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John Wong, *The Political Economy of Deng's Nanxun: Breakthrough in China's Reform and Development*, World Scientific, 2014, 223 pp. \$70 Hardcover.

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Book Review

The chapters included in this book were written by the author while he was Director of the Institute of East Asian Philosophies (IEAP), which later became the Institute of East Asian Political Economy (IEAPE). In 1997 IEAPE was renamed as East Asian Institute (EAI). Based on a donation from the late deputy prime minister of Singapore, Dr Goh Keng Swee, the institute was set up as an autonomous research organization hosted by the National University of Singapore. For almost 15 years John Wong was the dynamic Research Director institute, in charge of daily research administration and management. In terms of the institute's research output John Wong focused on a series of Background Briefs. Each of these publications was written by one of the institute's more than 30 scholars. John Wong would carefully read and meticulously comment on each draft. In fact, usually the Background Briefs would undergo several rounds of revision before they were circulated as internal briefs to senior officials in the Singapore government.

Often Professor Wong himself would write a Background Brief. This was especially the case when the topic of the brief addressed economic issues. An economist by training John Wong was keenly interested in China's economic development, but he also had an eye for macroeconomic developments in the wider East and Southeast Asian region. The chapters in this book were originally written for internal circulation to Singapore's government as confidential reports to ministers and permanent secretaries. They were written during the early and mid-1990s while the author was Director of Institute of East Asian Philosophies and before the establishment of the East Asian Institute. Because "China watching" was politically sensitive at the time the, the chapters have never been formally published before.

The book contains a lengthy introduction and 14 chapters divided into four parts. The introduction provides a useful overview of China's economic reform transition seen from today's perspective. Part one contains two background chapters addressing methodological issues in studying China's economy. Part two form the core of the book with six chapters dealing with various aspects of "The Politics and Economics of Deng's *Nanxun*". Part II has two chapters on

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Journal of Economics and Political Economy

“Agricultural and Rural Development.” Finally John Wong has included four chapters on “Foreign Trade and Investment”.

The chapters were originally written based on the information and sources available at the time. To make them timely reading, the author has written a lengthy abstract to each chapter which provides the main points and arguments as well as explains why and how the discussion is still relevant. The result is a book that documents the knowledge of the field of Chinese economic studies in the early 1990s and places this in a historical context by adding new information and insight from today’s perspective.

The core of the book is the political economy of Deng Xiaoping’s *Nanxun* (Southern Tour) and how this brought about a breakthrough in China’s reform and development. Deng’s *Nanxun* took place in January-February 1992. Deng’s intention by visiting Shenzhen and other destinations in Southern China was to challenge the deadlock of reform and create the political atmosphere for a new economic breakthrough. During the trip he signaled that in his mind it was essential to resume economic reform and opening. He also indicated that those leaders in Beijing who were against renewed reform should step down. After some hesitation the message was understood in Beijing. General Secretary Jiang Zemin chose to support Deng Xiaoping, and Chen Yun and other orthodox Party leaders found themselves sidelined. John Wong argues that the Third Plenum in December 1978 set China on a reform course, but it was Deng’s *Nanxun* that subsequently led to the realization of the market economy in China. Importantly, the significance of the *Nanxun* was quickly grasped by the business community in especially Hong Kong and almost instantly FDI into China soared. At the end of 1992 FDI for that year alone almost equaled total FDI for the whole 1978-1991 period.

Other scholars have discussed Deng’s *Nanxun*. Especially Ezra Vogel in his monumental work on Deng Xiaoping (*Deng Xiaoping and the Transformation of China*) has provided interesting details on the political background for Deng’s initiative. John Wong’s chapters add new important details on the economic significance and impact of the *Nanxun*. However, it should be noted that John Wong wrote these chapter 15 years before Vogel published his book. The fact that they are still of scholarly interest shows John Wong’s deep inside knowledge of China’s political economy.

The book should be recommended for its discussion of key concepts and terms when analyzing economic growth and development in emerging economies. Thus the author takes pains to explain what economic growth means and how it is measured. In the chapter “China’s Per-Capita GNP at the Beginning of Economic Reform”, he shows that before the start of economic reform in 1978 China’s national income was based on the concept of “Net Material Product” (NMP) which generally excludes the service sector and other similar activities. Throughout the 1980s China’s system of national accounts was being adjusted to the international System of National Accounts (SNA) format. By 1990 this had not yet been completed. This makes it difficult to establish longitudinal comparisons in China and to compute real growth over time. The chapter also contains a useful discussion of the difference between “nominal” and “real” GDP, introducing the concept of Purchasing Power Parities (PPP), which now has become an often used method for measuring China’s GDP.

John Wong mentions that he is puzzled by World Bank estimations of China’s per capita GDP. In 1978 the World Bank, in its first issue of World Development Report, gave China’s per capital GNP for 1976 as US\$410. In spite of nominal high growth rates throughout the 1980s, per capita GNP plummeted to US\$350 in 1989. During the same period India’s per capita GNP rose from US\$150 to 340 although India’s growth rate was much lower than China’s. This can partly be

Journal of Economics and Political Economy

explained by an overestimation of China's GNP in the late 1970s and partly by several rounds of depreciation of the Chinese Renminbi during the 1980s. But clearly ambiguities remain.

An interesting chapter titled "What is the Surname, She or Zi: The Post-Tianmen Ideological Discord" shows that Professor Wong also is attentive to ideological issues. In February-April 1992, following Deng's Southern Tour, *Jiefangribao*, the Party organ in Shanghai, published three articles by Huang Fuping on the need for further emancipating the mind and discarding all conservative, ossified and isolationist ideas" in order to deepen reform and further open-up. The author of the articles argued that whether or not the surname of reform and opening up is "she" (for socialism) or "zi" (for capitalism) is not important. This was criticized by an article published in a journal controlled by the Central Propaganda Department. In the abstract to the chapter John Wong writes that we now know that Huang Fuping published his articles in the full knowledge of Deng Xiaoping and therefore can be said to have provided the first voice for Deng's *Nanxun* talks. The rebuttal of Huang's articles was supported, if not formulated, by orthodox Party leaders. This is an interesting example on how Deng sometimes would meet with opposition from colleagues and former comrades in arms.

The chapter on township and village enterprises shows that although the post-1978 era saw incremental and gradual reform there were also occasionally significant policy reversals. During the 1980s TVEs grew rapidly in terms of numbers, employment and share of gross industrial output. Thus by 1989 there were 18.7 million TVEs, providing employment for 93.4 million workers and producing 840 billion worth of output, or 38% of China's total industrial output. The larger TVEs were producing for exports and accounted for one-fourth of export earnings. The TVEs were so successful that they became a model to be pursued by other emerging economies. However by the mid-1990s the growth of TVEs peaked and they began to decline. In his abstract to the chapter on TVEs John Wong writes that post-*Nanxun* marketization of the Chinese economy left less room for the TVEs. Some were privatized, some were absorbed by SOEs and some were dissolved due to pollution or corruption.

In his introduction to the book John Wong divides China's economic development of 1979-2012 into four sub-periods: (i) 1979-1988; (ii) 1989-1990; (iii) 1991-2001; and (iv) 2002-2012. Growth in the first period was sparked off by the reform and open door policies of the Third Plenum in December 1978, but was slowed down in 1989-1990 due to the political impact of the Tiananmen incident; in the 1991-2001 period it was triggered by Deng's *Nanxun*; and in 2002-2012 by what John Wong calls the "WTO effect", which similar to the "*Nanxun*effect" fueled economic growth and development. However, it took 16 years from when China in 1986 applied for membership to final accession to the World Trade Organization in 2002. John Wong discusses the politics and economics of China's efforts to join the international trade body. One major stumbling block was opposition from the USA where the public mood turned increasingly critical of China after the Tiananmen incident. When the zigzag process of negotiation finally bore fruit in 2002 the Chinese economy once again took off with double digit growth rates

Although an economist by training and education John Wong does not excel in econometrics and complex modelling. His approach is pragmatic as well as empirical and policy-oriented. This makes his book highly readable for scholars and students in disciplines neighboring the economics profession. It also makes the book accessible to policy makers and the informed public. The book gives an excellent example of informed analysis of China's economic development issues

Journal of Economics and Political Economy

written at a crucial turning point in the country's reform and development trajectory. The introduction and the abstract introducing each chapter provide new value-added information and insight. In sum, this book is a must for anyone interested in contemporary China's political economy.



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