



China's New Industrialization Strategy

Was Chairman Mao
Really Necessary?

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Preface

Deng Xiaoping's economic strategy is widely regarded as a complete anathema to Mao's. This study argues, however, that without the material foundations laid by Mao over his 30-year reign, it would have been very difficult, in the first place, for Deng to launch his reform and open-door policy starting in 1979. Contrary to the popular view, we also argue that Deng basically shared Mao's aspiration and approach in pursuit of China's industrialization and modernization. More importantly, the common aspiration and Mao's material legacy, in particular, had indeed helped to condition Deng to the highly acclaimed 'gradualist' methodology in both domestic economic reform and China's opening to the outside world.

As a matter of fact, Deng's most celebrated, and indeed quite abrupt, open-door strategy may also be traced to Mao's drastic reorientation in foreign economic relations towards the West in the early 1960s (then mainly Western Europe and Japan), following the collapse of Sino-Soviet relations in 1961. More importantly, it was also Mao who personally initiated the 'ping pong' diplomacy in 1971–72 as a prelude to the rapprochement with the United States, which eventually led to the establishment of a formal diplomatic relationship and thus constituted the cornerstone for Deng to 'bring China back to the West'. Thus, as a contrarian view, we also argue that Mao was, *in situ*, not at all 'inward-looking', 'closed-door' or 'autarkic'-oriented, with a predilection for the philosophy of 'self-reliance', entirely ignorant of the technological advances made in the West, as many outside observers believe him to be.

Nevertheless, amidst the generally successful transformation from Soviet-style central planning into a market-based system and integrating with the world economy, Deng, globally branded as the great 'pragmatist', did lose patience at times and resorted to the colossal 'big bang' strategy. The disastrous attempt at an across-the-board price liberalization in 1988 is a good case in point. The political costs of the Tiananmen Square affairs that erupted in 1989 following rampant inflation, and the economic consequences (prolonged western sanction included) seem akin to the Great Leap Forward débâcle of 1958–60. Perhaps Deng, with his maverick flair for totally floating all prices in China overnight, was then also inspired by the favoured dictum of Mao, 'from great disorder to great order' (*you daluan dao da zhi*). That is, both Mao and Deng seemed to subscribe to the

dialectic notion that great equilibrium would only come along with great chaos, in seeking a spectacular economic breakthrough for China.

The volume attempts to tell the other story about the economics of China's transition, by focusing on the interplay between the Mao and Deng factors on the road towards a 'socialist market economic system' with Chinese characteristics.

The study consists of 13 essays, of which 12 were written over the past two and half decades or so, the latest one in 2006. They are all grouped into three major subject categories. The first relates to the new agriculture policy programme of Deng, as it may bear on the supremacy of industrialization. The second deals with the new industrialization strategy itself, focusing on the fundamental economic constraints and the search post-Mao for a breakthrough in reforming the economic system. The third discusses the controversial open-door policy and the subsequent quest for WTO, hopefully without compromising the long-established basic premises of pursuing an independent, integrated industrial system for China.

The three main parts are preceded, however, by a lengthy discourse on the economics of Maoism versus Dengism, as it had strongly emerged during the Cultural Revolution. This helps to provide an overall analytical framework for interpreting the nature and scope of the economic policy controversy between Mao and Deng and is, indeed, instrumental in understanding not only the course of economic and institutional changes, but also a series of important practical policy measures adopted in China over the past three decades.

No doubt, as in the former Soviet Union, there has been a crucial link in China between the pursuit of industrialization and political authoritarianism throughout the reign of both Mao and Deng. This may be a matter of the Marxist-Leninist ideology, or sheer Chinese patriotism, but in our discourse 'no moral strings' whatsoever are attached as to whether Mao was *necessary* or not. We follow therefore Alec Nove's (1964) example in his *Was Stalin Really Necessary?* Perhaps ours may be considered as a *phenomenological* approach backed up by the philosophy of Edmund Husserl.

Most of the articles included in the present volume have been published in various journals, and acknowledgements for permission to make use of them are provided in each instance. However, to enhance coherency and 'homogeneity' of subject matter, many of the articles have been refocused, shortened or extended (some very extensively), and updated as appropriate. Many lengthy original notes on material sources are left out to keep the volume manageable as regards space. As a record of the living history at the time of writing, the 'present tense' is generally kept intact for the various articles.

I am indebted to my colleagues at Chu Hai College of Higher Education for various support: Professor C.N. Chang, President, and Professor Y.P. Kong, Vice-President, for great encouragement; and Miss Charmaine S. Chan, Dr Raymond Tse and Dr Zhang Jing for crucial technical assistance at various stages in the preparation of the manuscript.

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In memory of my father,
Kueh Chuang Tock,
and
my teachers,
Professor Pikai Tchang
and
Professor K. Paul Hensel

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PART I

Economics of Maoism Revisited

1. Interpreting the economics of the Cultural Revolution*

The political upheaval triggered by the Great Proletarian Cultural Revolution in China may be seen as being rooted in the controversy between Chairman Mao and President Liu Shaoqi about the long-term economic development strategy for China. Mao's critique of Liu centres on his 'programme of capitalist restoration', but in essence the Mao-Liu conflict involves two different approaches to implementing the same Stalinist forced-draft industrialization strategy, rather than alternative choices between capitalism and socialism.

Generally speaking, Mao's new venture represents an attempt to revive, with some modifications, the failed Great Leap Forward strategy of 1958-1961. Liu prefers, however, to proceed with conventional Soviet-style central planning and control with enhanced price and income incentives. Liu's approach may tally with the economic reforms in the Soviet Union and her allies in Eastern Europe; hence his being branded as 'revisionist' and the largest 'capitalist roader within the Party'.

In what follows I first highlight the major differences in economic thinking between Mao and Liu. The second and third parts of the chapter examine respectively the crucial implications for the government's policy on agriculture and industry, in terms of institutional accommodating, economic planning and management, and political control. The fourth part evaluates the potential impact of the two divergent economic strategies, Mao versus Liu, on long-term economic development in China. The discussion is concluded with a brief reference to the political and ideological implications of the Mao-Liu economic controversy.

INDUSTRIALIZATION UNDER AUSTERITY

The Mao-Liu controversy on economic development strategy may be evaluated with a highly revealing theoretical model developed by professors Chiang and Fei, called 'maximum-speed development through austerity' (Chiang and Fei, 1966). The basic concept of the model is that an 'optimum', rather than 'minimum' consumption standard will help to

maximize the rate of capital growth. This is because a bare subsistence level of consumption imposed by the central planners may impair work incentives, while an 'optimum' wage policy, with a certain degree of austerity, may induce greater labour effort and hence higher output, and thus help to raise, rather than depress, the rate of capital accumulation for investment and economic development.

With his income (and consumption) incentives policy, Liu clearly follows the theoretical postulate of the Chiang-Fei model. Mao, on the contrary, seeks to substitute political control and ideological or moral persuasion for material stimulus, in order to achieve an even higher rate of capital accumulation. In a sense, the entire Cultural Revolution seems to be geared toward this specific end.

Indeed, the 'surplus (over minimum) consumption' outlay, which is bound up with bonus awards, enterprise welfare expenditure, wage differentials and the like, must have appeared to Mao to be quite a sizable growth variable. Notice that bonus awards for workers alone already made up more than 10 per cent of the national total of industrial wage bill in 1956 (Perkins, 1966, p. 151). Likewise, if a bare subsistence income could be consistently enforced in the rural areas, the potential 'acquisition ratio' could be as high as 22 to 24 per cent in 1956-57 (Walker, 1965, pp. 34-5). By implication, Mao's approach to income distribution is therefore inherently egalitarian and austere.

Despite their common adherence to the Stalinist principle of preferential growth of heavy industry, Liu's strategy of 'optimum austerity', as exemplified by the economic readjustments made in the early 1960s following the collapse of the Great Leap Forward,¹ inevitably calls for a modification of Mao's scheme of intersectoral investment allocation in favour of consumer goods production. In agriculture, this would mean lower compulsory delivery quotas, as institutionalized through the 'responsibility farm system' (*zerentian*). By contrast, Mao's harsh consumption policy implies practically an agricultural 'extraction procedure that was tantamount in its effect to a discrete progressive taxation on current production with nearly confiscatory marginal rates on output in excess of the minimum farm subsistence' (Tang, 1968, p. 495).²

With his 'maximum austerity' policy, coupled with political and ideological control, Mao clearly aspires to another breakthrough, in both economic and political terms, akin to the Great Leap Forward methodology. Thus, since spring 1968, press reports abound about various industries and enterprises making huge strides in current production from month to month. The observed broad intraindustrial unevenness in output claims is especially highly suggestive that another Great Leap is imminent.

However, the Great Cultural Revolution seems to have been, as yet, essentially confined to the urban centres. The rural sector has remained

relatively calm. There is no sign of any mass mobilization being contemplated, as during the Great Leap Forward, for construction of large-scale projects for irrigation and flood control, or for land reclamation. Nor are there signs of a possible resurrection of the notorious 'backyard [iron and steel] furnaces' campaign of 1958. Perhaps Mao is still mindful of the mischief, but for how long will his peculiar strategy tolerate slack utilization of rural resources?

Mao also appears to agree with the agricultural policy reorientation made after the Great Leap débâcle towards enhanced use of modern inputs (chemical fertilizers and pesticides, agricultural machinery, and small and medium-sized farm implements) for productivity growth, rather than relying on such highly labour-intensive farming techniques as 'deep ploughing' and 'close planting'. Perhaps he is also versed in the notion that the 'agriculture-first' policy, as adopted by the Liuist strategists since 1961, may not necessarily compromise the Stalinist primacy of maximizing heavy-industrial growth, to the extent that such added modern inputs of industrial origin may help to raise farm output (wage foods and cash crops) further and thus release industrial expansion from agricultural constraints.

Nonetheless, it seems doubtful that Mao will allow such a neoclassical fashion of intersectoral transformation to continue 'until either capacity production is obtained in the industrial sector or diminishing returns in agriculture render further transformation unprofitable' (Tang, 1968, p. 462). Rather, it seems more likely that, before the equilibrium sets in, Mao will already be attempting another leapfrog.

PHYSICAL PLANNING VERSUS PRICE CONTROL IN AGRICULTURE

Sanzi Yibao as a Policy Programme

Since being officially labelled as the greatest 'capitalist roader' within the Party, Liu has been roundly condemned for his propagating *sanzi yibao* as a fundamental solution to managing Chinese agriculture. Literally, the Chinese abbreviation stands for the extension of the three (*san*) *zi*, plus the single (*yi*) method of *baochan daohu* (contracting farm output quotas down to the individual peasant households, as against the method of collective farming) for farm management. The *sanzi* refer in turn to *ziliudi* (private plots earmarked as an additional source of income, in kind or cash, to supplement earnings from the collectivized farmland), *ziyou shichang* (rural free market) and *zifu yingkui* (the requirements for farmsteads to be made

responsible for their own operational profits and losses). Clearly *baochan daohu* should necessarily call for a redemarcation of the collective farmland as individual 'responsibility farms', as alluded to above.

Taken as a whole, the *sanzi yibao* programme complies with Liu's less austere income and consumption policy. First of all, for the entire system to work, the output quotas (given farm procurement prices) must be fixed at such a level that will help to equalize the marginal returns for the peasants from collective farming and private undertakings. Otherwise, prices freely formed on the rural free markets would forcibly help to divert labour resources and farm implements away from the collectives to the private plots and the potentially more lucrative private non-farm undertakings.

Viewed this way, the *sanzi yibao* policy represents, indeed, rather a sophisticated mechanism of price control. While official purchase prices for grain, cotton and the like remain unchanged, there has come into effect, via the manipulation of output quotas, a remarkable shift in relative prices in favour of the peasants in terms of income maximization. Thus, as often complained about in the Maoist-dominated press reports, it has become a widespread practice for peasants to bargain with the collective leadership for lower output quotas. It is not clear to what extent the 'responsibility farm' system has been carried out in the Chinese countryside, but, in a number of provinces, notably Anhui, it seems to have prevailed widely.

For Mao, the upshot of such an 'optimum (or less) austere' policy, by way of reduced farm surplus siphoning, clearly means relative industrial retrenchment. The entire charge against Liu pursuing capitalism seems therefore to be apologetic, belying practical economic considerations on the part of the Maoist planners.

In a way, the practice of *baochan daohu* (or responsibility farm) evolved as an ultimate solution to the initial efforts made by the Party leadership to differentiate, within the three-tier structure of the people commune, performance and income awards among the production brigades (starting in 1959), and then among the production teams (since 1961), when the latter have all been converted into discrete planning and accounting units.³ Undoubtedly, the differentiations made on the household basis should be much more effective in stimulating current production.

More importantly perhaps, within the broader *sanzi yibao* context, the added price and income benefits for the peasants tend to render redundant any further increases in officially fixed farm procurement prices, as proposed by the prominent economist Ma Yinchu, as an incentive measure, prior to the advent of the Great Leap Forward (Ash, 1998, p. 343). In fact, under collective farming, a decreed price increase may well turn out to be a 'deadweight loss', to the extent that responsible Party cadres, whose primary concern is to fulfil a few key physical output targets imposed from

above, may remain unresponsive to price changes, and that individual peasants may as well merely regard the price premium as an income subvention under the egalitarian collectivist–distributive framework.

The *sanzi yibao* programme appears, indeed, to be an even more advanced or ‘revisionist’ reform approach compared to the Soviet counterpart, where, parallel to the ongoing industrial reform, the emerging agricultural policy seems to focus essentially on profit incentives and price control by taking the conventional agricultural collective as an operational entity, rather than relegating farm decision making to the household level, as under the Chinese ‘responsibility farm’ system. Clearly, the collective in China still remains intact, with the production team (under the commune system) serving as a collective accounting unit, but, obviously under *sanzi yibao*, collective aggregate decisions made on accumulation and investment have become less coherent and less centralized than in their Soviet counterparts, where peasants still basically work ‘for an uncertain share in a future pot of unknown size’ (Campbell, 1974, p. 63).

In addition to *sanzi yibao*, which may indeed be regarded as quasi-decollectivization, Liu is also charged, as part of his ‘capitalist political plot’, with promoting *xida ziyou*: that is, the ‘four great freedoms’ of employing labourers, lending with ‘exorbitant’ interest charges, buying and selling land, and running private businesses. It may be difficult to visualize how, prior to the outbreak of the Cultural Revolution, the collectivist rural setting under the Liuist control in China could possibly have disintegrated to such an extent as to allow private transaction of landed properties to take place. However, at least the other three ‘freedoms’ are clearly either closely intertwined with, or represent a natural extension of, *sanzi yibao* activities. Under *baochan daohu*, for example, it is plausible that individual peasant households occasionally engage outside labour for the contracted farm lot; and some cash-strapped family undertakings in the rural free market may borrow money from neighbours.⁴ Taken together, with his policy of *sanzi yibao*, coupled with *xida ziyou*, Liu has virtually realigned himself with Bukharin in the famous industrialization debate of the Soviet Union in the 1920s. Khrushchev himself was in fact on the same runway when he professed himself, in some of his later speeches, as foreseeing a day when the state would not even require deliveries from the collective farms but merely set prices based on the costs of the efficient producers and let collective farms compete for the business (Campbell, 1966, p. 98). However, Liu, dubbed ‘China’s Khrushchev’, appears to be even more ‘revisionist’ than his Soviet forerunner, as with the ‘responsibility farm’ system the output quotas are not only relegated to the profit-and-income maximizing peasant households but also subject to bargaining within the increasingly diversified and monetized rural context.

Nonetheless, while Liu's 'less austere' policy may inherently help to move China towards 'market socialism' *à la* Nikolai Bukharin, it still seems quite wide of the mark to brand it as an attempt to restore capitalism.

The Dazhai Model

Mao's Cultural-Revolutionary antithesis to Liuist revisionism in Chinese agriculture is familiar: the highly propagated Dazhai model of maximizing production and farm delivery under conditions of absolute austerity, and discarding price and income incentives in favour of ideological and moral persuasion (Writing Group, 1974, pp. 132–4). The model is named after a large production brigade in Shansi province, which has, presumably 'with boundless loyalty to Chairman Mao and Mao Zedong thoughts', overcome all possible kinds of Nature's harshness to turn food deficit into food surplus, while upholding Mao's teaching of 'self-reliance' (that is, without resorting to any material support from the state).

Carried to the ultimate conclusion, the Dazhai model implies that the pattern of cropping, sown areas and manpower input, compulsory delivery quotas, investment and consumption, and income distribution may all be determined by the central planners, and decisions made relegated through the vertical administrative layers down to the individual collectives to become various operational physical targets, along the lines of the Henselian system.⁵ In the circumstances, it is also self-evident that prices, if given (as shadow variables) will merely serve as an accounting medium for facilitating aggregate programming, optimization and choice of plan variants (cf. Gutmann, 1965).

More importantly, granting that, by definition, problems with Leibenstein's X-efficiency should have disappeared, the Leninist principle of *Khozraschyot* (economic accountability) for controlling production efficiency under central planning should also become redundant. The same goes, of course, for the perennial search, common to all Soviet-type economies, for an 'optimum' degree of decentralization in bureaucratic economic management. In other words, the question of optimum managerial unit should have become merely a technical matter involving the relative effectiveness of data collecting, accounting and planning methods.

What is portrayed above is of course an *idealtypus à la* Max Weber. In the Cultural Revolution context, Mao's *realtypus* represents quite a different story, however, being conditioned by both the abortive 1956 attempt with direct physical planning in the wake of the 'socialist high tide' (the collectivization drive) in Chinese agriculture (Perkins, 1966, pp. 65–8, 83–6), and the disastrous 1958–60 Great Leap Forward strategy.