9 Developments in China 1989–2005

Introduction

By 1989, Deng's economic policies had considerably transformed China. However, the Tiananmen protests of 1989 led to a debate within the leadership of the CCP over what direction China should take. Even the 'centre' of the Party began to divide along 'conservative' left and 'liberal' right lines, with Li Peng (a hardliner who had pushed for the PLA to suppress the protests) heading the left. He and his supporters began attempts to slow down Deng's economic reforms and, instead, to give earlier socialist aims greater prominence.

Also, despite the many prestigious construction projects in Beijing and Shanghai, many serious political and economic problems remained. Large sections of rural China still remained to be developed and, especially in the western regions, poverty and limited cultural development posed serious threats to social stability and to the rule of China's political élites.

Figure 9.1: Chinese leaders at The CCP's Sixteenth Party Congress, 2002. This Congress marked the retirement of Jiang Zemin, Li Peng and Zhu Ronjgi, with Hu confirmed as 'paramount leader'.

9 The People's Republic of China (1949–2005)

TIMELINE

1989 **Nov:** Jiang Zemin replaces Deng as chair of the CMC

1990 **Sep:** Provincial leaders oppose attempts by Chen Yun and Li Peng to slow down Deng's economic reforms

1991 **Mar:** Zhu Rongji becomes vice-premier

Dec: Collapse of the Soviet Union

1992 **Jan:** Start of Deng's 'Southern Tour'

Mar: Politburo endorses Deng's reforms

Oct: 14th Congress of CCP endorses Deng's reforms

1993 **Mar:** Jiang Zemin becomes president

Jul: Jiang launches campaign against corruption

1997 **Jul:** Britain returns Hong Kong to China

Sep: 15th Congress of CCP

1998 **Mar:** Zhu Rongji becomes premier

1999 **May:** US bomb Chinese embassy in Belgrade

Dec: Portugal returns Macao to China

2000 **Feb:** Jiang's 'Three Represents'

Jun: Zhengzhou strike

Oct: CCP decide Jiang, Zhu and Li to retire in 2002; US grants China PNTRT status

2001 **Dec:** China joins WTO

2002 **Feb:** US president Bush visits China

Mar: Liaoyang and Daqing strikes

Nov: 16th. Congress of CCP; Hu Jintao becomes general-secretary

2003 **Mar:** Hu becomes president

2005 **Nov:** Wen Jiabao visits Harbin after river polluted

KEY QUESTIONS

- How did China's politics change after 1989?
- What were the main economic developments after 1989?
- How far have China's leaders created a 'Harmonious Society'?
- How did China's relations with the rest of the world develop after 1989?
- To what extent was China still communist by 2005?

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Overview

- After the Tiananmen protests of 1989, the 'conservative' left of the CCP – headed by Chen Yun and Li Peng – tried to slow down Deng's reforms and to place more emphasis on socialist principles and central planning. Their determination was strengthened by the collapse of the Soviet Union in December 1991.
- However, Deng and the 'liberal' right fought back and, in January 1992, Deng began his 'Southern Tour' to gain support of provincial leaders for his economic reforms.
- As a result, in March 1992, his policies were endorsed by the Politburo and, in October, by the 14th Party Congress. In March 1993, Jiang Zemin – one of Deng's supporters – became president, and the influence of the left declined under this 'third generation' of leaders.
- From 1993 onwards, Deng's economic reforms were speeded up, and China rapidly developed a market-based economy. However, although China's economy expanded greatly, various problems – such as growing inequalities, unemployment, environmental pollution and corruption – began to cause social unrest.
- Nonetheless, the market reforms continued: from March 1998, these were largely implemented by the new premier, Zhu Rongji. In December 2001, China's growing connection with the international economy was strengthened when it became a member of the World Trade Organization (WTO).
- In 2002, Jiang and Zhu retired, and a 'fourth generation' of leaders took over, headed by Hu Jintao. While China had become the second largest economy in the world – and was predicted to overtake the US in the next 20 years or so – historians are divided over whether China remains a communist country.

9.1 How did China's politics change after 1989?

Deng and those 'second generation' leaders who remained in power after 1989 were deeply concerned about the implications of the collapse of communism in Eastern Europe – and by the political unrest among China's students and workers during the 'Beijing Spring' of 1989, which had culminated in the Tiananmen protests. Two years later, with the collapse of the Soviet Union in 1991, China's former mentor and economic model was gone.

These events of 1989–91 heightened a debate that had been taking place among China's leaders since 1981. This was about the direction China should take, both politically and economically. Immediately after 1989, the CCP was divided on whether to move away from the economic reforms that had improved the lives of many Chinese but had also impoverished others, or to continue with those economic reforms that some saw as having precipitated the political crisis.

The 'conservative' left of the Party blamed the unrest of 1989 on the social problems – such as unemployment and economic inequalities – which had appeared following China's 'socialist market' reforms. However, to many within the 'liberal' right of the CCP, the collapse of communism in Eastern Europe and the Soviet Union – and the political and social unrest in China – were the result of political weakness and economic stagnation.

As explained in Source 9.1, the right eventually managed to reassert its dominance in 1992, and decided that, to preserve political stability and the rule of the CCP, it would be necessary to do three things:

- consolidate the Party's authority over the military
- develop closer links between the Party and the growing business sector
- establish strong economic growth.

SOURCE 9.1

The year 1989 in China was marked by the defeat of a group of reformists in the Communist Party leadership and the shattering of hopes of continuing political liberalization that were held by many. In retrospect, it is clear that 1989 also marked the end of one era of cautiously managed economic reform. Economic reform, as such, did not die, but when reforms resumed in earnest around 1992, they took on a new form, more resolute and in some ways harsher. The new reform pattern reinforced state and Communist Party interests, while exposing some social groups to major losses. Income grew dramatically, but inequality increased and economic life became more precarious. The post-1989 model of economic reform was one of concentrated power wielded more effectively and led to a remarkable recovery in the power of the Chinese state.

Bandelj, N. and Solinger, D. J. (eds), 2012. **Socialism Vanquished, Socialism Challenged: Eastern Europe and China, 1989–2009.** *Oxford. Oxford University Press. p.125*

Political divisions before 1992

Even before 1989, a quiet struggle had been taking place for some time between Deng and Chen Yun over implementing the economic reforms. Chen was seen as a 'conservative' leftist, and Deng as a 'liberal' rightist as regards economic policies. Chen had initially supported Deng's policy of introducing 'market mechanisms' – though only as a way of supplementing state planning in order to modernise China's economy. As head of the Economic and Financial Commission – and thus in charge of the detailed planning of Deng's reforms – Chen had played an important role in ensuring that these early reforms were successful.

The campaign against 'bourgeois liberalisation'

However, from as early as 1980–81, Chen had begun to raise concerns about the economic reforms being implemented in relation to industry and the Special Economic Zones (see Chapter 7 and Section 9.3). Although appointed by Deng to head the Central Advisory Commission in 1982, Chen's growing concerns led him to resign his Party – though not his administrative – posts. From 1980 to 1991, Chen and his supporters mounted a campaign against what they saw as

dangerous capitalist-influenced social and political ideas and trends that were linked to some of the economic reforms.

In 1985, Chen warned that 'bourgeois liberalisation' attitudes were drifting from economics and were undermining political ideas and values. He felt this was weakening the Party's commitment to China remaining socialist, and argued for a determined struggle against 'mistakes' which he felt were counter to 'communist ideals and ethics', and for the dominance of the planned economy over the market economy. The left were also concerned that too much power had been devolved to the provinces, and believed this prevented central government from overseeing the national economy. As a result, Chen was increasingly seen as one of the 'conservative' left opponents of Deng's reforms.

QUESTION

What did Chen and the 'conservative' left mean by 'bourgeois liberalisation', and why were they concerned about this trend?

One of Deng's protégé, Zhao, had begun to replace Chen as the person pushing forward economic reform. Although Zhao frequently consulted with Chen on certain aspects, the main direction of Deng's economic policies was maintained. By 1986, it had seemed as though Deng's economic reforms were well-established; and that his supporters, Hu and Zhao, would carry them through to completion. Though Deng had resigned from most of his official posts by then, this had not meant the end of his influence. In fact, he was often consulted, and his suggestions were respected and mostly followed.

The 'conservative' leftist counter-offensive, 1989–91

However, political events just before and after the Tiananmen Square democracy protests of 1989 (see Chapter 8) led to the fall of Deng's two closest protégés. In January 1987, Hu had been forced by the 'conservative' left to resign as general-secretary of the CCP because of his limited support of the growing pro-democracy movement. Zhao, who continued as premier, took over that post as well. Then, in November 1987, Zhao himself had been replaced as premier by the

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more 'conservative' Li Peng. Finally, immediately after the suppression of the Tiananmen Square protests in June 1989, Zhao – who had opposed the use of force to suppress the demonstration – was also forced to resign from his general-secretary post and was put under house arrest. The criticisms made of him were, in many ways, seen as criticisms of Deng's economic policies.

While it was clear that Deng's prestige declined after Tiananmen, he was still seen as the 'core' of the Party, and was determined to use his core status to maintain his influence. In particular, he continued to stress that the only way to develop China's economy was to marketise and join the international economy. When Deng resigned as chairman of the Central Military Commission in November 1989, he ensured his place was taken by **Jiang Zemin**.

Jiang Zemin (b. 1926):

Jiang trained as an engineer, and his political career began in the 1950s. In 1986, he was appointed mayor of Shanghai and, in 1989, following the Tiananmen Square protests, Deng ensured he replaced Zhao Ziyang as general-secretary of the CCP. In the 1990s, he became the 'paramount leader' and maintained strong central control. Though he retired as general-secretary in 2002, he retained some leadership posts until 2005, and continued to influence developments for some time after that.

Although Jiang was another of Deng's protégés, and had been promoted at his suggestion, he was seen as centrist rather than a rightist and, at first, seemed to favour using state power to set limits to the 'free market', and to help those not benefitting from the market's operations. These ideas were close to some of Chen's criticisms, and it appeared that the left of the CCP would succeed in slowing down Deng's reforms. Jiang was also loosely associated with the prime minister, Li Peng – seen as on the left of the leading group – who had been appointed to that post in 1987. In the summer of 1990, Chen and Li were able to get these ideas about increasing central control into the draft of the Eighth Five-Year Plan.

However, in September 1990, provincial Party leaders – most of whom supported Deng's economic reforms, and did not want renewed central controls as these would limit their powers in the regions – voiced strong opposition to these changes. Deng and his supporters were encouraged

by the responses of the provincial leaders, which strengthened their determination to counter the leftists, and to push ahead with the market-oriented economic reforms. In the spring of 1991, Deng used his influence to secure the appointment of Zhu Rongji as vice-premier – although this was balanced by the left's ability to get one of their supporters appointed as another vice-premier.

Initially, though, developments in the Soviet Union in 1991 – the failed coup against Gorbachev in August, and then the collapse of the Soviet Union in December – seemed to strengthen the hand of the left, which emphasised the need to ensure a socialist course and the dominant role of public ownership. Thus, for a time, Deng's political influence declined further.

Zhu Rongji (b. 1928):

Zhu's family were intellectuals and wealthy landowners but, in 1949, he joined the CCP. He graduated with a degree in electrical engineering and, from 1952 to 1958, held senior positions in the State Planning Commission. He criticised Mao's economic policies in 1957, and was expelled from the party and his posts as a 'rightist'. During the Cultural Revolution, he was purged again as a 'capitalist roader'. After Mao's death and the rise of Deng, Zhu was rehabilitated and allowed to re-join the party.

In 1988, he replaced Jiang Zemin as mayor of Shanghai, where he oversaw rapid economic development – though often clashing with Li Peng. In 1990, he moved to Beijing and, in 1998, was appointed as prime minister by Jiang. His main role was to push forward China's economic reforms – although he saved some of the biggest State Owned Enterprises; smaller ones were allowed to go bankrupt. As a result, millions of workers lost their jobs and the social benefits of their 'iron rice bowl'. Zhu also took the lead in China's bid to join the World Trade Organization, and oversaw significant privatisation within China, assuming this would eventually solve the unemployment problem. He also ran strong campaigns against corruption.

ACTIVITY

Carry out some additional research on economic and political developments in the Soviet Union in 1991. Then, with a partner, produce a spider diagram to show the links between events in the Soviet Union and the impact these had on the debate over economic policy within the CCP.

Deng's 'Southern Tour', January–February 1992

However, in January 1992, Deng began what became known as his 'Southern Tour'. This lasted just over a month, during which he visited the Shenzen SEZ and other key areas of southern China. For Deng, his 'Tour' was a political mission in defence of his economic reform policies. It was intended as a signal that China should – and would – continue to move away from a centrally planned economy, and instead embrace a market-based system. It was, above all, part of a counter-attack against the 'conservative' leftists – although these blocked immediate press coverage of his visits and speeches, by the time he had finished his 'Tour', he had persuaded provincial leaders to support him on the need to press on with his reforms.

His 'Tour' had an immediate impact on the debate within the leadership of the CCP. At the end of February 1992, the CC issued a summary of the key points of his speeches, which was then issued to all Party members. Then, in March 1992, Jiang convened a meeting of the Politburo which fully endorsed Deng's reforms. At a subsequent meeting of the National People's Congress, the vice-chair of the CMC declared that the PLA supported Deng's economic reforms.

These successes pushed the left into making some concessions, and encouraged Jiang to swing decisively in favour of stepping up the speed of the market-based economic reforms favoured by the right. These moves made it clear that the overall influence of Deng's 'Tour' had succeeded in settling the direction of economic reform along the lines he favoured. This was confirmed in October by the Fourteenth Party Congress which endorsed the goal of creating a 'socialist market economic system', and warned of the need to guard against 'leftist' tendencies. Thus, by 1992, the main aim of Deng and what became known as the 'second generation' seemed to have been achieved –

the maintenance of strong authoritarian political control, and the implementation of further 'socialist market' reforms in order to build a strong economy.

KEY CONCEPTS QUESTION

Significance: What was the importance of Deng's 'Southern Tour' for the subsequent direction of China's economic policies?

Political leaderships 1992–2005

After 1992, with his economic reform programme secure, Deng played less of a role in Chinese politics. Before he died in February 1997, political discourse had begun to use the term 'political generations' to classify successive leadership groups, and was particularly linked to ideas about change and continuity.

The 'first generation' – applied retrospectively – were those leaders who had been prominent when Mao was in power, such as Liu Shaoqi, Peng Dehuai, Lin Biao and Zhou Enlai. The 'second generation' were those who held sway under Deng, following the death of Mao and the defeat of the 'Gang of Four'. These included Chen Yun, Hu Yaobang and Zhao Ziyang. From 1992 to 2005, two further distinct 'generations' of CCP leaders exercised power.

Jiang Zemin and the 'Third Generation' 1992–2003

The rule of Jiang Zemin, who had replaced Zhao Ziyang as Party secretary in 1989, really began in March 1993 when he was elected State Chairman (president) of the PRC. Since 1989, he had also been chair of the Central Military Commission – an extremely important post, which ensured ultimate Party authority over the military. His position was further strengthened in 1993, when Zhu Rongji was appointed as deputy prime minister.

In September 1994, the Fourth Plenum of CC for the first time recognised Jiang as the core of the 'third generation' leaders. At the same time, three of his supporters – who tended to support a more centrist line than Zhu's – were promoted. From then on, Jiang tried to steer a middle course between the left and the right, both of which voiced criticisms of his approach.

By the mid 1990s, Jiang – like Deng – had concluded that the lesson of the collapse of the Soviet Union in 1991 was that the Party needed to provide China's people with substantial material gains if its political control of China was to be maintained. Deng's death in 1997 – and the standing down of Li Peng as prime minister in March 1998, which allowed Zhu to take over as premier – further strengthened Jiang's hand. Although Li Peng became chairman of the National People's Congress in 1999, his position was undermined in 2000 when the vice-chair of the NPC, who was one of his protégés, was executed for corruption.

Like all previous leaders, Jiang's position was also strengthened by using his role as head of the military. He used this position to bolster his support among the military leaders by ensuring extra funding was made available for the modernisation of all branches of China's military forces.

Jiang used his power to ensure that China continued with Deng's economic reforms – and to eliminate any signs of dissent. In November 1998, the new China Democracy Party was crushed and its leaders arrested. The new Falun Gong religion – a mixture of Buddhist and Daoist teachings, along with qigong exercises – was also ruthlessly suppressed. However, although Jiang appeared to have the same status previously enjoyed by Deng, his personal authority and his power-base within the Party were not as extensive as Deng's had been.

Jiang's 'Three Represents'

Although Jiang's administration maintained stability and economic growth, his 'Three Represents' theory – first announced in February 2000 – was portrayed as being as politically important as Marxism-Leninism, the Thoughts of Mao Zedong, and Deng Xiaoping Theory. It was meant to justify his policy of admitting senior people from the business community as members of the Party. Before then, Party membership had been restricted to workers, peasants and the military.

The 'Three Represents' also changed the ideological aim of the CCP from '*protecting the interests of workers and peasants*' to that of the '*overwhelming majority of the people*'. Not surprisingly, those within the Party who remained concerned about the political implications of the economic reforms saw this as evidence of betrayal of communist principles. Although the theory was approved by the CC in October 2000, and nominally remained operative during his rule, it was quietly dropped when his period of office effectively ended in November 2003.

In October 2000, the main business of the CCP's CC was the adoption of the Tenth Five-Year Plan which, in particular, would focus on the relatively impoverished western regions. However, it was also concerned with organising a smooth political transition from Jiang and his team to a 'fourth generation' leadership. It decided that Jiang, Zhu Rongji and Li Peng (chair of the National People's Congress) would retire within the next two years. In fact, at the Fifteenth Party Congress in September 1997, Jiang had indicated he would retire after completing another five-year term. Though it was clear he wished to remain as 'paramount leader' beyond 2002, most Party leaders were not prepared to see him elevated to the ranks of Mao Zedong and Deng Xiaoping.

Hu Jintao and the 'Fourth-Generation Leadership'

The new 'fourth generation' leaders in 2003 were: **Hu Jintao** (vice-president), **Wen Jiabao** (vice-premier) and **Zeng Qinghong** (head of the CCP's Organisation Department). These new leaders had emerged formally at the Sixteenth Congress of the CCP in November 2002. By then, the Party was in the throes of dropping some of its ideological commitments, as well as pushing ahead with economic reforms and maintaining the Party's strictly authoritarian political control. This group remained in power until 2012, when they were succeeded by Xi Jinping, the 'paramount leader' of the 'fifth generation'.

Hu Jintao (b. 1942):

Hu studied hydroelectric engineering and, in 1984, became general secretary of the Communist Youth League. From 1988 to 1989, he was provincial party secretary in Tibet, where he imposed martial law to end political unrest. In 1992, he became a Politburo member and a member of the CC. In 1998, he became vice-president of China and, in 1999, he was appointed as vice-chairman of the Central Military Commission.

By 2002, he had emerged as Jiang's heir apparent, and succeeded him as general-secretary of the CCP later that year. The following year, he was elected president of China and in 2004, he took over as chair of the Central Military Commission. During 2012–13, he stepped down from his positions, and his place was taken by Xi Jinping, China's current 'fifth generation' leader.

Wen Jiabao (b. 1942):

Wen was trained in geology and engineering and, from 1985 to 1993, moved to Beijing where he became deputy-chief and then chief of the CCP's General Office. Although he was linked to Zhao Ziyang, and had accompanied him when Ziyang had visited the Tiananmen Square protestors in 1989, he managed to retain his posts. In 1993, he became a full member of the CC's Secretariat and, in 1997, he became a member of the Politburo. In 1998, he became vice-premier under Zhu Rongji; from 2003 to 2013, he was premier, and was one of the main figures pushing China's economic reforms. In particular, he tried to close the gap between the most- and least-developed regions in China.

Zeng Qinghong (b. 1939):

Zeng studied engineering and, in 1960, joined the CCP; during the Cultural revolution, he was one of those 'sent down' to do manual labour. Following the 1989 democracy protests, he became deputy chief of the party's Central Office, and was a close ally of Jiang Zemin and his 'Shanghai Clique', helping him consolidate his power. In 1999, he became chief of the Organisation Department, a post he held until 2002. In that year, he became a member of the CC and the Politburo – in 2003, as part of the gradual distancing of the CCP leadership from aspects of Marxism, he ordered Party meetings not to sing or play ***The Internationale***. Although he retained considerable influence after Jiang's retirement, it was Hu Jintao, not he, who succeeded to Jiang's posts. In 2008, his reputation was tarnished by his son's corruption; and, in 2013, he was himself investigated concerning various corruption charges.

The two most dominant leaders were Hu, who became president, and Wen, who became prime minister. Although Zeng was not in such a powerful position, he was seen by many as a likely successor to Hu as president. Despite this seeming to sideline Wen, he in fact consolidated his position by associating himself with populist causes such as the reduction of poverty, stamping out corruption, and promoting environmental protection. However, in October 2007, Zeng unexpectedly lost his posts at the Seventeenth Congress of the CCP, following the eventual complete retirement of his patron, Jiang Zemin.

Hu – like previous Party leaders – realised the importance of maintaining Party control of the military. Thus, in 2004, when Jiang reluctantly retired as chair of the Central Military Commission, Hu moved quickly to strengthen his ties to senior military officers. He personally promoted several to the rank of general, and was frequently photographed at PLA functions and exercises – often wearing the 'Mao jacket' rather than his usual Western-style suit.

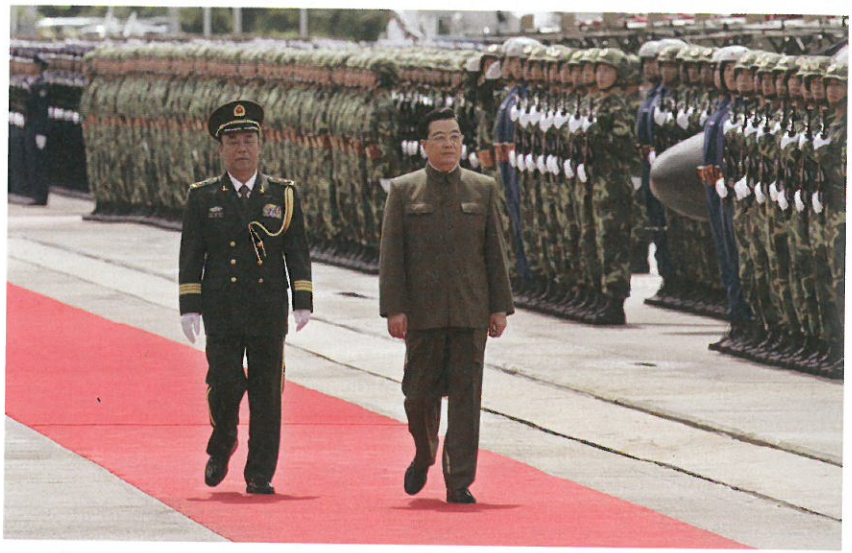

Figure 9.2: Hu (R), with PLA Garrison Chief Wang Jitang, inspecting PLA troops stationed in Hong Kong, which had been returned to China in 1997.

QUESTION

How did Hu strengthen his support among the PLA after 2004?

Hu, continuing a process begun by Jiang, also strengthened the CCP's links to the increasingly important business class in China. He seemed a cautious politician – but one determined to maintain the political authority of the Party. He also stressed his support for the 'one-China principle', and the aim of a peaceful reunification with Taiwan.

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When he took office, Wen was seen as a rather dull, though very efficient, functionary. He had previously worked with Hu Yaobang, Zhao Ziyang and Jiang Zemin. Yet, despite having gone with Zhao to visit the hunger-striking students in Tiananmen Square in 1989, he had not been purged.

His support for closing the wealth gap, ending corruption, promoting openness and the environment made him quite popular. For instance, in November 2005, he visited Harbin to see what had been done following the pollution of the Songhua River – and accused officials for not having acted quickly enough and warned them against attempting any cover-up. He then went on record to say that the protection of the environment and public health was vital.

Figure 9.3: Premier Wen Jiabao visiting Harbin, 26 November 2005, after the pollution of the river following an explosion at a chemical plant in neighbouring Jilin Province on 13 November.

9.2 What were the main economic developments after 1989?

It was the continuing struggle over economic directions that led Deng, from January-February 1992, to undertake what became known as his 'Southern Tour'. The purpose was to overcome resistance to his economic reforms from 'leftists' who felt they had gone too far. Deng's aim was to defeat this opposition, and to ensure that there was sufficient support for the acceleration of these policies. Such opposition had become more obvious which from 1987 to 1991 – and Deng wished to ensure his ideas of creating a 'socialist' market economy remained in force.

In March 1992, the Politburo supported Deng's call for the speeding up of his economic reforms. As a result, in September 1992, Li Peng, the prime minister – who had been one of those attempting to slow down the pace of economic reform – toured the northwest of China, to encourage trade with the newly independent republics of former Soviet Central Asia.

From 1994, with the deaths of many of the Chen Yun camp – and Chen's own serious illness and death in 1995 – Deng's reforms seemed secure at last. This has led to some observers referring to the period from 1994 to Deng's death in 1997 as the 'Later Deng period'.

Economic developments in the 'Later Deng period'

After 1976, the state had progressively retreated from direct management of the economy. In 1978, most prices had been controlled by central government but, by the mid 1990s, the state controlled only a few prices, and over 60% of the economy was market-orientated.

Industry: the move from state- to private-owned

By 1995, considerable headway had been made in abolishing state-run enterprises. Although almost 34% of industries remained in government hands, 37% were classified as collectives, while 29% of enterprises (i.e. 25 million businesses) were privately owned and operated.

By 1996, China's State Statistical Bureau reported that 1 in 12 Chinese workers were employed in these private enterprises, which produced China's first multi-millionaires (up to 5% of private owners had incomes over 10 million yuan). By then, privately run enterprises were accounting for 14.6% of China's GDP. The state-run enterprises, which employed over 60% of China's urban workforce produced less than half of GDP. Even official statistics pointed out how the true number of private enterprises was 'hidden' – with most TVEs being, in reality, private enterprises. These changes had a big impact on the pattern of urban employment, as shown by Figure 9.4.

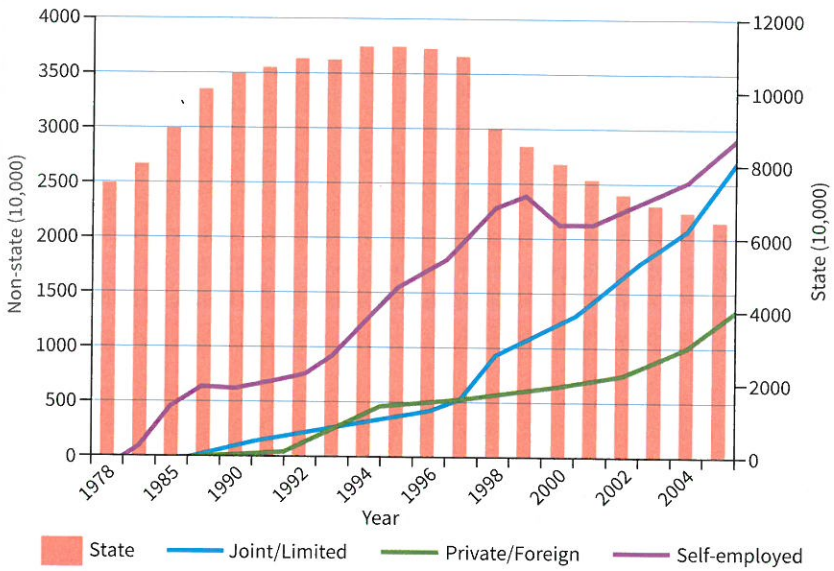

Figure 9.4: A graph showing changes in the share of urban employment, from state-owned enterprises to joint or private firms.

Adapted from: Bandelj, N. and Solinger, D. J. (eds), 2012. **Socialism Vanquished, Socialism Challenged: Eastern Europe and China, 1989–2009.** Oxford. Oxford University Press. p 222

QUESTION

How did the move from state to private employment affect the living and living standards of most urban employees?

By 1998, there were over 1 million private enterprises, employing over 17 million people (see Figure 9.5).

Year	Number	Employees (million)	Registered capital (billion Yuan)	Retail sales (billion Yuan)
1989	90,581	1,60	8.4	3.4
1990	98,141	1,70	9.5	4.3
1991	107,843	1,84	12.3	5.7
1992	139,633	2,32	22.1	9.1
1993	237,919	3,73	68.1	19.0
1994	432,240	6,48	144.8	51.3
1995	654,531	9,56	262.2	100.6
1996	819,252	11,70	375.2	145.9
1997	960,726	13,50	514.0	185.5
1998	1,200,978	17,10	719.8	305.9

Figure 9.5: Growth of Registered Private Enterprises, 1989–98.
Adapted from Fewsmith, J. **China since Tiananmen: the Politics of Transition.** Cambridge University Press. pp.173

QUESTION

How far does the evidence shown in Figures 9.4 and 9.5 suggest that, by 2005, China had ceased to be communist?

This new system was referred to by the Chinese government as 'socialism with Chinese characteristics'. But many outside – and some internal – observers saw it as an 'authoritarian capitalism' in all but name. While some aspects during the 1990s remained subject to some government controls – such as banking and internal trade – enterprises were increasingly free to expand and develop new products and markets.

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	Registered capital (billion Yuan)	Retail sales (billion Yuan)
	8.4	3.4
	9.5	4.3
	12.3	5.7
	22.1	9.1
	68.1	19.0
	144.8	51.3
	262.2	100.6
	375.2	145.9
	514.0	185.5
	719.8	305.9

Enterprises, 1989–98.
Tiananmen: the Politics of Transition.

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Foreign trade and investment

Under Deng, foreign trade had – along with the quadrupling of the size of the Chinese economy in the same period – also increased greatly: from $38 billion in 1978, to $300 billion by 1997 (accounting for approximately 40% of domestic production). By then, foreign capital accounted for approximately 20% of all investment in fixed assets (factories and industrial plant) in China, while foreign-invested enterprises accounted for 39% of China's exports.

China also witnessed an increasing number of 'joint venture' enterprises that involved foreign investments working in partnership with Chinese public agencies. By the time of Deng's death in 1997, China was experiencing rapid economic reform under tight political control. The SEZs in particular continued to draw in foreign direct investment from Western multi-national corporations eager to take advantage of China's relatively low-paid workers.

Changes in agriculture

During the 1990s, the number of agricultural workers steadily declined as the expanding industrial economy created more employment opportunities. At the beginning of the new economic reforms, approximately 70% of Chinese workers were employed in agriculture or related industries. By 1995, this had dropped to less than 50%. As a result, the urban population grew significantly during the 1990s, and some parts of China experienced a 'feminisation of agriculture', as young men sought seasonal or permanent work in the cities, with women taking their place in agricultural work.

Many young women also went to the towns – though their work was usually low-paid factory work. Women were also more readily exploited – for instance, by employing them on short-time contracts which meant the private employers didn't have to provide them with the benefits to which long-term employees were entitled. As there were so many seeking work, any who protested were quickly and easily replaced.

Growing inequalities

All this led to increasing disparities between urban and rural areas of China, and a growing poverty gap. Most of the economic growth in the 1990s was in the urban areas in the east and south of China, and especially along the coast. While many working in urban centres benefitted from a more prosperous and modern lifestyle, rural incomes

improved only slowly. On average, urban workers had double the income of those still working in rural areas. Such areas also often lacked adequate electricity supplies – even elementary schools and healthcare were poor compared to urban centres.

In addition, the growing disparities between provinces and regions – and the lessening of central economic controls resulting from the move to a more market-orientated economy – have led some observers to speculate of the possible break-up of China. Such potential developments are exacerbated by ethnic tensions in those areas – such as Tibet, Xinjiang and Inner Mongolia – which lie on China's borders. The break-up of the Soviet Union in 1991 into separate states suggests that such a development is possible.

KEY CONCEPTS ACTIVITY

Change and continuity: Carry out further research on the economic developments that took place during the 'Later Deng period'. Compare your findings with the main economic policies followed from 1976 to 1992. Then write a couple of paragraphs to show how the policies in those two periods were (a) similar and (b) different.

Economic policies, 1997–2005

Although seen as uninspiring, Jiang had managed to control the pro-democracy demonstrations in Shanghai in 1989 – his political base before national leadership – without loss of life. The main task of his team was to revive confidence in China's reform programme, which had been badly shaken by the 1989 protests and the following suppression. In particular, there were concerns that foreign direct investment – vital to China's reform programme – might fall. However, spearheaded by Japan, foreign businesses quickly resumed their interest taking a share of China's growing economy.

Rather than Jiang, it was his prime minister, Zhu Rongji, – seen as on the right of the centre group of the CCP – who, according to some historians, arguably brought about the main economic changes during this period. Jiang and Zhu maintained Deng's economic reforms, with Jiang reaffirming the need to adopt modern production and management methods. At the Fifteenth Congress of the CCP in

September 1997, and the Ninth NPC in March 1998, new economic reform policies were adopted.

SOURCE 9.2

The biggest problem [after 1997] was that of the state-owned enterprises. In some ways, China had sidestepped the problem of the SOEs in the 1980s and early 1990s as the TVE sector grew dramatically. The SOE sector, however, did not fade away. In some ways, it actually increased in importance as the number of workers employed by SOEs rose by 40 million between 1978 and 1994. Despite the decreasing importance of SOEs in the overall economy, they continued to dominate important sectors, particularly heavy industry... By the late 1990s, it was apparent that SOE reform could not be avoided...

Furthermore, there was the question of how and to what extent China's economy should be linked to the international economy... In the mid 1990s, in an effort to increase foreign investment, China had relaxed its rules on foreign ownership... Should the rules on foreign investment be relaxed even further? ... Without the pressures of foreign investment, how could [SOEs] behind a wall of protection be expected to reform? Such questions were, of course, linked to China's bid to join the WTO – to what extent should China compromise in order to join the world trade body?

Fewsmith, J. China Since Tiananmen: The Politics of Transition. *Cambridge. Cambridge University Press, 2001. pp.201–02*

From the 1990s, China became increasingly popular with foreign multinational companies – this was the result of China possessing, in addition to a growing domestic market, a seemingly unlimited supply of cheap labour, disciplined by official trades unions and state repression. Consequently, a massive amount of foreign investment poured into China. This, combined with large investments by China's SOEs, and the creation of new private industrial enterprises, led to a massive expansion of China's industrial development. The result was that, after a decline from 1978 to 1991 (because of the initial effects of introducing 'free' market mechanisms, which resulted in the closure of many factories and consequent unemployment), Chinese industry's share in GDP massively increased, as shown by Figure 9.6. The result was to make China the 'factory of the world'.

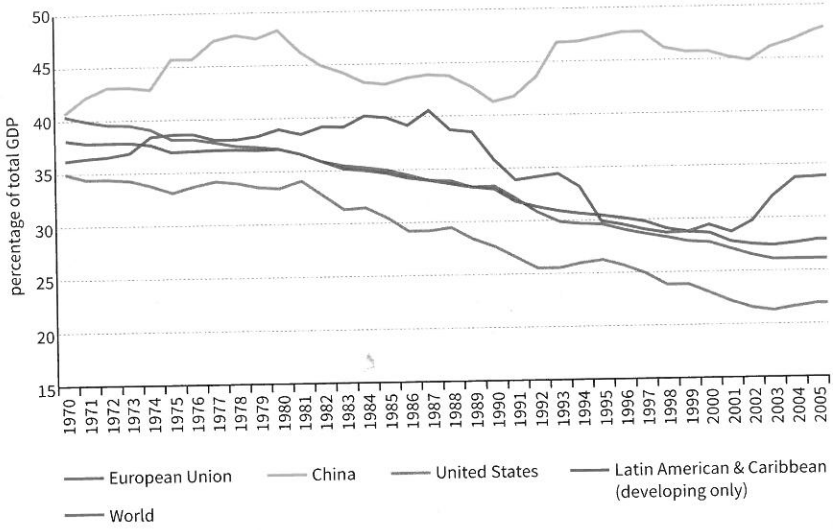


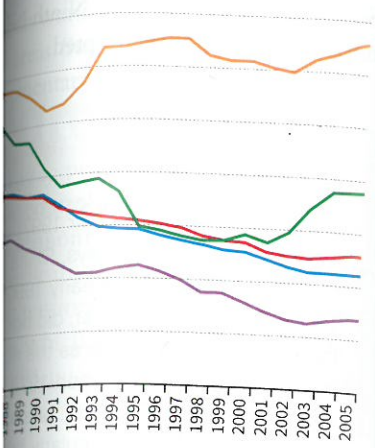
Figure 9.6: A graph showing China's increasing industrialisation and its contribution to China's economy.
Adapted from: Loong Yu, A. 2012. China's Rise: Strength and Fragility. Pontypool, Merlin Press. p.99

China and the World Trade Organization

As well as successfully managing the transition to a semi-market economy in Shanghai, it was Zhu who was largely responsible for China's successful application to become a member of the World Trade Organization (WTO). In November 1999, after 15 years of protracted negotiation, terms for China joining the WTO were agreed, and this took place in December 2001.

This reflected the success of China's economic modernisation – and showed that the main advanced capitalist countries felt the new China was a country with which it could do business. The Chinese leaders saw their country's acceptance as a member of the WTO as international recognition of China having become a world-class market economy and a major world power. This status was confirmed publicly in February 2002 by US president Bush's visit to Beijing, and by Jiang's return visit to the US the following October.

(1949–2005)



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DISCUSSION POINT

The WTO, formed in 1995, had its origins in the Bretton Woods (USA) agreements in July 1944, which were intended by the US to organise the new post-war economic and financial world order – along the lines of 'free' market principles. These agreements, as well as setting up the WTO's forerunner, the General Agreement on Tariffs and Trade (GATT), also established the IMF and the World Bank. All three institutions were dominated by the US and its ideas about the need to allow free trade, remove controls on the export of capital and for 'budgetary discipline' – which often meant reductions in welfare spending. Do you think China's membership of the WTO in 2001 proves that it is now a capitalist country?

Although China was seen as a 'socialist market economy', the WTO required that China should open its doors to international financial markets. Once it was a member, advanced capitalist countries were confident that China would now be obliged to open its commercial and financial sectors to their overseas businesses and banks. One of the consequences of China's membership has been that the various private firms in China are increasingly free to directly conduct foreign trade, without central government controls. Another gain for China was that when Taiwan joined in January 2002, it did not do so as the 'Republic of China', but as the Customs Territory of Taiwan, Penghu, Jinmen and Mazu.

Before 2002, acquisitions and mergers (A & M) accounted for 20% of all Chinese overseas investments. Since then, as Figure 9.7 shows, A & M has become an increasingly significant proportion of all Chinese outward Foreign Direct Investment (FDI) – this is seen as the quickest way to expand globally.

Year	New investment	A & M
2003	82.0%	18.0%
2004	68.2%	31.8%
2005	47.0%	53.0%

Figure 9.7: A table showing China's investments and acquisitions abroad in the early years of the twenty-first century. Adapted from: Loong Yu, A. 2012. **China's Rise: Strength and Fragility.** Pontypool, Merlin Press. p.77

ACTIVITY

Carry out some further research on the main economic policies followed from 1989 to 2005. Then draw up a table to summarise the main points under these three headings:

- agriculture
- industry
- foreign trade and investment.

However, this growing integration in the global capitalist economy poses real dangers for China's economy. The Asian Crisis of October 1997, which saw massive falls in stock markets, caused serious problems for several Chinese companies. The government was able to overcome these by massive state bail-outs, and by the fact that it still retained some capital controls. Nonetheless, membership of the WTO, which entails acceptance of the neo-liberal principle of abolishing all capital controls, makes China much more vulnerable to international capitalist crises.

9.3 How far have China's leaders created a 'Harmonious Society'?

China's rulers have been faced with several serious political and social problems since 1989. Many of these were associated with China's economic growth, and included:

- unemployment and industrial unrest
- environmental degradation
- corruption.

Nonetheless, at the end of 2005, the government issued its plans for the future development of China – apart from increased prosperity in order to achieve a 'comfortably off' society by 2020, this stressed the need for peaceful development and harmony.

The corruption problems resulted in a growing number of large-scale protests, demonstrations and even riots in rural areas – some of which ended in violence – rather than the desired 'harmonious society'. In the 1990s, the authorities officially acknowledged that tens of thousands of major protests had broken out across China because of such problems. The highest number – 17 900 – of 'mass incidents' took place in 2005, along with 87 000 smaller 'public order disturbances'. The fact that such social unrest is officially admitted by the authorities – which have always tried to create a 'harmonious society' – indicates how serious this problem is becoming.

Of particular growing significance, the economic reforms have created an industrial working class that now comprises more than 40% of the total Chinese working population, along with a service-sector working class that comprises a further 20%. Although there is as yet no clear political consciousness uniting these groups, their mounting dissatisfaction with the economic and environmental impact of the market reforms is creating real problems for China's ruling bureaucratic caste.

Although the percentage of absolute poor in China has declined dramatically since 1981 (from 86% to 8%), inequality of income has increased dramatically – the Gini coefficient (which takes zero as indicating perfect income equality, and one as showing extreme inequality) shows a rise from 0.25 in 1985 to 0.47 by 2005. This put China among the most unequal societies in the world – and on a par with the US. Dissatisfaction with such glaring inequalities, combined with problems of unemployment, created increasing unrest among China's working classes.

Unemployment and industrial unrest

From the mid 1980s, Deng's policies of market reforms – including privatisations of SOEs – resulted in over 40 million workers losing their jobs during the mid 1990s. The number of unemployed and disaffected workers was especially marked in northeastern China, which had a large number of industrial and manufacturing cities dependent on state-run enterprises. The younger members of the unemployed often moved to join the 'floating population' in search of work (see Section 7.3), but older workers and those with family responsibilities were unable to do so.

As a result, many unemployed workers staged protest demonstrations. The growing problem of unemployment and under-employment (of workers who could only find occasional part-time work) had been a major reason why Chinese workers had joined the pro-democracy demonstrators in 1989.

After 1989, following several years of relative industrial peace, China's working class became increasingly dissatisfied, with tens of thousands of workers' protests taking place since the mid 1990s. Since 2000, labour unrest – often against the privatisation of SOEs – became a major problem, and a potential threat to political stability.

In June 2000, the workers at the state-owned Zhengzhou Paper Mill defied the official All China Federation of Trade Unions (ACFTU) and the Staff and Workers' Representative Council (SWRC) and launched resistance against plans by a private stock-holding company to shut the mill down and sell the land for residential development. Workers were particularly angered by evidence of corruption between the managers and the company wishing to buy the land.

The workers took over the mill and, despite initial police repression, eventually forced the local authorities to abandon the planned sell-off in 2001. The workers took over the management and, in 2002, formed it into a cooperative company. This struggle – and the government concessions – led to a dozen SOEs in Zhengzhou cancelling privatisation deals over the next few years.

Other examples of workers' resistance to privatisation and job losses include the Liaoyang Metal Factory struggle from 2000 to 2002, during which, in March 2002, the workers tried to establish cross-factory organisation and joint struggles, and the Daqing oilfield workers' struggle against job losses, also in March 2002 (see Sources 9.3 and 9.4).

SOURCE 9.3

The 2002 Daqing oilfield workers' struggle was important not only for its size and duration, but also for its organization... Up until the late 1990s the oilfield had enabled China to be self-sufficient in its oil supply for decades. China's accession to the WTO in 2001 was conditional upon the opening of all important branches of its economic sector in 2007, including oil. Hence Beijing started a deep restructuring of the oil industry in order to make it competitive with foreign oil giants. Immense downsizing was on the agenda, which subsequently led to as many as 600 000 oil workers being sacked within a few years at the turn of the century.

On 1 March 2002, 3000 oil workers demonstrated in front of the managing bureau of the Daqing oilfield and at one point broke into it. Over the following days the workers actions continued to escalate and at a peak more than 50 000 demonstrated openly...

The climax of the one-month-long struggle was on 4 March when 20 000 workers first assembled in Tieren Square and then marched to the railway station to block the trains.

Loong Yu, A. 2012. **China's Rise: Strength and Fragility.** *Pontypool, Merlin Press. pp.150–51*

A common theme among these strikers was a feeling that the CCP had betrayed the purpose of the 1949 Revolution, and that corruption was also a serious problem – as Sources 9.4 and 9.5 show:

SOURCE 9.4

We have got to get rid of this corruption! I am 57 and a communist party member. I joined back in '65 because I believed the party's aim was to secure the welfare of the people. What I see now is that they are not providing welfare to the people, so we ordinary people have to rely on ourselves to protect our right to a livelihood.

The views of one of the Daqing strikers, from T. Leung, **China Labour Bulletin**, *2 June 2002. The* **China Labour Bulletin** *is a journal – and an organisation – that promotes and defends workers' rights in the PRC, and was founded in 1994 by labour activist Han Dongfang.*

SOURCE 9.5

We are barely eating enough, while the officials and managers are very comfortably off. For the past year they have been carrying out this 'reduce staff and increase efficiency' policy, while at the same time [giving themselves] hundreds and thousands of yuan in bonuses. It's corruption that allows them to live in 200-plus square metres though they don't do anything for ordinary people. Take the chief of police and top cadres like him. They live in special houses. Daqing now has a squad of 800 People's Armed Police (PAP) to guard the leaders' housing compounds round-the-clock. These people are scared to sleep at night.

The views of another Daqing striker, from T. Leung, China Labour Bulletin, *2 June 2002.*

QUESTION

What are the value and limitations of Sources 9.4 and 9.5 for historians studying the impact of China's 'free' market economic reforms on ordinary Chinese workers?

In fact, 2002 saw a massive increase in workers' struggles – mostly in the northeastern provinces where market reforms had led to the closure of many firms and increased unemployment against the impact of market economic reforms.

As part of these struggles, many workers bypassed the official, government-controlled trade union, and instead set up their own organisations – similar in many ways to the Workers' Autonomous Federations (WAFs) that had been formed during the pro-democracy unrest in 1989. Most of these struggles, however, were unsuccessful.

Figure 9.8: One of the many workers' protests and strikes in China in the spring of 2002.

QUESTION

Why were there so many strikes and protests by workers in the late 1990s and the early years of the 21st century? Why did this cause concern among the leadership of the CCP?

While, in the long term, the government believes continued economic growth will eventually absorb the unemployed, in the short term, they try to use nationalism and pride in the economic achievements – and the fact that some sectors of the working class have seen some improvements in living standards – as a way of gaining public support for the economic reforms.

China's 'Floating Population'

Until the 1980s, the government had tried to keep people in rural areas, in order to prevent the emergence of massive urban conurbations which were seen as having too many social and political problems. But this all changed as a result of the reforms of the 1980s. By the 1990s, with the new freedom to travel, many young men left rural areas to seek temporary work in industrial centres as a way of increasing family

incomes by taking construction or factory jobs. These seasonal workers – who often took the jobs of full-time workers sacked from the SOEs in the mid 1990s – became known as the 'floating population'. Because they were classified as being only temporary workers, they were often housed in makeshift shelters on the various construction sites – when one project finished, they moved on to the next one.

As China's economy continued to expand, many women also began to make the move to such urban areas. However, this floating population was increasingly seen by the authorities and local residents as being prone to petty crime and unrest. Yet, the numbers of such people were increased by the move to ensure state-run enterprises made profits. State, as well as the growing number of private, firms sacked older workers so they could replace them with younger – and cheaper – workers. Female workers were encouraged to take early retirement at 50, instead of the official age of 55 – but the loss of a family's total income often caused financial problems.

Environmental protection

One of the political problems thrown up by China's rapid economic development since 1949 has been pollution which, as well as having a serious impact on public health, has led to political protests which the CCP and the government have been forced to address. Earlier policies – such as the Great Leap Forward – had already had serious impacts, including de-forestation which led to increased flooding in many parts of China. From the mid 1970s, economic expansion and urbanisation led to higher usage of coal and motor cars, both of which increased emissions and pollution levels. In particular, almost two-thirds of China's population lack sufficient fresh water supplies, while almost a third of China's population lack access to clean drinking water.

In addition, industrial waste – including even poisonous chemicals – frequently polluted waterways and drinking water. Even in rural areas, the pollution of waterways also became a problem. Apart from the continued use of untreated human faeces as a fertiliser, the increased use of chemical fertilisers and insecticides – in order to harvest crops on marginal lands – also often polluted rivers and streams.

In 1998, the government responded by setting up the State Environment Protection Administration to improve air and water quality. It enforced existing laws, and in several cases imposed fines on

polluters. However, given the continued push for economic growth, these fines often failed to end the polluting practices. In addition, major projects that are intended to modernise China and increase living standards often had serious implications for the environment.

For instance, the construction of the Three Gorges Dam on the Yangtze River (completed in 2012), to provide hydroelectric power, required the relocation of 1.3 million people, and the flooding of farmland. Although intended to provide 10% of all China's electrical power needs, it also caused significant ecological changes, and remains a controversial topic within China.

Corruption

Public criticism of corruption among Party and state officials, which was largely absent during the radical Maoist period, has become increasingly vocal during the reform period. This has become a serious concern for Chinese leaders – despite several harsh sentences (including even death sentences), the problem continues to cause protest and social unrest. One significant development has been the emergence of *guandao* – officials who use their positions to engage in speculation.

Projects such as the Three Gorges Dam are also linked to the increasing problem of corruption. In 1999, Zhu Rongji visited the dam and warned those responsible for its construction that they must not allow shoddy construction. The government was particularly sensitive to political criticism of the project, which was spearheaded by Li Peng: the Chinese journalist Dai Qing was jailed in 1989 for criticising the project on environmental grounds. Despite her imprisonment, criticisms continued.

To help diffuse the internal political climate, Jiang decided in July 1993 to launch a major campaign against corruption in national politics. To begin with, attempts were made to persuade corrupt officials to confess their crimes, in return for leniency. From the end of 1994, the authorities then cracked down hard – especially against those at the very top of Party and government structures who used their positions to enrich themselves, relatives and friends.

Yet, despite frequent reporting of the trials and execution of the worst offenders, corruption has continued into the 21st century. As a result, Hu Jintao also acted on this problem, and the leadership see this problem – if not stamped out – as potentially threatening their

continued political power. Such concerns are increased by evidence that the PLA – the final resort for dealing with mass protest in China – might not be as politically reliable as in the past. Apart from a significant reduction in the size of the PLA, many soldiers were unhappy about their role in the suppression of the 1989 pro-democracy protests, while some sections of the PLA have even become drawn into the disputes over the nature and direction of the economic reforms.

Increased affluence, and the much greater availability of Western consumer goods, has led to increased corruption among officials. While some took money in return for 'turning a blind eye' to shoddy materials or construction methods, others embezzled millions of *yuan* from state enterprises, or took millions in bribes from Chinese or foreign private companies. This caused political unrest among ordinary Chinese people who often suffered as a result of such corruption – it had been one of the factors behind the 1989 protests.

Apart from corrupt urban officials, an additional problem in rural areas was that many officials often increased the number of taxes and levies farming families were expected to pay. This created great resentment – especially as many were convinced that these 'occasional' taxes were pocketed by corrupt officials. In 2004, the National People's Congress drew attention to officials who, in many rural areas, were issuing peasants and those working away on construction sites with paper slips instead of cash.

Yet, the response of many authorities was generally to arrest the main leaders of the protests, while many of the officials remained in place. Although after the high number of rural protests against the unpopular land tax in 2005, the government agreed to end it. By then, however, other protests were taking place against the compulsory sale of farming land to developers in deals that involved official corruption.

However, during the 1990s, the CCP allowed a more open process of elections to develop in local areas. This had first begun in 1988, as a result of the Organic Law of Villagers' Committees – but had been slowed by the 1989 protests. Nonetheless, these continued in the 1990s, with all adults in a village entitled to vote and stand for election to their village committees, for a three-year term of office. In 1997, the CCP leadership reaffirmed its commitment to such competitive elections – where they took place, local people were often able to remove the most incompetent or corrupt officials.

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Despite these measures, corruption was not ended. Corruption also affected education, with officials and wealthy factory owners ensuring their children went to the best schools and universities. Consequently, a new educated élite began to emerge, which was increasingly linked to the wealth or official positions of parents. In particular, such families often ensure their children attend overseas universities – mostly for post-graduate studies which, until the late 1980s, were not available at the majority of Chinese universities.

Corruption and increased wealth have also led to some serious crime problems. Apart from drug traffickers exploiting the development of long-distance trade within China, and increased international trade, one of the evils of pre-revolutionary China has returned to reform China. During the Maoist period, the exploitation of women in the prostitution 'industry' had virtually disappeared. However, the increased affluence after 1976 saw this problem re-emerge. Despite severe penalties, this has continued beyond the 1990s – most recently, the trafficking of women into the international sex-trade has also become a problem. In addition, urban gangs often kidnap 'brides' who are then 'sold' to men wanting a wife.

9.4 How did China's relations with the rest of the world develop after 1989?

Though the collapse of the USSR in 1991 left the USA as the only global superpower, China remained a nuclear power controlled by a communist Party. With a large population and a rapidly expanding economy, which has made it the second largest economy in the world, China clearly has the potential to become a rival superpower in the very near future – especially as, unlike the USSR, it has been able to modernise the economy without making any fundamental changes to its political structures.

After Deng's death in 1997, president Jiang took a particular interest in foreign policy, and his understanding of international relations was probably deeper than that of any previous leaders. His command of

English meant he was at ease during foreign visits – these trips, such as his visit to the US in 1997, enhanced his status within China.

China and the US

Despite the improvement in relations between these two countries since Nixon's visit to China in 1972, tensions remained, with political disputes occurring at various points. In May 1999, during the US-led NATO military intervention against Serbia, the Chinese Embassy in Belgrade was bombed, and three Chinese journalists were killed. Although the CIA said it was an accident as they'd been using outdated maps, there was a suspicion in China that it was deliberate as China had eventually opposed NATO's intervention, which had not received UN approval.

In China, students and intellectuals protested outside foreign embassies, claiming the bombing was just another example of the West's attempts to 'humiliate' and 'contain' China. One impact of this crisis was on the political balance of strength within the Party leadership. Li Peng – with some support from senior PLA leaders – used his position within the Politburo to attack Zhu Rongji who, despite the bombing, had decided to go ahead with a planned trip to the US. Although the main attack was on Zhu, it could also be seen as an attempt to reduce Jiang's influence. The situation improved at the end of the year, with the US paying compensation to the families of those killed, and to the Chinese government for the damage done to their embassy.

Also in 1999, there were allegations that a Chinese-born US scientist had been passing nuclear secrets to China; and in April 2001, a collision took place over Hainan Island between a US Navy reconnaissance plane (which appeared to be within Chinese airspace) and a Chinese fighter. Although the Chinese pilot was killed, none of the US personnel died and, after ten days, were released.

The US plane, however, was kept for several weeks – the assumption was that the Chinese assessed and even removed certain items of advanced technology. Because both countries were keen for trade agreements, diplomatic relations were maintained, and a negotiated settlement was reached quite quickly. Though nationalist feelings were roused in China by the US refusal to apologise or pay compensation to the family of the dead Chinese pilot.

Yet, despite these problems, in October 2000 the US granted China 'permanent normal trade relations' (PNTR) status, which ended the

official US policy of withholding certain trade privileges because of China's human rights record, and its rule in Tibet.

Figure 9.9: US president George W. Bush and Jiang Zemin, during the former's visit to China in February 2002, a year after China had become a member of the WTO.

'China Rising'

As early as 1984, Britain – which quickly saw China as an emerging economic power – had signed an agreement with China to return Hong Kong (which, since the mid 19th century, had been ceded to Britain for 99 years) to Chinese rule. This took place in July 1997, under a policy of 'one country, two systems', with Hong Kong being peacefully integrated into the south China economic region as a Special Administrative Region (SAR). In December 1999, Macao – a Portuguese colony since 1557 – was also returned to China, and also became a Special Administrative Region.

Foreign joint venture companies in these two regions were then encouraged to set up factories in mainland China. From the late 1980s, Taiwan investors put billions of dollars into China as a result of China adopting capitalist-friendly policies. Deng, and subsequent Chinese leaders, hoped Taiwan – which also had a thriving market economy – might eventually be returned to China. As a first step, in 2001, China agreed to direct trade with Taiwan.

As Source 9.6 shows, historians and political observers are divided over what directions 'China Rising' might take in the 21st century. Ross Munro, for instance, has argued that an increasingly wealthy and nationalistic China intends to dominate Asia – and will be prepared to militarily resist any attempts by the US to block its advance. On the other hand, Ezra Vogel, has argued that China can be integrated into what is essentially a US-dominated global capitalism.

SOURCE 9.6

... China's government has 'played ball' with the West consistently since the 1980s on international issues – in the UN, with the WTO. Despite fear-mongering in the commercial [US] press and from our own politicians wishing to distract us from our domestic challenges, reform China has been a good neighbour internationally... Indeed, as we have seen, China has been too good a neighbour by refusing to protect its own citizens from the labor abuses of the neo-liberal globalized 'outsourcing' of sweatshop factories.

This is not the picture we get of China from the major Western media. Instead, we are told that China Rising is a threat to the US's military might, to Europe's economic balance, and to world energy resources.

Cheek, T. 2006. **Living With Reform: China Since 1989.** *London. Zed Books. p.140*

Whatever direction is taken, China will still be a potential threat to US global hegemony (dominance). According to an IMF report, China's economy will overtake the USA's in 2017 – though World Bank studies predict either 2020 or even 2030 as the most likely dates for this to happen. This would enable China to challenge US interest – not just in Asia, but across the world. However, in many other ways, China is still a developing country, with much lower average incomes than in the US – and still faces many social problems from the move to a market

economy. These will make it hard for China's government to achieve genuine – as opposed to an imposed – 'harmony'.

9.5 To what extent was China still communist by 2005?

By 2005, it seemed to many observers that communism in China had been overthrown – not by the people, as in Eastern Europe, but by the CCP itself. When the economic reforms first began after 1976, Party leaders claimed they were creating a specifically Chinese version of socialism: '*socialism with Chinese characteristics*'. Yet within 20 years, Marxist or communist political principles had, in practice, ceased to be a significant factor in the new China – despite occasional half-hearted attempts to revive the 'Spirit of Yan'an' (see Chapter 1).

This process was in part linked to the collapse of the Soviet Union in 1991. Many Chinese saw this as proof that communism – or at least the Stalinist version of Marxism-Leninism – was not the way to modernise their country. From the 1980s, China's leaders increasingly appealed to patriotism and nationalism in place of the Marxist principles and theories that had been frequently mentioned before 1976.

As the economic reforms took effect, those who benefitted from the new economic freedoms were more concerned with improving their standard of living than any adherence to communist principles. Many were even prepared to accept the lack of political democracy, as long as they continued to benefit from economic growth.

Such attitudes were strongest among the new social groups that emerged in the 1980s and 1990s. In particular, two groups have become particularly influential. First, an élite group of managers and technical experts have become an increasingly important political force. Many of these people – increasingly referred to as the 'princelings' by ordinary Chinese – are the children of senior Party, military and government officials: though very often joining the CCP, they are much more concerned with the techniques needed for economic modernisation than with political theories such as Marxism and communism.

The other group is made up of private entrepreneurs who, released from Maoist restrictions on private enterprise, have formed a sizeable *nouveau riche* class. Many have become multi-millionaires who, as well as openly enjoying a lavish lifestyle, have responded positively to CCP efforts to forge ever-closer links with them.

China and communism

The communist regime in China – unlike those in the Soviet Union and Eastern Europe – seemed to have been able to overcome many of the economic problems it faced *and* maintain its authoritarian one-party rule. Yet, many observers have argued that the ruling party and government were communist in name only. Though it appeared to have successfully overcome the economic problems (stagnation and low productivity) that had greatly contributed to the collapse of communism in Europe, it seemed the government had only been able to do so by rapidly turning China into a capitalist economy.

Thus, many have argued that 'communism' had ended in China, too. Instead, several historians and political observers have argued that, by the early 21st century, China had become either a state capitalist or an authoritarian capitalist economy. Some – such as Maurice Meisner and Au Loong Yu – have preferred to describe the new China as a bureaucratic capitalist economy. According to them, China's bureaucracy has succeeded in combining the exercise of state power and capital accumulation – functions that in 'normal' capitalist societies are performed by two distinct social groups: bureaucrats and capitalists.

Under bureaucratic capitalism, the bureaucrats use their political dominance to ensure that they – and their cronies – monopolise the most profitable sectors of the nation's economy, though also allowing private capitalists to share in some of the profits. Whatever label is used, many seem convinced that the leadership of the CCP and the state bureaucracy have succeeded in restoring capitalism in China.

As evidence of this, such historians cite a World Bank report that shows that wages as a share of GDP declined from 53% in 1998 to 41.4% in 2005 – achieved by ensuring that workers have no independent trade unions, establishing a barracks-like factory regime and quickly repressing all strikes and protests. This has helped create a relatively docile workforce.

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In fact, although China's leaders since 1989 have, in practice dropped many of the socialist goals of the 1949 Revolution, the attraction of Marxism – and even Maoism – continues for some. As China becomes increasingly drawn into the global capitalist economy, it may well find itself experiencing the periodic crises that seem to hit capitalism every 20–25 years.

As has been seen, the economic reform programme since 1976 has led to an increasing number of strikes and protests. If the standard of living declines as a result of economic crises, such protests seem likely to increase. Furthermore, the undemocratic political system existing in China continues to alienate large sections of society.

Theory of knowledge

History and historical perspective:

When Zhou Enlai was asked his assessment of the French Revolution of 1789, he replied: *'It is too early to tell'*. Several historians have noted that revolutions do not usually result in balanced appraisals – it usually takes several generations before the bitterness of ideological battles and disappointments has faded enough to allow the historical record to be looked at dispassionately. Do you think it possible to make definite judgement now about whether China remains a communist state or has, instead, become a capitalist economy?

The end of history?

The economic policies followed by China since the early 1980s – along with the collapse of the East European regimes during 1989, and of the Soviet Union in 1991 – have led some historians and commentators to argue that this heralded the end of the 'Great Contest' between capitalism and communism, which had lasted for almost 75 years, following the Bolshevik Revolution in Russia in 1917. Thus Francis Fukuyama, a US official, announced that the 'end of history' had arrived. By this, he meant the final victory of 'liberal' capitalism over Marxism and communist (or other radical) movements based – to one degree or another – on this political philosophy.

Certainly, after 1991, communism remained the official ideology of only a handful of states. Apart from China (which seemed to many

observers to be quickly applying capitalist economic policies), the only other states to retain it were North Korea, Cuba and Vietnam – and of these, the latter two had also begun moving towards some kind of market-based economic reforms, once aid from the Soviet Union had ceased. History's verdict on communism as a general political theory and practice thus seemed, at best, to be mixed.

The idea of communism

However, Fukuyama's claims that Marxism and communism had been permanently defeated and consigned to the 'dustbin of history', and that capitalism was now secure, might – given world poverty, ecological crises, and the 2008 financial crash and its aftermath – prove to be a rather premature judgement.

Despite the evident crises of communism – as shown by the developments in China after 1976, as well as by the collapse of the communist states of Europe during 1988–91 – some historians argue that these events do not necessarily mark the end of Marxism, communism or the 'Great Contest'. In particular, they point out that Marxist theory and communist practice originally arose from conditions of poverty, the destruction of war and strong desires for liberty, fairness and equality. While it could be argued that most people in the developed world enjoy these freedoms and conditions, this is hardly true for the majority of the world's population.

With the continuing authoritarian rule of the CCP in China, as well as the collapse of the USSR and its satellite regimes in Eastern Europe, commentators have suggested that a newer, more liberal and libertarian, version of communism might re-emerge to challenge the global economic interests of US and Western capitalism, and of Chinese 'authoritarian capitalism'.

In fact, for several observers, Marxism – in its original version – is simply a logical extension of the more radical socialist interpretation, first given by Babeuf (1760–97), to the French Revolution's ideals of '*liberty, equality and fraternity*'. Significantly perhaps, two hundred years later, in 1989, the demand for the full implementation of these ideals formed the core demands of the crowds in Tiananmen Square, Beijing. Thus, as Source 9.7 argues, it may be rather too early for historians to proclaim the death and funeral of communism.

SOURCE 9.7

We have to take the long view of the historical process... For as long as contemporary capitalism, a system based on exploitation and inequality and recurring crises, not to mention its impact on the fragile economy of the planet, continues to exist, the possibility of anti-capitalist movements taking power cannot be ruled out... The duels between the possessors and the dispossessed continue, taking new forms.

Ali, T., 2009, **The Idea of Communism**, *London, Seagull Books, pp. 112–4*

Summary activity

Copy the spider diagram below to show the main political, economic and social developments in China from 1989 to 2005. Then, using the information from this chapter, and any other sources available to you, complete the diagram. Make sure you include, where relevant, brief comments about different historical debates/ interpretations.

Practice Paper 3 questions

1 To what extent did the fall of Hu Yaobang and Zhao Ziyang mark the victory of the 'conservative' leftists in the CCP over Deng's economic reforms?

2 Evaluate the factors that led to Deng Xiaoping's 'Southern Tour' in 1992.

3 Discuss the most important economic developments in China in the period 1989–2005.

4 Examine the reasons why significant social problems arose in China during the period 1989–2005.

5 'By 2005, it was clear that the Chinese Communist Party had moved China to a form of authoritarian capitalism.' To what extent do you agree with this statement?