China's Goal of Combining Economic Self-Reliance with its Development: Changing Perspectives and Challenges

by

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China’s Goal of Combining Economic Self-Reliance With Its Development: Changing Perspectives and Challenges

ABSTRACT

The attainment of self-reliance (zi li geng sheng) is an important goal for China. However, approaches to achieving it have altered greatly since the People’s Republic was established in 1949. Following the split between China and the Soviet Union in 1960, Mao Zedong claimed that China could achieve this goal by promoting economic self-sufficiency at the national level as well as at subnational levels. This approach resulted in a considerable economic burden for China. While national economic self-sufficiency probably was forced on China by the hostility of foreign nations towards it, subnational self-sufficiency was not. Following the death of Mao Zedong in 1976 and the eventual rise to power of Deng Xiaoping, China’s market reforms began in 1978. With the introduction of the household responsibility system in agriculture, China gave up relying on communes and collectives for its agricultural production. The market reforms began in rural areas but were only slowly extended to urban areas because of some opposition to some politbureau numbers to the market reforms. The process of the market reforms since 1978 is outlined with some attention being given to the political hurdles involved in achieving these reforms. As a result of these reforms, the goal of subnational economic self-sufficiency has well and truly been abandoned and national self-sufficiency is no longer practised. These changes have brought new economic risks for China and the Chinese people. The benefit, however, has been greater economic growth and the enhanced global status of China. While economic self-sufficiency is no longer an over-riding goal for China, one part of zi li geng sheng is still very important for it nationally, namely, to control one’s destiny, that is, to be in charge of one’s own affairs, goals and decision-making.

Keywords: China, Deng Xiaoping, economic self-reliance, economic self-sufficiency, Mao Zedong, market reforms, political economy, Richard Nixon, United States.

JEL Classifications: O2; P21; P31; P52.
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1. Introduction

According to Liquan Jia (1992, p.10), “The Chinese see self-reliance as a matter of self-respect and honour because it stands for self-confidence and reliance primarily on one’s human and natural resources and it also means the capacity for autonomous goal setting and decision-making”. The English word “self-reliance” is used to translate the Chinese term zi li geng sheng: “regeneration through one’s own efforts”.

Mao Zedong put great emphasis on the principle of self-reliance, particularly after the split between China and the USSR in 1960. He used it to support his policies for achieving economic independence of China both at the national and subnational level. However, following China’s market reforms and opening up to the outside world (a process signalled by Deng Xiaoping in 1978), the economic interdependence of China with the outside world has increased tremendously and regional economic interdependence in China has developed rapidly. Does this mean that China has lost sight of the principle of self-reliance? It is argued here that it has not. This is because the most important part of zi li geng sheng is to control one’s own destiny, that is to be in charge of one’s own affairs, goals and decision-making. While the increased economic interdependence of China with the rest of the world creates new challenges for China in autonomous goal-setting and decision-making, it remains firmly in control of its own destiny.

The purpose of this article is to outline and discuss Mao Zedong’s approach to self-reliance and then consider implications for the principle of self-reliance of China’s market reforms and its opening up to the outside world. This is followed by a discussion of the policy issues which China faces as a result of its increased openness.

2. Mao Zedong’s Quest to Achieve Economic Self-Reliance

Following the establishment of the People’s Republic of China in 1949, China received a substantial amount of foreign aid from the USSR and tried to follow similar policies to those of the Soviet Union in managing its economy. However, central planning of China’s economy was never as comprehensive nor as successful as that of the Soviet Union. This was
partly due to the differences in the nature of their economies (and possibly cultural factors) as well as the lower level of development of China compared to the Soviet Union. Chai (2011) points out that even when central planning was at its height in China, fewer commodities were covered by it than in the Soviet Union.

In the period 1949 to 1960, China was far from self-reliant because of its receipt of aid from the USSR. Possibly, the Chinese Government came to resent this dependence and the potential political influence on China of the Soviet Union. Relations consequently soured, resulted in hostilities and the withdrawal of Soviet aid to China in 1960. Subsequently, Mao Zedong concentrated on policies to increase China’s economic self-sufficiency at the national as well as at subnational levels.

Given China’s political split with the Soviet Union and the hostility of Western nations to China at the time (resulting in trade embargoes) the Chinese economy was isolated from the rest of the world by external forces. Consequently, to a large extent, the international economic isolation of China was forced on it by external political factors. It had little option to be other than self-reliant nationally. On the other hand, Mao Zedong, apart from applauding national self-reliance, promoted subnational economic self-reliance or self-sufficiency. This was not forced on him by external circumstances.

Chai (2011, p.147) states that “One element in this radical policy [of Mao] was the promotion of the principal of self-reliance which essentially implies the establishment of a comprehensive, independent economic system not only in the nation, but at the regional and local levels as well, even down to that of the communal and the individual enterprise.” Consequently, as discussed by Donnithorne (1972), China’s economy was partitioned into a large number of virtually self-sufficient, independent cells.

It has been argued (for example by Chai, 2011) that this imposed a considerable economic burden on China because it ignored the economic benefits available as a result of economic specialization according to comparative advantage (and other benefits of economic exchange) and scale economies. This is true. However, on the other hand, in this period, the Chinese transport system was poor and this naturally limited trade within the country.
Mao’s motives for promoting a cellular Chinese economy are not clear. He may have hoped that it would result in greater use of the resources available to each cell and thereby contribute to greater production. Also for a time, he created very large communes and may have been convinced that these would result in significant economies of scale. An additional reason could have been that the cellular approach helped to simplify the planning of the economy by reducing the need to take account of economic interdependence in the economy. It may have also been thought that this process would simplify political control of China’s population. In any case, Mao’s policies for subnational economic reliance proved to be an economic burden for China. For example, the Great Leap Forward based on Mao’s model for rapid economic development (Chai, 2011, p. 121, Figure 11.1) proved to be an economic disaster, and culminated in the Cultural Revolution. Despite the apparent economic failures of his self-reliance policies, Mao continued to favour these despite opposition from several senior members of the CCP.

Decisions about the nature and location of industries needed to defend China also imposed an extra economic burden on it. Whether or not China’s fears of being attacked were justified and its defence policies were the most effective available to it are unclear but its policies were very costly.

In the 1960s, China was divided into three frontiers for defence purposes. The ‘first front’ was along the coastal areas, the third front was within the interior, and the second front was in between. The first front was considered most likely to be attacked e.g. bombed by the United States and its allies. Therefore, large investments were made in industrial development in the third front (often in mountainous areas) so as to ensure industrial supplies for China’s defence should it be attacked.

The failure of China to reach its economic potential under Mao Zedong was not only due to the cellular nature of the economy. An important contributor was its dependence on communal or collective self-reliance rather than that of families or individuals. This undermined personal economic motivation and initiative. At the same time, it probably added to the grip of the CCP on political power. Its number one priority seemed to be that individuals should subscribe to the CCP. Economic objectives may well have been a secondary consideration.
Despite all the economic difficulties mentioned above, China did make economic progress (according to some indicators) during the nearly 30 years in which Mao guided socialism in China (Chai, 2011, pp. 159-160) and China did remain an independent nation. However, its development path involved considerable human sacrifice. Although Mao espoused the principle of self-reliance, the principle only extended to groups not to individuals or families. This policy approach was altered radically after Mao’s departure and the commencement in 1978 of market system policies. One of the first policy changes instituted by Deng Xiaoping was to introduce the household responsibility system in agriculture. As a result, China’s economic system started to rely on household (families) rather than on communes or collectives as a source of agricultural production.

3. Changes in China’s Self-Reliance During its Economic Reform Period (1978 onwards)

As a result of China’s economic reforms (which began in 1978) the nature of economic self-reliance within China and its national economic reliance changed. Economic interdependence of households and enterprises in China increased and its economic prosperity became increasingly dependent on international exchange. Let us consider in turn alterations in both these dimensions of self-reliance.

Alterations in economic self-reliance within China

Deng Xiaoping’s first major policy move was the introduction of the household responsibility system in agriculture (Tisdell, 1993, pp.120-125). This shifted responsibility for agricultural production from communes and collectives to families. Although agricultural households were not completely free to determine every aspect of their production, farm families now had greater freedom of choice about what and how much to produce. Agriculturalists could now obtain personal economic rewards to motivate them to be more efficient than in the communal system.

Liu Guoguang et al. (1987, p.185) observed: “the contract responsibility system based on the household with remuneration linked to output has been introduced, which clearly defines the obligations, directly benefits the peasants, involves simple procedures and makes maximum use of the enthusiasm of the masses of the peasants by assuring them of their power to make
decisions on matters relating to the management of production and by ridding the distribution system of the influence of equalitarianism.”

In line with Deng Xiaoping’s gradualist approach to policy change, each agricultural household had to deliver to the state a predetermined quota of production paid for at state-determined prices. Production in excess of the quota could be sold in the market and the amount of this ‘excess’ production could be completely determined by the household. This paved the way for extending the relative influences of market on agricultural production, for example, reducing or eliminating state quotas.

The growth of town-and-village enterprises was encouraged. This helped to absorb China’s agricultural labour surplus and provided increased competition for state-owned enterprises (Tisdell, 1993, pp. 125-126). Now, however, China’s town-and-village enterprises are facing increased competition as its economy becomes more interconnected and the number of non-state enterprises increased. In addition, improvements in China’s transport structure and telecommunications as well as the extension of its market system have increased competition and reduced the extent of natural protection available to town-and-village enterprises (Tisdell, 2012).

As is well known, Chinese economic reforms began in rural areas and later spread to urban areas. This pattern was not merely a result of Deng Xiaoping’s gradualist approach. According to Chai (2011), China’s market reforms can be divided into three stages. “In stage one (1978-84), China’s reforms were fairly low-key and restricted because Deng Xiaoping and his reform strategist Zhao Ziyang were restrained by party elders like Chen Yun and Li Xiannian who were in charge of the economy after the collapse of the GLF [Great Leap Forward]. They much preferred central planning and moderate reform.” (Chai, 2011, pp. 163-164).

Chai suggests that the period (1985-89) corresponds to the second stage of market reforms. The 13th Plenary session of the CCP accepted the goal in October 1987 that markets should be the main mechanism for resource allocation with government exercising only indirect control. Zhao Ziyang’s intention was that comprehensive urban reform measures would be introduced. But continuing conflict between Chen Yun and Zhao resulted in only some of
these measures being introduced (Chai, 2011, p.164). Nevertheless, the period saw an increase in the number of non-state enterprises and an extension of dual pricing systems.

For three years following the Tiananmen Square incident, Chinese economic reforms were on hold. But in 1992 following Deng Xiaoping’s tour of southern China, the reforms recommenced with increased vigour. Deng Xiaoping called on local authorities to deepen the market reforms.

Chai (2011, pp. 165-166) attributed this move to the passing away of conservatives in the CCP elite uneasy about the reform movement, and the collapse of communism based on the old system in the USSR towards the end of 1980s. The latter suggested that the old economic system would no longer be politically workable. In any case, the plenum of the 14th Party Congress adopted the goal of establishing a comprehensive market system in China. In 1993, the dual price system was abolished thereby increasing the influence of market prices on resource allocation. Many state-owned enterprises were privatised and the private sector by 2010 accounted for the major part of production and employment in China (Chai, 2011, p.168).

Consequently, as a result of its market reforms, China had by 2010 diverged greatly from the type of cellular economic self-reliance encouraged by Mao Zedong. In addition, major changes occurred in China’s national economic self-reliance.

Changes in China’s national economic self-reliance in the reform period

After the commencement of China’s economic reforms in 1978, the extent of its opening up to the outside world was cautious and slow for several years. This was because of “the fear of many leading party officials that this [foreign trade and investment] might invite negative Western influences to penetrate China …” (Chai, 2011, p. 164).

Therefore, foreign investment was restricted to four Special Economic Zones and 14 coastal. However, after 1992 following Deng Xiaoping’s support for increased foreign investment, many other parts of China were opened up for foreign investment. As a result of China joining the WTO in 2001, China is now obliged to liberalise its foreign trade and not to discriminate against foreign enterprises investing in China.
Although not a completely satisfactory measure of external economic dependence, China’s export to GDP ratio for the period 1980-2011 is shown in Table 1.

Table 1:  China’s exports of goods and services as a percentage of its GDP, 1980-2011

<table>
<thead>
<tr>
<th>Year</th>
<th>%</th>
<th>Year</th>
<th>%</th>
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<tbody>
<tr>
<td>1980</td>
<td>11</td>
<td>1996</td>
<td>20</td>
</tr>
<tr>
<td>1981</td>
<td>13</td>
<td>1997</td>
<td>22</td>
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<tr>
<td>1982</td>
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<td>1998</td>
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<td>1983</td>
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<td>1984</td>
<td>10</td>
<td>2000</td>
<td>23</td>
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<tr>
<td>1985</td>
<td>9</td>
<td>2001</td>
<td>23</td>
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<tr>
<td>1986</td>
<td>10</td>
<td>2002</td>
<td>25</td>
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<tr>
<td>1987</td>
<td>14</td>
<td>2003</td>
<td>30</td>
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<tr>
<td>1988</td>
<td>15</td>
<td>2004</td>
<td>34</td>
</tr>
<tr>
<td>1989</td>
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<td>2005</td>
<td>37</td>
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<tr>
<td>1990</td>
<td>16</td>
<td>2006</td>
<td>39*</td>
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<td>1991</td>
<td>17</td>
<td>2007</td>
<td>38</td>
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<td>1992</td>
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<td>2008</td>
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<td>2009</td>
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<tr>
<td>1994</td>
<td>21</td>
<td>2010</td>
<td>30</td>
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<tr>
<td>1995</td>
<td>20</td>
<td>2011</td>
<td>31</td>
</tr>
</tbody>
</table>

* Maximum value


It can be seen from Table 1 that this ratio did not increase in the period 1980-1986. This may have been because a number of Chinese leaders were wary about increasing China’s trade dependence and encouraging foreign investment. In the period 1987-1999 this ratio exhibited an upward trend. By 1993, this ratio had doubled compared to its average in the period 1980-1986. From 1999 onwards, this ratio rose at an increasing rate reaching a maximum of 39% in 2006. Since then it has declined dropping back to 30% in 2010 and 31% in 2011. The decline was partly a consequence of the global financial crisis which began in 2008. Nevertheless, China’s economy remained much more open than in 1980-1986 as judged by this ratio which was about 3 times that in the earlier period. Furthermore, the volume of
China’s exports in 2011 were much more than three times that in the earlier period given the spectacular rate of growth of China’s GDP.

The question might be raised of whether China’s trade dependence is high by world standards. A quick glance at recent World Bank data indicates that China’s exports of goods and services as a percentage of GDP is not exceptionally high by world standards. Table 2 provides some comparisons for 2011. China’s ratio is higher than for Australia (21%), Brazil (12%) and United States (13%), about the same as that of the UK (32%) and considerably lower than that for Belgium, Germany, Hungary, Netherlands and Vietnam.

Table 2: Exports of goods and services as a percentage of GDP for selected countries, 2011

<table>
<thead>
<tr>
<th>Country</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>21</td>
</tr>
<tr>
<td>Belgium</td>
<td>85</td>
</tr>
<tr>
<td>Brazil</td>
<td>12</td>
</tr>
<tr>
<td><strong>CHINA</strong></td>
<td><strong>31</strong></td>
</tr>
<tr>
<td>Germany</td>
<td>50</td>
</tr>
<tr>
<td>Hungary</td>
<td>92</td>
</tr>
<tr>
<td>Netherlands</td>
<td>83</td>
</tr>
<tr>
<td>UK</td>
<td>32</td>
</tr>
<tr>
<td>USA (2010)</td>
<td>13</td>
</tr>
<tr>
<td>Vietnam</td>
<td>81</td>
</tr>
</tbody>
</table>


Although there was a long gap between President Richard Nixon’s visit to China in 1972 and its opening up to the outside world, this contact between the USA and the People’s Republic of China was an essential step in enabling China to eventually increase its economic interdependence with the rest of the world. Nixon’s visit ended 25 years of separation between China and the United States (Anon, 2012). It was not however until 1979 that the US established full diplomatic relations with the People’s Republic of China and broke off diplomatic relations with the Republic of China in Taiwan. This undoubtedly facilitated the development of China’s external economic relations and came at the beginning of its market reform period.
It should also be kept in mind that China’s manufactured exports consisting of a high proportion of imported components, for example, manufactured precision components (Tisdell, 2009a;2009b). Foreign companies with direct investment in China often import such components.

Secondly, China is a large importer of raw materials, such as minerals, including oil and gas. These are important for its economic prosperity. While China tries to follow a policy of self-reliance in its food supplies, it is not completely self-reliant on its own food supplies. These matters will be discussed in the next section.

4. Discussion

It can be seen that as a result of market reform since 1978, China has well and truly abandoned Mao Zedong’s objective of subnational economic self-sufficiency (self-reliance). Furthermore, China no longer relies on collective or communal decisions as a source of economic production but has become highly dependent on production by agricultural households and private enterprises. However, marketization has brought with it reduced job security. For example, the ‘iron rice bowl’ of guaranteed employment for urban workers has come to an end (Chai, 2011, p. 166) and agricultural household incomes depend on market prices and on the level of production of individual households. Furthermore, a large informal labour market has developed in China and workers in this market lack job security. Therefore, while the market system has been effective in raising incomes in China, the cost for many Chinese has been reduced job and economic security. Social safety nets to address this situation are not as yet well developed (Chai, 2011, p.174) and there is a need for a national system of provision of social security support. With increasing incomes in China, a strong case exists for reforming and improving its social security system. However, it seems that many Chinese societies are reluctant to provide state support for those in economic need. For example, in Singapore, families are expected to take care of family members in need. State support is a last resort.

Furthermore, China’s economy is clearly now much more open than it was prior to 1978. Its export to GDP ratio has approximately trebled in recent years compared to the early 1980s. Furthermore, its economic production depends significantly on vital imports. These include minerals and energy imports and a range of components used in manufacturing. Although
China still aims for food self-sufficiency, it imports a substantial amount of grain and soya beans for livestock foods. From this point of view, it is not self-sufficient in food production.

If for some reason, the import of the above-mentioned commodities was to cut off, this would have serious negative implications for China’s economy. However, China can guard against a sudden reduction in supplies by diversifying the geographical sources of its supplies. Other factors that may have an influence in stabilizing its supplies is the use of supportive diplomatic initiatives, such as the provision of foreign aid to developing countries which are a source of vital supplies. Direct investment in foreign projects to supply new material may also help to ensure security of supplies.

While China’s increased involvement in international trade has contributed to rising incomes in China, it has also brought with it new economic risks. Macroeconomic stabilization of China’s economy has become more difficult. This is because the contribution of trade to China’s economy depends on the economic fortunes of its trading partners and these are not always easily predicted. For example, the global financial crisis made it more difficult for China to export to its major trading partners; the USA and Europe. However, it should be noted that China has an extremely high level of foreign resources to cushion itself against trade deficits.

Foreign direct investment has played a significant role in the transfer of new technologies and management methods to China. As a result of catching up with the technologies of higher income countries, China is likely to experience a logistic form of economic growth. Eventually, its rate of economic growth will taper off and its economic progress will increasingly depend on its own success with research and development. The increasing external economic dependence of China is also reflected in the level of its own foreign direct investment. This has several purposes. They include helping it to more effectively export to foreign markets, protecting its supplies of raw materials and providing an extra channel for the transfer of new technologies and methods for managing enterprises to China.

5. Conclusion

China has departed drastically from the economic self-reliance (self-sufficiency) principle of Mao Zedong both within China and in relation to its international affairs. This departure has been a major contributor to China’s economic growth but has brought with it new economic
risks for China and the Chinese people. Its prosperity now depends to a considerable extent on imports, including imports of natural resources. While its economy is open, it is only moderately open by international comparisons.

Despite these economic changes, basically the Chinese remain their own masters. They have not relinquished their “capacity for autonomous goal setting and decision-making”. Furthermore, as a result of China’s economic growth due to its economic reforms, it is now a powerful force in international relations able to influence the decisions of many other countries. Had China continued with the self-reliance policies of Mao Zedong, it would have been unable to achieve its current global status. Nevertheless, achieving this status has been a complex process, influenced to some extent by unexpected events, such as the visit of Richard Nixon to China in 1972.

Although China has departed from the goal of economic self-sufficiency, in my view, it still subscribes to the most important part of *zi li geng sheng* which is to control ones’ own destiny, that is to be in charge of one’s own affairs, goals and decision-making. That is not to say that China has no economic self-sufficiency goals. However, these goals no longer dominate Chinese policy.

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