

China in post-WWII Global History
4. PRC Domestic reforms & challenges.
Reconnection to global economy

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Europe in a Global World (Global history)

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Part I

China's place in the global economic setting (1950s to 1980s)



1950s & 1960s → two decades of rapid growth in industrialised countries

- recovery from WWII in US & West Europe + European economic integration + trade liberalization through OEEC and GATT
- fast economic growth in East Asia (Japan + Malaysia + South Korea + Taiwan) based on export-led models and development programmes supported by US
- strains on Bretton Woods system (early 1960s) due to: 1) decreasing confidence in exchange rates of US\$ and crises of British pound → ad hoc adjustments outside IMF; 2) difficulty to enforce controls over international investments and capital flows;
- Expansion multilateral companies challenged influence of states and multilateral institutions
- 1960s → Gap between rich and poor countries continued to grow → politicization of issue of development culminating in UNCTAD 1964

Early 1970s entering crisis

- Early 1970s → US major debtor country though remaining world's richest and biggest economy + US productivity declined
- US\$ increasingly overvalued = official value of dollar did not reflect market demand & supply
- Bretton Woods enters crisis → attempts to reform IMF
- 1971-1973 → Collapse international monetary system → the balance in the system weakened → no more pegged (regulated) exchange rate regime but permanent floating exchange rates
- Nixon Shock (1971) more nationalistic attitude towards international ec relations → abolish gold standard = convertibility of dollar to gold (reserves are no more directly guaranteed by gold possessions) + Europe to contribute more to defense + cutting trade barriers to US → Japan forced to revalue currency → stop flood of cheap products into America

1970s to 1985 → economic crises

- Collapse Bretton Woods + oil crises + inflation & slow growth → global imbalance emerged btw oil exporters (Middle East) and oil importers (Europe + US + Japan + developing countries) → 1974 Global ec recession
- The four Asian tigers hit by crisis but kept much better than West thanks to close relationship btw authoritarian governments and industrialists (Taiwan, South Korea, Singapore). Hong Kong kept going because it took the chance to transform from manufacturing economy based on exploitation of cheap labor into international financial centre
- 1970s crisis hit much harder Latin America and Africa than Asia
- 1980s IMF, WB and the financial world busy looking for solutions to provide way out to countries particularly hit by crisis

1980s – 1990s new globalization (market liberalization + innovation in communication and transports)

- trade, migration and capital flows expanded quickly, and more countries were engaged ever more intensively in international economic relations
- after ec crises → shift to more open markets for finance and merchandise trade
- East Asian newly industrialised economies offer model for devp countries to emulate
- Shift of focus on developing countries
- Expansion of multilateral companies worldwide
- IMF & WB promote market liberalization (including devaluation, financial liberalization, freer trade)

1980s reconnecting to global ec. relations

- In 1980s China gets closer to global economic relations
- Changes in geopolitics (Nixon shock + oil crisis) made the first step possible (admission to US)
- Then from 1978 China's economic reforms gradually set the conditions for China's economy to participate fully in world trend
- China had been a member of the IMF and the World Bank since 1946. After 1949, China's representation on the boards of these institutions switched to that of the Republic of China (ROC).

Part II

China's economic reforms (1978 - 1993)



1978.... TRANSITION or ... TRANSFORMATION ?

Planned
Economy

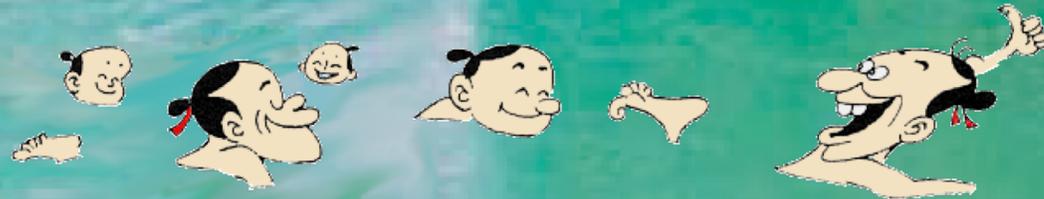


Market
Economy

WTO

BJ Olympics
SH Expo

Rural
society



磨着石头过河

1976
Mao's death

1978 -
Deng's way to
reforms



Deng Xiaoping
Pragmatism
Modernization

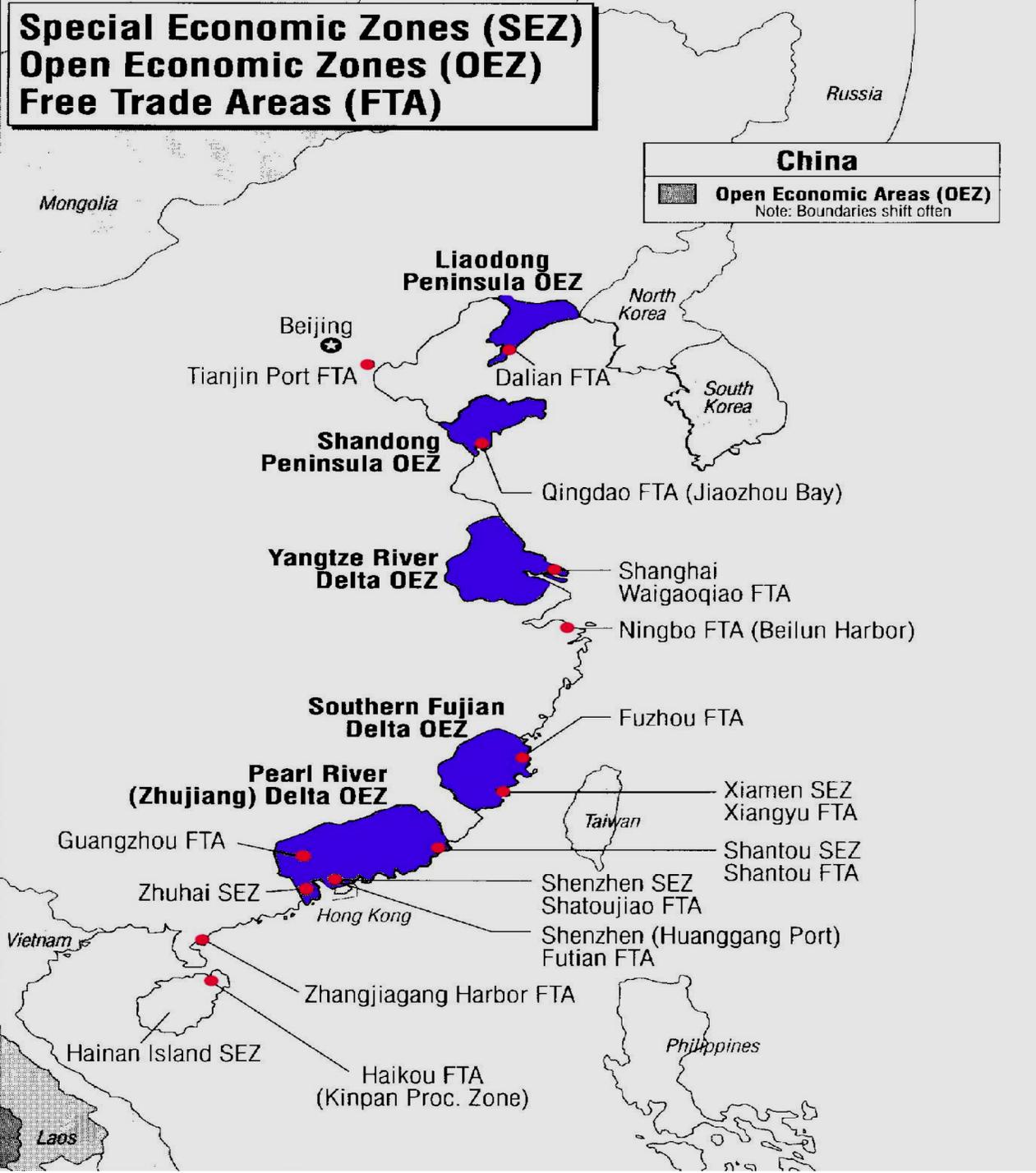
- Special Economic Zones
- Leading role of market
- Open Door
- Non-state enterprises
- Focus on light industry and commerce
- Local industrial specialization



Mao Zedong
Dogmatism
Ideology
People's War

- Agricultural collectivization
- Planned Economy
- Limited foreign contacts
- Public ownership of enterprises
- Focus on heavy industry
- Self-reliance

Special Economic Zones (SEZ)
Open Economic Zones (OEZ)
Free Trade Areas (FTA)



THE OPEN DOOR

1978-1992

EXPERIMENTATION ONLY IN CERTAIN AREAS

“gradual development strategies”

favouring eastern coastal regions

Slow opening and gradual extension to other areas

EASTERN COASTAL REGIONS



Easy Access to
Commerce
via the Sea

Proximity to developed areas:
Japan, South Korea, Taiwan,
Hong Kong

(pre-existing) "modern industrial
environment"

Infrastructures are more developed than in other parts of the country

Economic Growth Since 1978

“**Economic Reform and Opening Up**” policy initiated in **1978** under the leadership of **Deng Xiaoping**

1978-now:

- Centrally planned economy → mixed market economy
- GDP per capita elevated more than 20-fold
- Nearly two-digit economic growth was sustained

Poverty reduction

- *Data from PRC government*
- 1978 → 250 million rural residents catalogued as poor
- 2002 → 29 million rural residents catalogued as poor

- *Data from World Bank*
- 1978 → over 400 million rural residents catalogued as poor
- 2002 → 114 million rural residents catalogued as poor

Economic Growth and Inequality

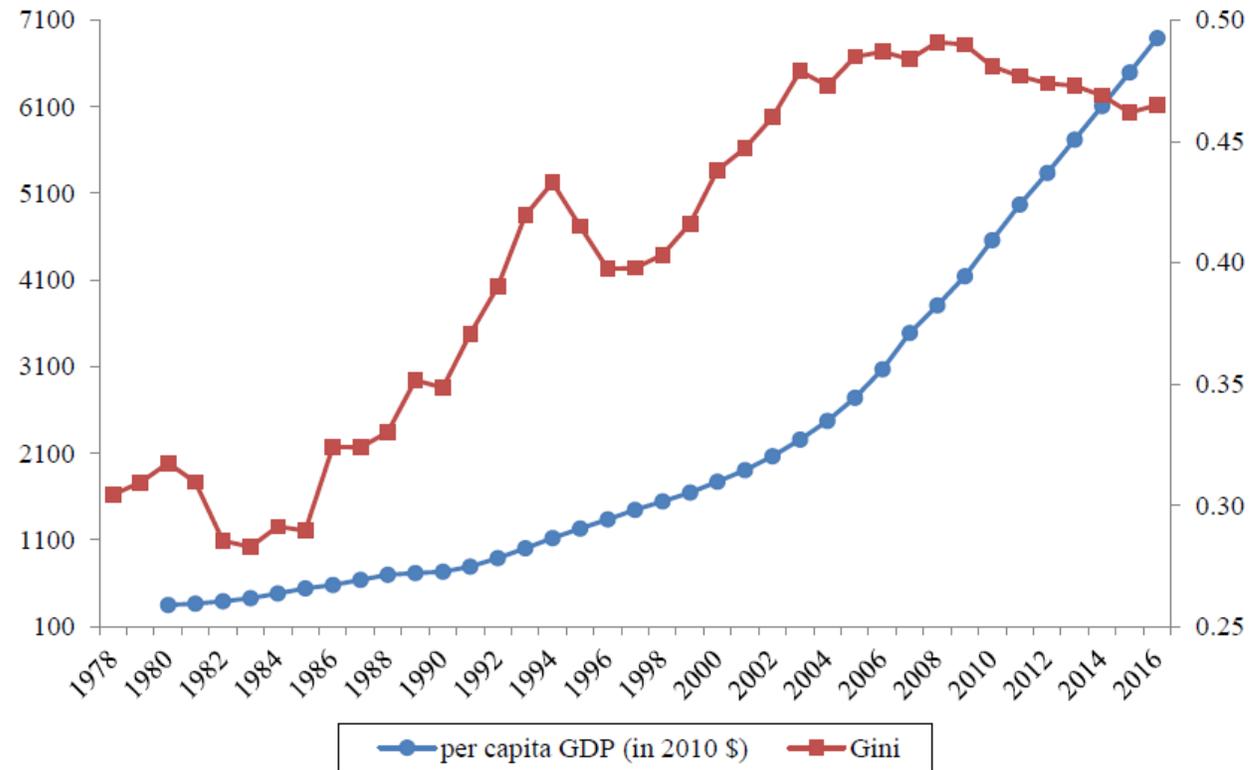


Figure 1: Real Per Capita GDP and Gini Coefficient in China, 1978–2016

Source: Zhang (2021).

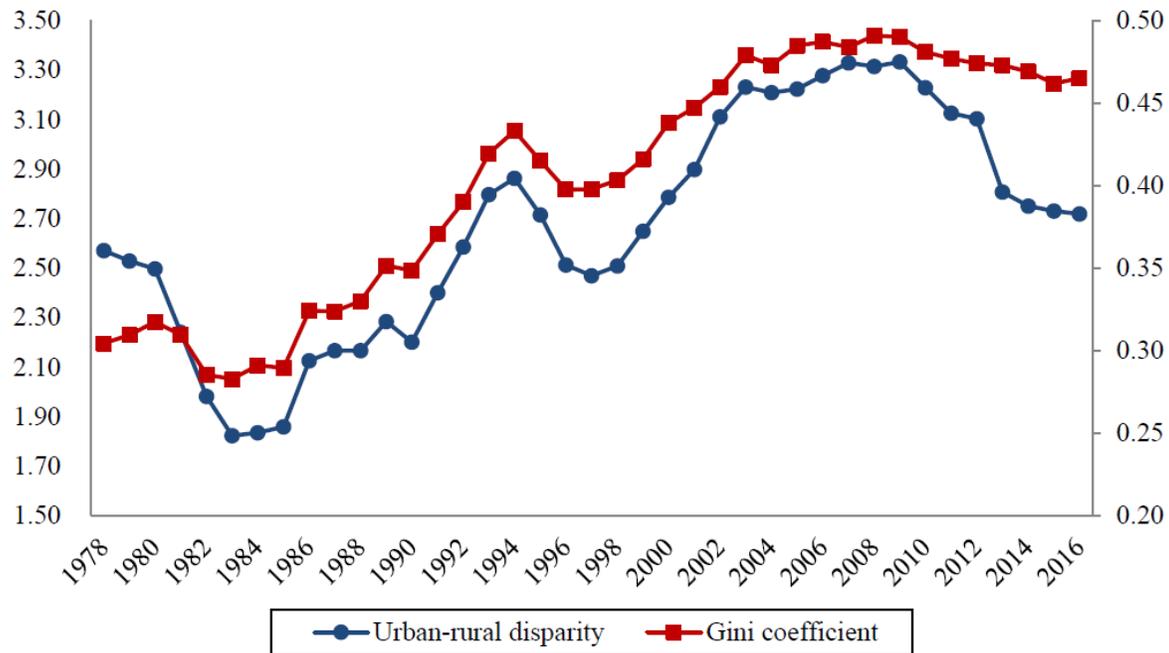


Figure 3: Urban-rural Disparity and the Gini Coefficient in China, 1978–2016

1978-1984: Declining rural-urban inequality
 (Early reforms focus on rural areas + peri-urban / Special Economic Zones)

1984-2008: Rising inequality
 (Urban-biased reforms)

Source: Zhang (2021)



4 June 1989 – Pacific demonstrations in Tian'an men square

What did students ask for in 1989?

“pro-democracy” and more...

- patriotism
 - democratic self-determination
 - egalitarianism
 - elite sense of students' special status
 - end to nepotism and corruption
-
- Students did not want to overthrow the party
 - They asked leaders to do a better job and be loyal to their ideals

Jeremy Wasserstrom, University of California Irvine

After June 4th

- Severe political repression combined with significant relaxation of restrictions in the economy and daily life
- Political cleansing and terror until 1992
- After 1992 → extension of reforms all over the country
- Marketization
- Lifting of international economic sanctions on China

Deng Xiaoping's achievements

- PRAGMATISM (DENG) SUBSTITUTES DOGMATISM (MAO)
- COLLECTIVE LEADERSHIP SUBSTITUTES PERSONALITY CULT
- LIBERALIZATION – FREEDOM TO SPEAK OUT AND TRAVEL ABROAD
- ECONOMIC EXPERIMENTATION – LINKS WITH OVERSEAS NETWORKS
- ECONOMIC EXPERIMENTATION – RURAL INDUSTRIALIZATION

- BUT → CULMINATION IN TIAN'AN MEN

- AFTER 4 JUNE 1989 DENG XIAOPING IS NO MORE A LIBERAL
→ HE HAS BECOME A CONSERVATIVE

1993 : the turning year

- After 1993, the Chinese economy achieved the objective of “growing out of the plan” (Barry Naughton)
- The Chinese economy hooked up on international economy
- Central planning was reformed and lost its prescriptive role



Part III

China (re-)joining economic international organizations
International Monetary Fund & World Bank

China rejoins IMF(1980)

1.

- When China entered the IMF in 1980, it was a particularly turbulent period during which the Fund received many attacks from many sides.
- After 1971, IMF new role. Developing countries facing debt crises claimed IMF backing in the form of a loan before Western private banks would agree to reschedule their debts or lend new money.
- IMF's policy of progressively stiffer conditions was the reason; to obtain substantial funds from IMF, member states had to implement policies that would lessen their balance of payments deficits.
- Banks could not impose these conditions themselves, since to do so could be seen as an unacceptable intrusion of private entities into a state's sovereign affairs. In contrast, **IMF conditionality**, imposed by an international governmental organization , had greater legitimacy

China rejoins IMF(1980)

2.

- ROC became member in 1946 and had a relatively large quota allocated on the basis of China's future strategic importance BUT Republic of China took 25 years to pay in its obligations and could not enlarge its quota anymore.
- ROC unable to fulfil China's role in IMF as envisaged at Bretton Woods. Its voting power diminished, but was able to use Fund resources to support rapid industrialisation once the quota was fully paid from 1970.
- Fund → cautious attitude to the 1970s changes in East Asia and influenced by US policy constraints. Even the United Nations expulsion of ROC did not prompt immediate affirmative action towards PRC.

China rejoins IMF(1980)

3.

- On its entrance, China became a major holder of Fund's resources and had to be concerned about the prudent management of these funds.
- The process of PRC representation of China in the IMF extraordinarily long
- internal disagreement within the PRC over membership of the IMF and IBRD. Chinese Ministry of Finance and Ministry of Foreign Affairs rejected pursuing membership because **Chinese voting power would be very small** and rules of IMF would require **interference on exchange rate policy**
- 1980s -2010s these remained the two key areas of controversy for China from the were already clearly identified.
- The launch of the Open Door Policy in December 1978 marked the commitment to modernization of the Chinese economy through greater reliance on international capital and technology.

China rejoins World Bank (1980)

- 1979 China-US resume dipl relations →
- China claimed to belong to Third World because it was *fiscally* poor. Third World “membership” as a starting point to demand economic and political assistance, not as theater of confrontation.
- 1980s Beijing did not want to see a growing deficit account, which was then expected to rise to nearly \$10 billion in 1985, had the current foreign trade statistics continued. Rather slowing down expansion programs than create problems to service and repay debt.
- Being able to borrow from the Bank at possibly low interest rates would have allowed China to finance its expansion programs while simultaneously remaining diligent on foreign balance sheets.

Inputs from international economic organizations

- Leaders of WB; GATT; IMF played their role as independent actors. Visions of a global neoliberal economic order but were at the same time ready to adjust to China's own ideas.
- Membership prompted changes in policies, policy processes, and institutions in China. Contacts, coupled with influence of other Western economists, altered the perceptions of many Chinese leaders about both world economy and China's ec performance.
- Standards of evaluation derived from Western economic theory, in the minds of many, replaced concepts imported from the Soviet Union in the 1950s.
- Greater openness in the release of statistics and greater attention to accuracy in their accumulation meant China acquired a larger role in shaping Western evaluations of its performance.

From isolated
country
→ regional
power
→ potential
world power

- **Jiang Zemin (1990s) CONFLICT AVOIDANCE**

Great Powers (United States and Russia) and Stable Neighbours (South K, Viet, India, Singapore)

- **Hu Jintao (2000s) TRADE + 'SOFT' ALTERNATIVE TO US**

Go Global / Cross-Regional Diplomacy (expanding beyond Asia-Pacific including: Europe, Middle East, Africa)

- **Xi Jinping (2012 →) CHINA AS GREAT POWER AND RULE-SETTER**