

Reforms after 1978

China in the World Economy, autumn 2024

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- Name the most important institutions of the Chinese Communist Party.
- What are the supposed advantages of central planning?
- Which sector of the economy did Communist governments typically tried to develop at the expense of which other sector?

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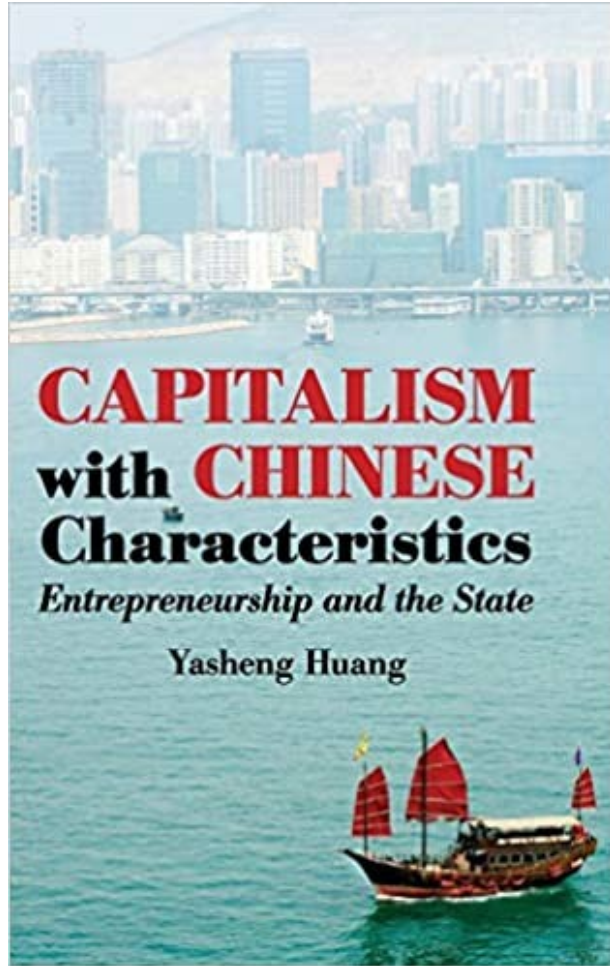
Questions from last time

- How were prices created under central planning?
- How did China conduct trade under central planning?
- Which types of industries or sectors are typically neglected under central planning? Which ones are heavily supported?

Today

- Brief run through the Maoist period
- Reforms in the late 1970's and 1980's – transition towards a market economy
- The Tiananmen interlude

Literature

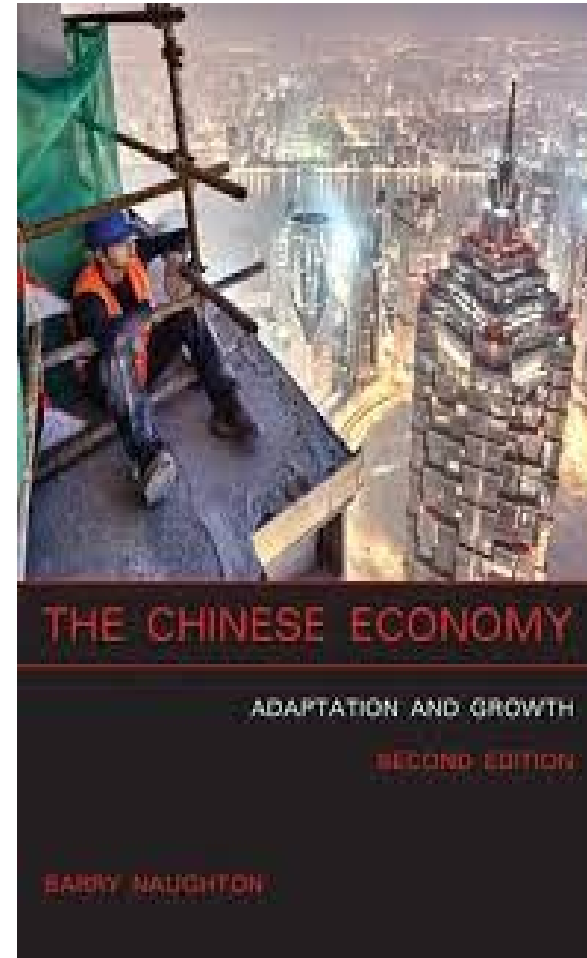
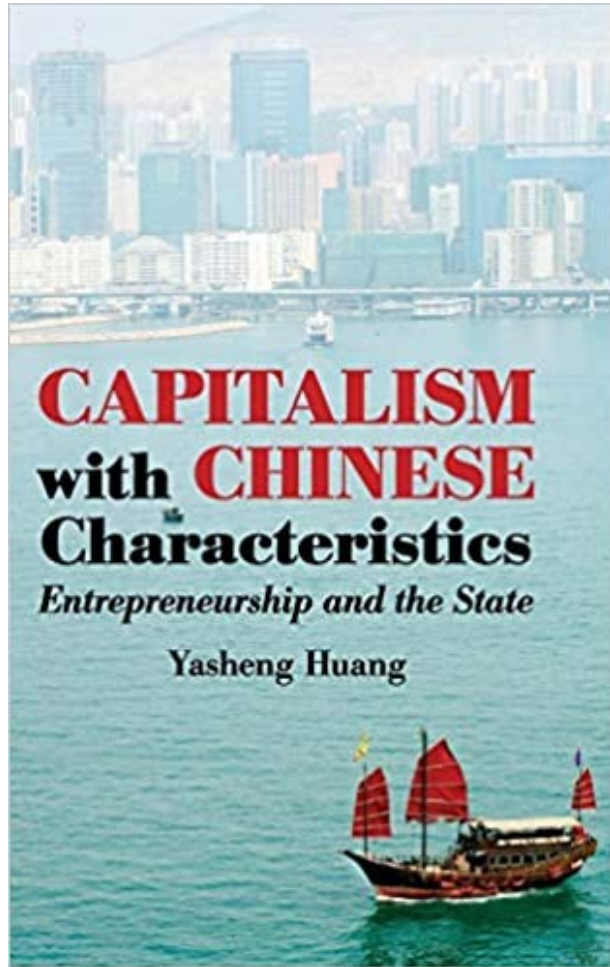


CAPITALISM
with CHINESE
Characteristics

Entrepreneurship and the State

Yasheng Huang







First years of the PRC - 1949-1953

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- **Massacre of landlords** > circa 2 million victims

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- Industry – **slow nationalization** of companies
- Agriculture – **independent farmers** – pressure to form cooperatives – **not collective ownership**
- Participation in Korea > **the CCP was not strong enough to control all of the economy**

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- **Full nationalization of industry, collective farming**







互助代耕多打粮 军属生活过得强

力耕堂

湖南人民出版社 一九五二年出版

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- **Anti-Rightist Campaign** – another purge; **full one-party state**; led by Deng Xiaoping!

„Great Leap Forward“ (1958-1962)

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- **Small industrialization** carried out by these village communes

„Great Leap Forward“ (1958-1962)

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乘風破浪 各顯神通



chinese posters . net

1955.10.10

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- People fulfilled their quotas by **melting down tools and reforging them** into useless, low-quality iron

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- Biggest famine in China's history – **30 million deaths**

„Great Leap Forward“ (1958-1962)

- The program had to be called off in 1962

„Agriculture first“ (1962-1966)

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- Less ideology, more management
- Material rewards

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- **Basic economic model until 1978**

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- > opaque system, **it is difficult to say who is in charge of what**

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- Abroad – deconstruction of Stalin's cult of personality, more „boring“ and less bloody rule in the USSR

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- Officially: **attempt to prevent the Communist party from becoming a new elite** – permanent revolution

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- „**Self-criticism**“ – public humiliation and torture





Cultural Revolution (1966-1976)

- **1968 – the army had to move in to rein in the Red Brigades**

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- Mao's final years (1970-76) – **the situation slowly calmed down**

- “Had Mao died in 1956, his achievements would have been immortal. Had he died in 1966, he would still have been a great man but flawed. But he died in **1976**. Alas, what can one say?”

Mao's final years

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- „Gang of Four“ – blamed for the excesses of the Cultural Revolution so that Mao himself could be absolved of all responsibility



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- Overpopulation

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- > **bad economic data!**
- Some excellent centers of learning and science – but small, isolated, decimated by the Cultural Revolution

China's situation in 1978

- Unhealthy **focus on heavy industry and military technologies**

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- = not centers of commerce but bastions of the Party

China's situation in 1978

- **Cities** – complete state ownership, zero room for enterprise
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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

China's situation in 1978

- Foreign trade – extreme isolation, focus on **autarky**

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- Foreign trade – extreme isolation, focus on **autarky**
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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

China's situation in 1978

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

China's situation in 1978

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- **Export!**

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- **Oil (!)** > then we can afford to purchase equipment from Western Europe and Japan
- Oil production didn't work out > **need to 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

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- Similar in other East Asian countries

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- **Exchanging money in currency markets** – weakens the domestic currency

Balance of payments

- Trade surplus

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- = „double deficit“

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- **$NX = NFI$**

Structure of GDP

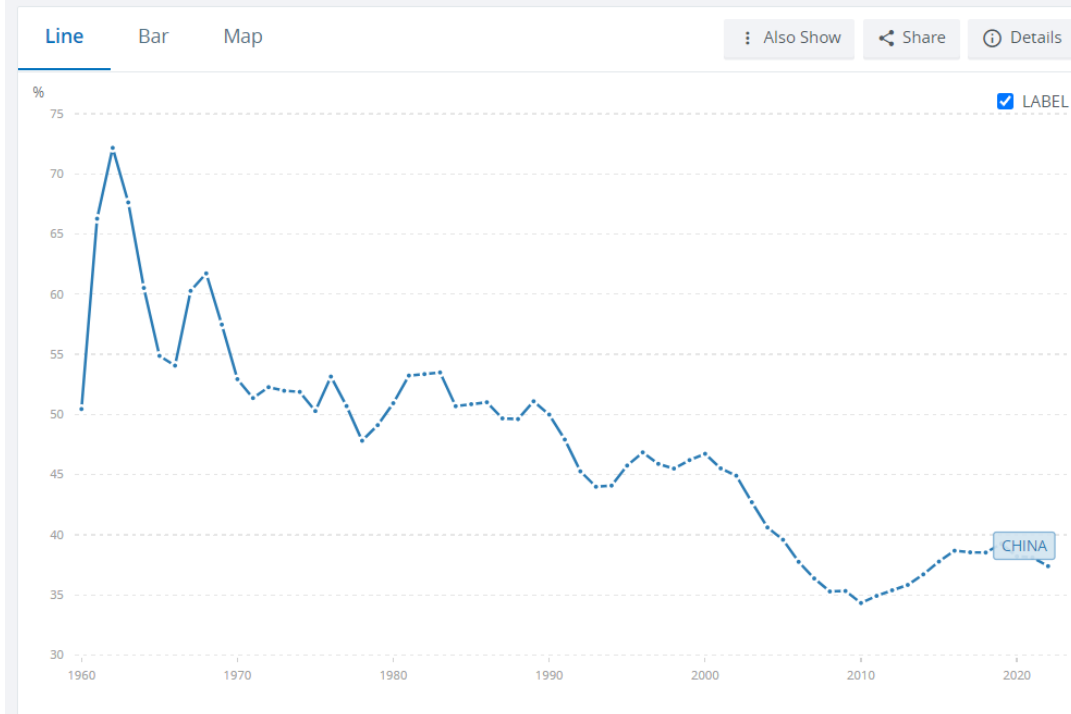
- $GDP = C + I + G + NX$

Structure of GDP

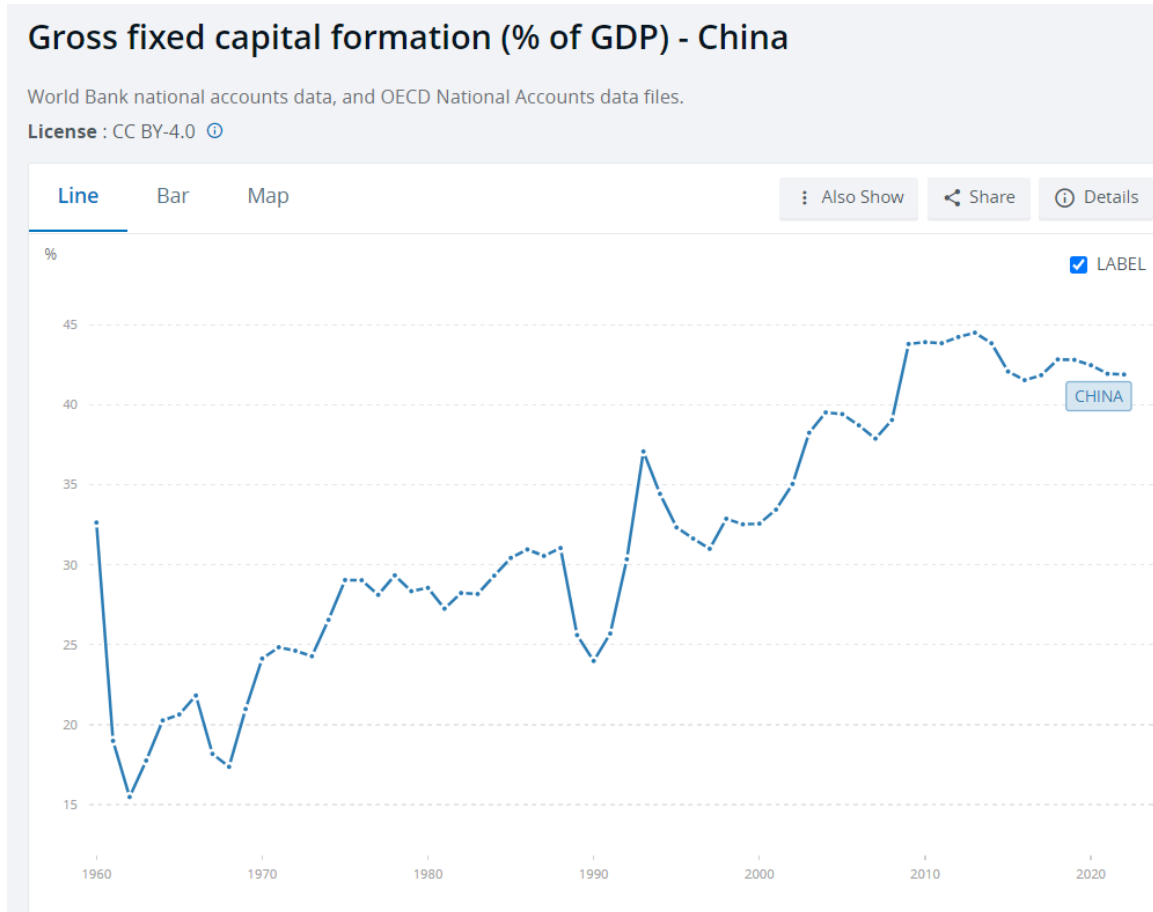
Households and NPISHs final consumption expenditure (% of GDP) - China

World Bank national accounts data, and OECD National Accounts data files.

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Structure of GDP



Structure of GDP

- United States:
- I = 18 %
- C = 68 %

Structure of GDP

- $S = I + FI$

Reforms

Reforms - agriculture

- **Major overhaul** of the rural economy
- Huang – the most significant and drastic reform

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

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- Poverty alleviation, **lifting people out of agriculture**

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- Some successful entrepreneurs moved into the cities

Reforms – urban areas

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- Far fewer true private enterprises than in the countryside!
- Few privatizations – **the private sector grew next to the state sector**

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

Reforms – foreign trade

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- = **close to Hong Kong and Taiwan**

Special Administrative Regions and Special Economic Zones
of the People's Republic of China

Speical Administrative Regions (SAR)
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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- – Goungdong and Fujien
- = 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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- - but still restricted to specially designated SOEs!

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- **„Canalization“** – if you want to import something, a firm with foreign trade rights must do it for you

The Tiananmen interlude

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- Desire to separate the Party and the state, introduce term-limits for officials

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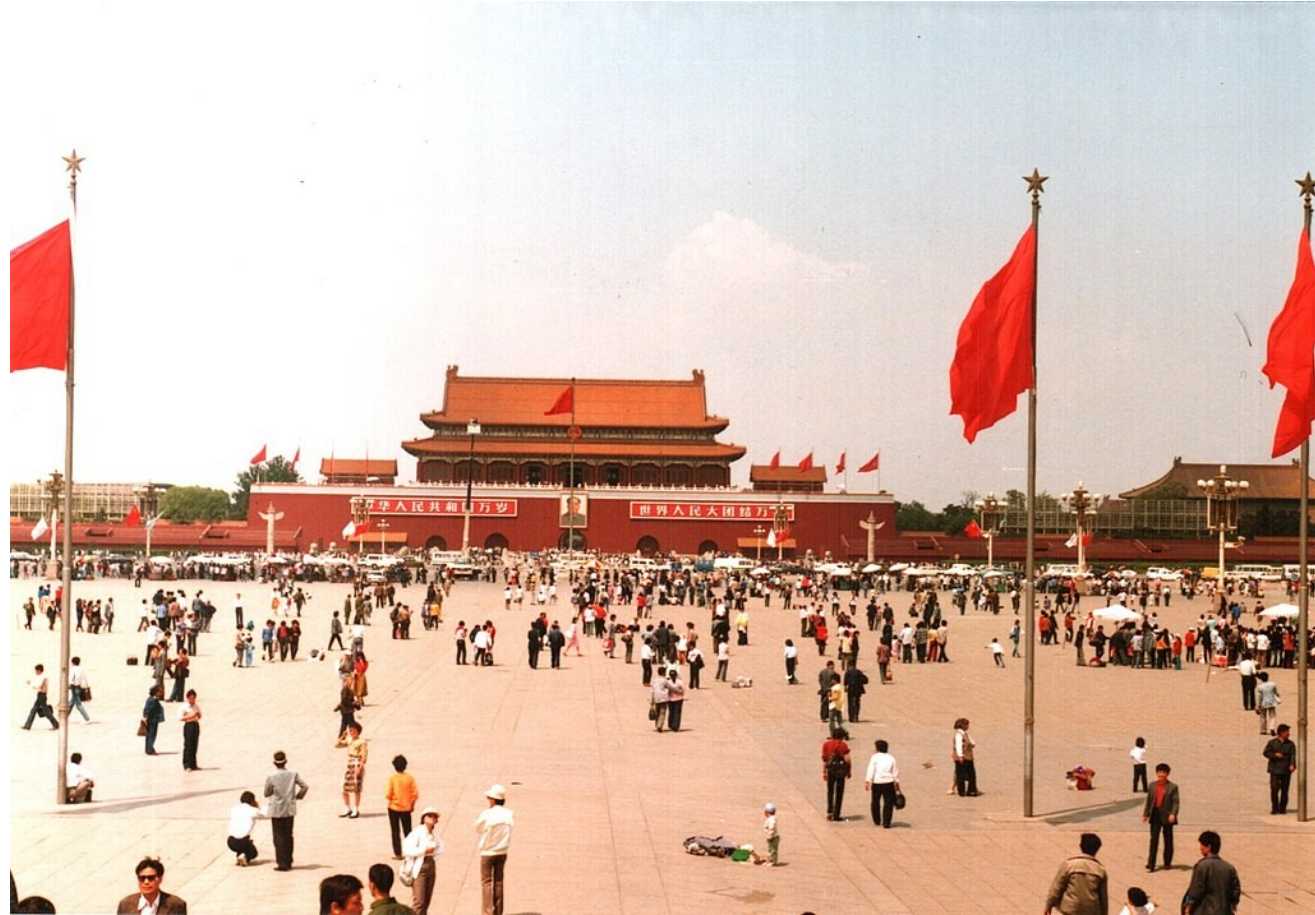
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- General Secretary – **Hu Yaobang**, followed by **Zhao Ziyang** – **both favored some form of political liberalization**

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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- „**June the 4th incident**“ – massacre of protesters

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- Deng (chairman of the military committee!) – **undecided, in the end he reluctantly joined the conservatives**
- > **martial law**, army units gathered around Beijing
- „**June the 4th incident**“ – massacre of protesters
- 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!**

The Tiananmen interlude

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- Meanwhile – demoralized Communist regimes in Eastern Europe collapsed with barely a whimper...

Next time

- Continuing reforms in the 1990s
- The early 2000s – China's most capitalist moment
- The fallout from the 2008 Financial Crisis
- Xi Jinping, China's technological ambitions