

Part II: China's Transformation

Like China itself in the twentieth century, the life of Deng Xiaoping was marked by struggle. Deng was an early member of the Chinese Communist Party and fought both Chiang Kai-shek's forces and the Japanese army during the 1930s and 1940s. In 1968, at the height of China's Cultural Revolution, he was forced to confess to being a "counter-revolutionary" and was driven out of Beijing. For six years, Deng was denied the position he had held in the Politburo, the ruling body of the Communist Party. He returned to the leadership ranks only to be attacked in 1976 as "the unrepentant capitalist-roader." For the next two years, Deng and his political opponents grappled for power as the fate of China hung in the balance.

And yet, at the end of 1978, already seventy-four years old and still trying to secure his leadership as president, Deng took on the biggest struggle of his career: reforming the Chinese economy. Deng had long been known as a realist within the Communist Party. He

was especially critical of the radicals who stressed the need to follow strictly communist ideology. Instead, he advocated practical policies that would advance China's development.

Deng's pragmatism made its mark on the era in Chinese history that opened in late 1978. China's annual economic growth rate of over 9 percent earned praise for Deng's economic reforms. The uniformity and drabness that characterized Mao's China was replaced by an accent on individuality. At the same time, the changes of the past thirty years have torn at the fabric of Chinese society.

In this part of the background reading, you will examine the economic, social, and political transformation of China that began with Deng and has been carried on by his successors. The subject is of particular importance to Americans. As you will learn in the final part of the reading, what is happening in China will profoundly affect the direction of U.S. foreign policy.

Economic Reform

Deng took power with a clear memory of the economic mistakes that were made in the previous two decades. Mao had followed the path of the Soviet Union in creating a centrally planned "command" economy. (In a command economy, government planners decide what goods need to be produced.) Like the Soviets, communist officials in China had harnessed the people and resources of their country to build roads, ports, dams, and other large-scale projects. They also committed horrendous blunders.

One mistake Mao made was implementing an economic revitalization plan called the "Great Leap Forward." In the late 1950s, Mao introduced a plan aiming to propel China's economy forward by organizing China's peasants into huge "people's communes." Each commune contained tens of thousands of people and was designed to be self-sufficient in agriculture and industry, even to the point



Reprinted from Seeds of Fire.

The man rising from the coffin is Deng Xiaoping.

of producing its own steel. The experiment proved disastrous. Confusion, disorganization, and bad weather led to widespread crop failures. As many as thirty million Chinese starved in the famine that resulted.

How did Deng Xiaoping reform China's economy?

Beginning in 1978, Deng gradually dismantled Mao's command economy. People in the countryside, who made up 70 percent of China's population, first felt the impact of his reforms. The government began to move away from massive rural communes as early as the 1960s, and in the late 1970s Deng introduced thorough reform. Under Deng, individual families had responsibility for working the land through long-term leases. Deng lifted price controls and allowed peasants to sell most of their crops in the marketplace. He abolished the "work units" that controlled housing, health care, education, and other necessities of life in the countryside. In addition, people in the countryside could open their own businesses outside of agriculture. Progress came quickly. Within seven years, output in rural areas had shot up by 48 percent.

“It doesn't matter if the cat is black or white, so long as it catches mice.”

—Deng Xiaoping

Success in agriculture encouraged Deng to extend his reforms to industry and commerce. Deng opened China up to foreign investment and greatly expanded international trade. The government created special economic zones along the southeastern coast that allowed Chinese entrepreneurs and foreign investors to go into business with little government interference. The government promoted the export of goods. Central economic planners lost much of their authority to officials at the local and provincial levels. Across China, people established millions of new enterprises. Many were offshoots of state-run factories, universities, collective farms, or other institutions of the communist system.

The reforms have gone a long way toward bringing China into the global marketplace. Exports rose from \$14 billion in 1979 to \$752 billion in 2005. China also led developing countries attracting nearly \$61 billion of foreign investment in 2005.

American investors have played a leading role in China's economic boom, but in recent years investments from South Korea, Hong Kong, and Taiwan have grown at an even faster pace. Many Hong Kong manufacturers, for example, now make their products in the neighboring Chinese province of Guangdong. (Hong Kong, while politically part of China since 1997, is a "special administrative region" which has separate economic policies.)

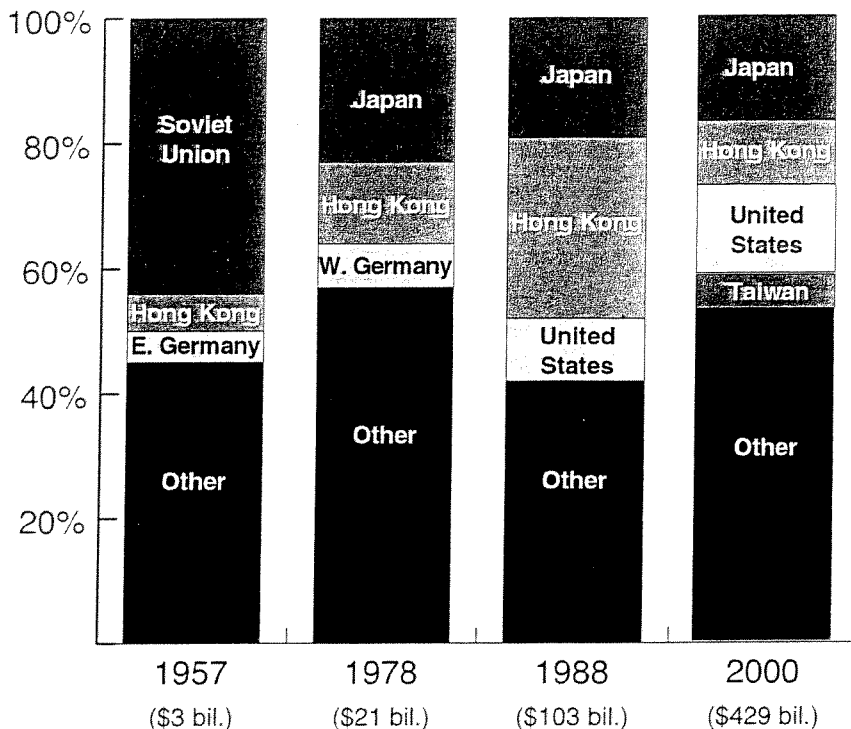
How is China's economy a mix of socialism and capitalism?

Deng labeled his country's economic system "socialism with Chinese characteristics." While the government party calls itself "communist," most scholars characterize the Chinese political and economic system as "socialist." Communism is a philosophical ideal state of equal ownership of all goods by all citizens. This has never actually been achieved in China or elsewhere in the twentieth century. Socialism, on the other hand, is a broader term used to describe systems of government ownership and management of goods. The Chinese government manages economic goods as well as social goods, such as health care or education.

In fact, China's socialist system is rapidly changing. Neither economic analysts nor government regulators have been able to keep up with China's economic transformation. In many respects, mainland China today is moving swiftly toward the free-market economic system in place in the United States, Taiwan, and Hong Kong. Producers and consumers, not government planners, make most decisions about what goods to produce and how much they will cost.

In other ways, features of the socialist system continue to define China. Most city workers, for example, obtain their housing

China's Trading Partners in the Twentieth Century (percentage of total trade)



through their workplaces and pay very little rent. The government provides free health care in most cases and steps in to prevent sharp increases in food prices.

Most important, the government still owns roughly 150,000 enterprises, employing some sixty million people. Many of them are outdated and inefficient giants with tens of thousands of workers. Although several companies have streamlined their workforces, sending thousands of people into early retirement, others remain unwieldy. A large portion of companies in the state sector are losing money. Under Mao, workers in the big state-owned factories were celebrated for propelling China toward industrialization. They were poor, but they were guaranteed the benefits of what was known as the "iron rice bowl"—a secure job, free housing, and health care.

Why does China's government still own and protect certain enterprises?

The government faces a dilemma in reforming state-owned enterprises. With roughly

100 million Chinese already without work, officials fear that cutting loose the millions of workers in the state sector would lead to widespread unrest. At the same time, they recognize that state firms are draining the economy. In recent years, nearly 90 percent of the loans from China's state banks have gone toward keeping sinking state-owned enterprises afloat. The growing mountain of debt in the state sector has robbed other businesses of investment and has bankrupted China's banking system.

In 1997, Deng's successor, President Jiang Zemin, announced that he would pare down the size of the state sector and keep only the largest one thousand

firms under state control. Together, those firms account for over two-thirds of the output from the state sector and dominate defense, energy, steel, and other key industries.

Unemployment would be much worse in China if not for the startling growth of the non-state sector of the economy. Most non-state enterprises fall into two categories. The privately owned sector most closely resembles businesses in the United States. It consists of enterprises under the ownership of Chinese entrepreneurs, foreign investors, or Chinese-foreign joint ventures. Most of these firms are located in southeastern China.

More difficult to grasp is the economic sector that belongs neither to the state nor to private entrepreneurs. Many villages and towns in the countryside, for example, have branched out into other businesses. Although in theory they are public enterprises, they are not managed or funded by the government. In the cities, workers at state institutions are finding similar opportunities.

For example, professors from the engineering department of a public university may decide to open a small factory producing machine parts. If their business prospers, they will likely take home profits that are many times above their university salaries. The question of ownership, however, usually remains unclear. Is the factory a private or a state enterprise? And who decides how the profits—or the potential losses—are shared?

How does China affect the global environment?

China's economic growth has also become an environmental issue. China has fueled its industrial expansion mainly with coal and oil. Since 1980, energy consumption has increased by nearly 350 percent. Consuming 6.3 million barrels of oil per day, China is today the second largest consumer of energy, after the United States. China now produces more than 14 percent of the world's carbon dioxide emissions, mostly from burning coal. By 2010, China is expected to account for 20 percent of carbon dioxide emissions (about the same proportion the United States currently emits). Scientists believe that the build-up of carbon dioxide in the atmosphere will lead to climate change and severely affect the earth's environment.

China is already shaking up the international market for energy and food. Since the mid-1970s, China's population control program has substantially lowered the country's birth rate. Nonetheless, China's population of 1.3 billion continues to grow by 12 million a year. Meanwhile, China's new wealth has allowed the Chinese people to become more demanding consumers, turning China into an importer of oil and food.

The trend is likely to continue. China is expected to have nearly fifty million vehicles by 2010, pushing it into the ranks of a major oil importer. China will also have to import more grain to feed livestock as prosperous Chinese acquire a greater appetite for meat.

Society in a Whirlwind

Even with much of China's economy on unsteady ground, the impact of economic growth is clearly evident, especially in the cities. A generation ago, Chinese consumers aspired to own a bicycle, a wristwatch, and a radio. Today, Chinese set their sights on color televisions, refrigerators, and DVD players.

How has economic reform changed Chinese society?

Chinese in all walks of life, from teachers to doctors to tractor drivers, have decided to go into business, or as the Chinese say, "plunge into the sea." Chinese society has turned its back on many of the guiding principles of socialism.

Under Mao, the communists strove to create a new value system. The government held up equality, self-sacrifice, and cooperation as the driving engines of the communist revolution. During the Great Leap Forward of the late 1950s, the communist authorities went so far as to try to restructure the family in the countryside. On some huge communal farms, husbands and wives were forced to live separately while their children were cared for in state-run nurseries.

Deng's policies marked a return to more traditional Chinese values. The family has been restored to its central position in society, and Chinese can again make use of their talents in business and commerce. At the same time, China's economic boom has introduced a new emphasis on materialism and individualism in Chinese society.

“To get rich is glorious.”

—Deng Xiaoping

Corruption among government officials is widespread. The combination of dedication, discipline, and fear that served to restrain China's bureaucrats under Mao has largely broken down. Many of them resent the sudden wealth of the country's new entrepreneurs and have sought a piece of the action for themselves by demanding bribes for export licenses, build-

ing permits, and other government documents. Hundreds of thousands more have taken advantage of their authority to set up their own businesses. A few have embezzled millions of dollars in state funds and fled overseas.

Meanwhile, Chinese officials are losing the battle to control the minds of their citizens. The opening of China's economy has exposed the country to the forces of the information revolution. Cell phones, television satellite dishes, computer modems, and short-wave radios have linked China to the outside world. In addition, the influx of foreign business executives, tourists, and students has introduced millions of Chinese to life abroad. Most observers believe that Beijing's decrees to ban private satellite dishes, restrict internet access, and censor the reports of foreign news agencies have come too late to close the gates.

Why has the government banned the Falun Gong?

In addition, there is a growing hunger for a spiritual life outside of the Communist Party. One example is the Falun Gong, a religious sect that draws on the meditative tradition of Taoism and Buddhism and has followers that number in the tens of millions. In the spring of 1999 it asked the Chinese government for recognition during a public gathering of ten to twenty thousand in Beijing. Concerned that this growing popular movement could pose a potential political threat, the government banned the sect, detained thousands of its members, and issued an arrest warrant for its founder.

How has this era of openness influenced China's youth?

China's new economic openness has left the greatest impression on the outlook of the young. The generation of Chi-

nese youth that has grown up since the late 1970s has faced a bewildering shift in values. Whereas communist slogans and portraits of Mao once held sway over city streets, customers in private shops today are more likely to encounter posters of Hollywood movie stars and Playboy pin-ups.

Many Chinese youth, especially in the cities, voice their feelings by embracing what is known as "grey culture"—a defiant contrast to the official culture sponsored by the Communist Party. Grey culture is expressed mostly through punk fashions, pop art, offbeat fiction, and rock 'n' roll.

The evolution of grey culture has reflected the course of Chinese political life. In 1987, the government launched the "anti-bourgeois liberalization campaign" to rid China of "spiritual pollution" from abroad. The tide of the information revolution soon forced the authorities to retreat on the cultural front, but they continued to hold the line against political reform.

In the spring of 1989, a loosely organized democracy movement led by university students critical of government corruption challenged government authority. The movement organized public protests which lasted for six weeks. By early June, the movement



Zunzi

Reprinted from *Seeds of Fire*.

Prisoner #1: "What are you here for?"

Prisoner #2: "I opposed Hu Yaobang. And you?"

Prisoner #3: "I supported him. (addressing Prisoner #1) What about you?"

Prisoner #1: "I am Hu Yaobang."

(Hu Yaobang was forced to resign as head of the Chinese Communist Party in 1987 after pushing to speed up the pace of reform.)

had taken the form of a mass demonstration in Tiananmen Square in the center of Beijing. Cui Jian, China's best-known rock performer, played before the crowd wearing a red blindfold. Students erected a replica of the Statue of Liberty to symbolize their quest for democracy. After sustained deliberation, the government decided to respond by calling in the army to break up the protest. Troops killed dozens of people in the square and hundreds of others in nearby streets. Thousands more were arrested.

In the minds of the authorities, grey culture and the democracy movement are closely connected. Since the Tiananmen Square protest, Cui Jian and other rock performers have kept a low profile politically. A Hard Rock Café has opened in Beijing, but its customers are mainly foreign tourists and business executives. Meanwhile, private rock parties and slam dancing serve as an indirect form of protest against the government.

What new divisions strain Chinese society?

China's generation gap is only one of the many divisions that have opened up in society since the late 1970s. More serious is the widening gulf between rich and poor. Chinese cities are home today to stark contrasts, just as they were before the communist revolution. Homeless beggars can be found outside the storefronts of millionaire businessmen. Expensive nightclubs have opened for the new elite while ordinary Chinese complain about the dramatic rise in violent crime, drug use, and prostitution.

In the countryside, Chinese peasants look to the cities with envy. Although farmers were the first to benefit from Deng's economic reforms, agricultural modernization has slowed since the mid-1980s. In many areas, the break-up of collective farms has undercut investment in roads, irrigation canals, and grain silos. Farmers are still not allowed to own land outright, which discourages them from spending on long-term improvements. In addition, crop prices have not kept up with the cost of manufactured goods. The average Chinese peasant earns only about one-tenth of the income of city dwellers along China's southeastern coast.

Many Chinese villagers hang portraits of Mao in their homes to symbolize their discontent with the growing inequality in China.

“No one likes the old days. But under his [Mao's] leadership at least we all lived the same kind of life. Chairman Mao put the interests of us villagers first.”

—Chinese peasant woman

Since the Chinese government gradually freed peasants from travel restrictions, millions of villagers have formed a new class of rootless migrants who either are without land to farm or are looking for opportunity. As many as 150 million of them have abandoned rural life, often floating from city to city. Downtown streets in major Chinese cities are full of “one-day mules”—young men available for day labor at low wages.

In southeastern China, the destination of most migrants from the countryside, conditions recall scenes from the sweatshops of New York or the slaughterhouses of Chicago in the late 1800s. Young women looking for a factory job can expect to work long hours on an assembly line and to sleep in a crowded dormitory above the factory floor. Wages are as low as \$1 a day. Moreover, party officials often collect under-the-table fees of \$1,000 to arrange employment. Many of the young people who do not find a niche in the economy are sucked into China's growing underclass of criminals, drug addicts, and prostitutes.

Political Uncertainty

The 1989 Tiananmen Square protests shook the confidence of the leaders of the Chinese Communist Party. The level of dissatisfaction among many of China's most gifted university students stunned top officials. Their order to send tanks and troops against the demonstrators left the impression that China's communist rulers could hold onto power only through force. In the months before the Tiananmen demonstrations, communist regimes in Eastern Europe that had been established at

about the same time as the People's Republic of China fell one by one to mass movements for democracy.

Today, the people of China are still waiting to see which direction history will take their country. China's economic transformation has brought the country to a political crossroads. The values of Mao Zedong no longer hold China together. The generation of influential elders that led the communist revolution is dying out. The generation that has grown up after Mao has shelved the vision of a strong, self-reliant communist society.

For the time being, the Communist Party remains in control, but its ideology has faded and its authority at the regional and local levels has waned. Meanwhile, there is no clear political roadmap to guide China into the future.

What new problems worry China's communist government?

Mao saw a single-party dictatorship as a means for modernizing China under socialism. As in other countries of the developing world, Chinese officials under Mao wanted to apply the benefits of Western technology and science while breaking free of Western imperialism.

Socialism served the Mao's goals well. He was able to unify China following more than a century of fragmentation. Mao reasserted China's independence from Western influence and took measures to promote modern industry. A strong central government was built around the Communist Party.

Today, the goals of Maoism no longer fit Beijing's strategy for economic reform. In the coming years, China's political system will face several challenges. If the experience of China's East Asian neighbors holds true, pressure for democracy will build as economic progress draws more Chinese into the middle class. South Korea and Taiwan, for example, emerged as economic powerhouses under the rule of one-party dictatorships, but are now headed toward democratic reform.

In the short term, democracy is seen as less of a threat to the authority of the Chinese

Communist Party than the increasing concentration of power at the provincial and local levels. China's wealthy southeastern provinces, such as Guangdong, hold onto almost all of their tax revenues and receive little from the central government in return. In a few cases, regional trade wars have erupted, with provincial governments imposing tariffs on goods from neighboring provinces. Smuggling has frustrated Beijing's efforts to collect taxes.

Current president Hu Jintao remains committed to reform, but sees strong socialist management of the economy as essential to this policy.

“The reason why China has produced such tremendous changes is because we have adhered to the road of building socialism with Chinese characteristics and persevered in reform and opening-up.”

—Hu Jintao

Meanwhile, China's national budget deficit has ballooned in recent years. Many of the big state-run factories that supply much of the revenue for the central government are themselves failing. Efforts to reform these factories have brought unemployment to tens of millions. China's leaders are even more worried that the central command of the Chinese army may dissolve, giving rise to the emergence of regional warlords.

What uncertainties followed Deng Xiaoping's death?

Deng's death added to the sense of uncertainty in China. China historically has been a society ruled by individuals rather than by laws. With Deng gone, rivals for leadership in China have sought to build support among top Communist Party officials, military generals, provincial leaders, and other powerful circles.

Former President Jiang tried to strengthen the rule of law and streamline the economy. Whether his successor, Hu Jintao, will be able to follow through on much of the unfinished business left behind by Deng and Jiang re-

mains to be seen. Curbing the power of the Communist Party and trimming the state sector of the economy has proven to be especially difficult.

The Beijing leadership must also keep the peace with rival centers of power. Conservatives within the military, the party bureaucracy, and state-run industries favor slowing the pace of change and reasserting the authority of the party. They face opposition from regional leaders and business tycoons who are riding the wave of China's boom.

Study Guide—Part II

1. After the death of Mao Zedong in 1976, _____ eventually emerged as China's leader and ruled until his death in 1997.
2. Why did Deng Xiaoping see the need to reform China's economy?
3. Describe how the following areas of China's economy were reformed:
 - a. agriculture
 - b. industry & commerce
4. What have been the benefits of these reforms?
5. What elements of socialism remain in China's economy? Why does the government provide such protections?
6. Give two reasons why China is likely to have a significant impact on the global environment.
 - a.
 - b.

Name: _____

7. Describe two problems for China's government that are the result of economic reform.
 - a.
 - b.
8. What beliefs and attitudes do China's youth express through the "grey culture"?
9. Why do many rural Chinese peasants envy those who live in the cities?
10. What problems await peasants who move to the city in search of work and a better life?
11. How will the following political problems challenge China's government in the years ahead?
 - a. pressures for democracy
 - b. power at the provincial and local levels
 - c. budget deficit
 - d. command of the Chinese army