

2 The Four Modernizations up to 1989

▶ **Key question:** How did the Four Modernizations transform China politically and economically?

From 1978, the Four Modernizations became more directly associated with Deng than with Zhou. Both men sought to modernize four areas of the PRC's economy: agriculture, industry, science and technology, and national defence.

How did the Four Modernizations aim to end poverty in the countryside?

→ Agriculture

In 1980, about 90 per cent of the PRC's population still lived in the countryside, where radical reform was an economic necessity by the end of the 1970s. Greater agricultural productivity was needed. This was because:

- The PRC relied on grain imports.
- The population was rising.
- The PRC possessed only 0.25 acres of land per capita, compared with 2.1 acres per capita in the USA.

The Third Plenum of the Eleventh Central Committee marked a real turning point. It sanctioned reforms in rural areas and announced that local village markets, which had been prohibited since the 1960s, were necessary. This meant that farmers could grow crops for profit, rather than only to fulfil government production quotas, and sell their produce at local markets. It was evident that the CCP had become less hostile to at least limited capitalism to address certain economic requirements.

KEY TERM

Household responsibility system From 1980, peasants were allowed to lease land from the state and to generate a profit by selling surpluses.

Household responsibility system

In 1979, the **household responsibility system** was introduced in order to begin structural reform of agriculture in China. The system of communes and collectivization in agriculture began to be dismantled. Peasants were allowed to lease small plots from the state. The CCP made the ideological point that peasants were merely using land rather than owning it. Initially, peasants negotiated with the communes about what to produce and had to hand over a quota of their crop. As the process of decollectivization advanced, the really important innovation was that farmers could sell any surplus for profit. They could even hire wage labourers. It created a great incentive to produce, but also had limitations (see Source D).

SOURCE D

Excerpt from *China and the Crisis of Marxism-Leninism*, sixth edition, by Franz Michael, Carl Linden, Jan Prybyla and Jürgen Domes, published by Westview Press, Colorado, USA, 2000, page 65. Michael was a Professor of History at University of Washington and National Chekiang University in Hangchow, China. Linden is a Professor Emeritus of Political Science and International Relations at George Washington University. Prybyla was a Professor of History at Pennsylvania State University. Domes was a Professor of Political Science at the University of Saarland, Germany.

[The] idea that 1 acre per family is socialist but 2 acres is capitalist has not been fully exorcised. Since 1980, however, progress has been made on that front. Consolidation of land parcels and their expansion are now permitted, if still carefully watched for possible capitalist abuses.

According to Source D, how was capitalism in rural areas defined?

Improvements in output

By 1984, 98 per cent of peasant farmers had adopted this new, more entrepreneurial system. In the southern province of Guangdong, agricultural incomes doubled between 1978 and 1982 and this was not an isolated example. In 1984, China's grain harvest topped 400 million tonnes for the first time, despite the fact that many farmers were now beginning to diversify into other crops.

Improvements in the standard of living

To improve the standard of living, subsidies to food producers became predominant after 1979 in order to keep urban food prices stable as agricultural prices and the cost of producing food increased. Basic industrial goods and urban food tended to be under-priced while non-basic consumer goods were over-priced with profit margins of 30–60 per cent compared with 5 or 10 per cent for the former. An indicator of an improved standard of living after 1976 is the decline in child mortality rates due to the much improved quantity and quality of available food, rising incomes and household consumption, reduced illiteracy and expanded education, child vaccination programmes, improved water supplies and more medication.

Long-term leases

By the end of the decade, the initial restrictions of the household responsibility system had been loosened. From 1987, land could be contracted out or leased for 50 years, encouraging peasants to feel that they owned the land they farmed and could improve it, instead of relying on the state to do so. In fact, the government cut its investment in agriculture from 25 billion yuan to 18 billion yuan from 1981 to 1985. In irrigation, the government went from investing two-thirds of the state agricultural investment in 1980 to one-third in 1986–90. However, these cuts were not replaced by investments on the part of the farmers. Irrigation and drainage systems failed to be replaced or repaired, with predictable results. Without

clear land ownership, many peasants were probably less interested in long-term investment than in purchasing consumer goods.

Other reforms

Further reforms included the right of farmers to sub-lease land that they did not wish to farm to others. Also, the Law of Succession in 1985 allowed for contracts to be passed on from generation to generation within a family. Clearly, the Maoist ideal of egalitarian peasant communes in which there was no private enterprise was over. As the historian Edwin E. Moise has stated: 'collective agriculture was virtually dead'; the family had replaced the commune as the main economic unit in the countryside.

SOURCE E

A Chinese peasant uses a bullock to plough a rice paddy, as his ancestors did, in a village near Xingguo in south China's Jiangxi province, 1993.



? What information is conveyed about the effect of agricultural reforms in the PRC in Source E?

How did the Four Modernizations affect industry?

KEY TERM

State-owned enterprises (SOEs) Factories and businesses owned and operated by the government in the PRC.

Industry

Under the Four Modernizations, industry changed:

- Individual enterprises expanded.
- **State-owned enterprises (SOEs)** changed to collective ownership.
- Some enterprises operated under joint ownership (state and individuals, state and foreign companies).
- Some enterprises became privately owned.

Even those that remained SOEs were more exposed to market forces in the 1980s and were now allowed to sell any surpluses, over and above their quota, for a profit on the open market. This was known as the Sichuan Experiment because it was pioneered by the reforming Premier Zhao Ziyang when he was Party Secretary in Sichuan province.

The table in Source F shows the advances in industrial output between 1978 and 1987.

SOURCE F

A table of the output of major industries from data issued by the Chinese State Statistical Bureau on 23 February 1988. Reprinted in *The Rise of Modern China*, fifth edition, by Immanuel C.Y. Hsü, published by Oxford University Press, UK, 1995, page 857. Hsü was a Professor of History at the University of California, Santa Barbara.

Industry	Annual production (million tonnes)			
	1978	1981	1984	1987
Coal	618	622	789	920
Crude oil	104	101	115	134
Steel	32	36	43	56
Pig iron	35	34	40	54

Sources: *Almanac* 26; State Statistical Bureau, 23 Feb. 1988, *Beijing Review*, 7–13 March 1988; *Monthly Bulletin of Statistics, China*, March 1988.

The labour market

The labour market also became much more flexible. Before 1981, workers were controlled by party bureaucrats, or cadres, who were responsible for each SOE. Workers needed permission from these cadres if they wished to transfer or leave an industry. Rural workers had to obtain a letter of approval from a cadre to even visit a city.

A new labour contract system began in 1981, when urban workers were given more freedom to search for jobs on their own and SOEs were given more freedom to terminate worker contracts. In 1984, Zhao Ziyang advocated further loosening of the restrictions on SOEs. The Central Committee announced that SOEs should be totally responsible for their labour force and have freedom to determine prices of goods produced and worker wages. By September 1986, enterprise managers were allowed to enter into contracts directly with workers instead of accepting workers that had been assigned to the enterprise by government labour bureaus; these had often been contracts for life. Now managers could contract workers for different time spans and dismiss them if the enterprise no longer needed them or if they were inefficient.

Managers were also allowed to use profits to raise wages for more productive workers. All this meant the abolition of the traditional CCP economic principle that had guaranteed permanent employment for state sector workers. The success of **town and village enterprises (TVEs)** created a mass migration from the countryside to urban areas of people searching for non-farm work.

Town and village enterprises (TVEs)

One of the most significant of Deng's economic reforms within the Four Modernizations was the creation of TVEs all over the country. These allowed

? What can be inferred about the Four Modernizations from Source F?

KEY TERM

Town and village enterprises (TVEs) Private businesses permitted by the CCP as part of the Four Modernizations policy.

ordinary people to establish small businesses outside the control of the state and the party. Often these were small carpentry shops, grocery stores, lumberyards, ceramics kilns, slaughterhouses, truck and bus systems and more. It was now possible, for what was in effect a new bourgeoisie, to sell goods outside their home districts, as well as to take loans from state banks.

The TVEs were intended to operate on a small scale, but their long-term impact was to initiate an entrepreneurial spirit in China. In 1985, 17 million small businesses were registered, compared with a mere 100,000 in 1978. By 1992, there were 20 million TVEs employing 100 million people. These small businesses generated jobs, soaking up excess rural labour. By the end of the decade, private enterprise was no longer confined to the small business sector and the TVEs were providing real economic competition for SOEs.

KEY TERM

Special Economic Zones (SEZs) Designated areas of China, usually on the coast, where foreign investors were encouraged by concessions like tax breaks, to invest and set up businesses.

Macau A colony of Portugal in southern China until 1999.

Hong Kong A colony of Britain from the mid-nineteenth century until 1997.

Remittances Money sent back by a worker to a town or village of origin to support family members.

Joint ventures When two or more parties engage in an economic activity together by sharing control, investment and profits.

Special Economic Zones

In order to further economic reforms, Deng successfully argued the idea of **Special Economic Zones (SEZs)** at a Central Committee conference in April 1979. The first SEZs were established in the same year. The SEZs were designated areas of the country in which it was hoped foreign companies would make significant investments. The positioning of these first SEZs in the prosperous southern coastal belt, near foreign enclaves, was deliberate, so as to make them even more attractive locations for overseas investors. They were:

- Zhuhai, near **Macau**
- Shenzhen, near **Hong Kong**
- Shantou and Xiamen, adjacent to Taiwan.

SEZs functioned as self-contained entities. For example, non-residents needed an internal passport to visit an SEZ. The SEZs did have a significant impact on the rest of the PRC's economy and the experiment was so successful that it was extended to a further 14 cities in 1984. The 24 million migrant workers who arrived in the SEZs between 1978 and 1988 had an economic 'ripple effect' as their **remittances**, often sent back to villages away from the prosperous coastal belt, helped to raise living standards in rural areas. By 1985, PRC exports were worth \$25 billion per annum compared with \$10 billion in 1978.

Foreign investment

A law on **joint ventures** was passed in 1979 allowing foreign investment in PRC enterprises. Deng went even further in 1982, announcing that he had no objections to 'enterprises wholly owned by foreign businessmen' in the PRC. Tax reductions and devaluation of the yuan, whose value almost halved against the US dollar between 1980 and 1985, also made China attractive to multinational companies.

SOURCE G

A CCP propaganda poster from 1987 entitled 'Special Economic Zones – The Gateways to China.'



Coastal Development Plan

In 1988, the programme was widened as part of the Coastal Development Plan to attract even more foreign investment. The plan called for the development of export-oriented manufacturing industries. This introduced further foreign capital, advanced technology and training into the country.

What message is conveyed in Source G and what evidence supports your answer?



What does Source H indicate about the SEZs?

SOURCE H

Map of China showing the Special Economic Zones.



How did the Four Modernizations affect science and technology?

Science and technology

An important part of the Four Modernizations, directed to making the PRC competitive in the world economy and to improve the standard of living in China, was science and technology. The changes starting in 1980 were consistent with the Open Door Policy regarding economic development. The PRC had to ensure access to world-class technology for economic development to proceed. To that end, economic incentives to develop and share technologies were included in the Four Modernizations' reforms. The state began to sponsor research in technological innovation, in conjunction with business objectives.

The PRC held a National Science and Technology Conference in 1978, where a serious government commitment to become competitive in the world market was launched. A state science and technology commission was created to this end.

By the mid-1980s, scientists could travel abroad and communicate freely internationally in order to create new technology ventures in the PRC. The state made available the funds required for research institutes and universities and put in place competitive procedures for public funding of research projects. This created an incentive for scientists and technology experts to join the business world by commercializing new knowledge and technology. In 1980, a further incentive was granted with the promulgation of the patent law to protect intellectual property rights.

SOURCE I

Excerpt from 'China's Special Economic Zones' by Xu Dixin, *Beijing Review*, No. 50, published by the China International Publishing Group, 1981. The *Beijing Review* is a national weekly PRC magazine published in English. Xu is Vice-President of the Chinese Academy of Social Sciences and director of its Institute of Economics.

Some people wonder why it is necessary, more than 30 years since the founding of the People's Republic, to set up special economic zones. They also wonder whether the special zones signify that China is seeking help from capitalist countries. Such concerns are understandable, but unwarranted. Since its establishment, New China has scored brilliant achievements in many fields of work, including economic construction. But it has also traversed a tortuous path. Compared with the world's most advanced nations, China's level of production is still rather low. Its funds and technology are incompatible with the requirements of the modernization drive. Furthermore, while implementing its policy of self-reliance in economic construction, China does not exclude co-operation with capitalism. Facts will prove that through developing the economies of the special zones, we will be able to make use of foreign and overseas Chinese capital, as well as state capitalism, to develop China's socialist economy. Economic construction in the special zones will possibly become a special form of supplement to the development of China's socialist economy. The total economies of the special zones will only constitute a very small portion of the national economy. Although the socialist economy will continue to dominate, the role of the special zones must not be overlooked.

According to Source I, what was the purpose of the SEZs?



Defence

During the period of border incidents and tension with the USSR in the mid-1970s and the failed invasion of Vietnam in February 1979 (see page 72), it became clear that the army, known as the People's Liberation Army (PLA), had weaknesses that needed addressing. China required a modern, capable army with a hierarchy that supported the other reforms taking place.

How did the Four Modernizations affect defence?

By the end of the 1970s, over 70 top-ranking army officers had been dismissed and the army's leadership was restructured. More army officers were appointed to the Central Committee and other administrative positions in the country. The economic reforms as a result of the Four Modernizations contributed to the well-being and efficiency of the army and helped to modernize it and increase its professionalism. For example, salaries increased to be competitive with the civilian world.

In 1989, the army proved its loyalty to the CCP and its leaders by supporting the government against demonstrators in Tiananmen Square (see Chapter 4). It successfully integrated into the economy and defence industries.

To what extent did the Four Modernizations change the PRC?

→ The impact of the Four Modernizations

By the late 1980s, the PRC had the appearance of a vigorous capitalist economy, presided over by the CCP. This obvious contradiction was the source of discontent within the CCP during the 1980s, especially by its older members. Chen Yun, the architect of the first Five Year Plan in the 1950s (see page 13), felt that Deng's economic reforms were moving too quickly and that the free market should be a 'bird in a cage' – in other words, tightly controlled and regulated at all times. Deng Xiaoping relentlessly referred to the PRC's new policy of modernizations as a new interpretation of Maoist doctrine to end PRC poverty. This view ultimately reigned over opposition in the Politburo and the CCP.

The PRC, in Deng's view, was not meant to become a fully fledged capitalist economy. At the end of the 1980s, for example, it did not possess definitions of property rights, a bankruptcy law or a stock market.

Two economies

In many ways, by the late 1980s, the PRC had two economies. SEZs had helped to create real prosperity along coastal areas and many had become cities in their own right by the end of the decade. Shenzhen, for example, had grown from a fishing village across the border from Hong Kong into a manufacturing hub housing millions of migrant workers. The SEZs were tied into the world economy and had created a new class of managers who were familiar with the workings of global capitalism. There were up to 50,000 PRC managers running factories for foreign investors by the end of the decade. Outside the SEZs and in the PRC's interior, agriculture still dominated the economy and SOEs remained uncompetitive. Rural areas and most cities in the PRC remained poor compared to SEZs.

Inflation

Rapid economic growth created a demand for consumer goods, raw materials and housing that could not be immediately met. Between 1987 and 1989, despite the vigorous reforms in the economy, problems in agriculture, inflation, unemployment, income inequalities, government corruption and

worsening urban living standards became apparent. Naturally, the CCP sought to control these market forces by returning to strict price controls and even rationing. Inflation had reached between 18.7 and 30 per cent by 1988. This necessitated strict price controls from the government in order to bring it down.

According to historian Immanuel C.Y. Hsü, those living in urban areas saw their purchasing power decline by 100 per cent between 1983 and 1988. Many workers in SOEs lost their jobs in efforts to make industry more efficient and profitable. As in most **developing economies**, there was a large amount of migration to cities from rural areas across the decade as the average industrial worker earned up to eight times more per month in the early 1980s than the typical peasant. The influx from the countryside created an **urban underclass** of up to one million in Beijing alone by 1989, whose non-urban official residential status meant that they did not qualify for any aid from the state.

SOURCE J

Excerpt from *The Rise of Modern China*, sixth edition, by Immanuel C.Y. Hsü, published by Oxford University Press, UK, 2000, pages 843 and 852. Hsü was a Professor Emeritus of History from the University of California, Santa Barbara, California, USA.

On October 1, 1984, on the occasion of the 35th anniversary of the founding of the People's Republic, he [Deng] confidently announced to the nation that the annual economic growth rates of 7.9 percent during the period 1979–83 and of 14.2 percent in 1984, surpassed the 7.2 percent needed to quadruple the GNP to \$1 trillion by the year 2000 ... Perhaps the most visible result of the economic reforms was the mushrooming of private businesses and free markets in both rural and urban areas. Private businesses grew in number from 100,000 in 1978 to 5.8 million in 1983 and 17 million by 1985, with some making impressive profits in the capitalist fashion ... These free markets and private businesses constituted a lively sector in the vast sea of state-owned enterprises ... People complained of inflation, which outpaced both wage increases and cost-of-living adjustments. Inflation was officially put at 4 percent in 1979, 6 percent in 1980, 2.4 percent in 1981 and 1.9 percent in 1982, though the unofficial estimates ranged from 15 to 20 percent or more annually ... Confusion, fear and disbelief were prevalent. Having experienced the hardships caused by the hyperinflationary period of 1945–49, the Chinese dreaded any sign of its recurrence.

Corruption

Corruption was a major problem during the period of economic development. By the end of the 1980s, the phenomenon of companies operated by the children of senior party officials was commonplace. Deng's own son had a conglomerate with over 100 subsidiaries until it was shut down in 1988 when allegations about non-payment of taxes were made

KEY TERM

Developing economies

National economies which are in the process of being developed to raise living standards.

Urban underclass

The lowest socio-economic group in a city of poor, often unemployed, people.

According to Source J, what were the negative economic consequences of the Four Modernizations?

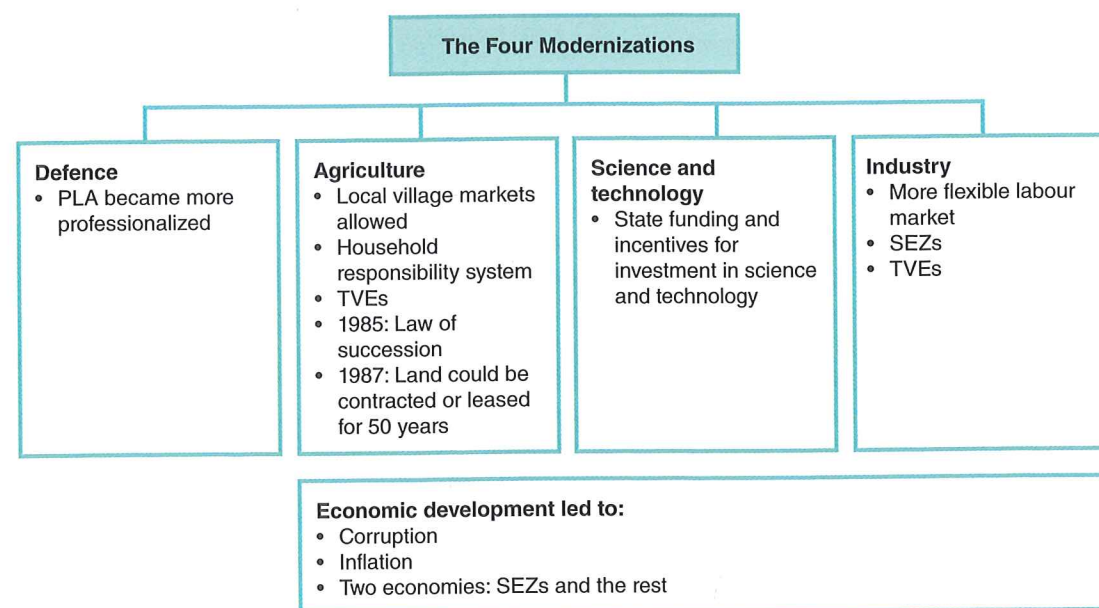
public. Corruption became an established feature of political and economic life in the 1980s. Over 40,000 cases of economic corruption were reported in 1983–4 and in 1987, 150,000 CCP members were punished for corruption or abuse of authority.

SOURCE K

Excerpt from *A History of China*, second edition, by J.A.G. Roberts, published by Palgrave Macmillan, UK, 2006, page 290. Roberts is Principal Lecturer at the University of Huddersfield in 1999, specializing in the history of China and Japan.

China experienced an economic boom and between 1981 and 1986 China's industrial output nearly doubled. Although China's industrial sector had achieved an impressive rate of growth, it was still controlled by a centralised planning system which determined what an enterprise should produce, where it should obtain its raw materials and where and at what price it should sell its products. In 1984, while China was suffering the consequences of an energy crisis, economic policy began to shift away from centralised planning towards the greater use of market forces ... Although these reforms freed up the market, they also accelerated inflation and encouraged corrupt practices.

? What were the economic disadvantages of the 'centralised planning system' described by Roberts in Source K?



SUMMARY DIAGRAM

The Four Modernizations up to 1989

3 Key debate

▶ **Key question:** How successful were Deng Xiaoping's economic policies?

The legacy of Mao Zedong and Hua Guofeng

In order to evaluate the success of Deng Xiaoping's economic policies, many historians have chosen to first evaluate the economic legacy of Mao Zedong and Hua Guofeng. This establishes the exact nature of the economic environment in which Deng Xiaoping operated at the time of the Third Plenum of the Eleventh Central Committee in 1978.

Historian Immanuel C.Y. Hsü writes sternly about Mao in his seminal book *The Rise of Modern China*. Like many historians, he believes that Mao's economic policies had been incoherent and unsuccessful. Hsü argues that economic growth prior to the Four Modernizations was 'erratic' at best and that the standard of living was 'extremely low'.

However, Jack Gray's research, while he was living in China in 1982, has raised the interesting point that the decentralization of the PRC's economy during the Cultural Revolution may have laid the platform for later successes. He has also discovered that some modernizing policies, such as the TVEs, appear to have pre-dated Deng's time as paramount leader. In other words, Deng may have built on foundations that were already in place. Tellingly, Gray argues that despite the Great Leap Forward, 'from 1952 to 1975 China's gross domestic product grew at an average rate of 6.7 per cent per annum'.

Other historians have also argued that Hua Guofeng helped to lay the groundwork for the Four Modernizations. Historian Alan Lawrance makes the important point that it was under Hua that an emphasis was made on educating a more technically knowledgeable class. To that end, universities began to revive and a greater emphasis on academic rigour and scientific accomplishment began to be the norm. This helped to sow the seeds for economic growth in the 1980s.

Deng: a great economic reformer?

As the 1980s continued, it became clear that the PRC had entered a dynamic phase of rapid economic growth. The *Statistical Yearbook for China* for 1986 shows that industrial output nearly doubled between 1981 and 1986. Deng began to be praised in the international press as a Chinese **Colbert** or likened to the leaders of the **Meiji period** in Japan. Deng's powers of persuasion in convincing the Central Committee of the CCP to support his pragmatic approach to end China's lack of economic development was addressed by historian Alan Lawrance: 'it was Deng above all others who

KEY TERM

Colbert A successful French economic reformer in the reign of Louis XIV of France in the late seventeenth and early eighteenth centuries.

Meiji period A time of economic and social reform in Japan from 1868 to 1912 during which Japan successfully industrialized.