Twenty years since Deng Xiaoping’s “Southern tour”—Part 1

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This is the first of a two-part analysis. The conclusion will be posted on November 27.

Two decades ago, the late Chinese leader Deng Xiaoping conducted his landmark “Southern tour” to Guangzhou, Shenzhen, Zhuhai and Shanghai—the four major cities that had been at the forefront of pro-market “reform” in the previous decade. The tour became a key turning point in the process of capitalist restoration in China.

In his discussions, which were picked up and promoted by the local newspapers, Deng insisted that foreign investment and every aspect of the capitalist market had to be quickly embraced in China. Deng, who had officially retired as the country’s paramount leader, was accompanied by top People’s Liberation Army (PLA) generals who declared that the military would “protect and escort” the push to “reform and open up”.

In effect, with the backing of the PLA, Deng had launched a campaign outside the party leadership to push ahead with the pro-market measures that he had initiated in 1978. He sought to dismantle what remained of the nationalised property relations and economic planning of the deformed workers state established in the wake of the 1949 revolution, and to fully integrate China into global capitalism.

The tour, in January and February 1992, took place just weeks after the liquidation of the Soviet Union in December 1991. It followed nearly two years of political turmoil that had begun with the violent crackdown on mass protests in Tiananmen Square in June 1989, followed by the upheavals in Eastern Europe that had led to the collapse of the Soviet Union after the liquidation of the Soviet Union in December 1991. It followed nearly two years of similar processes were at work in Eastern Europe and China.

China’s integration into the framework of world imperialism began under Mao Zedong when his Stalinist regime reached a rapprochement with the US in 1972, directed against the Soviet Union. This opening created the political precondition for the first substantial pro-market measures under Deng in 1978, relying on the turn by major corporations to globally-organised production and the exploitation of cheap labour in Asia.

During the 1980s, Deng presided over what he termed a “socialist commodity economy,” in which the market supposedly played a supplementary role to state planning. In reality, extensive inroads into nationalised property took place. Collective farms were dismantled and state enterprises were compelled to compete with each other. A labour contract scheme for workers began to undermine the life-long guaranteed employment system.

Most urban workers, however, were still employed in state enterprises, which provided support services that included childcare, housing, health care and pensions—the so-called iron rice bowl. Only a small number of coastal cities were opened up to foreign investors—predominately Chinese capitalists from Hong Kong and Taiwan—to engage in light industrial production in goods such as textiles, shoes and toys.

But the logic of the market asserted itself. A section of the Chinese Stalinist bureaucracy had begun to engage in profit-seeking by setting up private enterprises controlled by family members to get access to key commodities still regulated by the state. These enterprises bought commodities at low state-set prices and sold at much higher prices on the open market. The result was rampant speculation and hoarding that pushed up consumer prices sharply in 1988, rapidly eroding the living standards of millions of workers. A section of the bureaucracy headed by Premier Li Peng
sought to reassert state regulation to contain the crisis. They cut state investment and imposed austerity measures, which in turn caused large job losses. Economic growth slowed sharply, from 12 percent in 1988 to 4 percent in 1989.

Large-scale student protests, beginning in April 1989, became the trigger for far broader social unrest. CCP general secretary Zhao Ziyang, the chief enforcer of Deng’s pro-market agenda, encouraged the initial demonstrations for limited democratic reforms as a means of pressuring his opponents in the Beijing bureaucracy, whose privileges were associated with state-owned enterprises. Despite Zhao’s intentions, however, the student protests opened the floodgates for the deep discontent among workers, who began to raise their own class demands.

According to later estimates, 100 million people, mainly in urban areas, participated in protests across China in one form or another. The regime’s survival was in question. Significant numbers of soldiers refused to obey orders to attack demonstrating workers in Beijing. The CCP’s highest body, the Politburo Standing Committee, was divided. As the crisis threatened to spiral out of control, Deng backed a ruthless army crackdown on the demonstrations, as well as the removal of Zhao and his allies from their party posts.

**The collapse of Soviet Union**

Just weeks after the events in China, the ruling Stalinist party in Poland was ousted in elections. That initiated a chain reaction that led to the collapse of the Berlin Wall later that year, marking the end of the Eastern European buffer states established under Soviet occupation following World War II. In the absence of a working class leadership fighting for Trotsky’s perspective of a political revolution, bourgeois and petty bourgeois parties dominated the popular opposition to the Stalinist regimes in Eastern Europe and rammed through the policies of capitalist restoration.

Deng initially used the collapse of the Eastern European regimes to justify continuing the police-state terror to intimidate the working people after the Tiananmen events. He argued that there was a Western conspiracy to incite a “peaceful evolution” within the Communist Parties in order to bring these countries under the “domination of international monopolistic capital”.

Deng linked the introduction of “glasnost”, or limited political openness, in the Soviet Union under Mikhail Gorbachev to Zhao’s line in China, which he blamed for the Tiananmen Square protests. Gorbachev’s policy potentially allowed opposition parties to challenge the monopoly of the ruling Stalinist parties, Deng charged.

While the entire party opposed political liberalisation, Deng faced criticism from the misnamed “left” faction headed by Premier Li, which had been in the forefront of the crackdown on the working class. Li’s grouping blamed Deng’s market reforms for the political turmoil. The new party secretary—Jiang Zemin—came from the Shanghai party apparatus and was a compromise candidate.

Li’s faction resembled the Ligachev grouping within the Soviet Communist Party, which represented vested interests within the bureaucracy controlling the state enterprises. Behind Li was party elder Chen Yun, who had established central planning in the 1950s, using the model of Soviet “five-year plans.” This faction feared that the pro-market reforms would not only undermine their privileges but also provoke renewed opposition from the working class.

Deng, however, was concerned that the stagnant economy would lead to mass unemployment and further social explosions. In late 1989, he told a group of party elders: “If the economy cannot be boosted over a long time, it [the government] will lose people’s support at home and will be oppressed and bullied by other nations of the world. The continuation of this situation will lead to the collapse of the Communist Party.”

Deng’s conclusion was that pro-market reforms had to be accelerated. He insisted that half-privatised state industries and relatively small “special economic zones” would not attract foreign investment or gain greater access to world markets. Li, however, drafted a new Five-Year Plan in 1990. Based on “self-reliance”, it maintained the status quo and set economic growth at 6 percent—far too low to halt rising joblessness. Moreover, Li’s allies started to question whether the “special economic zones” were capitalistic, launching an ideological campaign that criticised the policy of pro-market reform. The building of Shanghai’s Pudong free trade zone and the establishment of a stock exchange were called into question.

In 1991, backed by Deng, the Shanghai party leadership led by Zhou Rongji, who became premier in the late 1990s, published a series of articles defending the pro-market measures. That provoked a full-scale propaganda offensive by Li’s State Council, which insisted “planning is the main component, to be supplemented by market regulations.”

Events in the Soviet Union were critical to the raging debate underway in China. The degenerated workers state in Russia had been the bureaucratic economic model for the regimes established in Eastern Europe and China. As long as the Soviet Union existed, the Li faction could continue to claim that the Stalinist “planned economy” had transformed Russia into a superpower.

The end of the Soviet Union in December 1991 sent shock waves through Beijing. The “left” faction reacted by equating Deng’s market reforms, and the accompanying rise of official corruption, with the restoration of capitalism in the former USSR.

Deng responded by warning that the socialist rhetoric of his opponents would result in China being shut out of the global economy, leading to a Soviet-style economic dead end. He decided to sidestep the central CCP leadership and go directly to the military and regional officials. Deng held a meeting of the Central Military Commission in December, in which he persuaded the top PLA generals to support him by arguing that a rapidly growing market economy would bring greater revenue to the chronically underfunded military budget.

*To be continued*