

People's Republic of China After Chairman Mao

- In 1972, Mao Zedong met with Nixon and relations with the rest of the world began to normalize.
- Mao Zedong, Zhu De, and Zhou Enlai died in 1976. Hua Guofeng was new Chairman, and arrested "Gang of Four."
- Deng Xiaoping – a small, intelligent, pragmatic, and popular figure within the CCP – was admitted back into circles of power after being purged twice.
- In Dec. 1978, Deng Xiaoping emerged as "paramount leader" after his proteges (Hu Yaobang, Zhao Ziyang) were elected to highest formal positions.

Deng Xiaoping



- End of "Politics in Command" -- managers promoted on the basis of skills, rehabilitation of rightists, end of class labels.
- Political restructuring to end personality cults: no more CCP Chairman, term limits on highest positions of General Secretary, Premier, et cetera.
- Party legitimacy still depended on Mao's reputation, so party repudiated most of his policies with repudiating him.
- Pragmatic "black cat, white cat" approach.

China's Economic Reforms

- Open Door Policy (by 1980):
Joint-Ventures, Special Economic Zones, foreign exchange retention, tourism, et cetera. China granted "MFN Status" by U.S. and other developed countries, but still subject to textile and other quotas along with annual MFN Review.
- Rural Reform (by 1980):
Household Responsibility System, decollectivization, rural and urban markets, new rural enterprises (TVEs), and the eventual release of surplus labor.
- Industrial Reforms (by mid-1980s):
Decentralization, SOE autonomy, profit retention, two-tier pricing system, banking reforms, *getihu* system, et cetera.
SOEs improved productivity in 1980s but also started to borrow heavily from state banks, and by late 1980s competition, rising productivity from other sectors, and SOE inefficiency was leading to falling profits and falling market shares.
- By late 1980s, inflation was rising and many inside and outside the CCP were becoming dissatisfied.

Chinese Policy after 1989

- Zhao Ziyang pushed for tolerance of private sector and wholly-owned foreign firms, but was blamed by CCP conservatives for reform problems.
- Student protests in 1987 led to ouster of Hu Yaobang, and large Tian'anmen protests after death of Hu led to a crackdown in June 1989, ouster of Zhao, and worsening of international relations. New leadership included Jiang Zemin and Li Peng.
- Retreat from reform in 1989-1991 did not help SOEs but did lead to millions of rural job-seekers coming to the cities.
- Deng Xiaoping pushed for return to reform with his trip to SEZ in Shenzhen.
- In 1992, the CCP announced that China would seek to create a "Socialist Market Economy" (*Shehuizhuyi Shichang Jingji*), effectively renouncing traditional communist objective. Prior attitude was that reform was temporary.

The Socialist Market Economy

- Initial reforms included:
 - Efforts to improve SOE management through limited liability incorporatization and creation of stock markets, but state retained controlling share.
 - Tax and fiscal reform to prevent rising deficits.
 - Simplification of exchange rates and devaluation to black market rate, full convertibility of current account by 1996.
 - Separation of state banks into commercial banks and policy banks.
- SOEs were to be the "cornerstone" of the SME, but their profits, shares, and performance plummeted.
- NPL problem in state-owned banks 25-50% of loans, but state banks continued to lend to SOEs.
- Inflation accelerated in mid-1990s, wiping out real effect of devaluation. Zhu Rongji named vice-premier (later premier) and began to tighten money and credit growth and tried to reduce NPL problems.

China After 1997

- Deng died in 1997, just before HK was returned to China.
- Asian financial crisis of 1997 did not happen in China because foreign exchange transactions were limited to exports and imports (foreigners were in segmented "B shares" market). But export growth did slow after other Asian economies devalued their currencies, and government has used fiscal policy to keep demand high.
- After Deng died, Jiang Zemin announced new "release the small, retain the large" policy for SOEs, and pushed to allow private entrepreneurs into the CCP.
- In 1990s, China became the largest less-developed recipient of FDI, and this funded China's growing export sector.
 - Many of these exports are in labor-intensive products that used to be produced by other Asian countries, though China is making signs of moving into higher-tech areas.
 - Export sector relied upon to deal with urban unemployment problem.
 - China now accounts for 10% of U.S. imports, and blamed by some in U.S. for loss of manufacturing jobs. The U.S. has lost 2 million manufacturing jobs since 1995, while China has lost 16 million. China runs a large current account surplus with the U.S. but a deficit with the rest of the world.

China Now

- ❑ China was finally admitted into the WTO after years of trying, and agreed to open its import, telecommunications, and banking sectors to foreign competition and investment. China is seen by many as dragging its feet, especially in banking.
- ❑ Rural areas continue to have large surplus labor problem, and many worry about effect of U.S. agricultural imports.
- ❑ Price deflation from increased competition and rising money demand eroded real exchange rate and led to implicit insurance for domestic depositors and FDI investors. China now pressured to allow currency to revalue or even float, but this is dangerous to banking sector.
- ❑ Jiang Zemin stepped down as CCP General Secretary and President, replaced by Hu Jintao. Jiang recently removed from CCP Military Affairs Commission.

Questions

- 1) Prior to 1957, what was the Chinese approach to creating socialism?
- 2) What was the Great Leap Forward? How did this approach differ from more traditional socialist approaches? What did it try to do? What were its effects?
- 3) What was the Cultural Revolution? How did it affect the Chinese economy?
- 4) What were the major economic and political events in China under Mao Zedong?
- 5) How did Chairman Mao's vision of Chinese development differ from most other socialist economies?
- 6) Discuss the major economic reforms in China under Deng Xiaoping. Contrast reforms in agriculture and industry.
- 7) What is the significance of China's "Socialist Market Economy," and what reforms and policies does it entail?
- 8) What are the causes of the current crisis in China's state-owned enterprises?
- 9) How was China affected by the Asian Financial Crisis?
