

THE MIXED ECONOMY IN CHINA: THROUGH RHETORICAL PERSPECTIVE

A Thesis

by

YUCHUN YUAN

Submitted to the Office of Graduate Studies of
Texas A&M University
in partial fulfillment of the requirements for the degree of

MASTER OF ARTS

August 2003

Major Subject: Speech Communication

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ABSTRACT

The Mixed Economy in China: Through Rhetorical Perspective.

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Mixed economies gradually emerge in many countries. China is no exception. China's traditional planned economy system is limited to state owned enterprises, which are undergoing reform. In the private sector, the market system has begun to play a dominant role. The coexistence of the planned system and the market system, as well as governmental intervention and regulated policies, constitute China's mixed economy. In this thesis, I try to evaluate Deng Xiaoping's speeches through rhetorical analysis in order to justify China's economic policies. In addition, I illustrate some historical and cultural factors that would affect Chinese ideas towards the market economy.

DEDICATION

This thesis is dedicated to my parents and my brother

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CHAPTER I

INTRODUCTION

Advocates of free market policies believe that a market economy is much more efficient than a planned economy. Competition can allocate limited resources to maximum uses. Economists who favor a regulated economy hold that the free market does not work everywhere. Market failure happens not only in theory but also in reality. In addition, market economies cannot sidestep cyclical economic crises. Regulated policies and governmental interventions are indispensable methods. In recent years scholars gradually have accepted a mixed economy ideology. Mixed economy is a combination of planned economy and market economy with competition and limited regulation. In this model, the market will decide prices in general, and governments will make decisions on macroeconomic policies and deal with market failures. In practice, many nations unintentionally are carrying out certain kinds of mixed economies.

Before the Industrial Revolution, Adam Smith (1723-1790) published his great work *the Wealth of Nations*, in which he systematically explained the relation between economics and politics. He stressed the invisible hand as the core of the market system. The self-interest stimulates people to seek the best choice. The aggregate behavior would economically maximize uses of resources. Smith believed that the market system was an effective one in promoting social production development. But he also admitted the market could fail. Market would create more poor than rich. In addition, he also considered the moral issue in the market economy.

The journal model for this thesis is the *Quarterly Journal of Speech*.

Market ideology soon found its success and dominated both in economics and governmental policy-making. Western countries expanded their economies quickly with the help of the market system. But the economic expansion was not unlimited. Excessive expansion would produce a counter affect, such as economic crisis.

Worldwide economic crises broke out at least twice in the early twentieth century. The outcomes of the crises led to global economic recessions. In the US, the Great Depression from 1929 to the 1930s severely weakened the world's largest economy. Millions of people became jobless and many enterprises went bankrupt. The Great Depression from the mid 1929s was a disaster for the US. "From the cyclical peak in August 1929 to a cyclical trough in March 1933, the stock of money fell by over a third."¹

Free market policy was believed to play a key role in the depression. The economy showed a false prosperity before the crisis. Franklin Roosevelt (1882-1945) proposed his plan that the crisis could only be solved by government interference. The New Deal was carried out in 1933 when he was elected as the President. The plans included constructing public projects and stimulating production consumption. People were employed in public construction projects funded by the government. The economy was recovered and boomed until 1940s. The World War II also stimulated and improved the economy in the US.

The free market ideology faced challenges from the Keynesian Theory. When John Maynard Keynes' (1883-1946) advocated government involvement, he argued that in order to keep people fully employed, governments had to run deficits when the

economy was slowing, and to restrain inflation the governments needed to maintain surpluses when the economy was expanding too rapidly. The core of Keynesianism was that governments should regulate the market. The “Keynesian Revolution” distinguished the research spheres of macroeconomics and microeconomics.

Not only the US, but many other western governments also adopted regulated policy in the economy after WWII. The capitalist economies boomed during 1950s and 1960s, which also proved the effectiveness and success of Keynesianism. Regulation policy won the first bout in the competition. However, the oil crisis in 1970s in western countries could not be solved by governmental regulation. Market ideology again gained people’s attention.

“The balance between states and markets shifted after the 1970s in a way that made the state just one source of authority among several and left ‘a yawning hole of non-authority or non-governance’”² A mixed economy that proposes a regulated competition emerged in the 1970s. Energy market deregulation and airline deregulation both have also ³been tried since 1978. The Federal Energy Regulatory Commission (FERC) was created to direct natural gas pricing in 1978. Electricity market deregulation began in the 1990s. Banking system began reform in the early 1970s.

Deregulation proponents believe that government intervention damages the vigorous competition among companies. The prices will fall and service will be improved. The results of deregulation in some markets have not shown such an optimistic prospect. The deregulated market in civil aviation brings about many complaints with long delays and crowded planes. The energy crisis in California in 2000

evoked great opposition towards deregulation policy. Rising prices, skyrocketing demand, and limited supply raised questions about the viability of deregulation. Robert Kuttner (1997) suggests that regulation often facilitates commerce in “second-best realms where perfect competition is structurally unattainable”³. Some dynamic industries such as electric power, telecommunication and aviation have been subject to regulation⁴. “Government regulation shapes the structural characteristics of the market in which the firm does business. Within that ‘contrived’ structure, which may well be a significant improvement on a laissez faire, entrepreneurs continue to behave as profit maximizers”⁵. What Kuttner described is a mixed economy. Certain key industries should be subject to governmental regulation. Others could practice certain degrees of market economy according to their conditions.

Economic globalization and other factors promoted the economic transitions in developing countries. One of the conspicuous historical events in China is the economic reform since 1979. After the Cultural Revolution ended in 1976, Deng administration decided to shift the work emphasis to the economic development. Deng Xiaoping (1904-1997) addressed to the Third Plenary Session of the Eleventh Party Congress “The Central Committee had put forward the fundamental guiding principle of shifting the focus of all Party work to the four modernizations (These refer to the modernization of China's industry, agriculture, national defense and science and technology)..... A great and profound revolution.....our new Long March....to change the backward condition of our country and turn it into a modern and powerful socialist state”⁶. In the “touching stones” approach (Deng Xiaoping’s metaphor) --- moving across a river by keeping in

constant touch with the rocks and stones on the river bottom---reform should be cautious and practical. The reform has been modified and adjusted when the old one could not meet demands. The “touching stone” metaphor was first raised by Deng’s military partner, Liu Bocheng, during the wartime. The strategy had been proved efficient in defeating enemies. The economic policy has been transformed from “dominated planned economy” to “market economy with Chinese characteristic”.

The importance of China’s economic transformation is obvious. The closer China steps to market economy, the more possible China will be a freer society. But the economic reform has changed China greatly since 1979. China’s economy maintains high-speed growth. The GNP in 2000 has quadrupled that of 1979. With the current speed, it is expected that China will be the second largest economy in 2020. Successful economic reform has improved people’s living standards. In some rich areas people can afford cars. In addition, economic growth brings more business opportunities. More than 1.3 billion population endows China with abundant labor and the largest market. As Greider (1997) mentions, “sooner or later, China hoped for a new wave of industrial dislocations, another more fierce dimension to the price competition”⁷ There are many researches on China’s economic reform. Generally the researches are through political or economic perspective. Few have been done through rhetorical perspective. Thus, the study comes into being and has its value.

The study centers on the economic transition in China. Speeches of Deng Xiaoping, the former Chinese leader and reformer, will be analyzed through rhetoric perspective. As we know, China is characterized by its rich history and cultural tradition.

The economic transition also inevitably was affected by the cultural factors. Besides, market ideology should trace to western economics. I will illustrate the western speculations on the market ideology.

This paper will be organized as follows. First I will introduce China's historical and cultural backgrounds Then I will discuss and illustrate the economy in modern times during 1840 to 1949 (chapter II). Second, the economic reform after 1979 will be discussed and analyzed (chapter III). Next, I will analyze Deng Xiaoping's speeches with rhetorical perspectives to justify China's policies (chapter IV). Then, I will justify the market economy with analyses of western economic theories (Chapter V). Finally I will discuss and legitimize the economical reform in China. The conclusion will be provided (Chapter VI).

CHAPTER II
ECONOMY AND CULTURAL PHILOSOPHY IN ANCIENT CHINA

Study the past, if you would divine the future.

--Confucius

In history, China was not a backward country. It enjoyed glories and leadership in science and its economy for thousands of years. Until after the 19th century, China declined to be a backward state. Joseph Needham (1900- 1995) raised a proposition that China held a safe lead over other countries in science and technology historically, but why had they fallen far behind in modern times? A fundamental hypothesis in academia is as follows: In pre-modern times, technological inventions usually stemmed from people's experiences during their production process. Scientific findings were made spontaneously by some geniuses with "innate acumen" in observing nature. In modern times, technological inventions are mainly obtained through scientific experiment, which can be performed only by scientists with special training. In the former model, the larger was the population in a given society, the more geniuses and innovations it would produce. Society with larger populations such as China could be expected to achieve greater advances in science and technology. However, while Europe made a transition to the new experiment came science method of technological invention with the Scientific Revolution in the seventeenth century, technological invention in China still relied mainly on experience. Consequently, China has fallen behind the West in modern times⁸

The hypothesis may explain the current state of science and technology; it cannot explain the reasons for the overall backward development. Social development history in one country not only relies on its physical conditions, but also relates to cultural and historical backgrounds.

China's Economic History

The Chinese civilization developed from farming communities. About B.C. 4000, farming communities developed along the Yellow River. Agriculture has been the backbone of ancient China's economy since then. Yin Dynasty (BC 1766-1151) is China's first feudal empire. During the following Zhou Dynasty (BC 1122-AD 255), also known as *Spring and Autumn*, China separated into seven major states and dozens of minor states. The civilizations developed particularly fast. Daoism, Confucianism, and many other important schools of thought emerged and contended. It was a time called "A hundred of flowers blossom and a hundred schools of thought contend."

Along with the cultural development, by 300 B.C., Chinese society had developed into a form displaying many characteristics of a market economy: most lands were privately owned; labor could move fairly free, and a high degree of social division of labor was formed.⁹ The comparatively developed "market economy" created important attitudes toward profit and domestic trade. The local governments controlled long distance trade in salt and foods.

Wars among these states lasted for hundreds of years. In BC 221, Qin emperor Qin Shi Huang (259 BC -210 BC) completed China's unification by merging other

independent states. Standardized measurement of weight and length, written script, legal system and currency was set up. The boundaries of former states no longer existed and new administrative areas were divided. The emperor designated the administrative officers and they were responsible for him. In the north, the emperor ordered millions of people to build the Great Wall to defend nomadic encroachment. A central government, a strong military and tightly controlled economy became the model of all the successive feudalist empires.

Qin's cruel ruling angered the people. After the death of Qin-Shi-Huang, people revolted all over the country and overthrew the Qin Empire. The following Han (206 B.C.-220 A.D.) government strengthened governmental and economic management, expanded China's borders and influence, and opened up the Silk Road, a major trade route that would link China and the west. Emperors realized that the Confucius teachings would benefit their rules. Therefore, with the support of the government, Confucianism gradually established its orthodox standing in the society. The harmonious relations Confucius advocated were helpful to maintain a stable society.

Nomadic Hun was still the major threat to the state. But the Han government was not strong enough to protect itself. The policy of "hide one's capacities and bide one's time" was adopted. On the one hand, the emperors agreed to marry princesses to Hun noblemen. On the other hand, the government laid emphasis on economic development and strengthened military defense. The peace between two nations lasted more than one hundred years. Until the Han government recovered its powerful economy, the state began to strike back. Huns were serious defeated and fled to the west. The state had

relieved its major threat since then. The national defense work was strengthened and the state enjoyed hundreds of years of peace.

Both culture and a powerful central administration would help form a nation. Even in the early period of *Spring and Autumn*, culture had united and linked the separated states together. Since Han Dynasty, Confucianism had become the dominant social ideology and been accepted by all Chinese. Han nation was primarily formed. Moreover, with the supreme military and economic power, national pride and cohesive force were produced. During the following 2000 years, the nation has never been destroyed when the state was broke up into separate units or was conquered by other nations.

China enjoyed the pride for many years. Until Tang Dynasty (618-907), the state reached its historical apex in culture and economy. The society was quite free and open. Trade and transportation were encouraged. Foreign agricultural produces, as well as music and arts were imported from the west through the Silk Road.

Emperors sent scholars to India to study Buddhism. Buddhism and documents were imported to China. Later China sent Buddhists to Japan to propagate Buddhism. Japan sent thousands of students to the capital of China, Changan, to study culture and literature. Changan became an international city, and at that time there lived foreign businessmen from Europe, Middle East and Africa.

The embryonic capitalist elements emerged in China in the Song Dynasty (960-1279). The economy developed fast due to agricultural development and technology innovations. Movable printing was invented as an important method to spread written

knowledge. Agriculture boom was mainly due to the influence of wet rice cultivation in Southeast China, the richest farming region. The earliest handwork workshops emerged in Suzhou city. On the whole, there was an immense increase in commercial activity. In the old market system, market areas in towns, to which merchant activities were confined, were surrounded by walls and separated from residential areas. This arrangement was abandoned during the Song Dynasty, and all kinds of markets appeared. Small local markets or country fairs were so numerous in Song times that they generated almost half the country's commercial tax revenue.

The Mongolian invasion overthrew the Dynasty and destroyed its embryonic market economy. Mongols turned the people in the conquered areas into slaves. The new rulers forced people in the south China to adopt nomadic lives. The farmlands were turned into pastureland. The development of traditional agriculture and commercialization were limited. State owned land was often granted to Mongol aristocrats and to Buddhist monasteries.

The incorporation of China into the Mongol empire did little to help China's economy as so much trade was under Mongol's control. As trading profits were taken out of China, the metal currency was depleted and this led to the use of paper money and inflation. The Mongol empire also invaded the Europe and Middle East, and conquered numerous countries in the Euro-Asia continent.

The brutal governance of Mongols only lasted eighty-six years in China. Peasants rose up and overthrew the government. During the Ming Dynasty, China recovered its economy and culture. Historical records have proven that China's

economy, culture, science and technology and navigation had reached the peak level of the world up to the 16th century. They developed navigation skills and the "Silk Road" linking western China with the western Asia had introduced advanced Chinese technology and civilization to Japan, Korea, and many other Asian countries. A fleet led by a governmental official, Zheng He, sailed from China's seaport to many places throughout South Pacific, Indian Ocean, Persian Gulf and distant Africa in seven epic voyages from 1405 to 1433. During that time, Chinese in the southeast coastal areas began to migrate overseas, especially to the Southeast Asia.

The Ming Dynasty was decaying at the end of its rule when it strengthened the power of central government and limited people's freedom. Intellectuals suffered literary inquisition if their writings were considered offensive by the imperial court. People in the coastal areas were no longer allowed to build ships. Peasants were taxed heavy duties. Natural disasters in the 16th century led to nationwide crop failure. The peasants' revolt and Manchu's invasion ended Ming's sovereignty.

Both Mongol and Manchu rulers tried to destroy China's culture, in order to destroy Chinese national consciousness. Mongols forced Chinese to adopt nomadic lives. Manchu rulers forced Chinese to wear Manchu clothes and have the Manchu style pigtail haircut. Literary inquisition was serious. Many intellectuals were killed or committed suicide under Manchu's ruling. Ironically, Chinese culture had not been destroyed. In fact, the conquerors themselves were conquered by China's advanced culture. They gradually absorbed China's culture and turned themselves into Chinese. When Manchu established Qing Dynasty, they inherited the traditional government administration

system and appointed Han people as governmental officials. Then the economy and people's lives were recovered. The Qing government realized the importance of unity of all nations in the state. They later adopted a policy to strengthen national unity. China's territory in Qing Dynasty reached the largest in history.

However, the late Qing Dynasty also held a closed-door policy. People were not permitted to migrate to other countries. The central government strengthened its rule on people. Without the breakthrough of science and technology, the economy was in stagnation. The Confucius teachings also bound people's minds. The traditional way of selecting intellectuals severely limited and weakened the state's ability in handling national affairs. The egocentric and arrogant attitudes towards other nations dominated in the governmental officials and monarchical governors. Both the government and the people did not realize the potential threat from the outside world.

The Capitalist Economy in China

In 1840, Great Britain launched the Opium War to force China to open its markets. The war brought radical social changes and initiated crises. China gradually became a colony of the western countries after its failure in the battlefield. The door was opened by force. Industrial products flooded into China and the western countries absorbed a great amount of wealth from China. People were oppressed and exploited by both the government and foreign countries.

The Qing Government tried to defend the state. But the more they fought with the invaders, the worse situations they faced. The lack of modern science and technology

led China to face more humiliations in battlefields. Ceding territory and paying large amount of indemnities worsened China's decaying economy. Government officials launched "Yangwu" movement in 1870s with the permission by the monarchical family. The movement aimed to gain and learn advanced technologies and social institutions from the western countries. Li Hongzhang (1823-1901), the Premier of the Qing government, defended building steamships in 1872, "The westerners particularly rely on the excellence and efficacy of their guns, cannon, and the steamships, and so they can overrun China. The bow and spear, small guns, and native-made cannon, which have hitherto been used by China, cannot resist their rifles. The sailing boats, rowboats, and the gunboats, which have been employed, cannot oppose their steam-engine warships. Therefore, we are controlled by the westerners."¹⁰ The "Yangwu" movement was the first time that Chinese sought helps from the West.

Some modern industries were carried out. For example, Railroads were built and private industries were encouraged to set up. Foreign engineers were employed to help build military and civil industries. Students were selected and sent to the western countries.

However, the effort was limited to learning the advanced science and technology, buying the advanced weapons and warships, and employing foreign experts. The deep-rooted social institutions were intact. The feudal government and monarchical families were reluctant to make political reform. Even the returned students were neglected and suspected by the government.

In 1895, China's newly built modern navy fleet was terribly defeated by the Japanese navy. Taiwan and Shangdong province were forced to cede to Japan. The huge indemnities reinforced Japan's military and economic strengths. Great angers rose in China towards the Qing government. With the deepened threats from inside and outside, the feudal empire was overthrown in 1911.

China's early capitalist economy was a combination of western colonialism and national capitalism. The "Yangwu" movement gave birth to some national capitalist industries. Quite a number of industries, such as the chemical industry, textile industry and ship-making industry were established by the government and private businessmen. Meanwhile, western colonists also set up some enterprises in the spheres of influence, where they could enjoy many privileges.

The Chinese assessment of capitalism could be ambivalent. On the one hand, the Chinese people realized the enormous productive capacity and military power that capitalism could generate. People would like to transform China to a powerful country with the aid of capitalism. On the other hand, people suffered from the invasions of the capitalist countries. Some progressive intellectuals realized without establishing a political party and carrying out radical political reform, the improvement of the military and economy could not save China.

The national bourgeoisie emerged during the end of the nineteenth century. Many of them were businessmen and entrepreneurs. By establishing plants and doing business, they soon gathered large amounts of wealth and began to demand more political power. The Nationalist Party (Kuomintang) (KMT) created and led by Sun Ye-

Sen (1866-1925) became the representative of national capitalist class. KMT established the national government after overthrowing Qing government and defeating many local warlords. In order to acquire the acknowledgement and helps from western countries, the KMT government agreed to maintain their interests in China. During the 1920s and 1930s, capitalist economy boomed in China. In 1936, the economy reached a historical peak. At that time, the western world was suffering the worldwide economic crisis. China was not affected since the capitalist economy had not fully developed and the agricultural economy still dominated in China.

In the rural areas, peasant movement grew vigorously under the guidance of Chinese Communist Party (CCP). Chinese Communist Party was founded in 1921. The CCP launched the land reform in the base areas. In China's society, peasants were at the bottom and lived in extreme poor conditions. Like the early revolutionists in Russian, Chinese reformers took some extreme actions towards landlords. Many landlords were killed and their lands were confiscated. Later, the CCP realized they should unite all kinds of strengths to resist the KMT government and Japanese invaders. Such extreme actions were stopped and more temperate policies were adopted: Landlords were transformed to peasants. As a result, the Communist Party gained great supports from the peasants. The successful land reform laid a solid mass foundation for the Party in rural areas.

However, the land reform threatened KMT's governance. Before the anti-Japanese war in 1937, the KMT launched five times large scale sieges to the CCP base

areas. The Communist Party and the red army had to long march to the north, where they continuously carried out land reform and fought against Japanese invaders.

The Cultural Influence

Confucianism has dominated in China's cultural domain for more than 2000 years. As a social value it was also widely accepted by many other countries in East Asia. Confucianism is often characterized as a system of social and ethical philosophy rather than a religion. It deeply roots in the people's life and people may follow its rules unintentionally.

Confucianism was the affirmation of accepted values and norms of behavior in primary social institutions and basic human relationships. All human relationships involved a set of defined roles and mutual obligations; each participant should understand and conform to his/her proper role. Confucius not only stressed social rituals, but also humaneness. *Ren*, translated love or kindness, is not any one virtue, but the source of all virtues. *Ren* keeps ritual forms from becoming hollow; a ritual performed with "*Ren*" has not only form, but also ethical content; it nurtures the inner character of the person, furthers his ethical maturation. If the outer side of Confucianism was conformity and acceptance of social roles, the "inner" side was cultivation of conscience and character. Cultivation involved broad education and reflected on one's actions.

The relationship between Confucianism and the market economy may have two major aspects: One refers to some relevant comments directly related to market or commercial economy; the other refers to significance and role the Confucianism may

play in the development of market economy, particularly as a teaching of value¹¹. Since China is a historically agricultural society, Confucianism teachings laid the emphasis on “farming and restraining business”. It does not mean there are no markets or commercial economy but they are not fully developed. Business activities are permitted and economy is improved.

Confucius did not hold a position against business. He “put forward a principle that must fit in with ‘righteousness’. Business activities are to pursue ‘profit’, which should be united with ‘righteousness’”¹² People in all walks of life should behave in “righteousness”, no matter what he or she is: a farmer, scholar or businessman. The connection between ethics and business in Confucianism finds its counterpart two thousand years later in Adam Smith’s work. *The Theory of Moral Sentiments* reflects the importance of morality in market economy. Self-interest should not be the basis of market economy. “Since benevolence, therefore, was the only motive which could bestow upon any action the character of virtue, the greater the benevolence which was evidenced by any action, the greater the praise which must belong to it”¹³

Confucius deprecates the importance of commerce and merchants. Especially, Confucianism states that commodification in society would result in moral disorder. It rejected “free trade,” and promoted government intervention to insure the General Welfare. For example, the Han Dynasty practiced a policy akin to parity pricing for agriculture, with its “ever-level price granaries.” The government purchased grain during times of surplus, and sold it during times of shortage, in order to maintain a stable price.

The price of many commodities was regulated to reflect the cost production. It is an early record of government interference in the grain market.¹⁴

Historically, Confucius teaching were widely promoted and adored by all feudal governments since the teaching would benefit governmental administrations. The poorer the people were, the easier governments could manage the people. A fluent society would lead to the demand for liberty.

Therefore, businessmen was somewhat depreciated as negative examples. Businessmen are described with many “vicious” characteristics such as greedy, rich but cruel, and evil in some stories. After 1949, the landlord class and capitalist classes became the common enemies of the proletariat class. While the rich class was overthrown both in economy and politics, people were encouraged to be poor. “The poorer, the more glorious” was a slogan at that time. When China gradually recovered its economy, Chairman Mao began to worry the rich lives might erode people’s revolutionary spirits and damage the communist government. Thus, he launched the Cultural Revolution to attack capitalism, as well as the historical heritage.

CHAPTER III

SOCIALIST CONSTRUCTION PERIOD

In a country well governed, poverty is something to be shamed of. In a country badly governed, wealth is something to be shamed of.

---Confucius

Since the 1949 revolution, the diplomatic relations between China and western countries were suspended, and so were economic relations. Therefore, China had to largely rely on itself. The Soviet Union also aided China with funds and technology until the relationship broke up in 1960.

The reform in agriculture in the 1950s “took the form of first land reform which eliminated the landlords, and then of the establishment of ‘mutual-aid teams’ followed by the ‘lower-stage’ and the ‘higher-stage’ cooperatives”¹⁵ The agricultural reform has had great impacts on China, since China traditionally is an agricultural country. Modern scholars would partly attribute China’s economic miracle to the land reform. The reform in rural areas destroyed the landlord class and liberated people’s creativity. In contrast, although the Indian democratic government made efforts to develop its economy, the complex class struggles and nations’ conflicts depleted its potential.

By the end of 1953, all enterprises in China had completed the “economic transformation”: Capitalistic enterprises were transformed to be state-owned enterprises. In 1953, China began to carry out the “Five-year plans”, by focusing on the development

of the infrastructure and heavy industry. In 1958, Chinese leadership decided to accelerate economic development. Chairman Mao set a target that China's economy would surpass Great Britain in the next 15 years. One example during the Great Leap Forward (1958-1960) was that the government wanted to increase the output of iron and steel production. Numerous furnaces were built all over the country, even in the courtyard of a family. Local governments even asked people to bring their metal utilities for recycling.

Some scholars and government officials raised different points of view towards the planned system. The Vice-Premier of the State Council, Chen Yun was one of the critics to planned economy. Some problems emerged in production, such as the bottlenecks in the supply of means of production, shortages of means of consumption. Chen Yun suggested "radical measures like the granting of financial autonomy to state-owned enterprises, and reliance on the economic rather than administrative instruments to secure the implementation of plans"¹⁶. But Chen Yun's proposals were not accepted in 1956.

Sun Yefang, the economist and the Deputy head of the State Statistical Bureau, gave an exposition of the Marxist Law of Value and argued that the law applied to socialism as well as to capitalism. Sun took the law to "be a law of efficient allocation of resources, which was valid for all modes of production". He suggested that enterprises have full financial autonomy and their efficiency be assessed by the profit they earned. The planning bureau should set the prices of commodities to equate their supply and

demand. The indirect instruments like taxes, interest rate and provision of credit were to control the activities of enterprises.¹⁷

In fact, Sun's schema is much like the second phase reform in 1980s, when the new policy guarantees sufficient autonomy to SOEs. But Sun still held that the plan system would determine the supply and demand, as well as prices. The indirect instruments are only the extension of government control.

Under the central planning system, widespread shortage and overproduction coexisted in the economy. In the shortage situations, many products were overproduced or never used. Implementing the mandatory, centrally directed plan, factories often produced goods for which there was no consumer. Even when there was a consumer, the supply and demand often broke down. There is no real market. As a result, on the one hand, supply often did not meet demand in terms of quantity, quality and specification. On the other hand, information from the demand side could not go directly to the supply side.

The tensions with Russia in 1960s convinced Mao that Russian revolution had gone astray. Mao worried that China would follow the path as Russia did. In 1966 he launched the Cultural Revolution (1966-1976) to renew the spirit of Chinese revolution. In order to provide Chinese youth some revolutionary experience, he ordered to close schools and encouraged students to attack party officials by public criticism. Deng Xiaoping, Liu Shaoqi (1898-1969) and many other party leaders were removed from power.

Mao's wife Jiang Qing was in charge of the cultural realm. She was enthusiastically in defending Mao's ideology. When Lin Biao, the designated successor of Mao betrayed Mao and crashed in his way to the Soviet Union in 1971, Jiang Qing and her followers launched a movement to "criticize Lin, criticize Confucius". Their true aims were to attack Zhou and his policies. "Not only did Confucius come under attack; anyone bearing his surname lived in jeopardy. The finest and largest collection of Chinese calligraphy, carved on tombstones near Confucius's burial ground, was irreparably damaged"¹⁸ The economy was on the edge of bankruptcy.

Mao realized that the Cultural Revolution he worsened the economic situation. He and Zhou brought back Deng to power. Deng and Zhou made great efforts to recover the economy and education. They tried to promote economic stability and growth. Zhou also supported Deng to be the successor of Mao. When Zhou was seriously ill and hospitalized, Deng assumed increasing power during 1974 to 1975. Mao was convinced that Deng's policy would eventually repudiate the Cultural Revolution and even Maoism, so he criticized Deng's policies. After Zhou's death in January 1976, Deng again was removed from power. Until Mao died in September 1976, the Gang of Four was arrested and the Cultural Revolution came to the end.

The Cultural Revolution brought China an unprecedented disaster. It had severe consequences for the whole society. In politics, the power shifts and policy changes weakened government administration. Bureaucratic attitudes spread among governmental officials since they had witnessed the ends of those who actively

supported the previous policies. In economy, the confrontations among people and chaos in urban areas put production into stagnation for more than ten years.

The Economic Reform

Deng Xiaoping rehabilitated his political power in 1977. Deng hoped to institutionalize reforms and make China into a rich and powerful nation by the year 2049, the century of the People's Republic of China. 1978 was a turning point in China's history. From then on, China has carried out economic reform and focused on economic work.

Agricultural sector was the first to experience significant reform success. Since the introduction of the Contract Responsibility System in the late 1970s and early 1980s, China's systems of rural land management have improved considerably. New policies allow rural households to lease land for longer periods of time than before, and the rural population has been granted increased land rights. As a result of these land policy changes, China's rural production has increased impressively.

Deng Xiaoping's liberal policy that "a socialist economy may also utilize market mechanisms" replaced ideologues with capitalist market mechanisms. A slogan "to get rich is glorious" introduced material incentives. People were encouraged to get rich through their efforts. Diplomatic relations with western countries was resumed.

Special economic zones (SEZ) began as a small step with limited objectives. Their original purpose was to serve as a potential economic policy alternative to attract foreign investment into China. The success in those special economic zones is a miracle.

Shenzhen, formerly a fishing village, has become a modern and vigorous metropolitan for twenty years. The national economy of Shenzhen special economic zone has been growing in a steady, healthy and well-coordinated manner. It has created the world-known Shenzhen speed and Shenzhen efficiency. It has become an area of high economic growth. According to statistics, the GNP of Shenzhen in 1990 increased 49 times over 1980, reaching RMB 13.5 billion.¹⁹ The success in special economic zones encouraged Chinese leaders to promote market economy. In 1992, Pudong district of Shanghai was also set up as the fifth special economic zone.

SOE Reforms: “Reform Is to Court Death, But to Stop Reform Is to Wait for Death”

In 1978, the government was introducing the first set of policy experiments to state owned enterprises (SOE) in Sichuan province, and in other places in the following years. During the reform period, a large number of policy measures were introduced to transform the SOEs. The whole period of SOE reform can be divided into three phases: the first phase (1978-86) dominated by the adoption of the responsibility system, the second (1987-92) dominated by the implementation of the contract system, and the third (1993-to date) dominated by the introduction of the modern enterprise system (MES)²⁰

During the first phase, introducing a program of expanded enterprise autonomy in factories pioneered China’s SOE reform. The experiment defined that, after fulfilling state plans, these SOEs would have a certain and technological innovation. They would also share profits according to a specified plan and have above-plan profit retention rates. If they achieve above-plan profits, there will be a lower retention rate. Learning

from the experiences of Sichuan province, the central government began its own program in eight firms in Beijing, Tianjin and Shanghai from 1979. By June 1980, the number of SOEs undertaking this experiment had risen to 6,600, accounting for about 16 percent of all SOEs, 60 percent of total SOE output and 70 percent of total SOE profits²¹

By the mid 1980s, it had become clear that, while the earlier reforms that concentrated on autonomy and incentives had started to make progress in the right direction, they were not effective in solving SOEs' inefficiencies. Reform failed to achieve the original objective of transforming SOEs into independent and profitable economic identities for several reasons.

First, at the time when the central plan still controlled a dominant proportion of SOEs' activities, enterprises could hardly exercise autonomy. Second, the reforms also provided little incentive to SOEs. The reform bank loans for budgetary grants never succeeded as state banks could not effectively force unprofitable SOEs to repay the loans. Third, earlier reforms did not clearly define the responsibilities of the SOEs after their autonomy was expanded, apart from responsibility for profits or losses.

Clearly, a few steps have been made during this period. During the first phase, autonomy is an important step towards market economy. Independent economic identities are the basic elements of free market. Expanded enterprises autonomy is limited but on the right direction. But none of them touched the planned system. The essential market institutions have not been set up and are neglected. More market failures happened in China's complicated system than in western countries.

SOEs reform was dominated by the implementation of the contract system in the second half of the 1980s. In December 1986, a new policy was announced to guarantee sufficient autonomy to contractors of SOEs in various forms. The detailed forms of contracts varied across enterprises, regions and industries, but there were five main types at the time. The literature offers mixed conclusions, but overall, reforms during the stage did not achieve the expected results²²

During the whole 1980s, China embraced market economy faster than people's expectation. Both in academia and governments there were market economy proponents and opponents. Gradually, the market ideology had overweighed the planned economy concept.

The response to the economic reform in 1980s was economic overheating. Inflation and fast growth of the economy came together. Many Chinese suddenly found they could not make ends meet. The government regulation to control overheating of the economy led to political upheaval in 1989. The policy tools of macroeconomic management failed due to the inadequate fiscal system and monetary policy. In micro level the SOEs reform institutions were missing.

SOE reforms in the 1990s have focused on two key elements: autonomy and monitoring. Economists focusing on autonomy have argued that the lack of success in the SOE sector was mainly because the enterprises did not enjoy sufficient autonomy in decision-making. Economists focusing on monitoring have argued that under the current regime SOEs will not perform efficiently without effective monitoring, even with sufficient decision autonomy. Three directions are recommended for further SOE

reform: enterprise autonomy, improving internal corporate governance and introducing a competitive environment. The modern enterprise system (MES) was officially adopted.

The SOEs reform is the toughest part of the economic reform. Both in theory and practice, there are numerous difficulties waiting to be overcome. SOE is the economic base of a communist government, which represents the working class. If economic transformation to market demands privatization it would undermine the government's foundation ultimately. In practice, the market institutions and systems are far from perfect, even in the special economic zones where market economy was proposed in 1980s. The large number of redundant workers has no place to go if dismissed. The large amount of capital needed for SOEs' innovation is extremely deficient. In short, where the redundant people should go and where the money comes from for SOE reform is the core question.

The 1992 Communist Party's decision to implement the "socialist market economy" was reflected in the new emphasis on competition between enterprises of all ownership types on an equal basis. This not only removed discrepancies in the tax treatment of state and other enterprises in China but also ended the special arrangement from which certain SOEs had particularly benefited. Under the MES (Modern Enterprises System) reform program begun in 1992, stress is now laid on equal taxation of all enterprises as part of a general "level playing field" within the state sector and between SOEs and enterprises with other forms of ownership ²³

China's ongoing program of SOE reform has aimed at giving SOEs progressively greater autonomy from the state, while also forcing them to take more responsibility for

their own profits and losses and to be more responsive to market signals in their business operations. The transition from near-total dependence on the state to a much more autonomous and market-oriented mode of operation has been referred to as the “corporatization” of large SOEs. “Corporation” represents an alternative to the full privatization of China’s largest SOEs. Despite the decision at the Fifteenth CCP Congress in 1997 to allow the selling off, merger, or bankruptcy of all but about five hundred of the largest and most strategically significant SOEs, privatization of the remaining state-sector industry remains problematic.

“China’s state sector was growing, not shrinking, and despite the repeated stories in The Wall Street Journal predicting its demise”²⁴. 70 percent of new investment capital in china was going into the state-owned factories, and their claim on the new capital rose sharply during the investment boom of the 1990s²⁵

Efforts Made by the Government

Zhu Rongji (1928 -) , nicknamed as “ the economy Czar of China, has great ambitions to promote economic reform. He came to manage China’s economy since 1992 as a vice Premier. In 1998 he was elected the Premier of China. Zhu knows those deep-rooted problems, such as the redundant public functionary and ubiquitous corruptions in Central and local governments, the heavy-duty burdens on peasants, the low efficiency and bureaucracy in government departments and the SOEs, the unhealthy banking system and judicial offices, would eventually damage the economic reform.

Zhu took the risk to carry out radical reform. In the government institution reform, many departments were dismissed. A large number of government employees were laid off. According to the government work report, the number of employees in Central government was reduced from 33,000 to 16,000. Most provincial governments also halved the number of their employees. The county and local governments reduced 20%.²⁶ Zhu emphasized that the reforms in government organizations were just beginning. Meanwhile, the government would insist on the policy that public ownership is the main body of economy. All other ownerships should be subsidiaries. The government should also encourage and support development of private sector.

In SOEs reform, Competitions are encouraged through separating government and enterprises, reorganizing enterprises, and breaking industrial monopoly. He orders to carry out system reform in telecommunication, electric power and aviation industries. Zhu points out those three steps should be taken in SOEs reform. First, the government would continuously support to establish Modern Enterprises System in SOEs. The key is to reform the operational system. Second, Reorganizations of enterprises are encouraged. The key is to keep good quality SOEs and sell bad run SOEs to private businessmen. Third, the government will allow bad quality SOEs to go bankrupt, which has never happened before.

Although the actions he took were far from thoroughgoing and had not touched the core of political system, it has brought serious outcomes and impacts. On the one hand, the government organizations' work efficiency is improved greatly. Many redundant organizations and procedures were cut off. The government gives more

attentions to peasants' lives and lessens their duties. SOE reform made some progresses. SOEs are given more autonomy policies and acts as independent market participants. On the other hand, the reform causes a split between the rich and poor. Millions of workers traditionally working for the heavy industrial base in northeastern China lost their jobs. The radical medical reform would no longer shoulder responsibilities to SOEs workers. The radical economic transformation suffered acute criticisms and censures from all around.

The SOE reforms have experienced from the single reform to multiple reforms, from separating ownership from operation, and now the establishment of MES. Many measures have been taken but there is no panacea for SOEs. Some economists suggest using share-holding system to reform SOEs, but the result is not ideal.

MES reform is in an unclear status. The theory is clear and plausible. It aims to separate ownership from property operation, and establish the property right for representatives. However, the practice is difficult. Higher authorities usually appoint the representatives. Besides, there are some tricks in reform: some enterprises reallocate their profits from different parts and show the paper profits. The practice of MES in SOEs is quite limited. Some enterprises transform to Co. Ltd., some to joint ventures. Some merged with others. Even some profitable SOEs transform to holding companies and sell great percentage to international enterprises. Many SOEs dodge their debts by faking merge and bankruptcy. As a result, government lost many assets in MES reform.

In the reform of separating government from enterprises, managers complain that the government has not completely let them run independently. Some SOEs even

complain that the government cannot guarantee them to get loans from banks. At the same time, the government tries to prove that the problems are in the enterprises themselves, not in government.

Before 1992, the SOEs reform focused on operation and management within the planned system. Until 1992, the reform reached property rights. Some SOEs transform to holding companies. These SOEs run well at the beginning since they gathered enough funding through sell share holdings. When the holding companies need to share stipends with their shareholders, they feel great pressure. Some say that the holding system is a wrong prescription for SOEs.

Ownership becomes an unavoidable question. Two problems perplexing SOEs have not been solved: property right, and market institutions. The problem of property right determines the bureaucratic behaviors of SOEs. And the SOEs no longer adapt to market environment. Until 1994, more than half of the SOEs experienced profit deficit.²⁷ The difficulties forced SOEs to further revolutionary reforms. Privatization may not be a panacea for China's economy. The free market may not be either. However, both privatization and free market system have long existed in Western economies. They have proved to be superior to planned economies in terms of economic growth.

Private Business Sector Starts to Emerge: Competitors or Substitutes

There are two schools of thoughts²⁸. One is the "market school", which insist that governments need to set up various institutions. Well-functioning markets of commodities, capitals, and managers are needed for this system to function properly.

The second is the “property right school”, which laid the emphasis on proprietorship, particularly ownership of enterprises. This school contends that unless SOEs are privatized they would not essentially be able to improve their management, since the efficient corporate governance cannot be guaranteed. Therefore, privatization has been a focus of a transition economy.

Both Russia and China are now undergoing economic transition. Russia’s economy transition began after political reform, while China’s economic reform began without political change. Russia’s economy policies follow the “shock therapy” made by Western economists especially the US and IMF. China’s economic reform follows its gradualist approach with slow and steady steps. China’s political system is nearly untouched through reform. The Chinese Communist Party (CCP) emphasizes that a stable environment is the most important thing for development. Political reform will not bring China a stable environment.

Globalization and the introduction of a market economy has not produced the promised results in Russia and most of the other economies making the transition from communism to the market. By the beginning of 1997 the Russian economy had perhaps reached its lowest point. GNP fell by 6 per cent in 1996, compounding a decline of more than 50 per cent since 1991.²⁹ Many enterprises are on the brink of collapse; the proportion of loss-making enterprises in the main economic sectors is approximately 43 per cent. Targets for small enterprise development were not achieved. “These countries were told by the West that the new economic system would bring them unprecedented prosperity. Instead, it brought unprecedented poverty: in many respects, for most of the

people, the market economy proved even worse than their Communist leaders had predicted”³⁰

Russia’s transition to market economy has been largely unsuccessful. For the majority of those living in the former Soviet Union, economic life under capitalism has been even worse than the old Communist leaders had said it would be. The western advisors, who marched in so quickly to preach the gospel of the market economy must also take some blame. They provided support to those who led Russia and many of the other economies down the paths they followed³¹ They ignored the advice of Russian scholars: they believed that the market revolution which was about to occur made all the knowledge available from these other disciplines irrelevant. What the market fundamentalists preached was textbook economics—an oversimplified version of market economics, which paid scant attention to the dynamics of change. There were institutions in Russia with names similar to those in the West, but they did not perform the same functions.³²

The challenges facing the economies of the former Soviet Union and the other communist nations in transition were daunting: they had to move from one price system- the distorted price system that prevailed under communism- to a market price system; they had to create markets and the institutional infrastructure that underlies it; and they had to privatize all the property which previously had belonged to the state. They had to create a new kind of entrepreneurship- not just the kind that was good at circumventing government rules and laws—and new enterprises to help re-deploy the resources that had previously been so inefficiently used.³³

Chinese leaders hold an opinion toward Russian political and economic reform as an “overthrow strategy” of Western countries. The “Shock Therapy” has been proved as failure and brought disasters to Russians. Some highest officials have consistently opposed such privatization, while many point to the economic and social disruption brought about by the “Shock therapy” of total privatization in Eastern Europe and the former Soviet Union as a warning to China not to go down this route with its largest industrial corporations.

The term “privatization” has been a taboo in China, which is equivalent to capitalism. Economists and politicians try to use other terms instead of it. Privatization would be efficient to promote the development of markets, since it is easier to clarify the owner than any other types of property rights. On the other hand, markets in turn will promote privatization, since the market institutions will protect the ownership of property.

The constitutional amendment acknowledging the importance of the private sector adopted during the 1999 sessions of the National People's Congress in China provides a legal basis to embrace private enterprise in the Chinese economy. It is a step of historical significance, which has long-term implications for the Chinese economy.

Private business helps improve the performance of state owned enterprises. As China has restructured the state-owned sector in the process of developing a market economy over the past years, creating adequate employment opportunities for laid off workers has become a pressing issue. During the transformation of state-owned

enterprises, the government encourages the private business to re-employ laid off workers.

Until 2000, there are 1.7 million private enterprises in China, which private businesses account for more than half of China's economy.³⁴ Many of these private businesses are in Guangdong Province and Yangtze River Delta. These private businesses contribute to China's rapid economic growth.

There are also numerous problems in it. Some universal existence of institutions that support and legitimize private business, such as clear property rights, contract laws, and numerous commercial conventions, are still largely lacking in China. For example, the absence of commercial ground rules results in bureaucrats and powerful individuals interfering with private firms' operations. Enforcement of existing legal and regulatory codes can also be selective and arbitrary. Regulations tend to be interpreted by whoever has authority over a given geographic region or by one of many governmental departments that has jurisdiction over the firm.

CHAPTER IV
RHETORICAL ANALYSIS OF DENG XIAOPING'S SPEECHES

Reform is China's second revolution.

---Deng Xiaoping

Deng Xiaoping is an important political figure in China's history. During the wartime he was one of the military and political leaders in the Red Army and the Communist Party. After the 1949 revolution, he became the Vice Premier in charge of economy and in the 1960s he was the Chief Secretary of the Party. During the "Great Leap Forward" period (1958-1960), Deng at first supported the policy. When he found some problems, he made decisions to offset the negative influences. Some documents show that Deng bravely pointed out Mao's mistakes in person. Deng was removed from power twice during the Cultural Revolution. He managed to survive and returned to power. In 1979, he launched a new revolution in the economy. The success in the economic reform is largely attributed to him. His ideas had been the guidance of the governmental policies. By examining his speeches after 1979, we can see how China's policies came into being and how they developed through time.

Most of Deng's important speeches are included in the *Selected Works of Deng Xiaoping*. The topics of speeches range from political mobilization in 1930s to economic reform in 1990s. Some are the meeting records with foreign diplomats, Journalists, and SOE leaders.

In Deng's words, China's economic reform is a "touching stones" approach. It is a generalist approach. The reform is a process of experiment, drawing lessons and practice. Economic policies were not invariable but would be adjusted in accordance with needs. In fact, Deng also changed his views towards the market economy. At the beginning of the reform, Deng emphasized that planned economy should dominate in socialist economy, and the capitalist economy should be supplementary. Later, Deng raised "socialist economy with Chinese characteristics" which allowed more market components. Deng admitted that planned economy could not be too much emphasized.

Even in a limited democracy like China's, leaders have to legitimize policies, especially when those policies differ from the past. The constantly changed policies during the Cultural Revolution weakened governmental administration and economic development. Deng's administration needed to persuade Chinese people to be flexible and accept new concepts. Deng insisted that "practice is the only criteria of seeking the truth".

Rhetoric is one of the oldest human activities. Since the time of ancient Greece, rhetoric has been widely used and studied. First it was treated as persuasion. "It frequently refers to written or oral discourses that intentionally or unintentionally alter attitudes and mobilized action". Later it became an independent discipline studying the techniques, principles and practices of written and oral discourses.

Rhetorical criticism involves the description, analysis, interpretation, and evaluation of persuasive uses of language. Rhetorical criticism is a useful tool in analyzing economic and political discourses. It can delve deeply into speeches and

speakers. “Criticism is never wholly impartial and objective. It is to some extent evaluative, judgmental, and subjective.”³⁵ Critics could hardly avoid involving themselves with the speeches.

Burkholder mentions four stages of rhetorical criticism.³⁶ The first stage is a descriptive analysis of the rhetorical act in terms that permit identification of the means by which it works to influence; Second, historical-contextual analysis of the relationships between a discourse and its context in order to identify the forces that contribute to or work against its purposes; third, development of a critical perspective, approach, or system that guides the finished critique; Fourth, evaluation or judgment of discourses based on explicit criteria so that the grounds for evaluation are apparent to readers. The four stages are not independent but interweave. I will apply Burkholder’s rhetorical criticism to analyze Deng’s speeches.

In *the selected works of Deng Xiaoping*, his speeches are divided into three parts. The first part includes his speeches before 1949, mainly military and political speeches. The second part includes his speeches from 1949 to the Cultural Revolution, primarily economic speeches. The third part includes his speeches since his rehabilitation. The topics are varied from the Taiwan problem to the economic reform. The analysis of Deng’s speeches in this paper generally focused on economic issues. Therefore only the speeches in the third part of *the selected works of Deng Xiaoping* were translated and analyzed. They are included in the appendix of the paper.

Historical-Cultural Context

The Cultural Revolution was a disaster. The Red Guards supported by the Gang of Four publicly attacked those labeled as “capitalists”. During 1966-1967, thousands of people died from political struggles. Deng was in the center of the storm. He wrote a report about the progress of the Cultural Revolution, which was attacked by the Gang of Four. Mao demanded Deng and Liu Shaoqi, the Chairman of the state at that time, make self-criticisms. In 1967, Deng was exiled to a farm in Jiangxi Province. Liu Shaoqi was not that lucky. He died in 1969 because of the bad treatment in exile. In 1972 Deng wrote letters to Mao admitting his mistakes and acknowledging he was willing to work for the government. Mao did not see Deng as his successor and political enemy. In a certain sense, Mao appreciated Deng’s ability in dealing with economic affairs. In 1973 Deng rehabilitated as the Vice Premier. In 1976 he was dismissed again.

After Mao’s death in 1976, Hua Guofeng (1920-) became the successor designated by Chairman Mao. He and other officials resolutely arrested the “Gang of Four” and stopped the Cultural Revolution. During the following two years, he held Mao’s ideology rigidly and made less progress in the economic development. Hua inherited mistakes in the “Great Leap Forward”. He proposed a ten-year plan demanding the quadruple production of oil and double production of steel in ten years and it elicited criticism. Contrast to Deng’s suggestion, Hua insisted that the work emphasis should be the heavy industry development, rather than the light industry and agriculture.

Deng received great support from the central committee and obtained the nuclear position in 1978. Since Deng Xiaoping restored his authority in the Party and the

government, he began to carry out his economic plans. He had both advantages and disadvantages. The advantages include his unchallengeable authority in the government; people's strong desire to get rid of poverty. In addition, Deng faced a favorable international environment. Since 1979, China gradually recovered foreign diplomatic relations with the western countries.

The traditional Chinese culture belittles richness. As mentioned above, rich people are usually described as people with vicious characteristics. After the "Great Leap Forward" and the Cultural Revolution, Chinese people realized the great discrepancy in economy between China and the rich neighboring countries. The popular attitudes about becoming rich are under change.

The disadvantages include the backward economic conditions, lack of sufficient capital and qualified technicians, and outmoded social and economic concepts. Among them, the outmoded concepts are the major obstacle. Old ideas bound people's creativity and intelligence. Deng realized that freeing and liberating people's minds was the primary duty in carrying out reform.

Purpose

The rhetorical problems included old opinions among the party members, people's worries, and the problems in political reform. First, some officials, especially those senior cadres doubted about the market system. They believed that to adopt the market economy means to embrace capitalism. Second, people were dubious about the governmental policies since they were frustrated by the inconsistent policies during the

past years. Third, the economic reform may have lead to the overthrow of the communist government.

Thus, Deng aimed to overcome these problems. He tried to persuade people to accept the market ideology, to encourage people to carry out the economic reform, and to secure the leadership of the Party in the political reform.

Deng's speeches after 1978 focused on how to establish China's socialist economy. An important step Deng made was to disconnect production modes with the qualities of political regimes. At first, he admitted the mistakes made in the past. Before 1978 the market economy was a taboo in China. Then, he emphasized that market economy could coexist with socialist economy. "Market and plan are both economic methods. Both of them could be used if only they would benefit social productivity."³⁷ Deng stressed that the market was only a production method.

Mental stagnation is a major problem. Planned economy is deeply rooted in people's minds, especially those senior officials that could not accept the new concept. They worried that the communist power and the dominant Marxist ideology would be threatened and challenged. Officials in the government and leaders in SOEs had no ideas how to carry out their works under the new circumstance.

Deng's speeches aimed to dispel these worries and misgivings. He proposed that "reform is the second revolution".³⁸ Without it, we could not make any progress in economic development. The simple ideas demonstrated his determination. His "touching stones" metaphor pointed out the way to carry out the economic reform.

Moreover, Deng's role was a link between the past and the future in the central government. He would inherit and develop Mao's thoughts. The first generation of leadership headed by Mao had explored the way to constructing socialism in a poor country. Deng's duty was to make more progress and lead China to be a rich state. Marxism is not an invariable theory. Under the new circumstance, Marxism should still be emphasized since it was the theoretical base for the Communist Party, while it needs some modifications. Therefore, Deng disconnected the relationship between the production mode and ideology. He made a theoretical breakthrough that the market system could serve for the socialist economy. Deng's speeches and theories became the continuation of Marxist practice in China. In addition, he took some unprecedented practice to develop the economy. For example, he suggested setting up the special economic zones where the market economy became the backbone. He raised regional development strategy, which allowed the economy in the coastal areas to develop first. Then the developed coastal areas would bring along the economy in the hinterland.

On the whole, Deng utilized traditional ideas and people's revulsion at the Cultural Revolution to justify the changes in the economy.

The Rhetor

Deng was a firm communist leader. He joined the Party in his early ages and experienced the growing process of the Party. During the domestic wartime between 1945 and 1949, he successfully led the Second field army to cross the Yangtze River and won a strategic victory. He enjoyed high prestige in the army for his military talent.

From 1956 Deng was the General Secretary of the CCP. His career suffered interruptions through defeat in power struggles. During the Cultural Revolution, he was publicly humiliated and excoriated as “the Number two Party person in authority taking the capitalist road”. Although he had been removed from power more than twice, his final rehabilitation gained him a legendary person. In the eyes of Chinese people, Deng was a faithful and trustworthy old warrior and Party member, as well as a qualified national leader.

Deng’s experience in economic construction made him a proper advocate of the economic reform. After 1949, Deng took charge of the economic affairs. He took part in formulating the economic policy during the first five years plan. When he found the problems engendered in the “Great Leap Forward” and the “Cultural Revolution”, he made efforts to correct the mistakes. Although Deng was removed from his position in 1966, Mao put him back in 1973 when the economy worsened. Deng’s economic policy of “adjustment, consolidation and improvement” bettered the economy. After Mao’s death in 1976, Deng rehabilitated his political life and came back to power. He soon shifted the emphasis of the work to “modernization” and “socialism with Chinese characteristics”.

Since Mao and Zhou died in 1976, China fell into a vacuum of power. The country needed a new leader. Deng received the predominant support from the Central Committee. As the new leader in a new era, Deng had the duty to carry out the uncompleted revolution enterprise. “In the development of socialism, Chairman Mao’s greatest achievement was successfully combining China’s realities with Marxist truths.

The socialism transform was as such a success. Later, China made mistakes to practice the “Great Leap Forward” and “People’s communities”, which violated economic rule and decreased productivity. The Cultural Revolution was a social disaster and seriously weakened China’s economy. Now we are undertaking the “Four Modernizations” and making economic adjustments.” Those lessons he learned in the past impelled him to launch a careful “revolution”, with the aim to transform China into a powerful country.

In conclusion, Deng was a daring reformer, as well as a firm communist. Both his experiences and speeches indicate his determinations in promoting reform and keeping socialism. He nicely combined economic transformation with political reservation. Deng played an important role in China’s socialist revolution. Deng valued the result of the military and political victory of the Communist Party in China. He preferred to preserve socialism and would have liked to see the victory of socialism to capitalism.

The Target Audience

The major audiences of the speeches were the Party members and governmental officials, including some influential senior officials. Deng worried that the mental stagnation in some officials would block the reform. Therefore, he repeated his opinion towards the economic reform and the market ideology in many occasions. The common people were also the important audience. Deng tried to remove their worries about political pressure when they carry out the economic reform.

Deng intended to liberate people's minds and exploit their talents. The backward economic conditions and stagnated ideology were obstacles in the new era. "I believe that Chinese people are smart people. During the past ten years the "Gang of Four" bound people's creative talents and free ideas". The aim of the economic reform was to free social productivity and improve people's living standard. "It is a great new revolution. The aim is to liberate and develop productivity. Without the development of social productivity and improvement of people's lives, revolution would be a hollow enterprise."

During the end of 1980s, freedom ideology had widely spread and led to the "Tiananmen Square" Incident. Economic overheat was another cause. At that time, the high inflation worsened people's lives. Governmental corruptions also enraged the people. Some intellectuals, college students and workers challenged the government by petition in order to promote a radical political reform. The government refused such radical demands and dispelled student organizations by force. The chaos led to confrontations between government and students in many cities, which threatened the governmental administration and the social stability.

Deng stressed the importance of the stability of the state and military construction. He criticized the efforts to replace the communist government with western freedom. His speeches during the end of 1989 warned those who advocated western democracy. To the majority of Chinese people, they hoped that the governments could make efforts to bring about certain kinds of political reform to improve governmental administration and remove the bureaucracy. The officials' privileges, institutional

corruptions and limited freedom of human rights had seriously weakened the Party's governance. However, people also would not like to see the state in chaos because of radical political changes.

Audiences also include international investors and foreign politicians. Due to the historical reasons and differences in social institutions, westerners were usually dubious about China's foreign policy and economic reform. In addition, China's bureaucracy frustrated some early international investors. Western politicians also held a curious attitude towards China's reform since they doubted whether China would keep its socialist status with economic transition. Therefore Deng hoped to change their traditional viewpoints so they could know more about China. He encouraged governments to "further emancipate minds and advance the steps in reform".³⁹ He empowered some local governments to attract foreign investment by favorable policies. Special economic zones are such examples. "We set up special economic zones and carry out open door policy. One principle is clear. This policy should be encouraged and promoted, rather than restricted."⁴⁰

Deng was in his eighties in the 1980s, he had to think about China's future after him. He would have liked his successors to insist on Marxism and communist leadership. After the demise of the Soviet Union, China would be the major target of the western camp. But China was not strong and powerful enough to face the challenges and needed more time to develop the economy. Deng deemed that China should focus on the economic development and avoid confrontations with the US.

Invention

“*Invention* refers to a rhetor’s skill in choosing argumentative options and using creative lines of argument. In other words, it refers to a persuader’s ability to identify available proofs and to select those best adapted to the issue under consideration”.⁴¹

When Deng tried to carry out the reform, he had to persuade the audience to abandon the old idea and accept a new one. Therefore, he carefully chose proofs to defend his position. In certain sense, the aftermath of the Cultural Revolution gave Deng a chance to propose his new idea. As we know, the Cultural Revolution disrupted the social order and sabotaged the production. Planned economy was not the main cause of China’s backward in the 1970s. In fact, before 1958 the planned economy helped China establish a great number of modern plans and complete industrialization. When Chinese people waked up from the political and class struggles, they generally felt disappointed and regretted what they had done during the past years. People’s lives were not improved for many years. The national economy was on the edge of bankruptcy. As a matter of fact, Deng used the chance to promote the economic reform. He attributed major mistakes to the Cultural Revolution and the “Gang of Four”. Mao was excused for major responsibilities since he had made great contributions to the People’s Republic and the Communist Party.

Deng pointed out that it was incorrect to confine the market economy to the capitalist countries. “Why cannot the market economy exist in socialist countries? Market itself is not capitalism. Our economy is dominated by the planned economy, while supplemented by the market economy. Studying some good things from the

capitalist countries, including management, does not mean we are practicing capitalism”.⁴²

Language Use and Tones

Deng's language has some individual characteristics. The following aspects represent the style of his speeches: brief, simple, easy to understand, new, descriptive, deep and sharp. Language employment is an important characteristic of speeches. Deng tended to use metaphors to express his ideas. In the early stage of the reform, Deng has an interesting saying affecting people's attitudes towards reform. "Regardless of its color, white or black, a cat is a good one if only he can catch mice". The capitalist production and management can be applied in China if only they could improve the state productiveness. The confrontation in ideology between socialism and capitalism should not block the employment of advanced technology and management in socialist China.

The "touching stones" approach is a widespread metaphor during the early reform. Different from Russia's "shock therapy", China's economic transition follows a generalist approach. Since there is no overall blueprint, the reform had to be slow and careful. In addition, the policies are subject to changes and modifications if necessary. The experiences of market policy in the special economic zones were learned and shared in other coastal areas. Then more experiences and knowledge were gathered and were applied to the hinterland.

When the target audience was the common people, he would adopt a simple and easy to understand language in speeches. "Certainly we do not need capitalism, but we

also do not need a poor socialism.”⁴³ The brief language showed his confidence and firmness. The simple and terse language credits honest and dependable characteristics to him. The common people prefer the simple language and do not trust eloquent but hollow speeches.

Deng frequently adopted a first person, plural pronoun “*We*” in many speeches. “We don’t need capitalism and poor socialism. We need a developed, rich socialism.” “Now the reform we are processing is bold enough. However, if we do not do that, it will be hard for us to make progress”.⁴⁴ In the speeches, Deng avoided highlighting himself. He emphasized that reform was a collective effort. “Do not give much prominence to me forever. What I have done no more than reflects the hope of Chinese people and Chinese Communists. Policies of the Party are also determined collectively.”⁴⁵ The collective pronouns reflect Deng’s efforts to show the democratic decision-making in the Communist Party and the government. He is not a “dictator” as western countries might describe him.

Deng was assertive in talking about the superiority of socialism. “We believe the superiority of socialism. It should be expressed in its better conditions to develop social productiveness. Studying the useful things in capitalist countries, including management, does not mean to practice capitalism. Taken them as methods would not affect the socialism and return the state to capitalism”.⁴⁶ Deng is an affirmative communist and revolutionist. The faith in communism and socialism comes from his life experience. “I am a Marxist. I am following the basic principles of Marxism. Marxism has another name “communism”. We carried the revolution in the past and established People’s

Republic with this faith and ideology. With the ideal, we combined Marxism principles with China's realities. As a result we made victories.”⁴⁷

Deng sometimes also adopts a personal tone. “Recently, I came to visit three special economic zones in Guangdong and Fujian province. Then I came to Shanghai and visited Baogang Steel. I got some perceptual knowledge. The impression in Shenzhen is a scene of prosperity. The speed of building is rather quick and impressive. A large building was set up in a short period. One reason for the high efficiency is the contract system. The slogan there is ‘time is money, efficiency is life’”.⁴⁸ Deng believed that “practice is the only criteria for truth”. By his personal visits to the special economic zones and SOEs, he witnesses the successes and has more confidence in promoting the open policies.

The moderate attitude dominates in Deng's speeches. He mastered correct attitudes towards most challenging topics. The Taiwan problem is one of the most important topics in Sino-US relationship. To China, the disadvantage of losing Taiwan is obvious. Taiwan has an important economic and strategic position. From Taiwan's perspective, the people in Taiwan can enjoy much more economic prosperity and political freedom than those in Mainland China. The historical separation from the mainland has been more than one hundred years and each year increases the difficulty of reunion. From the U.S. perspective, a united and powerful China may not fit for the interest of the US. Taiwan has been treated as a front to pin down China since the 1949 revolution.

The interview of Deng Xiaoping by Mike Wallace in 1986 reflects Deng's moderate and practical attitudes. The following is part of the interview.⁴⁹

Wallace: Has the US not followed and obeyed its promise in dealing with the relationship between the US and Taiwan?

Deng: I think the US government should adopt a more sagacious attitude to this problem.

Wallace: What kind of attitude?

Deng: It is a pity that the US Congress passed the Law of Relations with Taiwan during the later period of Carter's government. It has become a major obstacle between Sino-US relationships. Like what I said just now, I hope President Reagan could make progresses in the relations between two countries, including China's unitary affair. I believe the US and President Reagan can do something in this affair.

Wallace: What must Taiwan unite with Mainland China?

Deng: At first it is a national affair and related to the feeling of a nation. All descendants of Chinese nation hope that China can unite. The split violates the nation's will. Second, If Taiwan would not unite with the Mainland; its safety would not be guaranteed since one day it might be occupied by other nations. Third, the policy "one nation, two social systems" will be applied to Taiwan. Mainland would practice socialism and Taiwan could practice capitalism. It will not affect the social system and living styles in Taiwan.

Wallace raised these straightforward questions. He wished to hear what Deng, the leader of China, thinks about the core questions related to Sino-US relationship.

Deng stated clearly and reasonably his viewpoints. He is disappointed with the US policies to Taiwan. The US set up diplomatic relationship with People's Republic of China in 1979, but continuously aids Taiwan's independent activities. However, his answers show that he holds a confident and optimistic attitude to Taiwan's future. The historical and national factors would not allow Taiwan to be independent. And more importantly, China has the practical plan to solve the Taiwan problem: the policy of "One nation, two social systems".

Taiwan's problem is closely related to China's economic development strategy. First, many investments to the Mainland are from Taiwan. If China was forced to solve the problem by force, both sides would be injured. Second, Deng would allow Taiwan to develop and maintain its capitalist economy, as does in Hong Kong. Deng knew that keeping the capitalist economy in both Taiwan and Hong Kong would benefit China a lot. For example, China did not liberate Hong Kong in 1949 and acquiesced British's administration. When China was circumvented by the international society during the 1950s and 1960s, Hong Kong became an important channel for China to keep in touch with the outside. Clearly, both Taiwan and Hong Kong would be allowed to maintain their capitalist economies, which would benefit the market economy in the Mainland.

Rhetorical Strategies

In order to persuade the audience, a rhetor should strength the credibility of his speeches through some strategies. In Deng's speeches, some strategies were adopted to buttress his argument.

First, Deng used historical facts and examples to support his viewpoints. He used the historical fact that “the embryo of market economy emerged in the feudal society” to justify the market economy was not peculiar to the capitalist countries.⁵⁰ He concluded, “Both market and plan are economic methods. Both of them could be used if only they benefit social production development”.⁵¹ He suggested that the economic reform should make steady advancement, rather than “leap forward”. “When the ‘Great Leap Forward’ began in 1958, the high-level community had not been consolidated. The high-level community was forced to transform to a people community. As a result, at the beginning of the 1960s, the people communities had to move back to smaller units.”⁵² The historical lessons people learned effectively supported his argument.

Second, statistics also made his speeches persuasive. “In the agricultural reform, the township enterprises development was out of our expectation. It is not the central government’s feat. More than 20% annual growth has lasted for years. It has solved the problem of the 50 percent surplus labor in countryside”.⁵³

“Why was the reform initiated in rural areas? It is because 80 percent of the people live the rural areas. The society would be unstable if they lived in poverty. Three years’ practice proves the success. 90 percent of the people in the rural areas have proved their lives.”⁵⁴

Third, sharp contrasts were successfully used to support his argument. “Why to say we are independent? It is because we stick to the socialism with Chinese characteristics. Otherwise, we have to obey the orders of the US, other developed countries, and even the USSR”.⁵⁵ The contrast urged people to stick to socialism. In

addition, Deng pointed out the necessity to carry out the reform. “if we do not do that, it will be hard for us to make progress”.⁵⁶

Fourth, Deng knew the importance to show people the long-range prospects. “The ultimate aim is to develop social productivity. First step, by the end of this century (the 20th century), the GNP will increase by four times. People can live a comfortable life. Second step, it takes another 30 to 50 years, our economy will be close to that of the developed countries.”⁵⁷ The long-range prospect would encourage people to work hard.

With regard to the Taiwan problem, Deng assured the policy of “one nation, two systems” could apply to Taiwan. “After the unity of our country, Taiwan could have its independent status, carrying out different social systems. Taiwan could have its independent judicial system and army.”⁵⁸

Moreover, in order to unite the majority of the audience, Deng would minimize and isolate the opponents. For example, “About reform, some people in the Party and in the state hold an opposite view. But only a few are truly against the reform”.⁵⁹ Deng believed that a small group of vicious people led the student movement in 1989. “We cannot blame those students who took part in petition, demonstration and hunger strike. We would pursue those student leaders’ responsibilities.”⁶⁰

Finally, Deng used his personal experiences to support his policy. In the discussion of the special economic zones, he mentions his experiences during his inspection of those areas. “Recently I have been Guangdong and Fujian Provinces, including three economic zones. Later I also came to Shanghai and visited Baogang Steel. I have got some perceptual knowledge. The visit of Shenzhen impressed me with

its prosperity. The speed of construction there is rather quick. A large building was set up in a few days. Those construction teams are from the inland areas. The reason for the high efficiency is the contract system. The Sheko industry zone develops even faster. They have been offered more power and autonomy to exercise.”⁶¹

Criticism

Deng’s speeches are to persuade his audience to accept his ideas, to support his policies and to abandon the old thoughts. Due to his social position, his ideas and voice can be heard everywhere in China through propaganda. His ideas and speeches are frequently quoted in other speeches. Thus, his speeches are unchallengeable in China and in some senses become “axioms”.

His speeches on the reform and the open policies are reasonable and persuasive. For example, he proposed that reform was a new revolution. The old economic system had limited China’s development. “If we stop, it will be very hard to make any progress”. The difficulties in economy during Mao’s times helped him advocate the new economic policies. Some examples in the speeches are the realities and facts. The economic backward and the damages resulting from the Cultural Revolution are persuasive themselves.

Deng emphasized the difficulties and necessity of the reform. China’s economy was on the edge of bankruptcy after the Cultural Revolution. Reform is the only way to change the situation. He insisted that reform be a process of “touching the stones”. The reform could not be carried out in hurry. Moreover, the policies should be subject to

changes when necessary. In his speeches in 1979 he raised that market economy can be supplementary to planned economy. In late 1980s, he no longer overemphasized planned economy. The changes in his speeches do not mean an inconsistency of his ideas or theories. Rather, it shows that his theory is an open system, which allows modifications.

Deng emphasized that socialist political form should not undermine the leadership of the Communist Party. In his speeches Deng laid emphasis on the authority of the central government in economic and military construction. However, Deng realized the political reform should be carried out in a generalist approach as the economic reform did.

Deng's speeches and his theories guided China's economic reform for more than twenty years. Deng's theory has answered such questions as how to construct and develop economy in a backward country. Deng's theories and the government policies had been proved correct. Although he did not answer all kinds of questions, people may learn more from his theory and speeches to construct a wealthy and healthy China.

Summary

What Deng proposed is the "market economy with Chinese characteristic". He emphasized that carrying out market economy in China did not mean adopting capitalism. As we know, the essence of market economy with Chinese characteristic means adopting capitalist economy, while maintaining the socialist political system. To the western audience, the method seems implausible since the market ideology tightly

correlates to liberal governments. Many predicted that China's communist government might change its color one day only if China continuously promotes market economy.

Provided that market economy could only exist in liberal societies, any country practicing the market economy would turn to be a democratic state in the end. However, there is no state practicing market economy alone in the world. Governmental intervention and regulation always accompanies the market system. Although the market ideology originated in the West, debates about the market economy still exist in academia and practice in the western countries.

CHAPTER V
MARKET ECONOMY AND ITS RIVALS

Underlying most arguments against the free market is a lack of belief in freedom itself.

---Milton Friedman

Few people will raise questions about Adam Smith's (1723-1790) position in the field of economics. During his time, the society in England was pregnant with social changes and revolutions. The renovations and inventions of production tools greatly improved social productivity. Then came the Industrial Revolution.

In fact, the *Wealth of Nations* was written before the onset of the Industrial Revolution. During the pre-revolution times England had displayed many capitalist characteristics. Smith envisaged the potential social change and sought for the dynamic social motivation. How can individual actions be transformed to public benefits? Smith raised an "invisible hand" in the *Wealth of Nations* to explain his idea. This "invisible hand" as a guiding force was the people and their attitudes. It all started with profit-seeking individuals.

Smith set up his theoretical system on the expression that human being's motivation is self-interest.⁶² "Those great objects of self-interest, of which the loss or acquisition quite changes the rank of the person, are the objects of the passion properly called ambition; a passion which, when it keeps within the bounds of prudence and justice, is always admired in the world, and has even sometimes a certain irregular

greatness.”⁶³ To Smith, self-interest is a positive expression as a human nature. Using self-interest to feed their drive, people started businesses. When a business became successful, others would notice and enter into the same field. He argued that the competition produced in free market system would ensure the production of the right goods and services.

Smith also believed that the honorable man would take the needs of others into account as part of his self-interest. It reflects an individual that not only cares about his material benefits but also his honor. Virtue, but not self-interest, was the most workable standard in life. “By the wise contrivance of the Author of nature, virtue is upon all ordinary occasions, even with regard to this life, real wisdom and the surest and readiest means of obtaining both safety and advantages.”⁶⁴

Smith’s support of competition remained contingent on the fact that it encouraged economic growth; something Smith felt would benefit all members of society. He proposed that as long as markets grew, an increased demand for labor would prevent owners from exploiting their workers. The increased economy would provide enough jobs and productivity and control the unequal distribution of wealth and income.

Smith attacked the tariff policy since it would reduce competition. He proposed free markets instead of tariff policy. He attacked monopolies which lead to no competition, low-quality and high-price products. The end of monopolies can bring low price and high quality products. Adam Smith argued that an individual acting purely out of self-interest would be a progressive force for the maximization of the total wealth of a nation. The role of the government should be permissive, creating a legal defensive setup

sufficient to allow individual action. Interference with the free working of this natural order will reduce the growth of wealth and misdirect resources.

Yet Smith argued that a completely unregulated economy was an invitation to fraud and abuse. He recognized the need for minimal government intervention. For example, governmental institutions could improve the functioning of the public education.

Marx (1818-1883) agreed that the economy would keep growing, but with lots of problems, until eventually the proletarians got tired of exploitation the bourgeoisie had and revolted. Marx stated that the growth of Capitalism would come so fast that it would collapse on itself and create a great depression. The depression would have workers united and they would overthrow capitalism.

Although Marx agreed that the free market, or capitalism, would promote the production, he believed it was an unbalanced economic system. The system could not achieve an equal economic society. A few rich people who took in charge of production materials would exploit the majority people by taking away their surplus value. In addition, Marx believed that prices of commodities should not be determined by market. The price should base on labor and natural price only. He criticized that labors became “commodities” in market system.

Lenin (1870-1924) made further improvement on Marxism theory. His *Imperialism: the Highest Stage of Capitalism* had influenced many who have lived in socialist societies. The doctrine of exploitation, especially of Western exploitation of the Third World, has been a significant factor in the appeal of Marxist-Leninist ideology in

the developed countries. It derives from the wider notion that property incomes, business incomes, and trading incomes are extracted from other people rather than earned by the recipients. To Marxist, property incomes imply exploitation and service industries are regarded as unproductive.

The orthodox doctrine also encountered other challenges. John Maynard Keynes published a revolutionary book the *General Theory of Employment, Interest and Money* in 1936. Even before he wrote this book, he had mentioned that it would bring a revolution in economics. Classical economic theory argued against the need for government intervention and in favor of a policy of laissez faire. But classical economic theory was unable to either explain the causes of the severe economic collapse or to provide an adequate public policy solution for the Great Depression in the 1930s.

Keynes showed that unemployment was due to a deficiency in the demand for goods and services.⁶⁵ Governments could, by adjusting their own spending, overcome that deficiency. Control of the money supply and interest rates could also influence investment. The scourge of unemployment could be eliminated through enlightened monetary and fiscal policies. So his theory was that the government should actively intervene in the economy to manage the level of demand. When economic activity is depressed the government should spend more, and when the economy is booming the government should spend less, although he realized that political considerations often make it impossible to implement the best policies.

Keynes advocates aiding the poor. The government should levy taxes from the rich and then aid the poor.⁶⁶ He believes that the rich would save more money when they

become richer. The taxes would reduce their saving and benefit the poor. The rich also would increase their consumption, which may increase the demand, stimulate production and realize full employment. Keynes suggests raising prices instead of reducing real wage in order to stimulate economic development. The traditional way to reduce workers' wage may stimulate economic activities, increase investment and recruit more people. But the negative side may lead to workers' resistance. In addition, reducing wage would accordingly reduce the social demands, which would lead to market contraction.

Keynesian Revolution distinguished the macroeconomics from the microeconomics. His macroeconomic policy played an important role in pro-Depression time and pro-war time. Not only the US government had taken intervention policy since Roosevelt Administration, but the Great Britain also nationalized its economy after World War Two. The World Bank and the International Monetary Fund (IMF) both were set up at Breton Woods Meetings to manage world economy.

Keynes insisted that monetary management be an intervention means in a well-run economy. "He was particularly insistent on the need to control investment, domestic and foreign, and was ready to support the use of quite sweeping powers for this purpose."⁶⁷ In *The End of Laissez-Faire*, Keynes described his ideal government and industry relations. "In many cases, the ideal size for the unit of control and organization lies somewhere between the individual and the modern state. I suggest that progress lies in the growth and the recognition of semi-autonomous bodies within the State—bodies

whose criterion of action within their own field is solely the public good as they understand it.”⁶⁸

Friedman advocates a liberal government. A democratic government could guarantee individual freedom. In a largely free society, people can enjoy freedom of their lives and economic freedom may bring prosperity. He believes that the advantage of market would permit wide diversity in political terms through dispersing economic power.⁶⁹ In fact, he thinks that absolute freedom is impossible. He contends that a free market does not eliminate the need for government. A government could maintain law and order, define property rights, and serve as a means whereby people could modify property rights and other rules of the economic game, adjudicate disputes about the interpretation of the rules, enforce contracts, promote competition, provide a monetary framework, and engage in activities to counter technical monopolies.⁷⁰

Then how do they think about planned economy in socialist countries? Milton Friedman thinks that people in a free society enjoyed a good deal more freedom than those who in a modern totalitarian state like Russia, in which economic totalitarianism is combined with political totalitarianism.⁷¹ “Collectivist economic planning has indeed interfered with individual freedom. The result has not been the suppression of freedom, but the reversal of economic policy”.⁷² The communism would destroy all of people’s freedom.

Milton Friedman’s contributions to economics are less argued. His theories have gained acknowledgement in western academia. Due to the close connection between economics and politics, some scholars in other fields such as rhetoric and politics also

made particular contributions. Robert Kuttner (1997) provides a rhetoric rhetorical evidence to address the market's limitations. He contends that the ideal free market lies in its simplicity. But the real world institutions are messy. For example, labor markets are not like product markets, whose merchandise 'clears' based on adjustments of price.

Kuttner suggests a new synthesis of regulated competition and freer trade would indeed maximize the benefits. "Governments seek to override markets for a variety of purpose—to stabilize, to promote growth, to limit detrimental side effects, to temper inequalities, to cultivate civic virtues. But governments also operate in a political crucible, and require political consent and fiscal resources".⁷³

James Aune criticizes the concrete economic policies which go too far to be ideal. In his *Selling the free market* (2001), Aune casts doubts on Republicans' way of dealing with free market principles. He points out the dangers existing in the free policy. "Not only did free-market solutions fail to attain stated goals, they also dramatically increased income inequality in the United State. Despite this record of failure, proposals to extend the discipline of the market to social security, the public schools and the delivery of social services are now gaining in popularity".⁷⁴

Aune uses the term "economic correctness"⁷⁵ to examine the rhetoric of academic defenders of the free market. As Aune writes, "An analysis of libertarian rhetoric reveals that there is no principled way to stop the marketization of everything"⁷⁶, "The most extreme libertarians, such as Murray Rothbard, even propose the replacement of government by private protection agencies". Libertarians have gone

too far to pursue perfection. Aune is convinced that “the greatest danger emanates from unreconstructed libertarianism”.

More and More western scholars realize the mixed economy might be an optimal choice in reality. Not matter how “good” the market is, it fails sometimes; not matter how “bad” the governmental intervention is, it works. The interactions between the governmental involvements and the market institutions could lead to a dynamic balanced economy.

Other than the western societies, patterns of the mixed economy differ greatly from country to country. In some extreme cases, dictatorship regimes may allow the existence of the market economy, while the democratic governments might prefer to the conservatism in economy.

CHAPTER VI

CONCLUSION

Democracy is when the indigent, and not the men of property, are the rulers.

---Aristotle

History demonstrates a fact that economy alone cannot guarantee the power of a country. Within a monarchical state people enjoyed less freedom and had few opportunities to develop their talents. Before the 16th century, China was the largest economy in the world. But the monarchical governments and the upper level classes possessed the majority of the nation's wealth. Peasants had to bear heavy duties and led difficult lives. Even in those "golden times", the common people still could not live and work in peace and contentment.

Although China was so developed in science, and technology and it was the world largest economy in feudal time, it could not resist conquering by some underdeveloped nations. For example, the highly developed Song Empire fell into the hands of less cultivated Mongols. The powerful Ming Empire also could not resist a nomadic nation's invasion. Obviously, the larger and more advanced economy alone could not guarantee the safety of a nation, not to mention to hold a lead in world. Even at the end of the nineteenth century, the economy of the Qing Empire was larger than that of Japan, China still had no chance to win the Sino-Japan war in 1895.

These facts at least proved that a “powerful” economy could not ensure the power of a nation. A monarchical or an autocratic government would bind people’s creativities and freedom, limiting people’s normal communication and interactions with other nations. The people and the ruling class became two opposed classes. Therefore, it inevitably would weaken the foundation of the state. Only a liberal society could fully develop people’s potential and build up a strong nation. China reached the highest power and splendors during Tang Dynasty when the society was much freer than other times. In today’s world, most powerful nations all are liberal countries.

But there is no absolute political freedom. As Friedman mentioned, “History suggests only that capitalism is a necessary condition for political freedom. Clearly it is not a sufficient condition”.⁷⁷ In the western countries where free markets dominated the economy, the governmental intervention and administration are still needed. In the US, the government usually floats in-between the policy of liberty and conservatism.

Since China carried out economic reform and open-door policy, western audiences have more knowledge about modern China. Some scholars hold a view that economic transition to market economy will ultimately bring China a free and democratic society. The political system will face more and more difficulties in economic transition to carry out reform. People generally hold that either China’s new leaders will carry out political reforms or people will revolt and replace the communist government with a democratic one.

Along with the economic transition, the Chinese society has become freer than before. People enjoy more freedom both in their work and lives. Economic success and

globalization give Chinese more opportunities to communicate with the world.

Nevertheless, in politics it is far from being a democracy. Chinese people have no chance to vote for their leaders and the policies. Still in many areas people are not allowed to work in cities other than their residential areas.

To China's younger generation, especially those who were born after the 1970s, a freer society and a liberal government are preferred. Western societies have been the synonyms for liberty and advancement. In fact, most Chinese people would like to see a powerful central government, although they would inevitably lose some liberty and freedom. Here is a paradox. As we mentioned before, a true powerful nation should have a liberal society. A large economy alone is not enough. But why people still intend to accept a powerful central government?

China's Culture and history are completely different from those of the West. The strong central government model has lasted for two thousand years. Autocratic administration and Confucianism constituted a largely stable social order. The deep-rooted Confucianism taught people to have harmonious relations with others and the society.

China's backward in modern times reinforced such a tendency that China needs a powerful government. People overthrew the last feudal government because it was decaying and feeble and could not protect the country. Since the Opium War, Chinese intellectuals have been seeking ways to turn the state into a powerful country. This kind of effort has never stopped. The overthrow of capitalist KMT government was because of its weakness and dependency on western powers.

The disciplined Communist Party satisfied people's needs in this respect. The nation won the independence after the 1949 revolution. As Chairman Mao claimed that "Chinese people again stand up", the whole nation has great enthusiasm to construct the new country. In the Korean War in 1953, the Chinese army defeated the UN forces and forced the US to stop the war. The victory recovered people's confidence and China's position as a powerful country. To Chinese people at that time, gaining respect and independence was more important than obtaining individual freedom and wealth.

Many Chinese people believe that China will recover its historical honor one day. The economic reform is the onset of the nation's revival. A strong central government is needed to lead the country. Deng Xiaoping had warned the government that a stable society and a strong authority were the guarantee for the success of the economic reform. Neither the people nor the government would like to see social chaos led by drastic political changes. The more smoothly the economic reform goes on, the less possible the political changes happen.

In practice, China carries out a generalist approach in the reform. Political reform may follow a slow pace. Under certain circumstance the pace will be faster. For example, globalization demands the governments reexamine the functions of the state and find ways to perform more effectively. The central government may lay off a large number of redundant employees to improve governmental work. In order to transform the state owned enterprises to modern enterprises, the governments separate themselves from the decision-making process within SOEs, but still involve themselves in the

political lives, such as appointing and removing administrative personals. Zhu Rongji's government made great progress in SOE reform and government reform.

In addition, China is an imbalanced developing society. The coastal areas are much more advanced than the hinterland. In those large cities such as Shanghai, Beijing and Guangzhou, people's ideas are freer and local societies are more liberal. But in the backward areas, people's ideas are conservative and economy lags behind. The population in those backward areas stands for the majority of China's population. The majority of people appreciate the government's efforts in improving their lives. Thus, in such an imbalanced country political changes may lead social chaos rather than benefit the society.

Admitted or not, socialism has some favorable conditions. During the first Five-year plan, with the help of planned system, the government could gather limited human and financial resources to lay a foundation for the national industries. A group of modern plants were established with plans. Although western scholars usually negate socialist economy with the examples of the Soviet Union and other bankrupted socialist countries, the historical achievements of planned economy could not be easily denied. It is true that planned economy may not follow the law of value. But in fact it gave more supports to the needed and narrowed the social gap. For example, before the Cultural Revolution, students from poor families had more chances to receive higher education than those from rich families. The state would cover tuitions and living expenses for college students.

As Deng Xiaoping said, “development is the convincing argument”. The economic reform will continuously be the focus of the government policy, at least for another several decades. In addition, Deng’s ideology will guide the Party’s policy as well the state policies. We can predict that the political reform will also follow a “touching stone” approach.

The recent reform has faced many problems. For instance, the uncompleted market system cannot work without political changes; SOE reform has touched the key question: the property rights. The layoffs both in governments and SOEs have produced severe social problems. The disparity between the rich and the poor enlarged.

A noteworthy phenomenon is the political reform has been carried on, although the pace is slow. People can expect a much freer society and more liberal government in the future as long as the economic reform could succeed and the nation could recover its honor and wash off humiliations. In the People’s Congress held in 2003, the new Chinese leader Hu Jintao vowed to pursue market-style economic changes, which is a further step towards market economy.

NOTES

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APPENDIX

Translations of Deng Xiaoping's Speeches from The *Deng Xiaoping Selected Works*

EMANCIPATE THE MIND, SEEK TRUTH FROM FACTS AND UNITE AS ONE IN
LOOKING TO THE FUTURE

13 December 1978

Emancipating The Mind Is a Vital Political Task

When it comes to emancipating our minds, using our heads, seeking truth from facts and uniting as one in looking to the future, the primary task is to emancipate our minds. Only then can we, guided as we should be by Marxism-Leninism and Mao Zedong Thought, find correct solutions to the emerging as well as inherited problems, fruitfully reform those aspects of the relations of production and of the superstructure that do not correspond with the rapid development of our productive forces, and chart the specific course and formulate of our productive forces, and chart the specific course and formulate the specific policies, methods and measures needed to achieve the four modernizations under our actual conditions.

The emancipation of minds has not been completely achieved among our cadres, particularly our leading cadres. Indeed, many comrades have not yet set their brains going; in other words, their ideas remain rigid or partly so. That isn't because they are not good comrades. It is a result of specific historical conditions.

First, it is because during the past dozen years Lin Biao and the Gang of Four set up ideological taboos or “forbidden zones” and preached blind faith to confine people’s minds within the framework of their phony Marxism. No one was allowed to go beyond the limits they prescribed; anyone who did was tracked down, stigmatized and attacked politically. In this situation, some people found it safer to stop using their heads and thinking questions over.

Second, it is because democratic centralism was undermined and the Party was afflicted with bureaucratism resulting from, among other things, over-concentration of power. This kind of bureaucratism often masquerades as “Party leadership”, “Party directives”, “Party interests” and “Party discipline”, but actually it is designed to control people, hold them in check and oppress them. At that time many important issues were often decided by one or two persons. The others could only do what those few ordered. That being so, there wasn’t much point in thinking things out for yourself.

.....

When people’s minds aren’t yet emancipated and their thinking remains rigid, curious phenomena emerge.

Once people’s thinking becomes rigid, they will increasingly act according to fixed notions. To cite some examples, strengthening Party leadership is interpreted as the Party’s monopolizing and interfering in everything. Exercising centralized leadership is interpreted as erasing distinctions between the Party and the government, so that the former replaces the latter. And maintaining unified leadership by the Central Committee is interpreted as “doing everything according to unified

standards”. We are opposed to “home-grown policies” that violate the fundamental principles of those laid down by the Central Committee, but there are also “home-grown policies” that are truly grounded in reality and supported by the masses. Yet such correct policies are still often denounced for their “not conforming to the unified standards”.

.....

In fact, the current debate about whether practice is the sole criterion for testing truth is also a debate about whether people’s minds need to be emancipated. Everybody has recognized that this debate is highly important and necessary. Its importance is becoming clearer all the time. When everything has to be done by the book, when thinking turns rigid and blind faith is the fashion, it is impossible for a party or a nation to make progress. Only if we emancipate our minds, seek truth from facts, proceed from reality in everything and integrate theory with practice, can we carry out our socialist modernization program smoothly, and only then can our Party further develop Marxism-Leninism and Mao Zedong Thought.

Seeking truth from facts is the basis of the proletarian world outlook as well as the ideological basis of Marxism. Just as in the past we achieved all the victories in our revolution by following this principle, so today we must rely on it in our effort to accomplish the four modernizations. Comrades in every factory, government office, school, shop and production team as well as comrades in Party committees at the central, provincial—all should act on this principle, emancipate their minds and use their heads in thinking questions through and taking action on them.

SOCIALISM ALSO CAN BE ENGAGED IN THE MARKET ECONOMY

26 November 1979

It (the reform) is a new revolution. The aim is to liberate and develop productivity. Without the development of social production forces and improvement of people's lives, the revolution is hollow. We fought against feudal society and old social system because of their oppression of people and the binding of social productivity. It is clear now. The proposition that poor socialism is better than rich capitalism is absurd and nonsense.

Certainly we do not need capitalism, but we also do not need poor socialism. Instead we need a developed, rich socialist state. We believe that socialism is superior to capitalism. The superiority should express in the way that socialism has better conditions than capitalism in developing social productiveness. This should be possible. However, due to misunderstandings towards it, we wasted more than 10 years. At the beginning of 1960s China had fallen behind the world. But the disparity is not great. During the period between 1960s and 1970s, the disparity has become much greater. During that period, the economic and technological progress in the world developed fast. The speed of progress could be counted in days, rather than years and months. China was isolated from the world since the establishment of the new China. During 1950s it is not our own fault. Anti-China forces isolated China. The world is to blame. In the 1960s China had chances to cooperate with the world but we isolated ourselves. Now it is time for us to grasp the chance.

We want to realize modernizations. The modernization needs our efforts and proper policies. Some people may cast doubts on that. Our reasons for the argument include the following: First, We have plenty of natural resources. China has plenty deposits of energy, ferrous metal and nonferrous metal, etc. It would be a great strength if we can exploit and utilize them. Second, we have laid foundations on science and technology, agriculture and industry, although a lot of mistakes have been made during the past thirty years. Third, I believe the Chinese are smart people. The “Gang of Four” limited people’s minds and creativities. Now, we propose to free minds and reiterate Chairman Mao’s policy, “let hundreds of flowers blossom and hundreds of schools of thought contend”. Fourth, realization of modernization needs a proper foreign policy. The self-independent policy does not exclude international cooperation. We should utilize the advanced technology, achievement and capital to accelerate China’s construction.

It is improper to say that market economy can only exist in capitalist societies. Why cannot socialist society have market economy? Market economy is not equivalent to capitalism. Socialist market economy is the combination of a dominating planned economy and subordinate market economy. The embryo of market economy emerged in the feudalist society. Learning advanced experience from the West, including methods of management, does not mean we will implement capitalism.

DEVELOPING PRODUCTIVENESS IS THE CHIEF DUTY OF SOCIALISM

April – May 1980

Revolution involves class struggle, but not limits to it. The production revolution is an important revolution too. It is the ultimate revolution from the historical viewpoint. Since the establishment of People's Republic of China, preliminary foundations have been laid on agriculture, industry and other areas. A basic problem is that we are delayed. The productiveness developed too slowly.

In socialism construction, a chief achievement of Chairman Mao is combining the Marxism truths with China's concrete revolution practice. The socialism transformation is a successful achievement. At that time, we promoted mutual aid teams and small-scale cooperation communities in rural areas. To those capitalist enterprises, we adopted the policy of redemption. Thus, on the one hand, they were transformed to public enterprises. On the other hand, the policy did not harm the national economy. We allow individual economy to exist in handicraft industry for a long time. Thereafter they would be organized as cooperation communities if they agree to do so. These modes of transformation matched China's social reality at that time. We avoided detours. In 1958, we made mistakes and launched "Great Leap Forward" which violated the economic law. After three years economic adjustment, the economy recovered and developed healthily again. However, the disastrous Cultural Revolution began in 1966 and economy landed in a predicament.

Now we are engaging in modernization with adjustment. We should emphasize on abiding by the economic law. According to our experiences, insisting on socialism primarily demands economic development. The choice of concrete economic policies depends on whether they would benefit social productiveness. People don't believe in a hollow socialism.

BUILD SPECIAL ECONOMIC ZONES AND INCREASE OPEN CITIES

24 February 1984

Recently I visited Guangdong, Fujian province and three special economic zones. Later I came to Shanghai and visited Baogang Steel. I gained some perceptual knowledge about special economic zones. Today I invite you here to discuss the experience learned in special economic zones and the question to add open cities.

We set up special economic zones and carry out open policy. One principle must be clear: the policy is encouraged rather than discouraged.

This time I visit Shenzhen. My impression is a scene of prosperity. The developing speed is rather quick. A large building could be erected within several days. Most construction teams are from the inland areas. One of the reasons for the high efficiency is the contract system in the economic zones. The Sheko industry zone developed even faster, because they are empowered with more rights. Their slogan is "time is money; efficiency is life".

Special economic zones are windows of technology, management, and foreign policies. From the special economic zones we can import advanced technology and obtain management knowledge. Special economic zones have become the bases where we can benefit from economic growth and talent training. It is said that the social security in Shenzhen is much better than before. Many people who migrated to Hong Kong now come back, since we can offer more job opportunities and well-paid positions.

Xiamen special zone is designed too small. We can turn the whole Xiamen Island into a special economic zone. In this way it can absorb more capitals from oversea Chinese and foreigners. Xiamen special economic zone is not a free port. But we can practice certain free port policies. If the capitals can go in and out freely, foreigners would like to invest here. I think this will benefit a lot to the area.

Besides the current special economic zones, we can open more port cities, such as Dalian and Qindao. We will not call them special economic zones. But they can practice some special economic zones' favorable policies. We also need to exploit Hainan Island. If we can develop the economy in Hainan, it will be a great victory.

BUILD SOCIALISM WITH CHINESE CHARACTERISTICS

30 June 1984

Excerpt from a talk with the Japanese delegation to the second session of the council of Sino-Japanese non-governmental figures

Since the defeat of the Gang of Four and the convocation of the Third Plenary Session of the Party's Eleventh Central Committee, we have formulated the correct ideological, political and organizational lines as well as a series of principles and policies. What is the ideological line? To adhere to Marxism and to Marxist dialectical and historical materialism, or in other words, to seek truth from facts as advocated by Comrade Mao Zedong. Adherence to Marxism is vital to China and so is adherence to socialism. For more than a century since the Opium War, China was subjected to aggression and humiliation. It is because the Chinese people embraced Marxism and kept to the road leading from New Democracy to socialism that the Chinese revolution was victorious.

People may ask: If China had taken the capitalist instead of the socialist road, could the Chinese people have liberated themselves and could China have finally stood up? The Kuomintang took that road for more than 20 years and proved that it does not work. By contrast,, the Chinese Communists, by adhering to Marxism and integrating Marxism with actual conditions in China in accordance with Mao Zedong Thought, took their own road and succeeded in the revolution by encircling the cities from the countryside. Conversely, if we had not been Marxists, or if we had not integrated Marxism with Chinese conditions and followed our own road, China would have remained fragmented, with neither independence nor unity. China simply had to adhere to Marxism. If we had not fully believed in Marxism, the Chinese revolution would never have succeeded. That belief was the motive force. After the founding of the People's Republic, if we had taken the capitalist rather than the socialist road, we would

not have ended the chaos in the country or changed its conditions---inflation, unstable prices, poverty and backwardness. We started from a backward past. There was virtually no industry for us to inherit from old China, and we did not have enough grain for food. Some people ask why we chose socialism. We answer that we had to, because capitalism would get China nowhere. We must solve the problems of feeding and employing the population and of reunifying China. That is why we have repeatedly declared that we shall adhere to Marxism and keep to the socialist road. But by Marxism we mean Marxism that is integrated with Chinese conditions, and by socialism we mean socialism that is tailored to Chinese conditions and has Chinese characteristics.

What is socialism and what is Marxism? We were not quite clear about this before. Marxism attaches utmost importance to developing the productive forces. We advocate communism. But what does that mean? It means the principle of from each according to his ability and to each according to his needs, which calls for highly developed productive forces and overwhelming material wealth. Therefore, the fundamental task for socialist stage is to develop the productive forces. The superiority of the socialist system is demonstrated by faster and greater development of the productive forces than under the capitalist system. One of our shortcomings since the founding of the People's Republic was that we neglected the development of the productive forces. Socialism means eliminating poverty. Pauperism is not socialism, still less communism. The superiority of the socialist system lies above all in its ability to increasingly develop the productive forces and to improve the people's living standards. This brings us back to the point of whether to continue on the socialist road or to stop and

turn onto the capitalist road. The capitalist road can only enrich less than 10 percent of the Chinese population; it can never enrich the 90 percent. That is why we must adhere to socialism. The socialist principle of distribution to each according to his work will not create an excessive gap in wealth. Consequently, no polarization will occur as our productive forces become developed over the next 20-30 years.

The minimum target of our four modernizations is to achieve a comparatively comfortable standard of living by the end of the century. I first mentioned this with former Prime Minister Masayoshi of Japan during his visit here in December 1979. By a comfortable standard we mean that per capita GNP will reach U.S. \$ 800. That is a low level for you, but it is really ambitious for us. China has a population of 1 billion now and it will reach 1.2 billion by then. If, when the GNP reaches \$1000 billion, we applied the capitalist principle of distribution, it would not amount to much and could not help to eliminate poverty and backwardness. Less than 10 percent of the population would enjoy a better life, while over 90 percent remained in poverty. But the socialist principle of distribution can enable all the people to become relatively comfortable. This is why we want to uphold socialism. Without socialism, China can never achieve that goal.

However, only talking about this is not enough. The present world is an open one. China's past backwardness was due to its closed-door policy. After the founding of the People's Republic, we were blockaded by others, and so the country remained closed to some extent, which created difficulties for us. Some "Left" policies and the Cultural Revolution in particular were disastrous for us. In short, the experience of the past 30 years or more proves that a closed-door policy would hinder construction and inhibit

development. Therefore, the ideological line formulated at the Third Plenary Session of the Party's Eleventh Central Committee is to adhere to the principles of integrating Marxism with Chinese conditions, seeking truth from facts, linking theory with practice and proceeding from reality. In other words, the line is to adhere to the essence of Comrade Mao Zedong's thought. Our political line focuses on the four modernizations, on continuing to develop the productive forces. Nothing short of a world war would make us release our grip on this essential point. Even should world war break out, we would engage in reconstruction after the war. A closed-door policy would not help construction. There are two kinds of exclusion: one is directed against other countries; the other is directed against China itself, with one region or department closing its doors to others. We are suggesting that we should develop a little faster—just a little, because it would be unrealistic to go too fast. To do this, we have to invigorate the domestic economy and open up to the outside. We have to invigorate the domestic economy and open up to the outside. We must first of all solve the problem of the countryside, which contains 80 percent of the population. China's stability depends on stability of the countryside with this 80 percent --- this is the reality of China from which we should proceed. No matter how successful our work in the cities is, it will not mean much without the stable base of the countryside. Therefore, we must first of all solve the problem of the countryside by invigorating the economy and adopting an open policy so as to bring the initiative of 80 percent of the population into full play. We adopted this policy at the end of 1978, and after several years it has produced the desired results.

The recent Second Session of the Sixth National People's Congress decided to shift the focus of reform from the countryside to the cities. The urban reform includes not only industry and commerce but science, education and all other professions as well. In short, we shall continue the reform at home. As for our relations with foreign countries, we shall pursue the policy of opening up still wider to the outside world. We have opened 14 medium and large coastal cities. We welcome foreign investment and advanced techniques. Management is also a kind of technique. Will they undermine our socialism? Not likely, because the socialist economy is our mainstay. Our socialist economic base is so huge that it can absorb tens and hundreds of billions of dollars' worth of foreign funds without shaking the socialist foundation. Besides, we adhere to the socialist principle of distribution and do not tolerate economic polarization. Thus, foreign investment will doubtless serve as a major supplement to the building of socialism in our country. And as things stand now, this supplement is indispensable. Naturally, some problems will arise in the wake of foreign investment. But the negative aspects are far less significant than the positive use we can make of it to accelerate our development. It may entail a slight risk, but not much.

REFORM IS THE SECOND REVOLUTION IN CHINA

28 March 1985

The reform we are carrying out is bold enough. But if we stop, it will be very hard to make any progresses. Reform is a second revolution in China. It is important but

a risky affair. In the third meeting of the Sixth People's Committee risks have been pointed out. We had noticed the risks when we decided to do so. Our policy is: step cautiously and bravely. The overall policy will not sway. It is important to summarize experience and lessons in time. Because the reform involves people's daily lives, every step and action would affect hundreds of millions of people. The result of the reform will be found years later. During the reform mistakes are unavoidable. We must be good at drawing lessons and summarize our experience. Improper actions should be modified. Recently there are some problems found in the reform. Some people may look at them seriously. But we are confident about it.

No INTRINSIC CONTRADICTIONS EXIST BETWEEN SOCIALISM AND THE
MARKET ECONOMY

23 October 1985

There is no intrinsic contradiction between socialism and market economy. The key question is by which way we can improve social production forces. We used to apply planned economy. Many years' experience proves that in certain senses planned economy alone will bind the production capacity. Combining markets and planning will better liberate production and accelerate economic development.

We have insisted on the Four Basic Principles, the most important one among which is insisting on socialism. The best way to stick to socialism is to develop social production capacity. We have not done well for a long time. The superiority of socialism

ultimately should be reflected on production superiority. Experiences show that our economic system did not solve the problem at present. Therefore, we need absorb some useful methods from capitalism to develop our production. Now it is clear that we are on the right direction to carry out open-door policy, combine plan and market, and carry out institutional reforms. Have we violated the principles of socialism? No. Because we adhere to two principles in reform: public owned economy should be the principal part all along.

INTERVIEWED BY MIKE WALLACE

2 September 1986

Wallace: Is there major divergence between China and the US?

Deng: Yes. If we say there are three major obstacles in the relationship of China and the USSR, Taiwan issue, the unification of two sides of the Taiwan Straits, is the major obstacle between China and the US. One voice of the US says that the US holds an attitude of “non-intervention” to China’s unification. It is not the truth, since the US has intervened consistently. In the 1950s, MacArthur and Dulles took Taiwan as the “unsinkable” aircraft in Asia and the Pacific. Therefore, Taiwan issue is the most important issue in the negotiation of the US and China.

Wallace: Has the US not followed and obeyed its promise in dealing with the relationship between the US and Taiwan?

Deng: I think the US government should adopt a more sagacious attitude to this problem.

Wallace: What kind of attitude?

Deng: It is a pity that the US Congress passed the Law of Relations with Taiwan during the later period of Carter's government. It has become a major obstacle between Sino-US relationships. Like what I said just now, I hope President Reagan could make progresses in the relations between two countries, including China's unitary affair. I believe the US and President Reagan can do something in this affair.

Wallace: What must Taiwan unite with Mainland China?

Deng: At first it is a national affair and related to the feeling of a nation. All descendants of Chinese nation hope that China can unite. The split violates the nation's will. Second, If Taiwan would not unite with the Mainland; its safety would not be guaranteed since one day it might be occupied by other nations. Third, the policy "one nation, two social systems" will be applied to Taiwan. Mainland would practice socialism and Taiwan could practice capitalism. It will not affect the social system and living styles in Taiwan. As to compare the development of Taiwan and the Mainland, we should hold an object view. The difference is temporary. But according to the current policies in the Mainland, the development speed could not slow down. The difference has been reduced. I believe that the development speed in the Mainland will not be slower than that of Taiwan in the next a few years. The reason is quite simple. Taiwan lacks of natural resources, but the Mainland has plenty of them. The potential of the Mainland has not been fully realized.

Concerning the whole power, the Mainland is stronger than Taiwan at present. Therefore, it is a one-sided approach to compare the average income in Taiwan and the Mainland.

ENTERPRISE REFORM AND BANKING REFORM

19 December 1986

From a long-term point of view, the problem of food supply is very important. We should resolve the problem through reform. Enterprises reform should help activate large state owned enterprises.

Separating ownership from management through all kinds of forms to motivate enterprises is one important facet of reform. Many of our comrades are still bound by old concepts. In fact, many management forms belong to economic tools. They can be utilized by capitalism, as well as socialism.

Separating government and enterprises is not only economic structural reform, but also political structural reform. Inflated departments and organizations must lay off some employees. Otherwise so many people would act as “mother-in-law” and arrogate power to them.

Banking reform could step further. The banks should be real banks. In the past banks in China are only responsible for issuing paper money and storing gold. They are not real banks. To those problems about banking, we lack of enough knowledge. We can invite foreign experts for consulting.

In order to solve the problem of budget deficit, the capital construction especially the non-production constructions scale cannot be too large. The central government cannot bear all the cost. The local government and social capital can support part of the constructions. In addition, the consumption level cannot be too high.

BOTH PLAN AND MARKET ARE METHODS OF PRODUCTION DEVELOPMENT

6 February 1987

Why should we equal market to capitalism, only plan belongs to socialism? Market and plan are both economic methods. Both of them could be used if only they would benefit social production development. Market is socialism if it serves for socialism. Market is capitalism if it serves for capitalism. It is improper to say plan equals socialism. Japan has a Department of Enterprises planning. The US also has plans. We carried out planned economy that originated in the USSR. Later we emphasized that planned economy is the main body of socialist economy. Now we should no longer say like that.

It does not matter that we made some mistakes. Don't be afraid. If we are afraid, we cannot advance the reform. On the other hand, I feel that we overemphasized steadiness and stability. At present it could be slow and stable. But for long run, the moves cannot be too slow.

MANAGE AND SETTLE THE CONFUSION OF THE PRICE SYSTEM,
ACCELERATE THE REFORM

19 May 1988

Manage and settle the confusion of the price system is the prerequisite for reform acceleration. In the past, prices were determined by the state. For example, the purchase prices of foods are quite low. Although purchasing prices have been raised for years, they are still under the market prices. However, the retail prices in cities cannot be too high. The state has to compensate for the imbalanced price system. The system violates the law of value. On the one hand, peasants have lost motivations to increase agricultural products. On the other hand, the state loads the burden to compensate the food prices. As a result, the state has less money to invest in the economy. Recently we removed price limits on four non-staple foods. That is the first step. It is hard to say whether it will succeed. We hope it will succeed. It demands that every step should be careful. We should draw lessons and make adjustment to fit the situations time to time. Food prices reform is an inexorable trend. There is no perfect method to deal with a new thing.

Practice is the only criteria for a truth test. Whether it is proper or not to remove the limitation of prices and speed up reform depends on practice. Now we are experiencing smooth and difficulties. During the past ten years the country has made progress. People enjoy better lives now. We have stronger preparation for risks.

OPEN MINDS AND ACCELERATE THE REFORM

25 May 1988

We are undergoing reform. Why are the contents of our reform so broad and deep? Because we learned lessons from the Cultural Revolution. The Cultural Revolution delayed the development of the state for ten years. Plus the year we made mistakes on our “left” route in 1957, it would be twenty years. From 1949 to 1957, the development of the country was healthy. During the latest twenty years, we had mistakes but also made some achievements. For example, we made our nuclear weapons, missiles and hydrogen bombs. But the overall economy was at a standstill. Until 1978 the party set a series of new routes, policies and principles. The basic content is to establish socialism with Chinese characteristics. Insisting on socialism direction confirms the fundamental duty of socialism is to develop productiveness, break away from poverty and make the state rich and strong. The characteristic of socialism is not poverty but riches. People should be rich together.

In order to develop productiveness, we need to practice reform and open policy. The blockage for the past twenty years must be removed. Our points of view towards the policy are consensus. The consensus is due to the “Cultural Revolution”, from which we have drawn a miserable lesson. However, there are some different points of view regarding what degree the reform should be carried on, how to carry out reform and how to open markets. We often say that practice is the only criteria for truth. The ten years practice has proved the policies, principles made by the Party are correct. The mind

should be more open and the steps of reform will be quicker. Reform throughout China is not a process of three years, or five, or ten, not even 20 years. There are too many things to be done.

Open policy and reform should proceed from respective conditions in every country. Every country has different history, foundations, and environment. The experience from others can be used for reference, but we cannot copy them. In the past we had lessons on this. China can only practice China's socialism.

CENTRAL GOVERNMENT IS THE AUTHORITY

12 September 1988

What I mean is that the central government should have authoritative power. The success of reform necessitates the government's orderly lead. Otherwise, how can we cope with chaos? The localities cannot have their own policies against the central government. If the government and the party lost authority, the situation would only be greater tension. I support the policy that reform and order consolidation could come together. The local governments should implement resolutely the policies drafted by the central government. The current situations seem to be a mess. Many problems emerge, such as inflation and high prices of products. It needs adjustment. But any actions cannot damage the open policy and reform. We cannot shrink the economy and slow the speed of development. We have confidence that those problems can be solved. Minor problems are allowed but major problems should be avoided.

The coastal area should accelerate opening to the outside world. If the areas living with two hundred million people can develop fast, the economy can spur on the economy in inland area. It is a question of general situation. The inland area should take the overall interests into account. In turn, we also demand the coastal areas give aids to inland areas when it is necessary. The coastal areas also need to obey the general situation. Without the authority in the central government, we cannot make it.

We should make a policy to deepen reform under the guidance of the central government. Price reform is only one side of the overall reform. Only the overall reform can create conditions for price reform.

SPEECHES IN WUCHANG, SHENZHEN, ZHUHAI AND SHANGHI

January –February 1992

I came to Guangdong in 1984. At that time, agricultural reform had practiced for several years. Urban reform just began. Special economic zones were on their earlier stages. Eight years have passed. This time I visited Shenzhen, Zhuhai and other places. I have not imagined of the fast development. I feel more confident.

Revolution is to free production forces. Reform also liberates production forces. Overthrowing the imperialism, feudalism and capitalism in China liberated our production forces. This is a revolution, because revolution is to liberate social production forces. After socialism set up in China, there is need to change the old economic system and set up vigorous socialist economic system. This is reform. Reform also liberates

social production forces. In the past we only emphasized production development under socialism. We now should both emphasize on liberate production forces and develop production forces.

We need to pioneer in reform. We should dare to break through. The experience of Shenzhen is the spirit of path-breaker. Without that spirit, we cannot break through a new road, a good road, and a good enterprise. I am afraid that we need another thirty years to form a set of perfect laws. Then the policies under the laws will be more consistent.

The reason we did not take a big stride forward in reform is worrying too much about capitalism and becoming capitalist country. The criteria of judgment should be whether it will benefit socialist social production forces, whether it will help increase socialist country's national power, whether it will improve people's lives. There are different points of view towards the establishment of special economic zones at the beginning. Some people worried that will be capitalism. The achievement of Shenzhen can give answers to such worries. Special economic zones are carrying out "socialism" rather than "capitalism" economy. Judging from Shenzhen, public owned economy is the main body, foreign investment only occupies a quarter of the economy. We are benefited from foreign investment. If we keep clear minds, we don't need to worry about foreign investment. We have many advantages: we have SOEs, towns and town-ownership enterprises. More important is the sovereignty is in our hands. Some people think more foreign investment, more capitalism is needed. The increasing foreign investment will lead the development of capitalism in China. They lack of basic common senses. At

present the foreign companies will earn their profits. The state will get taxes. Workers will get their salaries. We also can learn management and technology. Besides, we can obtain more information and enter international markets. Therefore, those “capitalist” enterprises are a benefit for socialism.

More plans or more markets are not the distinctions between socialism and capitalism. Planned economy is not socialism. Capitalism has plans too. Market economy is not capitalism. Socialist society also has markets. Both plan and market are economic methods. The duty of socialism is to liberate and develop the production forces, to distinguish exploit and polarization. Are securities and stocks dangerous things? We should try them. We should not worry about it. If it failed in one or two years, we can cancel it. If it succeeded, we can promote it. In all, if socialism needs to win the advantage over capitalism, we must absorb and borrow all kinds of cultivations including advanced operational manner and management from advanced capitalist countries.

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