science and Technology, National Defence

- These were the stated **goals** of Deng's reforms. They were actually first introduced by Zhou Enlai in 1975 at the Fourth National People's Congress.
- And in December 1978 at the Third Plenum of the 11th Central Committee, Deng Xiaoping announced the official launch of the Four Modernisations, formally marking the beginning of the reform era. The end of the turbulent era of class struggle was in fact over and the Chinese leadership now wanted to focus on orderly economic development.
- The Four Modernisations aimed to make China a great economic power by the early 21st century. Ultimately, they still stressed economic self-reliance. However, China was now seeking to accelerate the modernization process by stepping up the volume of foreign trade, by opening up its markets to foreign goods and investment, by increasing access to modern technology and by exposure to management experience.

4.2.3 Socialism with Chinese Characteristics (具有中国特色的社会主义)

- The **strategy** to achieve Deng's vision of a modern socialist China was to create a socialist market economy and perfect "socialism with Chinese characteristics".
- In June of 1984, Deng further addressed the seeming contradictions between Marxist Communist ideology and China's new economic practices:

*"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. We have said that socialism is the primary stage of communism and that at the advanced stage the principle of from each according to his ability and to each according to his needs will be applied. This calls for highly developed productive forces and an overwhelming abundance of material wealth... **Socialism means eliminating poverty. Pauperism is not socialism, still less communism.**" - Deng Xiaoping, 1984.*

- Hence one can see that Deng was astute enough to play down the impact of ideology in economic decision-making (hence avoiding any repeat of Mao's disastrous Great Leap Forward or the Cultural Revolution) and he could still placate the more conservative factions by justifying reforms from an ideological angle.

4.2.4 Significant first steps to start reforms = reversal of earlier groups

4.2.4a Rehabilitating the 'rightists'

- One of Deng and his supporters first acts was to formally reverse the verdicts on those criticised by the Maoists during the past two decades, including the living and the dead (Peng Dehuai and Liu Shaoqi). In all, about 2.9 million people were rehabilitated, mostly the 'rightists' who were purged during the Cultural Revolution of 1966 – 1976 and the 'Anti-Rightist' campaign of 1957-58.

4.2.4b Rehabilitating the 'sent down youths' and changes to university education

- Seeing that an entire generation had had their youth lost and their education wasted ... and yet another had been under-educated due to the emphasis on revolutionary fervour rather than real academic achievement, much needed education reforms were started.
- The leftists' idea of universal basic schooling was given less priority, while

higher education became the focus. Academic standards were raised and certain schools at every level were designated key schools and given the best facilities, best teachers, best students and most funds! Admission to colleges was once again on the basis of written examinations with no intervening period of manual labour between secondary and college level. Thousands of young Chinese were sent overseas to study and learn to use foreign technologies.

- The programme to send youths to the countryside was cut down and the government also found that those in the countryside became aggressive about wanting to return. In the spring of 1979, the 'sent down youths', back in Shanghai for a holiday, rioted and stopped traffic to protest about not being able to return to their homes in the cities permanently. By the end of 1980, almost 10 million youths were allowed to return from the countryside (but there were others left behind and the influx of these people created problems for the government in the cities).

4.3 Deng's economic reforms

As China's main problem was fundamental poverty, reforms were needed to change this situation. This is a critical area and had to be successful in order for the economy to take off and reach great heights!

4.3.1 Rural Reforms

4.3.1a Increasing of payment for and lowering state acquisition of agricultural produce

- One of the first acts of the government was to increase the prices of produce and also reduce the amount acquired by the state. Government grain procurement prices increased 20% in 1979 and 7% in 1980 and 6% in 1981. This produced more income for the peasants.
- On the other hand, lowering state acquisition of agricultural produce meant reducing the amount of crops that the government purchased from farmers at fixed prices. This allowed farmers more freedom to sell their produce on the open market, enabling them to benefit from higher prices and competition among buyers.
- Overall, these adjustments in payment for and state acquisition of agricultural produce under the Deng Rural reforms aimed to create a more market-oriented system that incentivised farmers to increase productivity and efficiency in order to meet growing demand for food both domestically and internationally.

4.3.1b End of collectivisation and communes & introduction of the household responsibility system

- More significantly, the practice of collectivisation and organisation of families into communes were ended.
- Families now found their incomes linked to the production and farmers had greater autonomy to decide how to increase production. A family or group of families were given responsibility for land or an enterprise once owned by their production team and they were responsible for increasing the outputs. This was the "*household responsibility system*". There was now incentive to work harder to produce more and earn more.

4.3.1c Commercialisation of rural agriculture

- Peasant families now signed contracts with the state to achieve a certain level of production and could be rewarded for exceeding that level. Many found that they could even take the excess produce and sell it for their own benefit. Some later even went as far as renting their contracted land out to others.
- At the end of 1980, 15% of the land was designated as private plots and there was complete freedom of decision-making for peasants in those plots. As for state-owned land, by 1984, households had more autonomy to decide when and what to grow where and what methods to use as long as they produced enough to meet the quota.
- To avoid having everyone growing cash crops which earned higher revenues, **quotas** were set on the amount of grain each household still had to produce per year. Some enterprising farmers put all their efforts into more profitable crops like sugarcane and sold them for profit in the market, then used part of the money to buy grain to meet the quotas.

4.3.1d Revival of markets and encouragement of rural enterprises and the rise of TVEs

- More significantly, the practice of collectivisation and organisation of families into communes were ended. Hence, markets were once again revived as farmers brought their surplus produce to sell to others. There was diversification of agricultural production and much greater productivity resulted. Hence, markets were once again revived as farmers brought their surplus produce to sell to others. There was diversification of agricultural production and much greater productivity resulted.
- However, middle-man type of commerce was still not allowed, i.e. no one could buy and then resell things for profit.

- All these put an end to the Maoist rural strategy of self-sufficiency focusing mainly on grain production. And the showcase of Maoist methods – the Dazhai production brigade in Shanxi was even discredited.
- As productivity increased in the countryside, surplus labour was released for non-farm activities, e.g. making bricks, craft, basic household items, etc. These new activities and the sale of surplus from the farms gave rise to rural township or village enterprises (TVEs). They grew at a rate of 35% per annum to about 1.9 million by 1991.
- TVEs were so dynamic and efficient; they were a challenge to state enterprises. Some economists believe that the rise of these profitable TVEs was one of the greatest achievements of the reforms as they were the driving force for growth across the vast countryside.
- The strong desire for rural reforms was motivated by the need to alleviate the suffering of the peasants since the Great Leap Forward.
- Under Deng's reforms, farmers were given more autonomy over their land and production decisions, leading to increased agricultural productivity and higher incomes. The introduction of household responsibility system allowed individual families to profit from their labor instead of relying on collective farms. This shift towards a market-oriented economy also encouraged entrepreneurship and innovation in rural areas.
- As a result, many farmers saw significant improvements in their standard of living, with access to better housing, healthcare, education, and consumer goods. This contrasted sharply with the hardships faced during Mao's era of collectivisation and political campaigns.
- The phrase "Mao united us, Deng fed us" encapsulates the sentiment among many rural Chinese who appreciated Mao's role in establishing a unified China but recognized that it was under Deng's leadership that they were able to achieve economic prosperity and material well-being. These improvements solidified support for Deng's reform agenda in the countryside and contributed to the overall success of China's economic transformation.

4.3.2 Urban market reforms

- Though China was largely agrarian, the urban market reforms involving industries and trade were also critical elements for the success of the entire Chinese economy. It would also be this area, especially the opening of China's doors to the rest of the world, which would catch people's eyes and become the symbol of China's economic success.

4.3.2a Less emphasis on heavy industries with more emphasis on light industries

- In the industrial sector, more emphasis was placed on light industries which

could produce goods for trade and which could usually earn profit after an initial investment especially in a materially deprived society. Though heavy industries were not neglected, they were now not the only focus.

- In time to come (with FDI as well ... see later section), more and more Chinese factories appeared and generated jobs for tens of thousands of Chinese. China took over as the world's main producer of textile, garments, toys, shoes and consumer electronics. "Made in China" products appeared everywhere on the global market, where once it was "Made in Japan", "Made in Hong Kong" or "Made in Taiwan".

4.3.2b Reforming state enterprises

- Reforms in state enterprises started when these were allowed to retain profits and give out bonuses. There was greater autonomy and accountability when enterprises had to be responsible for both profit and losses – *Zifu yinkui*.
- However, the government soon found that they had less revenue as more of the surpluses went to bonuses. Hence, a 'tax for profit' system was introduced to make enterprises pay taxes before they could retain their net profits. Those who made more had to pay more taxes.
- A contract responsibility system was introduced in 1986 where performance target, output quota and financial obligations to the state were specified.
- By 1992, the 11,000 plus large and medium state enterprises constituting 2.9% of all industrial enterprise produced 50% of China's total industrial output and contributed 67% of state revenue.

4.3.2c Gradual privatisation

- In November 1981, the government started a series of reforms to gradually contract out certain operations to private individuals. These early entrepreneurs also received bank credit from the government. Thus began the gradual privatisation of the economy. Private enterprises were quick to grow and develop where opportunities were given. These included the service industries, retail distribution and light manufacturing industries.
- The workers in the cities were also given a certain degree of freedom to search for their own jobs according to their interests. In a sense, the iron rice bowl was broken!
- For state enterprises, gradual privatisation also took place as shareholdings were introduced to separate management from ownership.
- However, note that some crucial industries remained part of the state monopoly sector and were not privatised at all. Then there were the state collective enterprises which were gradually privatised and lastly, the purely private enterprises.

- State enterprises were also allowed to sell goods to private enterprises in the increasingly more advanced socialist market economy which helped them to make more profits.
- Together, these enterprises produced a spectacular growth for China's industries. For e.g. between 1981 and 1986, the gross industrial output of the state monopoly sector grew at the rate of 10% p.a. while the private enterprises grew at the rate of 19% p.a. Hence it could be seen that the gradual privatisation process of the collective enterprises especially helped in the rapid expansion of the Chinese economy.

4.3.2d Price Liberalisation

- A profit-oriented market system could not have the government controlling prices of commodities. Hence, the Chinese government realised the need for price liberalisation.
- However, Deng believed in being extra careful in this area as reforms had to be administered cautiously to prevent any collapse in the system through hyperinflation, currency collapse or political disillusionment (as seen just a little later in the USSR and Eastern Europe).
- From 1984, the government introduced a **dual-track price system** where there was more or less free market prices for ordinary consumer goods for which there were both supply and demand, and controlled prices for key commodities like coal, steel, petroleum and of course, grain. From 1988, more reforms were instituted with the goal of phasing out the dual-track system.
- By 1992, out of the original 737 commodity items, only 111 remained under state control and 22 under the control of local authorities. The prices of over 70% of consumer goods and production materials were now determined by the free market.
- The government even freed national sugar prices and also grain prices to some extent along the richer coastal provinces. Compare this in the same period to the USA which was still managing sugar prices and Japan which was managing rice prices and France which managed many food prices.
- Price reforms were important as their restructuring resulted in a boom for consumer-oriented industries and agriculture. This in turn lent more substance to the policy of establishing private enterprise which could thrive.

4.3.2e Rise in prices accompanied by wage increases, state subsidies and the supply of affordable consumer goods

- It is also worthy to note that like the increase in procurement prices in the agricultural sector which produced more income for the peasants, in the urban sector, the increase in prices of consumer goods was accompanied by an increase in the wages of the workers and provision of state subsidies.
- Hence, the Chinese did not face the serious problems of hyper-inflation that was witnessed in Eastern Europe and the USSR after their reforms began.
- In addition, there was also an increasing supply of consumer goods for the ordinary people, e.g. in just the first 5 years of reforms, refrigerator production increased by 47% p.a. and television sets by 98% p.a.
- All these ensured that the needs of the populace were met and the economic reform policies were thus supported.

5. Special Economic Zones

5.1 The Opening of China's doors (Open Door Policy) – Special Economic Zones (SEZs), Foreign Investment and an export-oriented focus

- China's decision to open its doors after decades of isolation pursuing the Maoist policy of self-sufficiency led to **monumental** changes in China's economy as well as the world economy! And it is this policy of "*Gaige Kaifang* 改革开放" that drew the world's attention to the rise of China's economy.
- FDIs, previously deemed "international monopolist capitalism", was welcomed into the country and in a short time, China became the most aggressive amongst developing countries in courting foreign investment.
- Influences - Deng was the first Chinese leader to visit the USA in 1979. He was impressed by the modern American economy and it helped to convince him that China should open her doors to foreign investment in order to modernise her economy. In fact, he visited two of the world's largest MNCs and signed agreements with them – Boeing and Coca Cola. Deng was also influenced by the progress in the NIEs (newly industrialised economies) of Asia – South Korea, Taiwan, Hong Kong and Singapore. He was aware of the growth of these export-oriented economies and wanted to bring the same prosperity to China.

- In 1980, China opened its doors with the setting up of 4 Special Economic Zones where foreign investors were allowed to build factories, use cheap Chinese labour and produce goods largely meant for export (initially). Capitalist methods of production were now in China. The four zones were in Shenzhen, Zhuhai, Shantou and Xiamen.
- The importance of selecting these areas did not go unnoticed by the world. They were coastal cities near Hong Kong and Taiwan. The Chinese leadership wanted to show that capitalist business could operate in China and this would enhance the prospects of reunification with Hong Kong and Taiwan.
- As a reassurance to conservatives, it was clear that these “special” zones were so-named as they were an experiment and could be isolated from the rest of the country. It did not mean that China itself would change its ways.
- Soon after, the entire Hainan Island was turned into a SEZ and in 1984, 14 other coastal cities were opened as Economic and Technical Development Zones - Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ningbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang and Beihai. Later after 1992, Shanghai together with Shenyang and Harbin were recognised as Key Economic Hubs.

6. Post-Tiananmen and the significance of Deng’s continued leadership and pursuit of economic reforms

However, in the immediate aftermath of the Tiananmen Incident of 1989, conservatives took charge in Beijing and reforms slowed down to almost a standstill as detractors questioned the ideological implications of economic reforms.

Deng however saw the danger of a partially reformed economy and a half-hearted open door policy if China was to stop now. Hence, to push on with economic reforms, in 1992, Deng made a famous tour of South China (“*Nanxun*”), visiting Guangzhou, Shenzhen and Zhuhai, then spending time in Shanghai.

Though the 1989 Tiananmen Incident had weakened his appeal among reformers, while strengthening the position of the conservatives, Deng made clear the importance of continuing the policy of economic reform and opening China’s markets. He also took the chance to criticise his conservative opponents by proclaiming that leftists were more dangerous than rightists for China. China was firmly set on the path to economic reform despite the political hiccups.

By the 14th Party Congress in October 1992, Deng's vision of a socialist market economy was adopted. He clearly wanted economic perestroika but not political glasnost. So in rather typical East Asian style, it was "development first and democratisation later." It was clear that "Socialism with Chinese Characteristics" had taken root successfully.

From 1992 onwards, ninety-two cities along the Yangtze River were opened to trade like the coastal cities. A chain of opened cities extending up the Yangtze Valley was formed with Shanghai's Pudong as the 'dragon head'. In these areas, FDI grew rapidly from \$4.4 billion in 1991 to \$28 billion in 1993.

6.1 Basic Financial Markets

- To manage a market economy, there had to be a financial market, the Chinese government took steps to establish financial markets, e.g. bonds, stocks, and banks as well as make the currency (Renminbi) viable.
- Though mistakes were made and China is still not considered a fully developed financial centre, the existence of such markets which help control inflation, mobilise people's savings for productive investment, ensure price stability and produced trained professionals in the respective fields have all contributed to economic growth.

6.2 The Rule of Law

- As the Chinese attracted foreign investments and as the economy grew bigger and more attached to the global economy, institutional and legal changes were necessary, especially the development of the Rule of Law.
- The reformist leader Zhao Ziyang started pushing the country towards constitutionality and the rule of law to create "rational" economic processes. Later others like Qiao Shi and Zhu Rongji concentrated on creating and adopting economic and legal systems and norms that would enable China to integrate into a rapidly globalised world economy.
- For example, in 1988, the Enterprise Law was introduced. Then Company Law and Labour Law in 1994, National Compensation Law in 1995, Patent Law in 2000. Important institutions like State Intellectual Property Office and Chinese International Economic Trade and Arbitration Commission were formed. After 20 years of reforms, about 700 new national laws and more than 2000 new local laws have been introduced.

7. Deng's political strategies

It has been said that reform is a domestic political process. Without dealing with the political processes, economic reforms would not take place. Indeed, Deng Xiaoping's political strategies also played a large part in the success of China's economic reforms.

7.1 Gradualism (Contrast China as compared to the USSR and Eastern Europe)

- Deng's gradual approach has been contrasted to Mikhail Gorbachev's "big bang" doing-everything-all-at-once approach.
- China's leadership successfully felt/groped for stepping stones while attempting to cross the river to get to modernity and prosperity. While setting China firmly on the path to reforms, Deng took things a step at a time and avoided the pitfalls of great socio-economic change.

7.2 Winning over the different sectors of Chinese society

- Deng first won over the peasants by doubling their incomes with agricultural reforms. Then the workers and managers benefited with the growth of small and medium industries and gradual privatisation. Though not all benefited all the time, those who did had more drive and more energy to support the continuation of reforms.
- Under Deng, intellectuals and students appreciated the greater freedoms in travel and the exchange of ideas. Though there were problems like the end of the Democracy Wall or worse still, the crackdown in Tiananmen 1989, it was Deng himself that lost personal appeal, the intellectuals still supported reforms.
- He also won over the military despite military budgets being cut in favour of economic reforms. Deng convinced the military leaders of the benefits of an open door policy as it would lead to greater access to western technology and weaponry and growth would also mean more money to purchase modern weapons to update the antiquated People Liberation Army (PLA). Though the PLA seemed to have suffered in terms of budget and personnel cuts, the soldiers benefited from being able to go into businesses themselves thereby also earning more \$\$ than they ever had.
- Within the government and the Party, there were those like Deng who saw the need for China to change to avoid more disasters like the Great Leap Forward and Cultural Revolution, and also to keep up with the outside world. Others were "bought over" as their families used their special connections to

get ahead of others. Indeed, a good example would be the “princelings” getting important positions and/or business contracts in the SEZs and after a while, no one was really attacking the existence of the SEZs anymore.

- *“Thus through a combination of idealism, expedience, and corruption, the nation’s power elite was enlisted.” – William Holt*

7.3 Suppression of dissent

- Perhaps it was natural that with the loosening of the CCP’s central hold on the economy and China opening her doors to the outside world, there would also be the increased desire for political change.
- This is an area of controversy as observers are not united in their views of Deng’s actions.
- There was first the Democracy Wall movement from late 1978 to early 1979, then the student protests from December 1986 – January 1987 and finally the Tiananmen protests from April to June 1989.
- Deng, though initially receptive of the writings on the Democracy Wall questioning the Cultural Revolution and debating China’s social problems, had the Wall abolished and the most daring writer, Wei Jingsheng, arrested when the writings began to be critical of the government.
- The student protests in Hefei, Shanghai and Beijing were dealt with by arresting the supposed ringleaders and coming down hard on sympathizers like Fang Lizhi, the astrophysicist and Vice-President of the University of Science and Technology. The majority of the students were saved by the intervention of CCP Secretary-General Hu Yaobang who preferred a moderate approach but was stripped of his posts by hardliners as a result.
- The 1989 Tiananmen Incident arose because students and later workers and people from all walks of life wanted the Party to address the problems of corruption, inequality and poor conditions. Knowledge of events outside China, e.g. *glasnost* in the USSR also spurred demands for political liberalisation.
- The opportunity for the students to express themselves came when the popular Hu Yaobang died in April 1989. Demonstrations grew bigger and spread to other cities. Radicals resorted to hunger strikes when the leaders refused to address their concerns. The world watched as this spontaneous movement grew. Things got worse as the historical visit by Gorbachev was overshadowed by the developments in Tiananmen, as the foreign press descended on Beijing.

- A conflict broke out between the moderates and hardliners in the Party and eventually, the moderate CCP Secretary-General Zhao Ziyang lost out when Deng supported Premier Li Peng who declared martial law and ordered troops into Tiananmen Square. The leaders got another rude shock when soldiers were prevented from reaching the square by human barricades formed by the people of Beijing.
- By June, many students had left the Square after feeling that they have made their point. But Party hardliners decided not to wait for the rest to leave and instead let the army loose on unarmed civilians. Perhaps it was to make the point that the government would not be humiliated and deter future demonstrations.
- Accounts vary but between 200 – 3000 people lost their lives. Thousands of student participants were arrested and imprisoned and some of them fled the country.
- Deng's hardline methods cost him in terms of personal appeal to both the Chinese people and the foreigners. His reliance on hardliners like Li Peng ("Butcher of Beijing") and the conservative old guard almost derailed his economic reforms such that he had to make that famous tour of the SEZs in 1992 to reinforce the message of economic development.
- **However, perhaps Deng understood that any form of political unrest if not suppressed would threaten China's economic development. He had the bad experiences of the Cultural Revolution as proof of the damage that chaos can create. To the end, he preferred the policy of having an authoritarian central regime with capitalistic economic policies, much like that adopted by the Asian Tiger Economies / NIEs – South Korea, Taiwan and Singapore.**

8. Market Oriented Reforms

- Efforts to implement initiatives and privatise state-owned businesses were crucial in maximising resource use and creating a supportive climate for innovation and entrepreneurship. These changes, along with China's existing societal advantages, helped turn the country's potential into actual economic achievements and global market integration.
- The shift of China's economy from a centrally planned system to a market-oriented one between 1978 and 2000 demonstrated the effectiveness of market mechanisms in promoting growth and innovation. Initiatives such as the creation of Special Economic Zones (SEZs) starting with Shenzhen, encouraged competition, attracted foreign investment, and promoted economic freedom.

- The introduction of the Household Responsibility System in 1978 also played a key role in boosting agricultural productivity by incentivizing farmers through land rights allocation. In the 1990s, further reforms including privatisation and restructuring of state-owned enterprises led to increased efficiency and competitiveness, fostering private sector growth.
- These changes not only improved resource allocation but also created an environment conducive to entrepreneurship and innovation. Together, these reforms drove China's rapid economic development, highlighting the significant impact of adopting market-oriented policies in a previously rigid economic structure.

9. International Developments (Trends)

Recognising the importance of international developments, including Foreign Direct Investment, in transferring technology and managerial expertise to China was crucial for its growth. In the late 1990s, China became a major player in global FDI, fuelling its economic expansion. Established on June 12, 1997, Shanghai General Motors (SGM) is a 50-50 joint venture partnership between **General Motors** and Shanghai Automotive Industry Corporation (Group), or SAIC, China's largest passenger car manufacturer. This significantly boosted China's automotive industry by bringing advanced manufacturing techniques and modern management practices. As China's development took off, many MNCs found themselves faced with a large and fast-growing market as well as an important resource for new sourcing. To some, China became one of the largest markets in the world and, to others, China became the epicenter of their supply chain. Many Western companies benefited from the exporting of low-cost, high-quality products from China. Moreover, high rates of GDP growth have been associated with large inflows of foreign direct investment (FDI) to China, especially during the 1990s.

9.1 Adoption of international strategies and practices

- Considering the significant impact of global dynamics, especially in foreign policy, is essential for promoting this growth. The US-Sino Rapprochement in 1971 with Zhou Enlai signaled a strategic shift away from isolationism and paved the way for economic liberalisation.
- This change was more than just a diplomatic move; it played a crucial role in China's economic strategy, including the development of export-oriented industrialisation and Special Economic Zones (SEZs).

- While these zones were a domestic initiative, their success was largely due to increased international engagement. The relationship with the United States, as the world's leading economic power, was particularly important:

Trade opportunities: With the normalisation of relations between the two countries, trade barriers were reduced and economic cooperation increased. This allowed Chinese goods to access the large American market, boosting exports and driving economic growth.

Investment inflows: The improved relationship with the US also led to increased foreign direct investment from American companies looking to take advantage of China's growing market and low-cost labour force. This influx of investment helped modernize Chinese industries and infrastructure.

Technology transfer: As part of the rapprochement, the US provided technical assistance and expertise to China in various sectors such as agriculture, energy, and manufacturing. This technology transfer helped improve productivity and efficiency in Chinese industries.

Access to international institutions: With US support, China was able to gain entry into key international organisations like the World Trade Organization (WTO) which opened up new opportunities for trade and investment on a global scale.

- The liberalisation policies that contributed to China's ascent may not have been as effective without improved US-China relations. Deng Xiaoping's actions, such as normalising relations in 1979 and securing most favored nation status through a trade agreement with the US, were pivotal. These policies not only facilitated access to global markets, but also encouraged foreign investments and the sharing of technology, which were crucial for China's rapid industrial development.

9.2 Coastal Development Strategy of the 1980s and 1990s

- China's economic transformation in the late 20th century was driven by market reforms and Foreign Direct Investment (FDI), leading to growth and modernisation. The focal point of this change was the Coastal Development Strategy implemented in the 1980s and 1990s, concentrating on areas such as Guangdong and Fujian provinces.
- By attracting investments from abroad into these coastal cities, China experienced a significant increase in FDI, resulting in the development and modernisation of these regions and the establishment of an internationally connected economy. These coastal cities became key drivers of economic progress, shifting towards export-focused manufacturing sectors and expanding China's export capabilities, thus enhancing its integration into global supply chains.

10. Strategic State Intervention

- The essential role of strategic government intervention in shaping China's economic path after Mao Zedong is clearly demonstrated through its extensive focus on infrastructure development and strong support for science and technology. The Chinese government were dedicated to large-scale infrastructure projects, such as the Three Gorges Dam project that began in 1994.
- The Three Gorges Dam was the largest hydropower project ever built. When construction began in 1994, it was designed not only to generate electricity to propel China's breakneck economic growth, but also to tame China's longest river, shield millions of people from fatal floods and, as a symbol of technological prowess, become a searing point of national pride.
- This state-led effort in infrastructure was crucial in establishing the necessary physical framework for industrial expansion and national progress. Additionally, the government's substantial investments in science and technology were pivotal in driving economic advancement.
- Government programs such as the 863 Program in 1986 and the 973 Program in 1997, which focused on fostering innovation in high-tech industries, propelled China to become a leader in global advancements in fields like biotechnology, space technology, and information technology.
- The 863 Program, also known as the State High-Tech Development Plan, was launched by the Chinese government in March 1986. Its main objective was to promote the development of high-tech industries in China through research and innovation. The program focused on key areas such as information technology, biotechnology, energy, materials science, and aerospace.
- The 863 Program provided funding and resources to support research projects in these priority areas, with a particular emphasis on collaboration between industry, academia, and government. It played a crucial role in building China's technological capabilities and fostering innovation in various sectors.
- Similarly, the 973 Program, or the National Basic Research Program, was initiated by the Chinese government in 1997 to strengthen fundamental research in strategic fields such as agriculture, energy, environment, health, and information technology. The program aimed to enhance China's scientific knowledge base and drive long-term economic growth through cutting-edge research.
- Like the 863 Program, the 973 Program supported interdisciplinary research projects that involved collaboration among different institutions and researchers. It helped advance China's scientific capabilities and contributed

to its emergence as a global leader in science and technology.

- These government-led initiatives not only strengthened China's technological prowess but also played a key role in driving its economic growth. These instances highlight the significant impact of state intervention across different sectors of China's economy, demonstrating how government strategies and investments were crucial in guiding the country towards its economic success.

Conclusion

- The study of China's rise as an economic power is a multi-faceted and often complex one. This is not helped by the fact that China's economy is still growing.
- There are hundreds and hundreds of books, papers, reports, etc. written on the subject. Some studies look at the issue from a purely economic angle, some emphasis the societal angle, while others focus on the political aspects in addition to the economic aspects..
- In conclusion, China's economic transformation from 1978 to 2000 was a remarkable success story that propelled the country from a struggling socialist economy to one of the world's largest and most dynamic economies. The implementation of market-oriented reforms, opening up to foreign investment, and embracing global trade all played crucial roles in driving China's rapid economic growth during this period.
- The shift towards a more market-driven economy allowed for greater efficiency, innovation, and competition in various industries, leading to significant increases in productivity and output. The government's focus on infrastructure development, education, and technology also helped to create a conducive environment for sustained economic growth.
- Furthermore, China's integration into the global economy through trade liberalisation and membership in international organizations like the World Trade Organisation (WTO) opened up new opportunities for investment, export growth, and technological transfer. This integration not only boosted China's economic performance but also facilitated its emergence as a major player on the world stage.
- However, challenges such as income inequality, environmental degradation, and regional disparities remain significant concerns that need to be addressed in order for China to sustain its economic development in the long term.
- Overall, China's economic transformation from 1978 to 2000 demonstrated the power of embracing market-oriented policies, fostering innovation and entrepreneurship, and engaging with the global economy. It laid the foundation for China's continued rise as an economic powerhouse in the years that followed.