



CSA20110413

CHINASCOPE Analysis Series

Understanding China's Economic Reform

April 2011

Summary: This article shows that the Communist Party initiated economic reform for its own survival and the continuation of its one-party governance. The Party used private ownership, foreign capital, and a competitive market to strengthen the socialist system instead of deviating from the socialist path, and it is now using its economic success to justify the one-party political system.

Understanding China's Economic Reform

In the late 1970s China embarked on economic reform, gradually transforming what was originally a centrally planned system into a more liberal one. As a result, in 2010 China stood as the second-largest economy in the world. Many aspects of a market-oriented system are now in place: competitive commodity and labor markets, the development of stock exchanges, a rapid growth of the private sector, and opening up to foreign trade and investment. Some observers believe that China is on the right track toward a market economy. They also believe that economic reform will finally bring about political reform – that a Taiwan style democratic China will emerge in the mainland. However, this is not what the initiator of reform – the ruling Chinese Communist Party (CCP) – wants.

This article shows that the Communist Party initiated economic reform for its own survival and the continuation of its one-party governance. The Party used private ownership, foreign capital, and a competitive market to strengthen the socialist system instead of deviating from the socialist path, and it is now using its economic success to justify the one-party political system.

Economic Reform as Political Elixir

The 1979 economic reform was launched in the aftermath of the Great Cultural Revolution (1966-1976), a period that left the whole nation in turmoil. The “Revolution” had disastrous consequences, as even Deng Xiaoping acknowledged.

“The ten-year ‘Great Cultural Revolution,’ together with the period dominated by errors from the ‘Leftist’ period, which began in 1957, caused us to waste twenty years. . . . However, the overall political situation was chaotic, and the economy either grew slowly or stagnated.” [1]

“As for productivity, there was a huge gap between China and the rest of the world. In 1978, China’s per capita GDP was lower than India, one-twentieth of Japan, and one-thirtieth of the United States. The level of our science and technology was 40 years behind developed countries, and 20 years behind South Korea, Brazil, and other developing countries. An open mine in West Germany employed 2,000 workers to produce an annual output of 50 million tons of lignite coal, while it took 160,000 Chinese workers to produce the same amount, a difference of 80 times more workers. It took 7,000 workers at a steel plant in Marseille, France, to produce 3.5 million tons of steel in one year, while China’s Wuhan Steel Plant had 67,000 workers with an annual output of 2.3 million tons of steel, making it 14.5 times less efficient. A plane took off or landed at France’s De Gaulle Airport once a minute, which was 60 planes

per hour. Beijing International Airport could barely handle two planes in one hour. The gap between China and the world was shocking, putting the Party and country under unprecedented pressure.” [2]

At the same time, the Chinese people, having suffered from dozens of political movements, culminating in the Cultural Revolution, questioned the legitimacy of the one-party system. For the first time since 1949, the Chinese Communist Party faced a critical challenge. Deng acknowledged this as well.

“Is the Central Committee making a mountain out of a molehill when it takes this view of the matter? No, it is not. In the light of current developments the Party has no choice. ... In Shanghai there is a so-called Democracy Forum. Some of its members have slandered Comrade Mao Zedong and put up big counter-revolutionary posters proclaiming that ‘the proletarian dictatorship is the source of all evil’ and that it is necessary to ‘resolutely and thoroughly criticize the Communist Party of China.’ They allege that capitalism is better than socialism and that, therefore, instead of carrying out the four modernizations, China should introduce what they call ‘social reform,’ by which they mean that it should turn to capitalism. They publicly declare that their task is to settle accounts with those whom the Gang of Four called the ‘capitalist roaders’ but whom it failed to deal with. Some of them have asked to go abroad to seek political asylum, and some have even made clandestine contact with the Kuomintang secret service, plotting sabotage.” [3] [4]

In 1979, Beijing cracked down on the Democracy Wall movement, arresting political dissidents including Wei Jingsheng, who called for a democratic political system. [5]

It was against this economic and political backdrop that, in 1978, the Third Plenary Session of the Eleventh Central Committee ushered in economic reform.

Clearly, for the CCP, the reform was merely a means to strengthen and prolong its rule, instead of a first step toward political reform. From day one of the reform, Deng Xiaoping firmly stressed The Four Cardinal Principles.

“The Central Committee maintains that, to carry out China’s four modernizations, we must uphold the Four Cardinal Principles ideologically and politically. This is the basic prerequisite for achieving modernization. The four principles are: 1. We must keep to the socialist road. 2. We must uphold the dictatorship of the proletariat. 3. We must uphold the leadership of the Communist Party. 4. We must uphold Marxism-Leninism and Mao Zedong Thought.” [6] “Throughout the process of reform and opening, we must also adhere to the Four Cardinal Principles.” [7]

Ten years later, after suppressing the 1989 students' movement, Deng said,

“Had it not been for the achievements of the reform and the open policy, we could not have weathered June 4th. And if we had failed that test, there would have been chaos and civil war. The cultural revolution' was a civil war. Why was it that our country could remain stable after the June 4th Incident? It was precisely because we had carried out the reform and the open policy, which promoted economic growth and raised living standards. The army and the government should therefore safeguard the socialist system and these policies.” [8]

20 years after 1989, the basic logic of using economic reform to defend and prolong the one-party political system remained unchanged. For example, in June 2009, *People's Daily* published a series of articles titled the “Six Why's – Answers to Several Important Questions,” which was the CCP Central Propaganda Department's ideological campaign program carried out for all of the Party members. The sixth article “The powerful driving force behind the development of contemporary China – why we must unswervingly pursue reform and opening up, and cannot go back” emphasizes just that point.

“Throughout the process of reform and opening up, our Party has constantly emphasized that reform is not to remove the socialist system or to integrate into capitalism. Rather, reform and opening up is the self-perfection and development of the socialist system. Comrade Deng Xiaoping stated that to engage in reform will change a lot of things, but ‘the biggest no-change is the socialist system.’” “We cannot abandon our ancestors.” [9]

A Socialist Market Economy with Chinese Characteristics

China's official characterization of its development stage is the “preliminary stage of socialism,” in which the features of the economic system are public ownership as the main component supplemented by diversified forms of ownership

Public ownership includes state ownership and collective ownership. State ownership is defined as having the means of production (land, machinery, raw materials, etc.) owned by the entire body of working people. It refers to state owned enterprises and the state portion in joint ventures. Collective ownership includes only a small portion and still exists in rural areas. It refers to ownership by a group of local people. Diversified forms of ownership include varying degrees of private ownership.

It is the growth of the private sector that leads observers to embrace the hope for a market economy in China. In 2005, a Chinese economist said in an interview with

Businessweek that “The major reform achievement has been in privatizing state enterprises. The private sector accounts for 70% of gross domestic product.” [10] The government media also attributed China’s economic growth mainly to the private sector “The latest figures from the All-China Federation of Industry and Commerce (ACFIC) showed that China’s private sector created 11.4 million new jobs in 2009, contributing to more than 90 percent of all new urban employment.” [11]

On the other hand, the government remains in the tight grip of the land and banking industry and large-sized enterprises. The state banking industry is notorious for having a high bad debt ratio and the State Owned Enterprises (SOEs) operate with low efficiency. Government control of the land is one of the major contributors to the corruption of officials, growing social unrest due to forceful demolition of residential housing, and skyrocketing housing prices. However there is not only no sign that the CCP is ready to give up or weaken that control, but the official rhetoric suggests the opposite.

“The policies of using foreign funds and allowing the private sector to expand will not weaken the predominant position of the public sector, which is a basic feature of the economy as a whole. On the contrary, those policies are intended, in the last analysis, to develop the productive forces more vigorously and to strengthen the public sector.” [12]

“This ownership structure exists not simply to maintain control over the rise in the private economy, but to consolidate, develop, and strengthen the public sector at the same time as the development and growth in private ownership, and always to maintain the foundational and dominant position of the public sector and the dominant and controlling position of the state-owned economy.” [13]

“The dominant position of public ownership is mainly reflected in the proportion of public assets out of all total assets; the state control of the national economic lifeline plays a leading role in the country’s development.” [14]

“To uphold and improve the fundamental economic system in the preliminary stage of socialism, we must first adhere to and improve public ownership as the main body and the state economy as the leading sector. If this main and dominant position is shaken and rejected, the socialist economic system will be shaken and rejected” [15]

Maybe because of these seemingly conflicting phenomena, observers find it difficult to comprehend the nature of China’s economic transformation. As it said in the Council on Foreign Relations’ 2007 China Task Force report, “China is modern and ancient. Communist and capitalist.” [16] However, China’s government scholars have

given clear and convincing answers to the co-existence of the rapid growth of the private sector and unswerving emphasis on state ownership. The following is from Wei Xinghua, a Marxism theorist and professor at Renmin University of China:

“To implement the basic economic system of the preliminary stage of socialism, one should be clear about two theoretical points. First of all, the means of production being wholly owned by society in the socialist system that the founders of Marxism talked about is to take place after socialism is born out of advanced capitalist countries. ... China is still far from a mature socialist model. Second, the elimination of private ownership is a gradual process side by side with the continuous development of productivity and the corresponding development of public ownership after the victory of the proletariat revolution. In other words, the eradication of private ownership is a historical process; even after the socialist revolution succeeds in advanced capitalist countries, the eradication of private ownership also needs to go through a historical process.”

“‘The socialist economic system’ exists in the preliminary stage of socialism and other future stages, and is a process of continuously maturing and developing. One can also envision that, at the end of the preliminary stage, the non-public ownership economy will not quickly be replaced. Entering into the intermediate stage, public ownership will further strengthen, and its proportion continuously increase, while the non-public sector will gradually decrease, and its proportion be reduced. ... at the advanced stage of socialism, when the socialist economy matures, the private economy will leave the stage of history.” [17]

Wei’s point is echoed in a Chinese *Wall Street Journal* article:

“If the ultimate goal of China’s development is socialist, then the current stage of state capitalism in China is only temporary. Its purpose is different from the state capitalism appearing in developed countries or other emerging markets. Their state capitalism is to ease the inherent contradictions of capitalism, and, in essence, to safeguard the capitalist system. However, China’s state capitalism may be to improve the socialist public ownership and eventually eliminate capitalist private ownership.” [18]

In addition to allowing private ownership, the economic reform has also brought in foreign capital and a competitive market, but they all serve the same purpose of improving socialist public ownership and eventually eliminating capitalist private ownership. In his famous “Southern Tour” talks after the 1989 students’ movement, Deng Xiaoping made these points very clear:

“Special economic zones are socialist, not capitalist. In the case of Shenzhen, the publicly owned sector is the mainstay of the economy, while the foreign-invested sector accounts for only a quarter. Even in that sector, we benefit from taxes and employment opportunities. We should have more of the three kinds of foreign-invested ventures [joint, cooperative, and foreign-owned]. There is no reason to be afraid of them. So long as we remain levelheaded, there is no cause for alarm. We have our advantages: we have the large and medium-sized state-owned enterprises and the rural enterprises. More importantly, political power is in our hands.

“Some people argue that the more foreign investment flows in and the more ventures of the three kinds are established, the more elements of capitalism will be introduced and the more capitalism will expand in China. These people lack basic knowledge. At the current stage, foreign-funded enterprises in China are allowed to make some money in accordance with existing laws and policies, but the government levies taxes on those enterprises, workers get wages from them, and we learn technology and managerial skills. In addition, we can get information from them that will help us open more markets. Therefore, subject to the constraints of China’s overall political and economic conditions, foreign-funded enterprises are useful supplements to the socialist economy, and in the final analysis they are good for socialism.”

“The proportion of planning to market forces is not the essential difference between socialism and capitalism.” “Planning and market forces are both means of controlling economic activity.” [19]

In March 2011, at an NPC session, Wu Bangguo, Chair of the National People’s Congress, spoke of five “no’s.” [20] The last “no”--No Privatization--reemphasizes that the CCP will not voluntarily lose its control of the national economy. Actually, as of today, princelings--the sons and daughters of senior Communist Party officials--head many large state-owned enterprises. [21]

State control of the economy fundamentally boils down to the Communist Party’s ruling status. Professor Wei has made it very clear:

“If (we) engaged in privatization, public ownership would be replaced by private ownership, and the socialist economic system would not exist. Private economy and the ownership of foreign capital are part of the capitalist economy. If they become the main body, then (we become) a capitalist system, and the basis of Communist Party rule will no longer exist.” [22]

Economic Success Validates the Political System and Socialism

Thirty years ago, economic reform was launched to save and prolong the Party's lifeline; 30 years later, the reform and the high economic growth, especially during the recent global financial crisis, have become the reason to justify and even glorify its one-party political system.

In January 2011, before Hu Jintao's visit to the U.S., he said in his interview with the *Washington Post*, "In the past 30-plus years since the reform and opening-up, notable progress has been made in China's political restructuring. The fact that China has enjoyed sustained, rapid economic growth and social stability and harmony proves that China's political system fits China's national conditions and meets the requirement of overall economic and social development." [23]

A Chinese Academy of Social Science scholar attributes China's success to the "correct leadership of the Chinese Communist Party:"

"Since 20 years ago, when the Cold War between East and West ended, China, a country with a population of 1.3 billion, under the correct leadership of the Chinese Communist Party, has not repeated the disastrous failure (resulting in) the disintegration of the Communist Party of the Soviet Union, nor has it followed the tragic fate of the Soviet style collapse and the Russian type recession. It has not only achieved economic development and social progress, but it has maintained a good momentum of reform, growth, stability, and harmony. In particular, after the outbreak of the international financial crisis, the Western socioeconomic system and mode of governing have hit a wall, and many countries are facing instability and an uncertain future. On the contrary, China has successfully survived the crisis and taken the lead in recovery, displaying the appeal of the Chinese model. For over 30 years, China has been a powerful driving force in the world economy; its political stability and form of government have influenced the world structure and enriched the world's political landscape. The ideological guidance and experience of China's development path have broadened the meaning of human progress, leaving a colorful stroke in the painting of world civilization." [24]

Many official documents reflect the fact that the late-2000s financial crisis that originated in the U.S. and was a huge blow to advanced economies and has become a perfect justification for the Beijing regime to tout the failure of capitalism and the superiority of socialism.

"From the viewpoint of the rise and fall of the capitalist and socialist systems, the crisis that is sweeping the globe was a heavy blow to the capitalist world. It exploded the myth advocated by some Western theorists that this is the end of history and capitalism will last forever. It has prompted a reflection on the rationality of capitalism

itself. This will undoubtedly help the world socialist movement, currently at a low ebb, to march forward. More importantly, while many crisis-hit capitalist countries are struggling, China has successfully overcome the adverse effects of the crisis, reached the national goal of rapid and steady growth, and achieved remarkable success. This is irrefutable proof that socialism with Chinese characteristics has great vitality; it demonstrates that socialism is a superior system. ... China's success is the greatest contribution to the world's socialist movement."

"Global communists share a general view (on the global financial crisis): the capitalist system generated the crisis; the outbreak of the crisis resulted from an intensification of the basic contradictions of capitalism. Therefore, only the elimination of the capitalist system can fundamentally eliminate this monster of a crisis. The crisis confirms that it is an inevitable historic trend for socialism to replace capitalism."

"Once again the crisis proved to the world the truth of Marx's theory, both as to the cyclical nature of crises in a capitalist economy and the inevitable demise of the capitalist mode of production. As long as the capitalists' insistence on private ownership does not change, the inherent contradictions within capitalism cannot be fundamentally resolved, and it will develop into a cyclical and worldwide economic crisis. Once the crisis is over, not only will the level of the socialization of production increase, but also the concentration and monopoly of production will intensify, deepening the basic contradictions of capitalism and creating conditions for an even more severe crisis. ... China, relying on the socialist system with public ownership as the main component, has not only withstood the crisis, but maintained a growth rate of 8%, outshining the rest of the world. Facts have proved that we have chosen the completely correct road of socialism with Chinese characteristics, which is the fundamental guarantee for sustained and rapid economic development and the great renaissance of the Chinese nation." [25]

Conclusion

In retrospect, the Chinese government's economic reform is clearly logical: The reform was for the survival of the Party; elements of capitalism were introduced in the reform process in order to achieve economic success, which, in turn, justifies and glorifies the Party's rule. In the long run, private ownership will be eliminated as China enters into the mature stage of socialism. This is the essence of China's economic development model.

Endnote:

[1] *Selected Works Of Deng Xiaoping*, “We Must Continue to Emancipate Our Minds and Accelerate the Reform,” May 25, 1988.

<http://web.peopledaily.com.cn/english/dengxp/vol3/text/c1850.html>.

[2] *Six Why's*, “Article Six: The Powerful Driving Force of the Development of Contemporary China,” June 12, 2009.

http://news.xinhuanet.com/politics/2009-06/12/content_11531499.htm.

[3] The Gang of Four (四人帮) was the name given to a political faction composed of four Chinese Communist Party officials. They came to prominence during the Great Cultural Revolution (1966-1976) and were subsequently charged with a series of treasonous crimes. The members consisted of Jiang Qing, Mao Zedong’s last wife as the leading figure of the group, and her close associates Zhang Chunqiao, Yao Wenyuan, and Wang Hongwen.

[4] *Selected Works Of Deng Xiaoping*, “Uphold The Four Cardinal Principles,” March 30, 1979.

<http://web.peopledaily.com.cn/english/dengxp/vol2/text/b1290.html>.

[5] The Democracy Wall (西单民主墙) was a long brick wall on Xidan Street, Xicheng District, Beijing, which became the focus for democratic dissent. Beginning in December 1978, in line with the Communist Party of China’s policy of “seeking truth from facts,” activists in the Democracy movement—such as Xu Wenli—recorded news and ideas, often in the form of big-character posters (dazibao), during a period known as the “Beijing Spring.” The first posting on the Wall was by a poet from Guizhou Province, Huang Xiang. These activists were initially encouraged to criticize the Gang of Four and previous failed government policies as part of Deng Xiaoping’s struggle to gain power, but the wall was closed in December 1979, when the leadership and the communist party system were being criticized along with acknowledged mistakes and previous leaders. The shutdown coincided with suppression of political dissent. The Fifth Modernization was a signed wall poster placed by Wei Jingsheng on December 5, 1978, on the Democracy Wall in Beijing. It was the first poster that openly advocated further individual liberties. It created a spectacle, espousing that freedom was the only “modernization” that really mattered, rather than improved living standards. The poster was in response to the government’s “Four Modernizations” campaign.

[6] *Selected Works Of Deng Xiaoping*, “Uphold The Four Cardinal Principles,” March 30, 1979.

<http://web.peopledaily.com.cn/english/dengxp/vol2/text/b1290.html>.

[7] *Selected Works of Deng Xiaoping*, “Excerpts from Talks Given in Wuchang, Shenzhen, Zhuhai and Shanghai,” January 18 - February 21, 1992.

<http://web.peopledaily.com.cn/english/dengxp/vol3/text/d1200.html>.

[8] Ibid.

- [9] *Six Why's*, "Article Six: The Powerful Driving Force of the Development of Contemporary China," June 12, 2009.
http://news.xinhuanet.com/politics/2009-06/12/content_11531499.htm.
- [10] *Businessweek*, "China Is a Private-Sector Economy," August 22, 2005.
http://www.businessweek.com/magazine/content/05_34/b3948478.htm.
- [11] *China Daily*, "Private sector major contributor to China's new employments in 2009," January 30, 2010.
http://www.chinadaily.com.cn/bizchina/2010-01/30/content_9402597.htm.
- [12] *Selected Works Of Deng Xiaoping*, "There Is No Fundamental Contradiction Between Socialism and a Market Economy," October 23, 1985.
<http://web.peopledaily.com.cn/english/dengxp/vol3/text/c1480.html>.
- [13] Chinese Academy of Social Sciences, Marxism Research Online, "Analysis of China's Economic Development Model," March 12, 2010.
<http://my.cass.cn/file/2010031235517.html>.
- [14] *Six Why's*, "Article Five: The Basic Economic System Full of Vitality," June 10, 2009.
http://news.xinhuanet.com/politics/2009-06/10/content_11520645.htm.
- [15] Red Flag Manuscript, "Uphold and Improve Our Basic Economic System of the Present Stage," September 25, 2010.
http://www.qsttheory.cn/hqwg/2010/201018/201009/t20100925_50285.htm.
- [16] Council on Foreign Relations Task Force Report, "U.S.-China Relations An Affirmative Agenda, A Responsible Course," April 2007.
<http://www.cfr.org/china/us-china-relations/p12>.
- [17] *Red Flag Manuscript*, "The Formation and Consolidation the 60 Years of New China's Basic Socialist Economic System," September 10, 2010.
http://www.qsttheory.cn/zywz/200909/t20090909_11132.htm.
- [18] *Chinese Wall Street Journal*, "China Model and State Capitalism," May 5, 2010.
<http://chinese.wsj.com/gb/20100505/CWS184713.asp>.
- [19] *Selected Works of Deng Xiaoping*, "Excerpts from Talks Given in Wuchang, Shenzhen, Zhuhai and Shanghai," January 18 - February 21, 1992.
<http://web.peopledaily.com.cn/english/dengxp/vol3/text/d1200.html>.
- [20] No multiparty election, no diversified guiding ideology systems, no separation of powers, no federal system, no privatization.
- [21] *The Australian*, "China's top jobs all in the family," June 09, 2008.
<http://www.theaustralian.com.au/news/chinas-top-jobs-all-in-the-family/story-e6frg6t6-1111116576044>.
- [22] *Red Flag Manuscript*, "Uphold and Improve Our Basic Economic System of the Present Stage," September 25, 2010.
http://www.qsttheory.cn/hqwg/2010/201018/201009/t20100925_50285.htm.
- [23] *Washington Post*, "Excerpts from Hu Jintao interview," January 16, 2011.

http://www.washingtonpost.com/wp-dyn/content/article/2011/01/16/AR2011011603532_3.html?sid=ST2011011404809.

[24] *Red Flag Manuscript*, “The Political Advantage and Ideological Value of the China Path,” January 11, 2011.

http://www.qsjournal.com.cn/hqwg/2011/201101/201101/t20110111_61810.htm.

[25] *Red Flag Manuscript*, “Profound Analysis of the Root Causes of the Global Financial Crisis, Further Understand the Nature of Contemporary Capitalism,” October 9, 2010.

http://www.qsjournal.com.cn/hqwg/2010/201019/201010/t20101009_51414.htm.