

# The reforms by deng xiaoping



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Immediately after the death of Mao in 1976, became a power struggle erupted between different parties. Called the Gang of Four, led by the widow of Mao Zedong, Hua Kuo-feng and wanted the power to attract to herself. The ‘Gang of Four’ wanted that the Cultural Revolution continue. Eventually the battle won by Hua Kuo-feng and inside he had the ‘Gang of Four’ arrested. Hua knew the standard of living in China cannot increase and it was felt that he spent too much money to it. In 1978 he was expelled and replaced by Deng Xiaoping. It was that year when Deng Xiaoping launched his major economic reform plan. He went out of “four modernizations”, which will be discussed later in this report. The aim was to improve agriculture, industry, science and the military. The classic Marxist communism was combined with western ideas as private property and a price-based economy.

Deng Xiaoping was the person who put the principles of the present Chinese economy. His economic liberalization policy has led to the current large-scale economic development of China. In the chart below you can see how the GDP in China during various changes and events developed. The GDP, or “Gross Domestic Product”, in the Netherlands (nominal) gross domestic product (GDP) called. This is the sum of gross value added of all firms in an economy and thereby corrected by inflation. In 2004 the GDP compared to GDP in the year 2000 alone doubled.

## **The Four Modernizations**

In December 1978, Deng Xiaoping introduced the four modernizations. This was a plan designed for China, to become an economical power in the world market. This modernizations relates to the military, agriculture, industry and

the science and technology. Below the modernizations will be discussed, except the military, because it has no relation to this report.

## Agriculture

Also, there was a new system for farmers. This meant that farmers have a contract with the government locks stating how much was expected of them that they minimally produced. Everything they produced more were left to the free market. Instead of working for a corporate company, they could now own an income gain. This measure greatly stimulated the production. The agricultural production increased between 1979 and 1983 by 7.9% annually. In 1984, China was a grain harvest of 405 million tons for the first self-sufficient. At that time, the first village and town enterprises established businesses owned and were the responsibility of a village or a town.

## Industry

In the second half of the nineties, the focus was on industrial reforms. The focus was no longer solely placed on heavy industry, but also on the lighter industrial consumables. This change was modernization of the machinery and renewal of management time. These machines and the knowledge had come from the West and Japan, which facilitates contacts between China and the rest of the world more stimulated. Also became increasingly unprofitable businesses closed, there was work on the development of a social security system and the government tried to modernize the banking sector. The government wanted a banking system that allows the economy through monetary policy (measures to inflation and the value of the domestic currency to maintain stable) was to influence and which loans could be

granted on the basis of economic criteria such as profit and loss, and not on the basis of political arbitrariness, as previously happened.

In the next phase the goal was the centrally planned economy into an open market, where supply and demand the price of a product is determined. For this plan to succeed was a double system introduced. In the beginning was the price of some goods and services are still regulated by the government, other price was released. Gradually more and more goods and services in the second category go. Thus, the great transition can take place. At the beginning of the nineties, the prices of almost all goods free.

### Science and Technology

It will invest more in research and development (R & D), the Chinese economy do grow. China is currently the third largest country with 60 billion in spending on research. Only America and Japan are still over China with respectively 282 and \$ 101 billion. It employs 743, 000 people in this sector, and it is expected that revenues will grow only more. 40% of the total investment in R & D comes from the government. The Chinese government wants to modernize their country as soon as possible. The other 60% percent comes from domestic, but especially from foreign companies. This of course has to do with the fact that foreign companies already far advanced, and more able to deposit money for R & D.

According to the Chinese Ministry of Commerce, there were in 2006 against 750 R & D centers (research) compared with 200 in 2002. In 2000, there was \$ 11. 13 billion invested in R & D, compared with \$ 29. 4 billion in 2005.

Here, the foreign studies in China take place not even counted. The fact is

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that the R & D levels among medium and large enterprises in China is mainly determined by the foreign companies. Only a quarter of the Chinese companies had their own research and technology. But this together has ensured that the R & D in China remains in many other countries.

Research is important for a country. And also for China. Through research, it has become possible for China to compete with other countries by improving production processes, improving the quality of products and the creation of completely new products and services. The efficiency of China and thus the overall performance is very developed by R & D.

The necessary technological innovation, created by R & D within the country, were greatly improved the production. This and the introduction of the open-door policy, China resulted in record time a major producer of consumer goods was, from cheap toys and textiles to low grade quality hardware.

## **Special Economic Zones**

The first phase of reforms was very important for the economy. In the period 1979-1980 had a number of reforms aim borders with other countries to open the so-called open-door policy. By the Chinese authorities were a total of four Special Economic Zones established. A Chinese Special Economic Zone (SEZ) is a place in China where the government allows foreign trade and investment. The government interferes it is also not in the business, production and trade of the companies. In order to attract foreign capital investment laws were also much milder than in the rest of the country. After the success of the SEZ's, the government decided in 1984 thirteen new areas to establish the so-called open cities. In the open cities did you have in

comparison to the SEZ's limited investment opportunities. In the course of time there are so many economic zones added. Besides the Chinese private companies, foreign investments for a significant part responsible for the new jobs in China.

## **Labor force**

Because the Chinese population is very large, there is always sufficient supply of the labor factor. There is a lot of (highly skilled) labor market in China. Wages will therefore not increase rapidly. For China, this has always been highly beneficial, because it always interesting for foreign investors in China has been able to produce. As indicated earlier, China's most populous country as a large market. This market has grown strongly in recent years. Although the wages for the majority of the production staff (laborers and factory workers) have remained low, there is in China a 'nouveau riche' arise. These retailers are able to use the openness of the Chinese economy and businesses themselves up. There were more and more people, especially from the developed coastal cities, which the economic development had more to spend. This is China for foreign investors even more attractive.

The one-child policy was especially designed to population growth to slow, but has in recent years also ensured that a large proportion of the population in the laborious years (15-65 years) has ended. At the same time the level of education increased and this, combined with the decreasing number of children has ensured that more women were employed in the production process. China has been able to share the unutilized labor to turn into work.

Labor was very important and the working spirit of the Chinese people also. There prevails among the majority of the population has a strong nationalistic feeling. China was the country after 1978, not only offered many opportunities for foreign companies, but also for the Chinese people. After all the hardships during the regime of Mao, the Chinese people are willing to make every effort to not be in that situation to come. The people wanted to work for their country. For most Chinese, the development of their own country is very important. It is therefore generally accepted low wages in relation to the work and poor working conditions. Also played it that the people saw that everyone in comparison with previous nevertheless went ahead slowly. It saw a chance to get ahead individually, as previously never been possible. This would be still better bets. The strong work spirit has partly ensured that many people are betting on the labor market and accept certain things, but this is also due to the fact that many people simply had no choice.

### **Foreign investments (FIE)**

The speech of Deng Xiaoping in 1992 had a big impact on the foreign investments in China. Which in turn has led to more foreign investments. The table below shows how important investment for the Chinese imports and exports in recent years have been. These are important causes of the explosive economic growth. Foreign investment enterprises (FIE) is the collective name for wholly foreign owned enterprises (WFOE, businesses or factories entirely by foreign parties to be invested) and joint ventures (JVs). Joint venture there again in different forms. The bottom line is that Chinese companies are cooperating with Western companies. Western companies are

taking advantage of the local market, Chinese companies include the transfer of technological knowledge. The knowledge and management comes from abroad and sets up a business with a large parent company in the West. The employees are educated and trained. Because the wages many times lower than in the expensive west, there are hefty profit margins. The Chinese companies with foreign capital, were from 1980 to 1985, average annual charge of 0.57% of the total exports and 2.08% of the total imports. Between 1996 and 2000, this annual average 44.24% of total exports and 53.33% of total imports. This means that the share of exports between 1996 and 2000 about 77 times as large as in the years between 1980 and 1985. The share of imports was about 26 times as large as in the past.

In 1993, Deng succeeded by Jiang Zemin. Since then pursues a socialist market economy after China officially. Below understand the Chinese authorities a market supply and demand largely determine how and where scarce resources such as labor, capital and land will be used optimally. The socialist aspect was a form of socialism with Chinese characteristics. The role of the State is limited to the modulation of undesirable developments using macroeconomic tools and support to economically disadvantaged populations. The market economy was achieved through continuous reforms, modernization and opening up new policies. With the latter, particularly from attracting more foreign investment.

### **The World Trade Organization (WTO)**

In 2001, when Jiang Zemin was in power, China was officially 143<sup>rd</sup> member of the World Trade Organization (World Trade Organization, WTO). In

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practice it means that WTO membership will officially members integrate into the world economy. The Chinese trade – and investment legislation was more transparent and published in English. There were no trade barriers, domestic and foreign companies were given equal rights. For China, this meant that they are easy products to foreign countries could export. On the other hand, foreign companies attracted to themselves in China to establish or invest in China, as it was much easier. Two major obstacles had disappeared. The hitherto protected sectors, which were no more or less. In addition, the former unprotected sectors have a higher chance of recovering the investment, and a reduction of legal barriers make better pricing for the foreign companies. In the chart above you can see what happened to the GDP, since China's accession to the WTO.

In recent years, China by many companies as an important location seen. China as a country offers many opportunities. Several factors are responsible. China is known for low wages. Compared to America or Europe countries, wages in China are extremely low. China also has good transport facilities. Meanwhile, six of the top ten ports in the world are located in China. Moreover, these ports well connected to the hinterland. The Chinese government is constantly working to improve the existing transport network, allowing companies the opportunity both their raw materials and finished products, fast and cheap to import and export.

Finally, China, as the country with the largest population, also been a large domestic market. The economic development of the last few years more and more Chinese people can spend. The investing companies have many potential customers in China.