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# The domestic origins and global implications of China's reform and opening up

**Dr Zhu Ming**

*Visiting scholar, Centre for Africa-China Studies, University of Johannesburg*



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*Shanghai Institutes for International Studies (SIIS)*

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For enquiries, contact:

Bhaso Ndzendze, Research Director, CACS.

Tel +27 (01)11 559-7504

Email: [bndzendze@uj.ac.za](mailto:bndzendze@uj.ac.za)

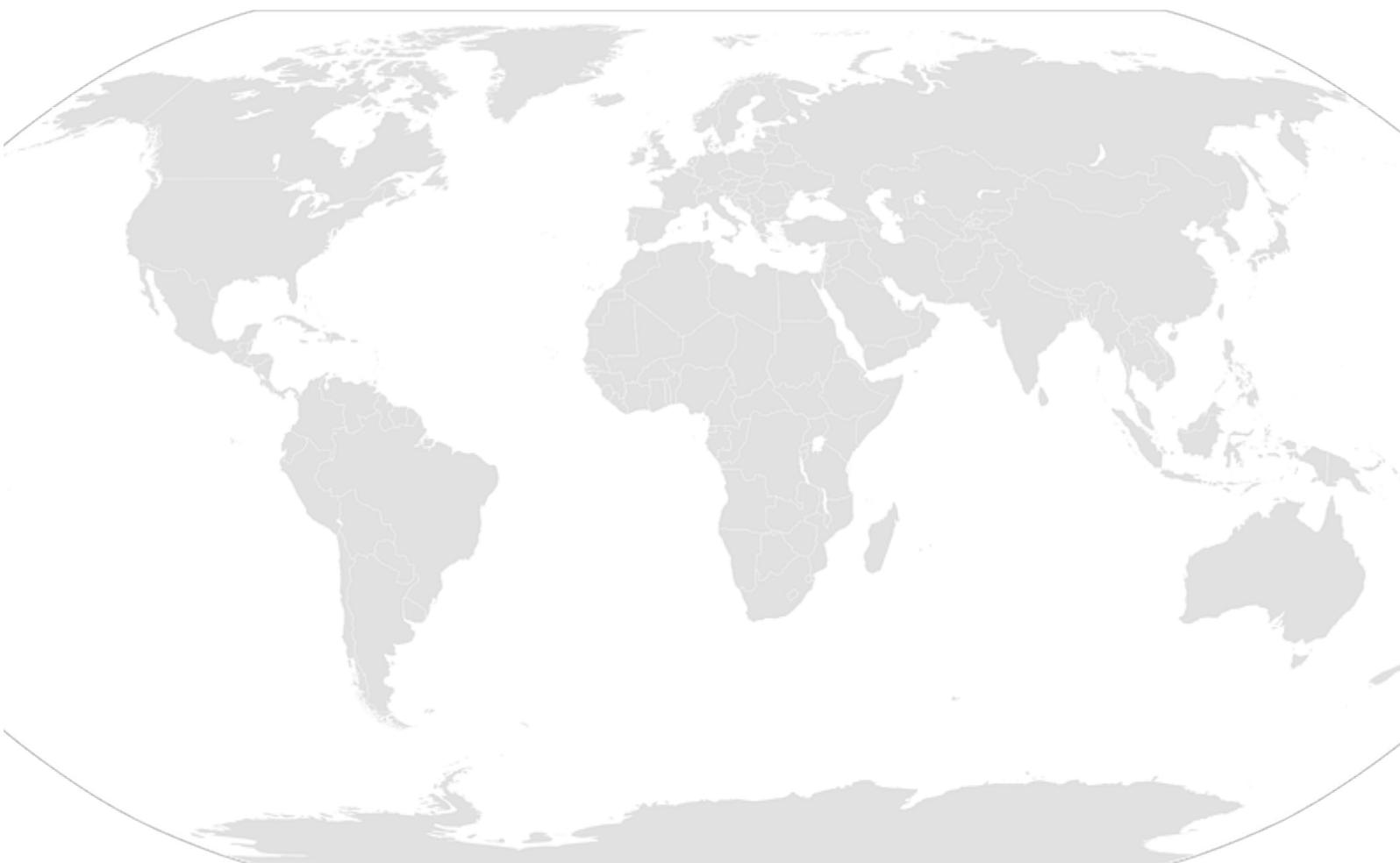
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Cover: A giant poster of late Chinese leader Deng Xiaoping in Shenzhen, Guangdong Province, China. Shenzhen became a testing ground for Deng's reforms when it was designated as the country's first Special Economic Zone in 1980. Picture: Wikimedia Commons.

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## INTRODUCTION

THE year 2018 marked the 40th anniversary of the reform and opening up of the People's Republic of China (PRC), and 2019 marks the 70th anniversary of the PRC's establishment. For the past four decades, its GDP growth has averaged 9.5% a year, against a global average of 2.9%.<sup>1</sup> As the Chinese President, Xi Jinping, declared in April 2018: 'Over the past four decades, the Chinese people have always pursued development with an open door, and have accomplished a great transition from seclusion and semi-seclusion to all-round openness.'<sup>2</sup>

A few years ago, a popular Chinese joke about China's global economic influence went like this: 'When China exports anything, the global price goes down; when it imports anything, the global price goes up.'

In 1978, China's GDP per capita was only about US\$150, about one third that of Sub-Saharan Africa (SSA), and one tenth that of South Africa. In 2018, it reached US\$9 732, 5.7 times that of SSA, and 1.5 times that of South Africa.<sup>3</sup>

Besides statistics, perceptions of the huge shift in China's fortunes and development path are worth noting. In the late 1970s and early 1980s, for example, young Chinese diplomats were surprised to discover that, besides those in the major western big cities, the infrastructure in some third-world cities such as Nairobi and Bangkok were better than those in Beijing and Shanghai as well.<sup>4</sup> Today, Beijing and Shanghai are world-class cities, on a par with the most advanced cities in the developed world.<sup>5</sup> Even Hollywood film<sup>6</sup> crews have begun to use Shanghai's futurist skyscrapers as key elements of their science fiction movies.

While China's reform and opening up process is still under way, various theories or explanations have been developed to explain its massive success, amounting to an economic miracle. One prominent explanation is the positive role of FDI, but its extent, composition, and influence in different periods is not always the same. As a result, this thesis cannot be adequately tested without examining comprehensive data over a lengthy period. This paper will seek to address this issue by analysing FDI in China and its impact on the Chinese economy over a longer period.

## THE UNIQUENESS OF CHINA'S REFORM AND OPENING UP: TWO PERSPECTIVES

China's economic progress can be better understood when considered in a global historical context. The uniqueness of its economic miracle over the past four decades becomes clearer if we compare this to the rise of other economic powers during the past 400 years. The first global economic power was Britain, based on its leading role in the industrial revolution and its extensive colonial interests. Many other countries followed this route, and some – notably Germany, Japan (1868-1945) and the United States – were very successful.

While the United States did not formally colonise other countries, it did occupy Cuba, Guam and the Philippines after defeating Spain at the end of the 19th century. Moreover, its domestic expansion came at the expense of millions of indigenous peoples, who suffered massive displacement (and numerous massacres) in the course of the colonists' westwards expansion, known as 'Relocation' or 'Removal'.<sup>7</sup> In essence, there was little difference between this expansion and conventional colonialism.

Some scholars have sought to draw ongoing comparisons between East Asia and SSA from the early 1960s onwards, when these two regions were almost at the same developmental level. However, this may blind us to the uniqueness of China's economic rise over the past 40 years, in East Asia as well as globally.

The second reason why China's rise as a global economic power is unique is because of its huge population, currently more than a billion people. India also has a population of more than a billion people,<sup>8</sup> but China's reform began earlier than India's, which means that India could draw on and benefit from China's experiences. More importantly, China's reforms are more extensive, have been implemented more rapidly, and are more comprehensive, encompassing more economic sectors. As the *Washington Post* has written:

'Fed up with the stagnation and chaos suffered under Mao Zedong, China's communist bosses began loosening their control of the economy in the late 1970s. They freed rural Chinese to till their own land or leave the interior provinces in search of work. They created economic zones free of heavy bureaucratic control in coastal cities, where new



Shenzhen was a fishing village when, in 1980, it was designated as China's first Special Economic Zone. Today, it is a thriving metropolis and a showcase for China's economic 'opening up'. Picture: Wikimedia Commons.

jobs flourished. When the government closed thousands of rusting state factories, millions of fired workers poured into the burgeoning private sector. India has never risked anything like mass firings and large-scale migration to promote growth, in large part because its democratic leaders fear that voters would punish them for the short-term upheaval and pain. ... it is clear that he (Narendra Modi) won't make India the next China – because it was never possible' (Sharma 2019).

**WHY 1978?**

Prior to 1978, Beijing had also made some economic progress since 1949. But there were two key problems. The first was that, given its rapid population growth, the rise in GDP was not enough to improve the living standards of most Chinese people. Moreover, the Chinese economy grew more slowly than those of its Asian neighbours ('Tigers' and 'Dragons'), especially in the 1960s and 1970s (see Table 1). As Deng Xiaoping put it, this did not demonstrate the worth of Chinese socialism.

**Table 1: Average annual growth rates of various Asian countries, middle-income countries and South Africa**

	1960-70	1970-77
Japan	10.5%	5.3%
Taiwan (Republic of China)	9.2%	7.1%
Malaysia	6.5%	7.8%
Singapore	8.8%	8.6%

Centrally planned economies	5.2%	4.6%
People's Republic of China	6.6%	5.8%
Middle income countries (w)	6.2%	6.1%
South Africa	5.9%	-

Source: World Bank 1979: 128-129.

According to Chen Jinhua, then a high-level official in charge of economic affairs, the Chinese economy in the year 1976 was on the brink of collapse. Compared with 1975, manufacturing production had only increased by 1.7%, while agricultural output had shrunk by 0.4%. There was still a huge shortage of goods.<sup>9</sup> From 1960 to 1976, China's contribution to global GDP shrank from 4.6% to 2.4%.<sup>10</sup>

The ten-year-long 'Cultural Revolution' finally ended in 1976. Following the deaths of Chairman Mao and Prime Minister Zhou Enlai, the Communist Party of China (CPC) underwent a major leadership transition, and entered a period of intensive internal policy debates. Deng Xiaoping's return to the CPC's top leadership in July 1977 did not end the debates about China's future direction. At that time, this was still hugely uncertain. The Maoists were still very influential, and insisted that China should stick to an extreme left-wing course. Meanwhile, Deng and other reformists did not know exactly how to initiate the necessary reforms, because they lacked relevant experience and knowledge.

**Table 2: Foreign capital inflows into China, 1981-2000 (US\$bn)**

Period		1981-1985	1986-1990	1990-1995	1996-2000
Foreign capital		151.07	462.83	1610.62	2897.84
Foreign grants and loans		97.91	301.26	455.82	559.02
FDI	Amounts	45.63	142.62	1141.80	2134.80
	% of foreign capital	30.20%	30.81%	70.89%	73.67%
Other forms of foreign capital		7.53	18.97	13.04	204.03
FDI as % of GDP		0.30%	0.77%	3.92%	4.53%
Domestic savings as % of GDP		33.77%	36.48%	40.63%	40.65%

Source: Compiled by the author, based on data from China's Yearbooks of Foreign Trade and Economic Cooperation.

It was fortunate that China's reform and opening up began in 1978. The international environment was more favourable, since the advanced capitalist world – notably Western Europe, the United States and Japan – was suffering from deflation. This forced them to find new recipients for their huge surplus of capital and products. This was the moment when China, a huge virgin market, happened to open its doors to the world, thus matching the global supply with fresh demand. In May and June 1978, when Beijing sent its first post-Mao delegations to visit West European countries, they were warmly welcomed by governing and business elites. The governor of Bavaria even told the Chinese delegation that he could invest US\$5 billion in China without any negotiations, and US\$20 billion more would be available after just one hour of preliminary negotiations with his Chinese counterparts.<sup>11</sup>

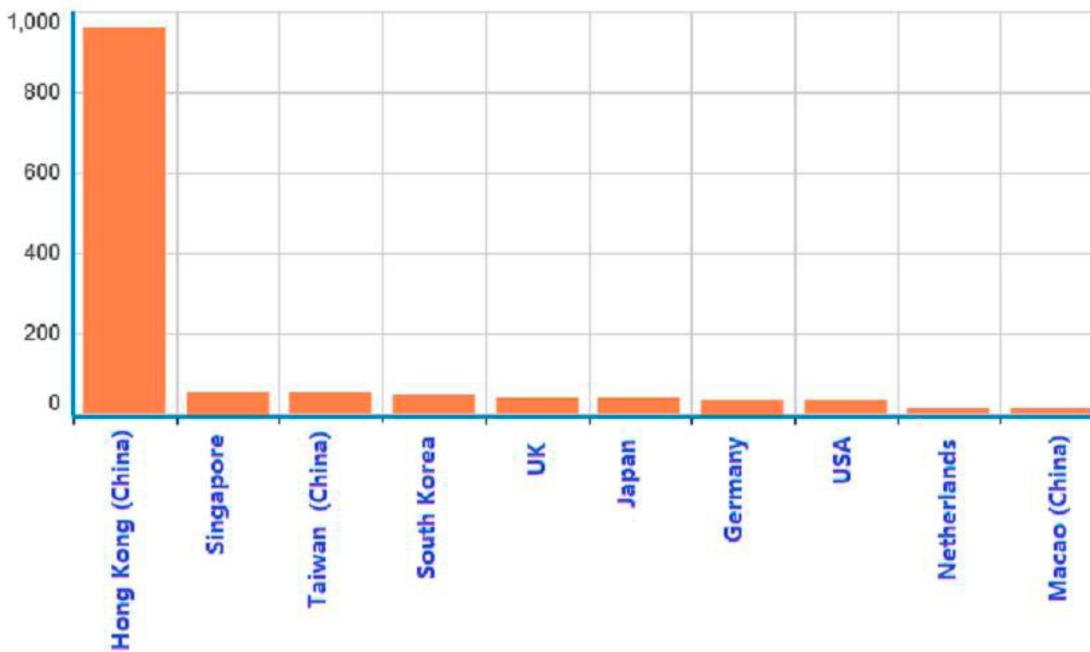
Table 2 outlines foreign capital inflows into China over two vital decades, and contrasts this with domestic savings as a percentage of GDP. It shows that, especially during the first two decades after 1978, FDI did not play a dominant role. Instead, key foreign capital inflows were foreign grants and loans, notably overseas development assistance (ODA) from foreign governments and multi-lateral development institutions (e.g. the World Bank). Moreover, like Germans and Japanese, Chinese people tend to place their savings in bank accounts,<sup>12</sup> which amounts to a huge pool of money for domestic investment, and presents Beijing with huge capital resources for development. This resource enables Beijing to enjoy a high level of independence from outside influences, while is unusual among most developing countries. This

can work to slow down reform. But in China's case, it allowed the country's rulers to 'watch and see' instead of just following foreign advice too rapidly. This approach has enabled China to avoid possible disasters such as Russia's controversial reforms, which became known as the Russian 'shock therapy'.<sup>13</sup>

With respect to foreign investment, China enacted the Law on Sino-Foreign Joint-Stock Enterprises in 1979, and initially approved three foreign-funded enterprises in 1980. In 1986, the State Council established the Foreign Investment Steering Group, and enacted the Regulations on Encouraging Foreign Investment, which improved the investment environment. At the beginning, FDI came mainly from overseas Chinese who invested mainly in labour-intensive export industries and foreign revenue earning services sectors such as hotels and restaurants. Most of these investments went into the special economic zones and coastal cities. These policy measures spurred rapid economic growth and institutional change in China's coastal regions, serving as good examples that could be replicated elsewhere in the country (Yang 2018: 70-71).

But this does not mean that FDI is not important to China; besides providing investment capital, it has also brought with it advanced technology, management skills, and linkages with global marketing networks. This helped China to integrate deeply and successfully with global markets, enjoying the positive aspects of globalisation. It also helped China to become aware of huge gaps in domestic development compared to the outside world, which drove further reforms. According to Prime Minister Li Keqiang,

Figure 1: China's top ten sources of inward FDI, 2018 (US\$100m)



Source: Mofcom.

foreign investments have contributed about 40% to China's exports, about 20% to tax revenue, and about 65% to high-tech exports.<sup>14</sup>

Unlike the 'shock therapy' adopted in some countries in transition, China's gradualist approach mitigated the social and economic impacts of reform, and its opening-up policy was implemented in an incremental way. A notable example was China's policy in respect of foreign investment. Foreign-funded companies competed among themselves, and with local companies. With their advanced corporate governance structures and diverse competition strategies, foreign-funded companies served as examples for Chinese companies and especially SOEs. The competitive pressures forced Chinese companies to reform and reorganise, and inefficient local companies were forced out of the market.

At the same time, China had to improve its regulation of the business sector, including guarding against the formation of monopolies. It did so by passing the Anti-Unfair Competition Law, the Anti-Monopoly Law and the Mergers and Acquisitions Law, among others (Yang 2018: 75-76).

## LESSONS FOR AFRICA

### 1. FDI is important, but is not the only answer.

FDI was never China's dominant development resource. The bulk of investment in fixed assets came from domestic sources. By contrast, any country that pins its hopes for development on FDI could become its slave instead of its master.

On 24 March 1981, Deng Xiaoping received Julius Nyerere, then president of Tanzania and chairman of the Tanzanian Revolutionary Party. During their talk about China's ongoing reform and opening up, Deng commented on the importance of the domestic market as follows: 'As a socialist state, we also need to open up to enhance international economic exchanges. But China's biggest market is still its domestic one. Today, more than 80 per cent Chinese live in the rural areas. If they were too poor to have purchasing power, how could China have a well-developed domestic market?'<sup>15</sup>

Since opening its gates to the world, allowing the entry of foreign companies, Beijing has always sought to maintain competition and ensure the diversification of economic actors by protecting its SOEs and strategically important

**Table 3: Key events during China's reform and opening-up (1977--2019)**

2019: China implements the Foreign Investment Law.	1988: The government announces a decision to turn Hainan Island into an SEZ.
2013: Xi Jinping proposes the Belt and Road Initiative.	1985: Three more coastal areas to be opened to foreign investment.
2013: The Third Plenary Session of the 18th CPC Central Committee charts the next stage of reform and modernisation.	1978: The Third Plenary Session of the 11th CPC Central Committee starts the Reform and Opening-up process.
2013: China (Shanghai) Pilot Free Trade Zone is opened.	1977: Deng Xiaoping returns to China's top leadership. The Gaokao (Chinese university entrance exam) resumes, as a prelude to China's reform and opening-up.
2001: China becomes a formal member of the WTO.	
1992: Retired Deng Xiaoping undertakes a Southern tour.	
1990: The government announces a decision to turn Shanghai's Pudong District into an SEZ. The first stock exchange (the Shanghai stock exchange) is founded.	

industries. In 2001, when China finally joined the WTO, the following popular saying emerged: 'The wolves are coming, but we need to dance with them.'

## **2. The quality of the ruling party (not just leaders) matters.**

The CPC, which has ruled China since 1949, has developed powerful and effective top-down mobilisation capacities.<sup>16</sup> In contrast with ruling parties in other developing countries, the CPC has faced many extreme challenges, including the 'Long March' of 1934-1936,<sup>17</sup> as well as wars with the Kuomintang Party (which ruled China until 1949),<sup>18</sup> the Japanese Empire,<sup>19</sup> and the United States.<sup>20</sup> Since its founding in 1921, the CPC has regularly been forced to renew and improve itself, or face extinction. The high-quality governance of the CPC explains why it has managed to lead successful multidimensional national reconstruction so successfully. Ruling parties in many other developing countries either have shorter histories, or have faced far lesser challenges. This explains why they lack the governing capacities of the CPC.

Moreover, the quality of the ruling party is more important to developing countries than developed ones, because most still lack well-developed governments, markets and

civil societies. As the African Nobel prize winner Wangari Muta Maathai has pointed out, 'leadership is not simply a matter of filling the top positions in a government, institution, or private business. ... Indeed, not every person in a leadership position is truly a leader' (Maathai 2009: 111). At the same time, a few effective leaders and a good parliament is not enough to help poor nations catch up with the advanced economies, and this is true of China as well. Its success is not only due to Deng, but to millions of CPC members.

## **3. Reforms are not only necessary for economic growth, but for the ruling party as well.**

Many open nations are quite weak, and face major internal and external challenges. In a rapidly globalising environment, openness brings opportunities as well as risks. In order not to be left behind, all nations need to embark on essential reforms. So should a ruling party reform too? The answer is 'yes'.

For a nation, reform and opening-up is essential. For a ruling party, reform is also essential. There is a Chinese saying that a small boat changes direction more easily (*chuan xiao hao diaotou*). China is no longer a small boat, but a very big one. Among the implications are that

any seemingly tiny domestic reform could have huge unexpected outcomes, and creative massive new risks. For this reason, Chinese policy-makers and planners need to carefully consider all the possible dimensions of any new reform initiative. XI Jinping, Chinese President and General Secretary of the CPC's Central Committee, once described further reforms as 'bones'. In his view, the reforms of the past four decades were relatively easy, and quickly yielded positive outcomes – which could be described as 'tasty meat'. But now, the 'meat' is thinner, leaving the CPC and the government to chew on the more difficult 'bones' of further reform. This is why, in recent years, official pronouncements about reform policy have not spoken just about 'reform', but about 'deepening reform'. Over the past five years, Beijing has launched more than 1 500 reform measures – in other words, roughly one measure a day.

Not surprisingly, fresh difficulties have arisen. For example, the past approach of 'crossing the river by feeling the stones' is no longer as relevant, as there are fewer experiences or lessons elsewhere in the world which China could draw on in the course of addressing its latest challenges. Simply stated, there are fewer and fewer stones for China to feel, since it is now standing in its own ocean instead of a river. Faced with unprecedented risks and challenges, Beijing now needs to build boats and bridges for itself and the world.

## ABOUT THE AUTHOR

Dr Zhu Ming holds a BA from the East China Normal University (ECNU), an MA from the Shanghai Institutes for International Studies (SIIS), and a PhD from Shanghai Normal University. Since 2007, he has been a Research Fellow at the Centre for West-Asian and African Studies and the Institute for Global Governance Studies, SIIS. He has been a visiting scholar at the Centre for Chinese Studies at Stellenbosch University in South Africa, and at the Southern African Research and Documentation Centre (SARDC) in Zimbabwe. He specialises in the study of BRICS, Sino-African relations, and global development issues, including the Sustainable Development Goals (SDGs). Besides his academic work, he also writes on international affairs for several Chinese newspapers, including *People's Daily* (Overseas version), *Wenhui Daily*, and *China Trade News*.

## ENDNOTES

1. 中华人民共和国主席 习近平：《在庆祝改革开放40周年大会上的讲话（2018年12月18日）》，2018年12月19日《人民日报》，第2-3版。
2. 中华人民共和国主席习近平：《开放共创繁荣 创新引领未来——在博鳌亚洲论坛2018年年会开幕式上的主旨演讲（2018年4月10日，海南博鳌）》，2018年4月11日《人民日报》，第3版。
3. Data drawn from the National Bureau of Statistics of China and the World Bank.
4. E. g. 李肇星：《说不尽的外交》，中信出版社，2014年版。
5. For example, until 2018 Shanghai had more than 700 kilometres of metro rail lines, longer than London or Paris, carrying more than 10 million people every day. See 寇江泽、谢卫群：《上海 当好改革开放排头兵》，2019年7月3日《人民日报》，第7版。
6. One such feature film is 'Her' (2013), directed by Spike Jonze, and starring Joaquin Phoenix, Amy Adams, Scarlett Johansson and Rooney Mara.
7. This encompasses the forced relocation of most of the 'Five Civilized Tribes of the Southeastern United States to Indian Territory' under the Indian Removal Act of 1830, signed by US president Andrew Jackson. One example is the forced removal of the Cherokees from their lands in Georgia, South Carolina, North Carolina, Tennessee, Texas, and Alabama to the Indian Territory (the present-day Oklahoma) in the then Western United States. This removal along the 'Trail of Tears' resulted in the deaths of 2000 to 8 000 of the 16 543 relocated Cherokee. See Morison 1994: 193.
8. In 2017, China's population was 1 409 million people, while India's was 1 339 million. See UNDP 2018: 47-48.
9. 陈锦华：《国事忆述》，中共党史出版社，2005年版，第95页。
10. Calculated by the author, based on World Bank data.
11. 谷牧：《谷牧回忆录》，中央文献出版社，2014年版，第316-320页。
12. For more data on savings, see World Bank 1988: 230-31.
13. According to Craig Calhoun, the shock therapy recommended by the IMF and American economists like Jeffrey Sachs had indeed produced a transition to markets, but with little fairness, attention to the public interest, protection for ordinary citizens, or development of state capacity. Radical market reforms with weak institutional supports had produced hyperinflation and then the Russian financial crisis of 1998. See Dutkiewicz and Trenin 2011: XV.

- 14 Data drawn from two speeches by the Chinese Prime Minister, Li Keqiang, on 19 September and 16 October 2018.
- 15 中共中央文献研究室 编：《邓小平思想年谱（1975-1997）》，中央文献出版社，1998年版，第184-185页。
- 16 A good example of top-down mobilisation is Beijing's development of its own satellites and nuclear weapons in the 1960s and 1970s, when China was suffering from acute poverty and international isolation, including poor relations with the United States as well as the Soviet Union. For more details about Beijing's satellite programmes, see a speech by the author entitled 'Satellite Cooperation: The Next Frontier of Sino-African Relations?' at <http://confucius-institute.joburg/2018/06/ujci-seminar-on-sino-satellite-cooperation/>
- 17 The Long March took place from October 1934 to October 1936, and covered more than 12500 kilometres, It was a military manoeuvre carried out by the Red Army and led by the CPC to combat the Kuomintang regime. Despite the loss of more than 60% of soldiers, the expedition laid the foundation for the CPC's final victory 20 years later. See An 2019.
- 18 One of the most threatening moments in the CPC's history occurred in April 1927 when the right-wing KMT group suddenly ended its previous alliance with the CPC and started massacring left-wing CPC members and supporters. KMT supporters even captured the young Mao Zedong (later Chairman Mao), but he managed to escape. By November 1927, the CPC's membership had declined from 60 000 to about 10 000. See 中共中央党史研究室：《中国共产党历史第一卷（1921-1949年）》上册，中共党史出版社，2011年版，第232-233页。
- 19 The war officially began in 1931, and ended in 1945.
- 20 The Korean War (1950-1953) was a direct military confrontation between Beijing and Washington, after which both sides turned to indirect military confrontations. The most famous example of the latter was the decade-long Vietnam War, which ended in 1975 and during which Beijing provided Hanoi with massive financial and military support.

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