

Part I: 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 Mao'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.

Deng became leader of mainland China in 1978. Already seventy-four years old and still trying to secure his leadership as president, at the end of 1978 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 practical approach made its mark on Chinese history. China's annual economic growth rate skyrocketed, earning Deng praise for his economic reforms. The uniformity and drabness that characterized Mao's China were replaced by an accent on individuality. At the same time, the changes that have occurred since Deng took power have torn at the fabric of Chinese society.

In this section, you will examine the economic, social, and political transformation of China that began with Deng and which his successors have carried on. As you will learn in the final part of the reading, what is happening in China profoundly affects the direction of U.S. foreign policy.

Economic Reform

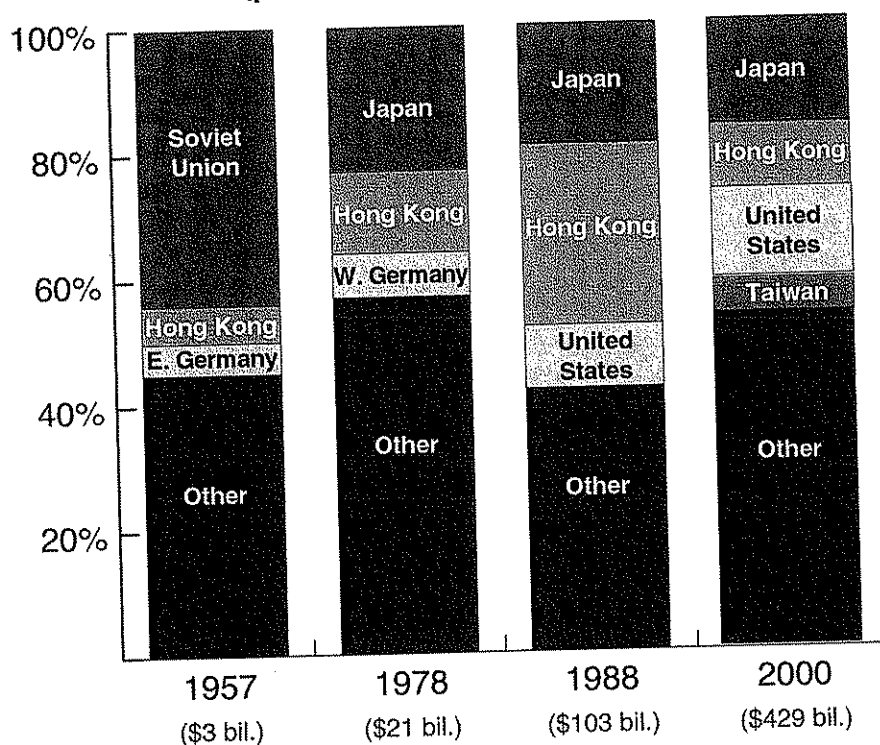
Deng took power with a clear memory of the economic mistakes that were made in the previous two decades. Mao had followed the path of the Soviet Union in creating a centrally planned command economy. (In a command economy, government planners decide what goods need to be produced.) Like the Soviets, 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. Introduced in the late 1950s, this plan aimed 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 of producing its own steel. The experiment



The man rising from the coffin is Deng Xiaoping.

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



proved disastrous. Confusion, disorganization, and bad weather led to widespread crop failures. As many as thirty million Chinese people 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. 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 loosened controls on 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. Deng's policies showed that the Chinese people could be productive without rigid gov-

ernment control. A famous quotation from Deng shows he thought outcomes were more important than the methods used to achieve them.

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

—Deng Xiaoping, 1962

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 went a long way toward bringing China into the global marketplace. Exports rose from \$14 billion in 1979 to \$969 billion in 2006. China also led newly industrializing countries in attracting nearly \$80 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 where social classes, property ownership, and even government do not exist. 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 and 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 in China. Most city workers, for example, obtain housing 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.



This Starbucks in Tiananmen Square exemplifies the new mix between capitalism and socialism in China.

Courtesy of Mollie Hackett.

What are the differences between private and state-owned factories?

Most important, the government still owns roughly 150,000 enterprises, employing millions of people. Many of them are outdated and inefficient, though some have seen high profits as China's economy as a whole has grown in the past few years. Although several companies have streamlined their workforces, sending thousands of people into early retirement, others remain unwieldy. 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. Today, not all of these companies can guarantee those benefits.

The government faces a dilemma in reforming state-owned enterprises. With roughly 100 million Chinese unemployed, 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 need to be profitable. The government agency in charge of state-owned firms has pledged to shut down the two thousand

most inefficient state factories and bring all the others up to snuff by 2010.

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. In the cities, workers at state institutions are finding similar opportunities. Although in theory they are public enterprises, they are not managed or funded by the government.

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. While millions of Chinese, especially older people or people who live in rural areas suffer from poverty, the growth of the non-state sector has propelled other millions of Chinese into the middle class.

How does China affect the global environment?

China's economic growth has become an environmental issue. China has fueled its industrial expansion mainly with coal and oil. Consuming 7.3 million barrels of oil per day, China is the second largest consumer of energy, after the United

States. The country burns more coal than the United States, Europe, and Japan combined. China now produces more than 14 percent of the world's carbon dioxide emissions, mostly from burning coal. It is the largest emitter of carbon dioxide in the world. Scientists believe that the build-up of carbon dioxide in the atmosphere will lead to global warming and severely affect the earth's environment.

Pollution in China's cities, a result primarily of increased traffic and burning coal plants, is among the worst in the world. Of the 560 million people who live in cities in China, only 1 percent breathe clean air. Water pollution and water scarcity, other by-products of rapid growth and development, further threaten human and animal life.

China is also 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 city of Shanghai in southeastern China.

Courtesy of Mollie Hackett.

Chinese officials are beginning to be concerned by both internal and external pressures to develop in more sustainable ways. Environmentalists and ordinary citizens are beginning to complain about conditions to their local and national governments, and the international community is pressuring China to accept limits on its carbon dioxide emissions. As China prepared to host thousands of outsiders for the 2008 Beijing Olympics, the government made enormous efforts to beautify the city and reduce pollution temporarily.

The Chinese leadership knows it must do more to save the environment, but pressure from growing businesses and local governments that do not want to lose out on the economic growth have made it difficult to develop and enforce stringent measures.

“We must adopt an enlightened approach to development that results in expanded production...and sound ecological...conditions. We need to correctly handle the major relationships between urban and rural development, economic and social development and man and nature.”

—Chinese President Hu Jintao, 2007

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, MP3 players, 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 was restored to its central position in society, and Chinese can now engage in business and commerce. At the same time, China's economic boom has introduced a new emphasis on individualism and materialism in Chinese society.

“To get rich is glorious.”

—Deng Xiaoping, 1984

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, building 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, internet connections, 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.



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.)

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 Chinese 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 shops today are more likely to encounter posters of DVDs and video games for sale.

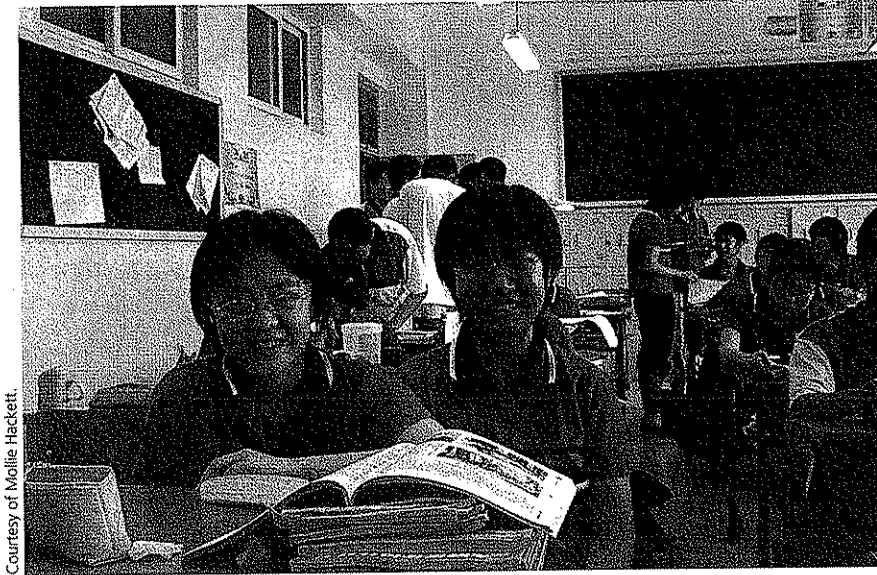
In 1987, the government launched the

"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 had taken the form of a mass demonstration in Tiananmen Square in the center of Beijing. Cui Jian, China's best-known rock performer at the time, 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.

The current generation of students in Chinese cities is less likely to become involved in politics. Many urban Chinese youth have embraced the technology and lifestyle popular among urban youth around the world, such as blogging, frequent dinners out, and clubbing. Those with college degrees work in multinational firms, own their own businesses, or are otherwise participating in the economic boom that has given them far more opportunities than their parents had. Wealthy Chinese twenty-somethings, whose incomes have risen 34 percent since 2004, talk of snowboarding and scuba diving vacations. Their economic success has made them less likely to criticize



Courtesy of Mollie Hackett.

Students in a Chinese high school.

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

the government or seek change in the communist system.

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 breakup 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

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 people 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.

How has President Hu responded to economic troubles?

The economic challenges facing China are formidable. Rapid growth has overheated the

economy, triggering bursts of inflation. Sharp divisions have opened up in society, pitting the rich against the poor, city dwellers against farmers, and the prosperous southeastern coast against the struggling interior.

Current Chinese President Hu Jintao, president since 2003 and now in his second and last term, supports China's economic growth. His government aims to quadruple the year 2000 levels of per capita GDP by 2020. Hu emphasizes that economic growth must benefit the Chinese people, not just government coffers or a few wealthy businessmen. President Hu is also committed to further opening up China's economy to the world while upholding strong socialist management.

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.

How has China changed politically since the Mao era?

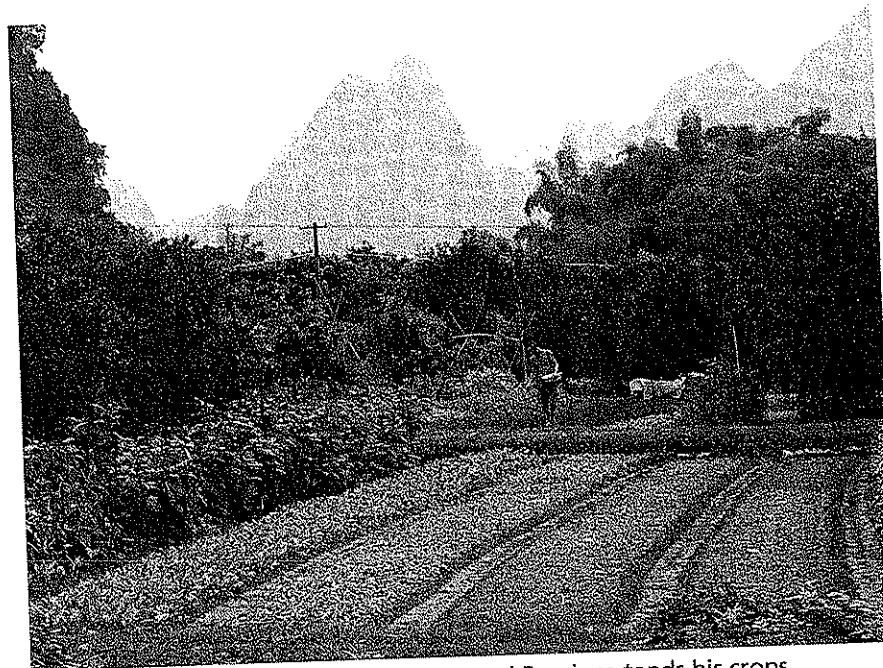
China's economic transformation has brought the country to a political crossroads. The values of Mao Zedong no longer hold China together. The generation of influential elders that led the communist revolution is dying out. The generation that grew up after Mao has shelved the vision of a strong, self-reliant communist society.

Socialism served Mao's goals well. He was able to unify China follow-

ing more than a century of fragmentation. Mao reasserted China's independence from Western influence and took measures to promote modern industry. He built a strong central government 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 is any indication, 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 democracies.

In the short term, democracy on a national scale may be less threatening to the authority of the Chinese Communist Party than the increasing power of the provincial and local governments. For the time being, the Communist Party remains in control, but its ideology has faded and its authority at regional levels has waned. 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 pro-



A farmer near the city of Guilin in Guangxi Province tends his crops.

Courtesy of Mollie Hackett.

vincial governments imposing tariffs on goods from neighboring provinces. Smuggling has frustrated Beijing's efforts to collect taxes.

Deng Xiaoping's death added to the sense of political uncertainty in China. China historically has been a society ruled by individuals rather than by laws. After Deng's death, rivals for leadership in China sought to build support among top Communist Party officials, military generals, provincial leaders, and other powerful circles today. Competing factions within the Communist Party continue to disagree about the direction of the country. 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. There is no clear political roadmap to guide China into the future.

What political reforms does

Hu Jintao support?

President Hu remains committed to reform, and hopes to weed out government corruption. He wants to make the Communist Party more responsive to the Chinese public and has talked about "intra-party democracy," meaning more officials of the Communist Party would have a role in decisionmaking. But Hu endorses only small changes in the political system. He does not plan to make any changes to one-party rule.

“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.”

—President Hu Jintao, 2004

In the next section, you will read about how these internal changes in China have influenced its relations with other countries, particularly the United States.