Twenty years since Deng Xiaoping's "Southern tour"

John Chan
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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 Chinese Communist Party's (CCP) 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 one Stalinist regime after another.

Deng's conclusion was that the CCP, in order to survive, had to fully implement capitalist restoration as swiftly as possible, both to maintain economic growth and stave off another social explosion, and to secure Western support in the uncertain and changing global politics of the post-Cold War era.

Well aware of the internal and external dangers facing the regime, the CCP bureaucracy rallied behind Deng. He offered what was, for them, the only answer to their crisis—to transform China into a huge cheap labour platform for international monopolistic capital and to anchor their privileged existence in private property relations and the creation of a new bourgeoisie.

These events took place amid a wave of triumphalism in the Western media over the supposed end of socialism and Marxism. As the International Committee of the Fourth International was alone in analysing, what had failed in the Soviet Union, Eastern Europe and China was not socialism, but Stalinism and its autarkic program of "Socialism in One Country". The globalisation of production over the preceding decade had undermined all programs of national economic regulation, producing crises that took a particularly acute and immediate form in those countries where economic life was most shut off from the world economy.

Leon Trotsky had warned in the 1930s that unless the Stalinist bureaucracy in the Soviet Union was overthrown by the working class in a political revolution, the regime inevitably would be driven to integrate into the world economy via capitalist restoration. 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 profiteering 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.

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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.

Deng launched his "Southern tour" just 20 days after the formal liquidation of the Soviet Union in December 1991. He mounted an offensive against the "left" faction by visiting key "special economic zones" he had set up in the 1980s. In an open threat to the Beijing leadership, Deng declared in Shenzhen: "In reform and opening, it is necessary to be bolder and to open on a larger-scale … Whoever is opposed to reform must leave office."

Deng called for the development of China as the "fifth" export-led "Asian Dragon" economy, after Hong Kong, Taiwan, South Korea and Singapore. He was publicly backed by those accompanying him—the top army generals, state security chief Qiao Shi and party elder Bo Yibo. Deng countered the "left" in the Chinese Communist Party leadership, saying "there will be no reversing economic policies in the face of Soviet collapse; the SEZs [special economic zones] will be allowed to develop in their own manner; and the economy is the measure of stability."

After he left Shenzhen for Shanghai in early February, Deng ordered the Politburo and vice premiers, including then general secretary Jiang Zemin, to meet him. He reorganised the selection of party delegations for the upcoming 14th congress in late 1992 to ensure his pro-market agenda would prevail.

Deng had a showdown with his chief "left" rival, Chen Yun, in Shanghai, during which he reportedly shouted at Chen: "Any leader who cannot boost the economy should leave office." Deng made no secret of his embrace of capitalism, saying:"We should absorb more foreign capital and more foreign-advanced experiences and technologies, and set up more foreign-invested enterprises. Do not fear when others say we are practicing capitalism. Capitalism is nothing fearsome."

Both Chen and Deng still felt compelled to justify their economic policies in "socialist" terms. Broad layers of working people were sympathetic to socialism and regarded it as responsible, despite the repressive Stalinist bureaucracy, for the social advances made after the 1949 Revolution, including the guarantees provided by the "iron rice bowl".

The protagonists based themselves on the Stalinist theory of "Socialism in One Country"—the reactionary perspective of national autarky that had brought the Chinese economy to an impasse. Chen sought to preserve what remained of the nationalised property relations and bureaucratic economic planning, which had formed the basis for the deformed workers state. Deng sought to use socialist phraseology to justify China's integration into world capitalism.

Deng opposed what he called "dogmatism" and pragmatically promoted the adoption of any measure that would provide an immediate boost to economic expansion. "The planned economy is not the same as socialism because capitalism also involves planning. On the other hand, the market economy is not equal to capitalism either, because socialism also has a

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market. Both planning and market are economic means," he declared in 1991.

Deng's arguments were based on sophistry. He falsely identified Stalinism with socialism and deliberately blurred the scientific distinction between capitalism and socialism. As Trotsky had explained in his monumental work, *The Revolution Betrayed*, published in 1936, the Soviet Union established after the October 1917 Russian Revolution was not socialist, but a society in transition from capitalism to socialism. Even though private ownership of the means of production had been abolished, the productive forces in the Soviet Union were far too low, even compared to advanced capitalist countries, to provide a high standard of living to every citizen. In that context, the bureaucracy emerged as the policeman of inequality, regulating the distribution of goods and ensuring the largest portion for itself.

The market could not be abolished overnight, especially in a country where large numbers of small producers—above all, the millions of peasants—still existed. But by strengthening the position of the nationalised sector of the economy and centralised planning, and thus the working class, the Soviet Union would be better able to hold out in a hostile capitalist world until socialist revolutions in the advanced capitalist countries could provide technical and economic aid as part of the movement toward a world planned socialist economy. The chief obstacle in every sphere was the Stalinist bureaucracy, which thwarted genuine planning through its anti-democratic methods, undermined the economy through its program of "building socialism in a single country" and betrayed the revolutionary movements of the international working class, including in the imperialist centres. Trotsky warned that the bureaucracy would ultimately seek to reintegrate the Soviet Union into global capitalism and to root its own privileged position in the reestablishment of the private ownership of the means of production.

What Leon Trotsky wrote in *The Revolution Betrayed* about the Soviet Union, a degenerated workers state, was also true of the deformed workers state created after the 1949 Chinese Revolution. From the outset, the Mao regime was deeply hostile to any independent movement of the working class and thus the building of democratic organs of workers' power. The CCP based itself on the Stalinist model of a shut-in economy, regulated by a bureaucratic plan imposed from above. As Trotsky explained, without the democratic involvement of working people, planning inevitably leads to poor quality, disproportionalities and supply problems. Those difficulties were compounded by the economic backwardness of China, and its international isolation, which became even greater after the break with the Soviet Union in the early 1960s. The globalisation of production from the late 1970s further exacerbated the crisis of China's "self-sufficient" economy.

In 1992, Deng exploited the glaring deficiencies produced by bureaucratic command and national autarchy—further compounded by the steps toward capitalist restoration already taken—to argue for the unfettered operation of the capitalist market. Like a bourgeois economist, he promoted the market as the most efficient means of allocating resources and overcoming the lack of consumer goods.

Following the political upheavals of the previous two years, Deng concluded that the CCP bureaucracy had to quickly consolidate capitalist property relations and transform itself into a ruling class, before the next eruption of the working class.

Deng bluntly told his opponent Chen Yun at their "reconciliation" meeting in Shanghai during February 1992 that the party had no choice but to maintain rapid economic growth or it would fall from power.

When Chen accused him of destroying "socialism", Deng fired back: "One can only speak loudly when one has much money." He responded to Chen's warnings that the capitalist market would bring social evils, including corruption, prostitution and rising crime, by dismissing them as "tributaries" from the mainstream. Social tensions, he insisted, could be contained as long as the economy continued growing rapidly.

After the Deng-Chen meeting, General Secretary Jiang immediately held emergency Politburo meetings on February 8 to enshrine Deng's line, declaring that it would "last at least 100 years". The entire leadership decided to bury the debate in the following months, fearing that if it continued it could open the door for a political movement of the working class against the regime as a whole.

Deng's victory was consolidated at the 14th CCP congress in October 1992. The message from the gathering was, according to China specialist Michael E. Marti, "nothing short of opening China to a foreign capitalist invasion". The "socialist market economy" meant embracing every aspect of capitalist economy, from the establishment of financial and securities markets, to the destruction of state enterprises.

In so far as the regime retained the word "socialist", the purpose was to justify the "people's democratic dictatorship" and "the leadership of the Communist Party"—in other words, the one-party Stalinist police state. Its function was to discipline the working class as a supply of cheap regimented labour for foreign investors, while allowing the leading sections of the bureaucracy to use their political power to plunder state assets and become the chief partners of transnational corporations setting up in China.

The 'foreign capitalist invasion'

When the political uncertainty following the 1989 turmoil ended, major international corporations and their partners eagerly developed or expanded their operations in China to take advantage of its huge supply of low-cost, disciplined labour. Foreign investment in China during 1994 was greater than for the entire decade of the 1980s. The flood of investment surpassed all the expectations of the CCP "reformers", who had been hoping since the 1980s to turn China into a gigantic free trade zone with 100-200 million workers.

In 1994, the CCP formally established a "labour market" by explicitly legitimising the buying and selling of labour power. It also took another huge step toward privatisation by transforming state enterprises into joint-stock companies run for profit.

Before 1996, the year in which massive redundancies began, the state and collective-owned enterprises employed 144 million workers. By 2005, the number had halved to 73 million. The remaining better-equipped, profitable state enterprises, especially in non-strategic sectors, were transformed into subsidiaries of, or joint-ventures with, foreign transnationals, or became private enterprises in their own right. A small number of state-owned "national flagships" were preserved in strategic industries, such as banking, steel, infrastructure, energy and auto. These effectively became the collective assets of the top CCP bureaucrats, who often appointed their children as CEOs.

The end result is a staggering social gulf between rich and poor. The new Chinese bourgeoisie has emerged in intimate collaboration with the CCP regime through massive corruption and the looting of state assets, with the holders of political power enriching their families by facilitating lucrative business deals.

A layer of compradors has emerged within the bureaucracy whose careers are completely bound up with making money by favouring chosen foreign and Chinese business groups wanting to invest in their "fiefdoms". The most prominent are the children of senior CP officials, known as the "princelings" or "red aristocracy". They cooperate with foreign corporations and investment banks, as well as local Chinese tycoons. Those who disrupt or interfere with these business interests, especially workers, are dealt with ruthlessly.

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The new Chinese bourgeoisie is not so different from the criminal and corrupt Russian oligarchs who emerged after the collapse of the Soviet Union. The number of Chinese dollar billionaires mushroomed from none in 2002 to at least 271 last year—the second largest grouping after the United States. Their wealth is now guaranteed constitutionally. A 1999 amendment stated that "non-public property" was an "important component" in the Chinese economy. At the 16thCCP congress in 2002, private business owners were formally allowed to join the party. Two years later, another constitutional amendment enshrined the principle that "private property is inviolable".

The social counterrevolution carried out since 1989 can be seen in the dramatic decline in workers' income as a share of the gross domestic product, from 56.5 percent in 1983 to 50 percent in 1990 and just 37 percent in 2005.

Half a billion people still live on $2 or less a day, including 150 million under the UN's poverty line of a dollar a day. The destruction of the "iron rice bowl" associated with state-owned industry and collectivised farms has forced working people to save as much as possible for emergencies such as illness. Healthcare has become a major financial burden for working people as severely underfunded public hospitals are forced to make patients to pay huge bills. China's gross domestic product rose by 193 percent from 2003 to 2007, but medical costs increased at greater pace—197 percent—over the same period.

Social evils that were eliminated by the 1949 revolution have returned on a vaster scale. Desperate poverty has driven millions of minors into child labour and millions of women into prostitution. Unregulated industrial production has devastated China's environment by polluting rivers and land. More than one third of water supplies are no longer drinkable. The adulteration of food products has become widespread, leading in the worst cases to permanent disabilities and deaths. The worship of crass consumerism has permeated every aspect of social and cultural life. The lavish lifestyles of China's wealthy new elites are propelling the country toward overtaking Japan as the world's second largest market for luxury goods.

These basic facts and figures are an indictment of Deng's pragmatic argument that it did not matter whether a measure was capitalist or socialist, as long as it "worked". His outlook was hailed by bourgeois economists in China and internationally, and the country's rapid growth rates were cited as "proof" that the capitalist market was superior to socialism.

However, China's economic "miracle" was always completely dependent on the global economy—huge inflows of foreign investment and constantly expanding markets for cheap Chinese goods. The integration of the massive reserves of cheap labour and raw materials in China, Eastern Europe and the former Soviet Union into the chain of capitalist exploitation provided a boost to the global economy for almost two decades.

That period ended with the eruption of the 2008-09 global financial crisis. The deepening breakdown of world capitalism has exposed the utter shortsightedness of Deng's assessment in the 1980s that a new age of "peace and development" had replaced the imperialist epoch, which Lenin and Trotsky had analysed as being one of wars and revolution.

Deng's superficial appraisal of world politics as permitting "peaceful coexistence" between the major powers is belied by the rising international tensions and eruption of militarism and neo-colonial wars over the past two decades. China's economic expansion has only heightened the frictions and the danger of conflict with the US, which is seeking to maintain its global hegemony through military force.

Class tensions within China are also sharpening as the social chasm between rich and poor continues to widen. The CCP now confronts a working class that has expanded from 120 million to at least 400 million in the past three decades. Deng had banked on rapid growth to limit unemployment, social tensions and political unrest. As the Chinese economy has begun to slow, however, industrial struggles have begun to escalate. Far from the class struggle being superseded by permanent class collaboration, as Deng claimed, the strikes in China point to the international character of the new period of revolution that has opened up with the upheavals in Tunisia and Egypt last year.

The initial struggles of workers in Europe, the Middle East, America and Asia have been dominated by bourgeois and petty bourgeois forces, exposing the crisis of revolutionary perspective confronting the working class. The complex task of building new mass revolutionary parties of the working class can be carried out only on the basis of a thorough assimilation of the theoretical and political lessons of the struggle waged by the international Trotskyist movement against Social Democracy, Stalinism and their various middle class apologists. In China, workers, youth and intellectuals seeking a genuine socialist alternative need to carefully study and assimilate this rich heritage as the basis for building a Chinese section of the International Committee of the Fourth International (ICFI).

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