

# Reforms after 1978

China in the World Economy, autumn 2021

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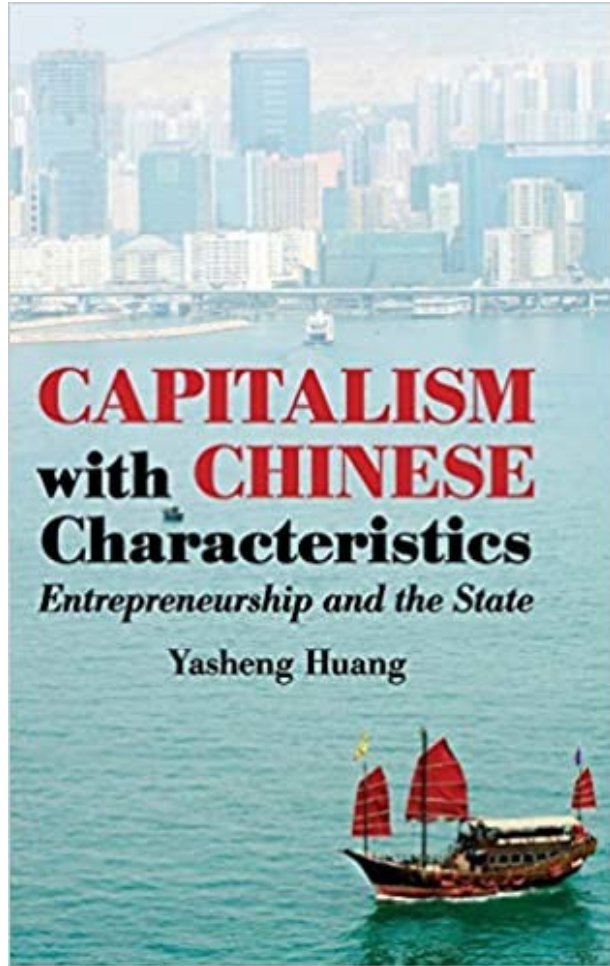
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- Which sector of the economy did the Communists try to develop at the expense of which other sector?
- When did China attempt to copy the Soviet model with Soviet aid? What happened to their relations then?
- Was the Great Leap Forward an example of **central** planning?
- How did China's economic model in the 1960's and 1970's differ from the Soviet model?

# Today

- Reforms in the late 1970's and 1980's
- The Tiananmen interlude
- Continuing reforms in the 1990's and 2000s
- Opening up to foreign trade, export-led growth
- Until circa the Financial crisis

# Literature



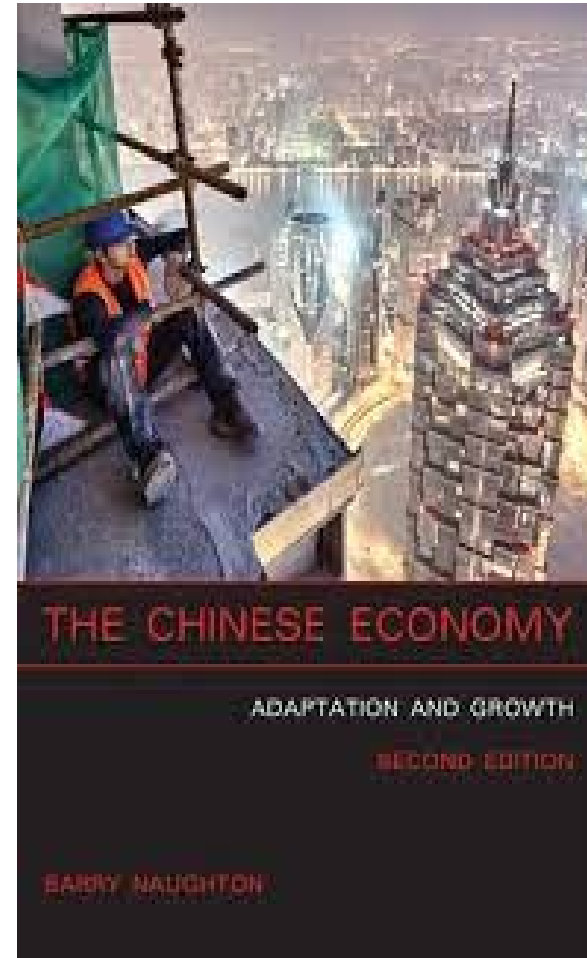
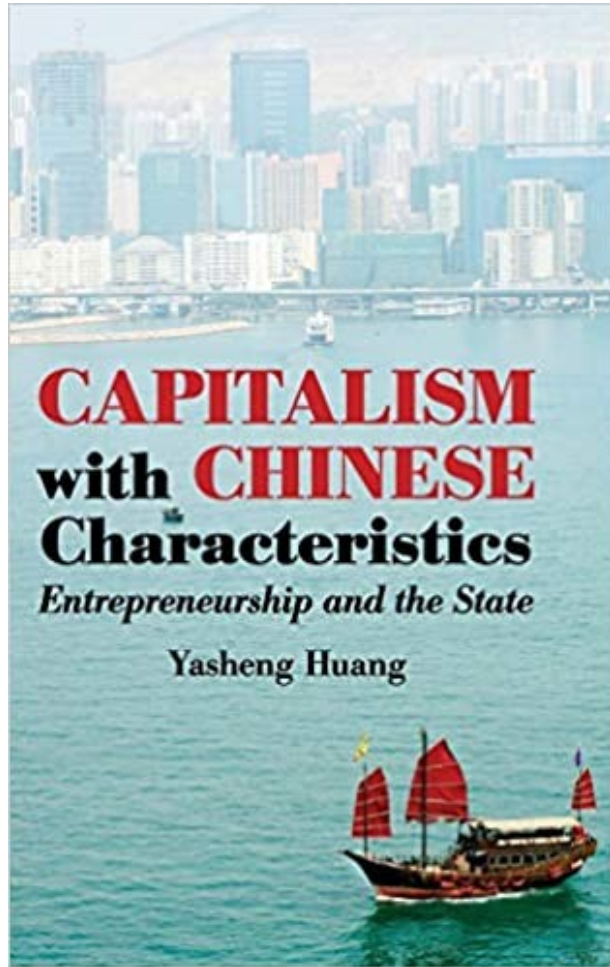


**CAPITALISM**  
**with CHINESE**  
**Characteristics**

*Entrepreneurship and the State*

Yasheng Huang







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- Prolonged struggle for power – intrigues, demonstrations!
- The faction around **Deng Xiaoping** emerges victorious two years later and announces a series of economic reforms
- Gang of Four condemned, Mao kept as a symbol



# China's situation in 1978

- GDP per capita – similar to India and sub-Saharan Africa
- Overpopulation



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- GDP per capita – similar to India and sub-Saharan Africa
- Overpopulation
- The Party itself was ravaged by years of purges
- > **bad economic data!**
- Some excellent centers of learning and science – but small, isolated, decimated by the Cultural Revolution

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- **Rural areas – somewhat looser rule**, farmers were sometimes allowed to de facto own plots of land
- Most of the land was still collective, though

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- „Double air-lock“ – tight control of both **currency and the movement of goods**
- **12 monopoly state trading-enterprises** – bridges between China's regulated prices and the world market

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- Problem – **need for foreign exchange** (dollars, yens, pounds)

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- Oil production didn't work out > need boost other exports

# China's situation in 1978

- „averted oil curse“ – lack of oil production **forced China into reforms** that led to far more significant growth than oil could ever deliver

# Reforms - agriculture

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- Huang – the most significant and drastic reform

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- **Local banks and funds** – collection of savings, investment

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- **Rural areas were no longer squeezed for cash by the state**
- Some successful entrepreneurs moved into the cities

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- **> official prices within the plan + market prices**
- **Typical style of reforms** – a university or research center can start an enterprises and commercialize some invention made there
- Far fewer true private enterprises than in the countryside!
- Few privatizations – **the private sector grew next to the state sector**

# Reforms – urban areas

- Increased motivation and production
- **Significant corruption** – typical result of intermingling of private and public resources and interests

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of the People's Republic of China

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A. Hong Kong Special Administrative Region  
B. Macau Special Administrative Region

Special Economic Zones (SEZ)  
1. Pudong District, Shanghai Municipality  
2. Xiamen, Fujian Province  
3. Shantou, Guangdong Province  
4. Shenzhen, Guangdong Province  
5. Zhuhai, Guangdong Province  
6. Hainan Province



# Reforms – foreign trade

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- = close to Hong Kong and Taiwan
- HK had bigger exports than all of China in 1978 (!)



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- FDI, export

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# The Tiananmen interlude

- 1980s- discussion about political reform
- Deng – „party elder“ – **informal influence**
- Desire to separate the Party and the state, introduce term-limits for officials



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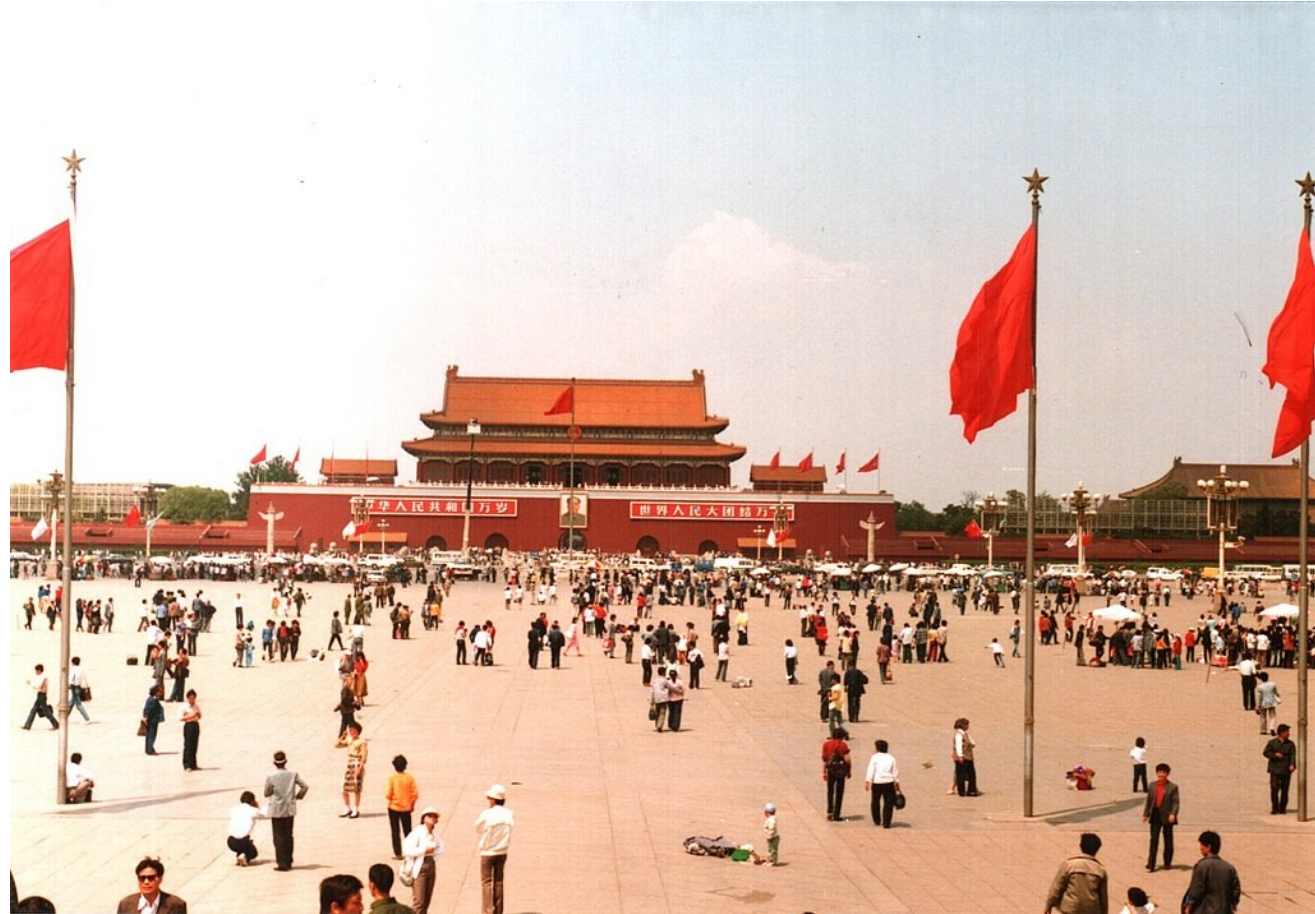
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- General Secretary – **Hu Yaobang**, followed by **Zhao Ziyang** – **both favored some form of political liberalization**

# The Tiananmen interlude

- Hu – dismissed because of pressure of conservatives in 1987
- Died in early 1989
- **Demonstrations in large Chinese cities** – calls for more political reforms (also economic demands – lower inequality etc.)



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- Followed by (less violent) **crackdowns in other cities**

# The Tiananmen interlude

- Party conservatives led by Li Peng seized power, Zhao dismissed – spent the rest of his life under house arrest
- **Attempt to overturn the economic reforms – central planning briefly reinstated!**

# Return to reform and opening up

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- **Return to a pro-market policy**, but with more **cautious approach** than in the 1980s – fear of another Tiananmen

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- SOEs transformed into **joint-stock companies**, but **the Party usually retains the controlling voting block**
- Industrial policy — „**national champions**“ – **support of highly advanced companies such as Huawei** – attempts to push them to the global cutting edge

# Return to reform and opening up

- „**Letting go of the small**“ – small companies can be privatized and left to their own devices
- If they go bankrupt, who cares?

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- > Chinese foreign investment is based on state-owned capital!

# Return to reform and opening up

- **Stunning growth of major cities**
- – shiny skyscrapers in downtown Shanghai etc
- > overawed foreign visitors

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- Problems – **large rate of investment, relatively small growth of consumption**
- = huge growth, but you can't enjoy its fruit, new wealth is immediately reinvested

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- Sometimes outright IP theft

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# Return to reform and opening up

- > **support for large, semi-state companies + foreign capital; indifference to small businesses**
- > **best strategy for Chinese companies – get incorporated in Hong Kong, then do business in China as a foreign company**

# Next time

- Xi Jinping, China's technological ambitions