

# Goodbye Marx Hello Confucius: Ideological Paradigm Change in Economic Transition of PRC<sup>1</sup>

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## I Introduction:

The rapid economic growth has significantly improved the standard of living in China since end of 1978. In a socialistic planning economy with a totalitarian political regime like the People's Republic of China (PRC) this rapid improvement in economic performance would not be possible without a paradigm change in the guiding ideology of the ruling party, the Communist Party of China (CPC).

At the end of 1978 Peking started the open door politics. A socialistic market economic system has been implemented instead of the forgoing socialistic planning economic system. Thus 1979 can be seen as a watershed to classify the approximately 60 year history of the PRC into two periods with different guiding ideologies and development as follows:

First, 1949-1978: As the Chairman of the CPC, Mao Zedong, was a tyrant with absolute power in China. Mao died 1975.

The guiding ideology in this period was the so called the "anti-revisionist socialism" with the slogan 又紅又專 (red and special).

Mao was socialist. His ideology was anti capitalism and anti socialistic revisionism. He condemned Confucius as a capitalist and

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the followers of Confucius as small capitalists. Religion activity was forbidden. Buddhists and Taoism monks were forced to leave their temples and reintegrated in the society. In this period the CPC controlled almost every field of life of Chinese in the PRC, especially after the implementation of the people communes. Every deviation from the guiding line of this ideology was anti socialism, revisionism and capitalism. Market was condemned as a capitalistic tool to exploit the poor labour class. Officially, there was no market in China. But some black markets had been shown by a foreign TV team in western European countries.

The economic system in the Mao-Era can be characterized by as a “closed” socialistic planning economy with collective and state owned enterprises.

In this period some very serious famines plagued China and caused more than 30 million hunger deaths<sup>2</sup>. The economic development stagnated. China belonged to one of the poorest (lowest income) country world wide. Mao’s politics was doctrinally conservative.

Second, 1979 - now: Deng Xiao-ping<sup>3</sup> triggered the ideological paradigm change and started the open door politics at end of 1978. He saw a rapid improvement in the level of material life as the most urgent challenge to the CPC. Deng integrated market into a socialistic economic system. Due to failing experience with market economy, Deng has been pragmatic and very flexible both in policy making and its executing. In the new economic system the total equality principle of Mao’s doctrine has been removed. Instead, efficiency has taken the highest priority in policy making of the CPC even in cost of equality in income distribution. Deng’s slogan: “rich is wonderful” has been used instead of the slogan of Mao “poor is clean” in the PRC.

The PRC, as a developing socialistic country, has got a very big agricultural sector with collective or state-owned enterprises in the manufacture sector.

The new economic system, named as a socialistic market economic system with a PRC stamping, has the following characters:

- (1) Integrating market as a tool of resource allocation;

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<sup>2</sup> According to dates published by J. Rumme: The ranking of death by government in the twenty century is as follows: (1) Stalin: 42,670,000; (2) Mao: 37,820,000; (3) Hitler: 20940,000 and (4) Chiang Kai-she: 1,021,000.

<sup>3</sup> after the disempowerment of the so called “Gang of Four” and the come back to power

- (2) Allowing private (foreign) ownership of enterprises in China;
- (3) Removing people communes and collective in rural sector;
- (4) Reorganizing state-owned enterprises (SOE); and
- (5) Open door policy: entering into world market and attracting incoming FDI, experiences of international economic activities have been collected by implementing “economic special zone”

The implementation of the new economic system has been carried out step by step. After removing the people commune, collective rural co-operatives had been established. But due to the poor performance they have been almost totally replaced by private enterprises.

The new economic system has triggered a high growth rate for almost three decades. China has been integrated in the global economy. The Chinese people have achieved the highest level of life in their long history.

Confucian doctrine has regularly been cited by the leaders of the CPC in their speeches for reasoning of the new politics. Teaching of Confucius has been reintegrated in the school education. Confucian books can be cited in public discussion. Religion activity has been allowed, too.

For the acceptance of the new ideology the CPC has triggered a new culture politics, the so called “平庸文化(pin-yon culture, i.e. the culture of mediocrity with focus on equality and no excellence), to stimulate mass consumption in a consumption society. The main contents of this culture politics are the so called 三消文化 (san xiao culture) which focuses on 消費(consumption), 消遣(entertainment), and 消閒 (spending free time).

## II Government Failures in the Mao-Era:

The following government failures of Mao's politics had caused severe consequences in the development of China.

- (1) "100 flowers blooming": 1957 after taking over power in China, Mao implemented a "100 - flowers blooming" movement to encourage free opinion and critic on the politics of the CPC and the government of the PRC. He terminated the movement one month later and put all critics in prison. Using this movement Mao established his absolute position as a tyrant. With exception of some leaders of the CPC, nobody had been dared to criticize him since then. Information from the basis for Mao had been manipulated. Usually only manipulated good news were reported in news papers and let to Mao. For instance, during the severe famines Mao received every day a new record of food production in the PRC;
- (2) The Great Leap Forward: In Nineteen Sixties Mao initiated the "great leap forward" and set up the people communes as collective in rural area. He hoped (expected) with these measures China would be able to increase economic productivity rapidly, especially to increase the steel production in the PRC within a short period to catch up that in the GB, in Japan and later in the US. But the primitive technology of steel production used in Mao's China has produced steel of bad quality which was rarely useful for the industry. The concentration of economic activity in steel production and especially the neglect of agricultural production had caused collapsed of food supply in China with serious consequences of famines. More than 30 million people found hunger deaths; and
- (3) Proletariat Culture Revolution: Mao initiated 1966 the "proletariat culture revolution". This movement was very important for Mao to strength his position in the CPC. Economic activities, schools and universities interrupted. The China's economy collapsed.

These government failures in the Mao-Era were obviously against the fundamental principle of a Confucian humanitarian politics for good

governance. Mao was a Marxian intellectual and against Confucius. One of his efforts was to totally remove the Confucian influence in the Chinese societies.

### III Ideological Paradigm Changes and the Economic Transition:

The following main new politics in the economic transition obviously document the ideological paradigm changes of the CPC:

First, market has been accepted as a tool to allocate resource instead of economic planning and control: Market was condemned by Mao as a tool of capitalistic class to exploit the labour class and therefore had to disappear in a socialistic economy. Planning and public ownership are the two pillars of a socialistic economic system. Implementation of market instead of economic planning is therefore an ideological paradigm change in the PRC. Market is not considered as a tool of capitalist to exploit the labour class but an ideologically neutral instrument of resource allocation and a tool reserved not only for a capitalistic economy;

Second, the allowance of private enterprises in the PRC means an ideological paradigm change. Private ownership of enterprise had disappeared in the Mao-Era. In a capitalistic economy the goal of private enterprises is to maximize profit. Thus, for the socialism, there is an interest conflict between capitalist and labour class. A higher wage will reduce profit of capitalist. In the Mao-Era private ownership of enterprise was prohibited. The allowance of private enterprise in the economic transition means therefore an ideological paradigm change in the CPC from the pure public ownership to a new system of combination of public and private ownership of enterprises, in spite of the dominant position of state owned enterprises in the manufacture sector;

Third, the main goal of economic transition is “growth first politics”. Rapid growth is believed to be able to rapidly raise level of living in China. This politics has to be carried out even at cost of equal income distribution. This means obviously an ideological paradigm change in the CPC from the “equality first politic” in the Mao-Era. This ideological paradigm change can be described by the slogan of Deng: “rich is wonderful”; instead of the slogan of Mao “poor is clean”;

Fourth, A new private-public joint venture system: 井田制度 (gin-ten system)<sup>4</sup> was implemented instead of the people commune. The PRC has got a big agricultural sector with a dominant share of value added as well as employment. The people commune was set up to trigger collective economic activities in the rural area. But soon after its implementation, agricultural productivity enormously decreased. An improvement in performance of agriculture belonged therefore to the most urgent challenge to the economic transition. As the main cause for backwardness, the people commune had to be removed, and a new organization of the agricultural sector had to be implemented. The new private-public joint venture has rapidly increased the agricultural productivity immediately after its implementation. But a few years later agricultural productivity slowed down.

Fifth, attraction of incoming FDI in the PRC means a reversal from the Mao's internationally independent ideology in the CPC. The bad performance of the state owned enterprises was mainly responsible for the low productivity of the manufacture. A transfer of technology from foreign countries is believed to be able to improve the productivity of manufacture sector. Preferential tax rate had been applied to attract incoming FDI. This documents an ideological paradigm change of Deng Xiao-ping, since in the Mao-Era the PRC a politics of totally international independence had been implemented. FDI and foreign loan was totally rejected in the Mao-Era.

Sixth, open membership of the CPC to capitalists provides an obvious evidence for an ideological paradigm change of the CPC in the economic transition. About three decades after allowance of private enterprises the membership of the CPC has been no more only reserved to the labour class. Social harmony moves instead of the class warfare into the centre of the ideology of the CPC. This proves obviously an ideological paradigm change in the CPC;

Seventh, to support the “growth first politics” of the CPC instead of the socialistic culture politics a consumption oriented culture politics,

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<sup>4</sup> This system was initiated by Chow Kong at begin of the Chow Imperial Dynasty in ancient China and highly praised and warmly recommended by Confucius [Chen, Economics of Confucius, 2007].

names the 平庸文化, “mediocre culture”, (pin yon culture) has been introduced in PRC. This provides an empirical evidence for the ideological paradigm change of the CPC in the economic transition. This culture of a consumption society is reversal of the ideology from the abstinent culture in the Mao-Era;

Eighth, set up “economic special zone” has introduced a two class economic systems in the PRC. This gives an additional empirical evidence of the ideological paradigm change in the economic transition in the PRC. Officially, the Communist Party of China (CPC) designates its way of economic transition as a process to implement a new socialistic market oriented economic system in a totalitarian political system with the CPC as the ruling party. As a pragmatic socialistic politician Deng tried to integrate market in the Chinese economic system. But the PRC had not got any experience and ability to enter the world market before the economic transition. Also incoming FDI has been needed to support industrialisation and internationalization of the Chinese economy. But with failing experience of joint venture and FDI, the PRC has created some “economic special zones” (ESZ) at begin of economic transition. The ESZ which called as export process zone (EPZ) has been successfully set up in the Asian emerging market economies, especially in Taiwan. The existence of economic special zone means an economy with two systems, a regulated system with state owned enterprises as main actors and a liberal system with private and foreign enterprises as main agents. Thus implementing economic special zone proves obviously an ideological paradigm change from a pure socialistic system to a dual capitalistic and socialistic mixed system;

Ninth, “open door policy” of the economic transition provides another empirical evidence for an ideological paradigm change of the CPC. In the Mao-Era the PRC wanted to be internationally independent. There were no international trade relationship, no foreign debt, and no technology transfer from outside. This absolute politics of international independence (close door) excluded the possibility for China to share the benefits of comparative advantage from trade and to absorb new technology from abroad. The PRC was separated from the world economy in the Mao-Era. The open door policy has

integrated the PRC into the world economy. The China's economy has been now an integrated part of the global economy. A separation is no more thinkable both for China and the rest world;

Tenth, implementation of stock market in the PRC delivers a further empirical evidence for a paradigm change in the CPC from its anti-stock market position, since stock market was condemned in the Mao-Era as a place and instrument for speculation and manipulation of economy. In the Nineteen Eighties the IMF and the World Bank triggered the "Washington Consensus" to strengthen the function of market and to correct government failures. But a total privatization of state owned enterprises has not been a topic of the economic transition in the PRC, since the CPC has not intended to give up its control on the economy. Recently, several stock markets have been founded in the PRC. Some state owned enterprises have gone to stock market and tried to get funds from the households. A small share of state owned enterprises has sold on the domestic and foreign stock market. The going to stock market policy of some state owned companies as well as the implementation of stock market in the PRC means obviously empirical evidence for an ideological paradigm change in economic transition.

#### IV Ideological Paradigm Change for International Cooperation:

In his life Mao tried to realize his vision of a world socialistic revolution against capitalism and anti Soviet-revisionist. He wanted to be a speaker of the third world countries. His international cooperation especially with the third world was aimed to enforce his vision of anti-soviet-revisionist world socialistic revolution. China's diplomacy and development aids to Eastern African countries (Railway construction in Tansania ) was made on this consideration.

In the economic transition international cooperation has been considered as a tool to enforce economic growth in China. Leaders of the CPC have been busy with diplomatic activities, such state visits and initiating international conference and cooperation, especially in poor underdeveloped African countries with plenty raw oil and resources. The Mammoth Summit Conference of China and 48 African countries in November 2006 in Peking and the visits of Hu Jintao 2006 and 2007 in several African countries documented this new foreign policy of the PRC.

The following cases can be used as empirical evidences for the ideological paradigm changes in the foreign politics of the CPC:

First, the main goal of this new foreign policy is to secure the supply of raw oil and raw materials for China's economy. The PRC has voluntarily joint to global, multilateral as well as bilateral international cooperation (international organisations), such the WTO, ASEAN to enforce economic growth with the main guide line of ideology for participating international cooperation (international institutions).

Second, International security and peace are essential for China to follow the "growth first" politics, since a peaceful global community is fundamental for carrying out economic activities in international market. To enforce economic growth by applying "open door politics", a secure environment of international markets is essential for the PRC. Harmony of international community is according to Confucian ethics evident importance for peace and security. Instead of a fighter for the class warfare and world socialistic revolution, the PRC has taken a position of a confident member in international

cooperation. Thus, harmony of international community, instead of the class warfare, has moved into the centre of foreign politics. This clearly documents an ideological paradigm change of the CPC with respect to its international politics.

## V Government and Market Failures in Period of Economic Transition:

In a socialistic market economy with a huge state owned enterprises sector under a totalitarian political system there have been not only government but also market failures. But in the PRC a system of rule of law has still failed. The following government failures have been the most remarkable ones:

- (1) The Massacre of suppressing democratic movement on the June 4<sup>th</sup> 1989: Based only on economic transition without a complementary political reform from a totalitarian system to a pluralistic democracy, the PRC is not able to overcome the severe political and social cycle of changing dynasty in its long history. In the previous history of imperial dynasty the Chinese people had been plagued with the civil war and chaos during the change from an old to a new dynasty.
- (2) Suppression of human rights, such as suspension against Falun-Kong group
- (3) Corruption: Corruption has been a severe problem since the foundation of the PRC. In general corruption is a problem inherent to a totalitarian political system.
- (4) Privilege treatment of state owned enterprises by the state owned banks which results with huge bad performance loan of the banking system in China. Since the state owned enterprises have been a tool of the CPC to control the economy of the PRC a special treatment for the state owned enterprises will be the rule than an exception in the future. Privatization of state owned enterprises inclusive the state owned banks will be necessary for equal treatment of enterprises.
- (5) Weak protection of private property and violating the interests of the private persons in construction sector by the police against protest of people. In 2006 more than 35 thousand violent protest actions in the PRC have been reported in media. Violating the interests of private persons, especially expropriation of house and building ground for new construction have been the main reason for these protest actions.

The first three government failures are of political, while the last two are of economic character. Economic transition without a political reform, especially democratization of the political system, these government failures can rarely be disappeared. An ideological paradigm change from a totalitarian political to a pluralistic democracy in the CPC can enable a democratization of political system to solve the government failures in the PRC. Emerging market countries in Eastern Asia such as South Korea and Taiwan have provided empirical evidence with this respect.

## VI Summary

The economic transition in the PRC has documented several empirical evidences for the ideological paradigm change which can be summarized as follows:

First, Goodbye: people commune & goodbye collective agriculture, Hello, private public joint venture;

Second, Goodbye: equality first politics; Hello, growth first politics. This means priority of growth against equal distribution of income,

Third, Goodbye: the pure public ownership in production tools of socialistic ideology. Hello: combination of private (also foreign) ownership of enterprises.

Fourth, Goodbye: state as owner of wealth; Hello: private (people) as owner of wealth (Confucius)!

Fifth, Goodbye: class warfare, Hello: Confucius, social harmony moves into the centre of politics of the CPC;

Sixth, Goodbye: a pure proletariat CPC; Hello: the CPC as a joint party of capitalists and workers;

Seventh, Goodbye: the international independence of the PRC; Hello, open door politics to absorb benefit from comparative advantage of trade, FDI and benefit of technology transfer for the China's economy.

Eighth, Goodbye: speaker of the third world; Hello: economic benefits consideration as basis of foreign politics to support economic growth;

Ninth, Goodbye: world socialistic revolution; Hello: international cooperation to improve efficiency of resource allocation;

Tenth, Goodbye: international class warfare; Hello: harmony of international society

A very simple slogan can be used to conclude the above debate on the ideological paradigm change of the CPC:

Goodbye: socialistic world revolution, hello: harmony of international community

Or analogically, Goodbye Marx; Hello, Confucius!

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