

Part I: China's Transformation

Like China 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 counterrevolutionary 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 for promoting economic reforms. For the next two years, Deng and his political opponents grappled for power as the fate of China hung in the balance.

Deng became the leader of mainland China in 1978 and would rule until 1992. Already seventy-four years old in 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 strictly followed communist ideology. Instead, he advocated policies that would advance China's economic development.

Deng's political approach made its mark on Chinese history. China's annual economic growth rate skyrocketed, earning Deng praise for his economic reforms. The uniformity that characterized Mao's China was replaced by a focus on individuality. The changes that have occurred since Deng took power have transformed Chinese society in dramatic ways.

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

Economic Reform

Deng took power in 1978 with a clear memory of the economic mistakes that were made in the previous two decades. Mao had

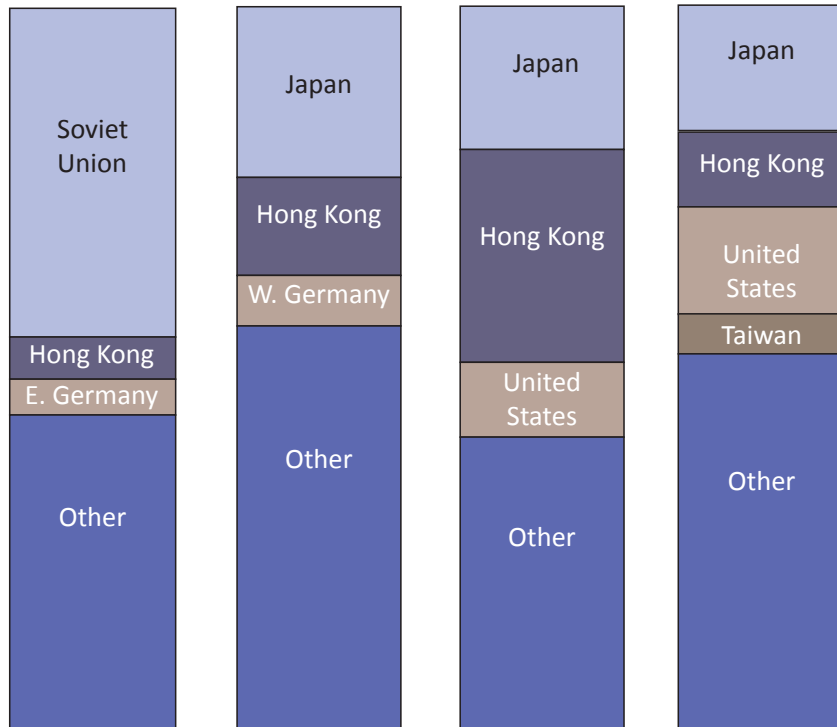
followed the path of the Soviet Union in creating a centrally planned command economy. (In a command economy, government planners decide what goods need to be produced.) Like the Soviets, communist officials in China harnessed the people and resources of their country to build roads, ports, dams, and other large-scale projects. They also committed horrendous blunders.

One mistake Mao made was implementing an economic 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 proved disastrous. Confusion, disorganization, and bad weather led to widespread crop failures and famine. As many as forty million Chinese people died as a result.

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 were responsible 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 the government's 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. Economic progress came quickly. Within seven years, economic output in rural areas had shot up by 48 percent. Deng's policies showed that the Chinese people could be productive without rigid government control. A famous quotation from Deng shows that he thought outcomes were more important than the methods used to achieve them.

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



U.S. 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. For example, many Hong Kong manufacturers now make their products in the neighboring Chinese province of Guangdong. (Hong Kong, since being returned by Britain to China in 1997, is a "special administrative region" that has separate economic policies.)

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

Deng labeled his country's economic system "socialism with Chi-

"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, and 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 \$1.9 trillion in 2011.

nese 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. 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, Hong Kong, and many other places. 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.

How has China's economy changed in recent years?

Most importantly, the government owns roughly 145,000 businesses, employing millions of people. Though many of the businesses are outdated and inefficient, some have seen high profits as China's economy has grown in the past few years. Although several companies have reduced their work forces, sending thousands of people into early retirement, others remain large. Many government officials have connections to these firms, which are seen as source of corruption.

Under Mao, workers in the big state-owned factories were celebrated for propelling China toward industrialization. The workers 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 state-owned companies can guarantee those benefits.

The government faces a dilemma in reforming state-owned enterprises. With at least thirty-five million Chinese unemployed, officials fear that reforms that threaten the jobs of 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 and are working to reform the sector.



This Starbucks in the Forbidden City, Beijing exemplifies the mix between capitalism and socialism in China.

Vincelaconte. (CC BY-SA 2.0).

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. The growth of the non-state sector has propelled millions of Chinese into the middle class.

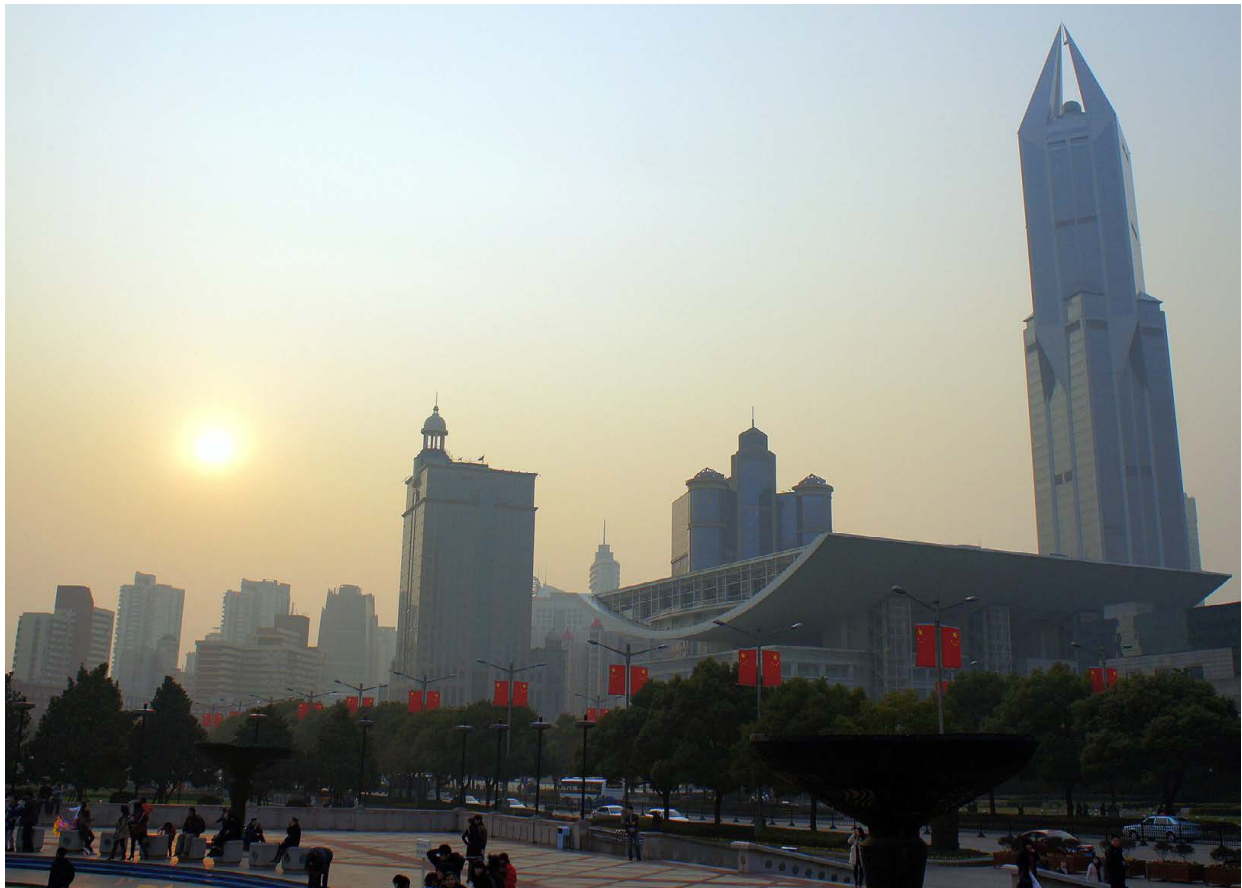
More difficult to grasp is the economic sector that belongs neither to the state nor to private entrepreneurs. For example, professors from the engineering department of a public university may decide to open a small factory producing machine parts. If their business prospers, they will likely take home profits that are many times above their university salaries. 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.

How does China's economic growth affect the global environment?

China's economic growth has become an environmental issue. China has fueled its industrial expansion mainly with coal and oil. Today, China is the second largest consumer of oil, after the United States. The country burns more coal than the United States, Europe, and Japan combined. It is the largest emitter of carbon dioxide in the world and is responsible for about 20 percent of the world's greenhouse gas emissions. Scientists believe that the build-up of carbon dioxide and other greenhouse gases in the atmosphere leads to climate change and will severely affect the earth's environment. Pollution in China's cities, a result primarily of increased traffic and coal-burning plants, is among the worst in the world. A World Health Organization report estimates that air pollution leads to the deaths of about 650,000 people a year in China.

Water pollution and water scarcity, other by-products of rapid growth and development, further threaten human and animal life. Half of China's population does not have access to safe drinking water. Chinese officials see these water issues as an enormous problem that is affecting agriculture and public health. In response, the government has begun some of China's (and the world's) most enormous engineering efforts, such as the "South to North Water Diversion Project." The project moves water from the Yangzi River into the increasingly dry north.

China's needs have also changed 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 more than 8 million a year. Meanwhile, China's new wealth has allowed the Chinese people to become



The city of Shanghai in southeastern China.

HeroClife. (CC BY-SA 2.0)

more demanding consumers, turning China into a larger importer of oil and food.

Internal and external pressures have prompted Chinese officials to think about sustainable forms of economic growth. Environmentalists and ordinary citizens complain about environmental conditions to their local and national governments, and the international community is pressuring China to accept limits on its carbon dioxide emissions. At the most recent international climate conferences, China was unwilling to accept any limits on its carbon dioxide emissions that could hinder economic growth. At the same time, China invested more than \$52 billion in renewable energies in 2011, just ahead of the \$51 billion invested by the United States, the world's second largest investor. The Chinese government hopes to produce 20 percent of its energy needs from renewable sources by 2020.

The Chinese leadership knows it must do more to protect 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 more sustainable 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 owning their own home, an automobile, and a smartphone.

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 away from 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 forces of the communist revolution. During the Great Leap Forward of the late 1950s, the communist authorities even tried 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 were allowed to 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 not uncommon. The combination of dedication, discipline, and fear that served to restrain China's bureaucrats under Mao has largely broken down. Many of the officials 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. Officials have been known to seize land, paying the original owners a fraction of the land's value and then selling the land to developers for a huge profit. A few have embezzled millions of dollars in state funds and fled overseas.

The opening of China's economy has exposed the country to the forces of the information revolution. Chinese officials are losing the battle to control the information reaching their citizens. Cell phones, television satellite dishes, internet connections, and short-wave radios link China to the outside world. In addition, the influx of foreign business executives, tourists, and students has connected millions of Chinese to life abroad. Most observers believe that Beijing's efforts 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?

The government has also demonstrated its resolve to repress any group that it sees as a threat to its control of Chinese society. One example is its treatment of 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. Chinese officials have labeled the Falun Gong a cult. In the spring of 1999, when Falun Gong leaders asked the Chinese government for recognition during a public gathering of ten to twenty thousand in Beijing, the government banned the sect, detained thousands of its members, and issued an arrest warrant for its founder. Human rights groups claim that the Chinese government has arrested tens of thousands and killed at least two thousand in its campaign against the Falun Gong in the last decade.

What were the Tiananmen Square protests?

In 1987, the government launched the a 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 move-

ment organized public protests that 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 call 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. Similar, but smaller crackdowns took place in other cities, but did not get worldwide attention.

The 1989 Tiananmen Square protests shocked the world and 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.

The current generation of students in Chinese cities is less likely to become involved in national politics. Many urban Chinese youth have embraced the technology and activities 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. Their economic success has made them less likely to criticize the government or seek change in the communist system.

At the same time, Chinese people have begun to raise their voices in recent years about issues in their communities—for example, small protests against corrupt officials or environmental problems. China's government has generally tolerated these protests as long as they remained at a local level and avoided criticizing the national government.



Rex Pe. (CC BY 2.0)

Students in a Chinese school.

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 have stark contrasts, just as they had 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 express concerns about the dramatic rise in violent crime, drug use, and prostitution.

In the countryside, many 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, 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-third of the income of city dwellers, and this disparity is growing. 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 opportunities. As many as 200 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.

The economic challenges facing China are large. Rapid growth of the economy has triggered price increases. 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.

Political Uncertainty

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 discarded the vision of a strong, self-reliant communist society.

Socialism served 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. He built a strong central government around the Communist Party.



Terraces for farming rice in Longsheng, China. The terraces were built more than five hundred years ago.

Anne Percoc. (CC BY-SA 2.0).

How might economic change lead to pressure for political change in China?

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 of a threat 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 weakened. 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 disputes have erupted, with provincial governments imposing tariffs on goods from neighboring provinces. Smuggling has frustrated Beijing's efforts to collect taxes.

Deng Xiaoping's death in 1997 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 as well as activists calling for human rights. While there is no clear political roadmap to guide China into the future, it seems clear that China's leaders do not plan to make any changes to one-party rule or give up their own power anytime soon.

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.