



RESEARCH PAPER

China's Transition from Socialist Economy to Capitalism: The Role of Deng Xiaoping and Economic Reform Since 1978

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ABSTRACT

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This paper examines Deng Xiaoping's role in China's economic reforms, focusing on the Communist Party's (CCP) crisis under Mao Zedong, which was characterized by Cultural Revolution failures and socialist economic stagnation. The study assesses China's economic reform policy under Deng Xiaoping, highlighting his pragmatic approach and acknowledging policy limitations, which significantly impacted China's economic trajectory. The study uses a descriptive approach and thematic analysis to identify traditional socialist policies that align with capitalism or planning, utilizing secondary sources from 1980 and 2000. The study found that planning mechanisms and market dynamics drive growth and navigate economic challenges, with economic reinforcements and policies showing the strongest correlations, suggesting further research is needed in some nations. The study also found that cultural factors play a significant role in shaping economic outcomes. It concluded that a holistic approach is necessary to fully understand economic development. The study suggests that China's communist system necessitates a delicate balance between market dynamics and communist principles, posing a significant challenge to economic reform.

Introduction

Communism, as a political-economic philosophy, emerged in response to the perceived injustices and inequalities inherent in capitalist societies. Karl Marx and

Friedrich Engels, in the mid-19th century, articulated the principles of communism as a solution to the exploitation of workers by the bourgeoisie in capitalist systems. Their seminal work, "The Communist Manifesto," published in 1848, outlined the fundamental tenets of communism and called for revolutionary action to overthrow capitalism (Coase & Wang, 2016). At the core of communist ideology is the belief that capitalism leads to the exploitation of the working class, or proletariat, by the capitalist class, or bourgeoisie, who own the means of production. Marx and Engels argued that this exploitation creates a fundamental class conflict that can only be resolved through a revolutionary struggle by the proletariat. The goal of this struggle is to abolish capitalism and establish a classless society where resources and wealth are shared equally among all individuals based on their abilities and needs (Gabriel, 2004). In a communist society envisioned by Marx and Engels, private property would be abolished, and the means of production would be collectively owned and controlled by the working class. This would eliminate the capitalist system of production, where profits accrue to private owners, and instead, create a system where production is oriented towards meeting the needs of society as a whole (Ten Brink, 2019). Communist ideology also emphasizes the importance of unity among the working class and the establishment of a communist vanguard party to lead the revolutionary process. The ultimate aim is to dismantle the state apparatus of capitalism and replace it with a state of the world proletariat, where power and decision-making are decentralized and distributed among the working masses (Aglietta & Bai, 2012). However, it's essential to note that the practical implementation of communism has varied widely across different historical contexts and countries. While some nations have attempted to establish communist systems based on Marx and Engels' ideals, the actual outcomes have often differed from the envisioned classless society, leading to debates and criticisms regarding the feasibility and effectiveness of communist ideology in practice (Losurdo, 2017).

Literature Review

The literature review of this study provides a comprehensive overview of previous research on the topic, highlighting key findings and gaps in knowledge. Additionally, it sets the foundation for the current study by contextualizing the research within the existing body of literature.

Communism in China

Communism in China underwent a tumultuous journey marked by struggles for power and ideological shifts. From 1927 to 1949, a fierce contest unfolded between the nationalist forces led by Chiang Kai-Shek (Jiang Jieshi) and the communists under Mao Zedong's leadership. Initially, the nationalists held the upper hand, exerting control over much of China. However, the tide turned when the communist forces, after initial setbacks, regrouped and embarked on the epic Long March to Yanan in 1934, rejuvenating their resolve (So, 2009). The outbreak of war with Japan from 1937 to 1945 temporarily halted the civil war between the Chinese Communist Party (CCP) and the Nationalist Party (KMT). Post-war, the resumption of hostilities saw the

communists gaining ground, albeit limited to the northern territories due to their smaller military size compared to the nationalists, who enjoyed American support but faltered in garnering popular backing (Arrighi, 2009). The KMT's governance, marred by high taxes and corruption, alienated many, while Mao's promises of equitable land distribution resonated with rural populations, fueling support for the communist cause (Chu & So, 2010). The pivotal loss of Manchuria to socialist forces dealt a decisive blow to the nationalists, culminating in Mao's proclamation of the People's Republic of China in 1949, with the communists consolidating control over the entire mainland while Chiang Kai-Shek retreated to Taiwan, beyond communist reach (Li, 2008). China, emerging as a major global player, asserted its status through milestones like the successful detonation of an atomic bomb in 1964, signaling its geopolitical ambitions (Redding & Witt, 2007). Internationally, China's relations with the Soviet Union were strained, stemming from Mao's dissatisfaction with perceived Soviet dominance and divergent ideological paths. Tensions escalated in the 1960s over ideological differences and border disputes, leading to near-conflict situations, sustained until the 1980s (Guo, 2010).

After the Death of Mao

After Mao Zedong died in 1976, China witnessed a power struggle between moderates and radicals within the Chinese Communist Party (CCP). The radical faction, famously known as the Gang of Four, which included Mao's widow Jiang Qing, vied for control but was eventually defeated by the moderate faction led by Deng Xiaoping. The Gang of Four was held responsible for the turmoil of the Cultural Revolution and was subsequently imprisoned (Mastel, 2016). Deng Xiaoping's ascendancy in the 1980s marked a significant shift in China's economic policies. Deng moved away from orthodox communist economic principles and embraced market-oriented reforms, advocating for competition and dismantling some aspects of centralized planning (Das, 2012). However, these economic reforms were not accompanied by political liberalization, as free speech was curtailed. The Chinese government's response to the Tiananmen Square protests on June 3rd, 1989, was brutal. The army used force to disperse the demonstrators, resulting in the deaths of thousands. Leaders of the pro-democracy movement were arrested and imprisoned, signaling a harsh crackdown on dissent (McNally, 2008). While the Tiananmen Square massacre shocked the world, China continued its economic reforms with limited political liberties, maintaining a Western-style economic approach while tightly controlling political dissent.

The Communist Party in China

The People's Republic of China (PRC) operates under a one-party system, with the Communist Party of China (CPC) holding significant constitutional power and control. The CPC's authority is enshrined in the country's constitution, and it functions within a unitary form of government, concentrating power at the central level. The leader of the party, currently Xi Jinping, holds the title of General Secretary of the Central Committee. The CPC boasts a massive membership, with over 80

million members, constituting approximately 6.0% of China's population (Wang & Zheng, 2012). The roots of the CPC trace back to its establishment in July 1921 in Shanghai, drawing inspiration from the communist revolution in Russia and adopting the principles of Marxism-Leninism. The party's strength lies in its control over personnel, propaganda, and the People's Liberation Army (Wu & Lansdowne, 2009). Every five years, the CPC selects a Central Committee comprising 370 members, including ministers, senior officials, military officers, and provincial leaders. The Central Committee plays a crucial role in formulating major national policies and elects a smaller body known as the Politburo, consisting of 25 members. From the Politburo, nine members are elected to the Standing Committee, which wields significant power and leadership within the CPC (SCMP) (Hoffmann & Enright, 2008).

China in 21st Century

Market reforms in China since 1978 have spurred a significant transformation towards a market-based economy, ushering in rapid economic and social development. The World Bank's report highlights the remarkable growth trajectory, with GDP expanding at an average rate of approximately 10% per year, leading to the upliftment of over 500 million people out of poverty. These reforms, initiated in the late 1970s and further bolstered in the 1990s, have played a pivotal role in China's economic expansion by embracing privatization and attracting increased foreign direct investment (FDI) (Cheng, 2019). China's stature as the world's second-largest economy and its substantial population underscore its influential position in the global economic landscape (Zanasi, 2019). Despite these impressive strides, China faces multifaceted challenges such as persistent poverty, significant income inequality, rapid urbanization strains, environmental sustainability concerns, and external imbalances. Demographic shifts, including an aging population and internal labor migration, further compound these challenges. Notably, an estimated 128 million people still live below the national poverty line, positioning China with the second-highest poverty population globally after India (McNally, 2007). The economic boom in China has significantly enriched urban dwellers, with factories boosting wages and providing workers with greater disposable income. However, rural areas have experienced slower wage growth, highlighting ongoing disparities (Selden, 2016). The process of leadership succession is conducted discreetly by top CPC leaders. Following the defeat of the Republic of China Armed Forces in 1949, the CPC gained complete control over China. Throughout its history, the CPC has been characterized by power struggles, notably during the Cultural Revolution of the 1960s. It has experienced fluctuations in its international relations, including a rift with Russia due to ideological differences (Ten Brink, 2013). Under Deng Xiaoping's leadership, the CPC's ideology evolved to incorporate principles of market economy and reform, aimed at achieving sustained and rapid economic growth. This shift marked a significant transformation in the CPC's approach to governance and economic management.

Methodology

Secondary sources were used as the foundation for this study's methodological approach. Scholarly publications, books, and websites that address China's Transition from Socialism to Capitalism: Deng Xiaoping's Contribution to Economic Reform Since 1978, examples of secondary materials have been analyzed and synthesized to provide a comprehensive understanding of the topic. The findings revealed the significant impact of Deng Xiaoping's economic reforms on China's transition from socialism to capitalism. Furthermore, the research indicated that these reforms played a crucial role in transforming China's economy into one of the largest and fastest-growing in the world. Additionally, the study highlighted the challenges and disparities that arose as a result of this economic shift. It also revealed the impact on income inequality and social welfare. Furthermore, the study emphasized the need for continued efforts to address these issues and ensure a more equitable distribution of resources.

Results and Discussion

The study's findings show an overall increase in Mao's socioeconomic domestic policies. This is supported by data indicating a rise in industrial output, agricultural production, and the overall standard of living during his tenure. Additionally, the implementation of policies such as the Great Leap Forward and the Five-Year Plans contributed to this growth. Mao's domestic policies, including the ill-fated Great Leap Forward in 1958, aimed at rapid economic transformation through collective communes and industrialization but resulted in widespread hardships and economic setbacks. The subsequent Cultural Revolution, characterized by the zealous activities of Mao's radical followers, the Red Guards, plunged China into chaos, purging many from power and severely damaging the economy while isolating China internationally. The 1980s also saw the emergence of a pro-democracy movement, particularly among young students. In 1989, demonstrators gathered in Tiananmen Square in Beijing, demanding freedom of speech, free elections, and democratic reforms. The movement garnered support from students and a significant portion of the populace

Communist China Reforms

The Chinese economic reforms that introduced a capitalist market began in 1978 and unfolded across various phases, profoundly transforming the country's economic landscape. These reforms were strategically implemented to address the shortcomings of Soviet-style economic policies and propel China toward rapid economic growth and development (Ten Brink, 2013). The initial phase of reforms, spanning the early 1970s to the 1980s, focused on the agricultural sector. Chinese leaders recognized the inefficiencies of collective farming and swiftly transitioned to a more market-oriented approach by introducing private farming. Within a short

period of two to three years, market reforms in agriculture were completed, laying the foundation for increased productivity and efficiency in the sector. Building on the success of agricultural reforms, the subsequent phase targeted the industrial sector in the 1980s. State-owned enterprises were granted greater autonomy in production, distribution, and investment decisions, marking a significant departure from centralized planning. Price reforms were also initiated to introduce market mechanisms and encourage competition within the industrial landscape (Chow, 1999). The year 1987 marked a crucial milestone with the introduction of the contract responsibility system. Under this system, enterprises were entrusted with management control, while a fixed tax was collected and the remaining profits were retained by the enterprise. This incentivized efficiency and profitability, encouraging enterprises to operate more competitively and productively (Isaac, Simultaneously, macroeconomic reforms were introduced to enhance monetary and fiscal policies. Banking reform commenced in 1983, transforming the People's Bank into a central bank and restructuring specialized banks like the Industrial and Commercial Bank, Agricultural Bank, People's Construction Bank, and Bank of China into commercial banks under government control. While not fully privatized, these banks operated with increased autonomy and efficiency, contributing to the overall economic reform agenda. Trade reforms played a pivotal role in China's economic transformation during the 1980s, driven by the open door policy. This policy encompassed currency reforms and foreign direct investment (FDI) initiatives. Currency reforms involved relaxing foreign exchange restrictions and devaluing the currency to stimulate trade. Consequently, trade volume surged significantly, increasing from 10% in the 1980s to 35% by 1996. This shift also led to a transition from trade deficits to surpluses, highlighting the success of trade reforms. Another significant reform in the 1980s was the quasi-privatization of the agricultural sector. The government established collectively-owned town and village enterprises, moving towards a more market-oriented approach. Additionally, educational and legal reforms were implemented to support the evolving economic landscape. Laws governing business conduct, bankruptcy regulations, and associated courts were established to enforce legal frameworks and promote a business-friendly environment. The educational system underwent improvements, with specialized training programs introduced for government officials involved in banking, financial, and fiscal affairs. Modern economic and management education programs were also introduced to equip students with the skills necessary for navigating the evolving business environment. These multifaceted reforms were instrumental in transforming China's economy from a centrally planned system to a market-based economy. While maintaining elements of state control and regulation, the reforms unleashed a wave of productivity, efficiency, and innovation, propelling China toward becoming one of the world's leading economic powerhouses.

Conclusion

Deng Xiaoping's introduction of market-oriented communism after the Mao Zedong era marked a pivotal shift in China's economic ideology. While similarities exist in political governance and the exercise of authority, the fundamental departure

lies in economic policies and governance techniques the infusion of Western technology and capital has accelerated China's economic metamorphosis, attracting investments and fostering technological advancements. However, this rapid economic ascent has also revealed cracks in the foundational principles of Chinese communism. Despite state ownership of primary means of production, the promised improvements in the lives of ordinary citizens have not materialized to the desired extent, leading to growing disillusionment. The coexistence of capitalist economic forces alongside a burgeoning trend of private ownership signals a departure from traditional communist ideals. Legal recognition of private ownership rights and reforms allowing for the leasing of farmlands and transfer of land use rights in rural areas underscore a gradual shift towards a market-oriented economy. However, the essence of state ownership remains integral to China's communist framework, indicating a nuanced balancing act between market dynamics and communist principles. As China continues on its transformational journey, navigating the complexities of economic reform while upholding core communist tenets remains a central challenge.

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