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From Economic Failure to Economic Reforms

Lessons from China's modern growth, 1949 to 2012

The road of modern economic growth has been very bumpy for China since 1949. This article draws lessons from China's experience of the past six decades in a dichotomy of Maoist orthodox vs. Dengist reforms. It unveils that rapid investment and a fast GDP growth are not the only things happening in China.

A. China and its economy in 1946

In 1946 in the wake of the Second World War, countries in East Asia were put more or less on the same starting point, facing the very similar kinds of challenges, difficulties, and perspectives for the future. To begin with, they included immediate tasks such as state-rebuilding, economic reconstruction and geopolitical re-orientation in the post-war world. In the case of China, the Japanese invasion from 1931 (in Manchuria) to 1945 caused a total over US\$ 100–180 billion (of the 1945 price) direct damage to assets in China Proper – houses, vehicles, factories, public utilities and transport systems – together with the destruction of crops of 600 million *mu* (sixty percent of China's standing total).¹ The losses in assets alone were equivalent to 70–160 years of China's annual GDP of the pre-1937 peak.² In addition, they caused US\$ 600 billion (of the 1945 price) indirect damage to China's national economy.³ China's endeavour to modernise was pushed all the way back to the pre-Opium War era. Being a loser of the war, Japan was thoroughly destroyed, too, economically; plus, it was colonised by the United States and domestic peace was resumed. As an American war ally, China was considered a good candidate for economic

aid. In fact, there was such a thing called the ‘Marshall Plan for China’ for post-war reconstruction.⁴ However, domestic peace was not on the communist agenda. On the very second day after the Japanese surrender, the gloves came off. The Commander-in-Chief of the Communist army, Zhu De (1886–1976), openly broke away from the wartime coalition with the Republicans (called the “united front against Japan,” *kangri tongyi zhanxian*) and declared that all of the ex-Japanese territories were fair game for his army.⁵ This re-ignited China’s civil war. From then on, Mainland China took a very different path in growth and development from that of post-war Asian industrialisers: Japan, South Korea, Taiwan, and Hong Kong.

B. Maoism and its economic failure

The communist leader Mao Zedong was brain-washed by Moscow (Stalin and Comintern). As a result, Mao’s understanding of China was entirely Eurocentric: all he intended to do after his 1949 military victory over the Republicans was to recast post-war China into a Soviet mould. His pathetic understanding of China’s economy and society caused political tension and public resistance at all levels. Predictably, he used the Stalin’s despotic purges to systematically silence China, which was his priority. From 1950 until his death in 1976, Mao spent most of his time and energy in suppressing his own people at the expense of China’s economic recovery and prosperity.⁶ He did that during WWII: Mao spent more time and energy on this purge during the crucial years of the Second World War than on fighting the Japanese.⁷

Mao’s priority to purge society stagnated China’s growth and development despite the alleged progresses and achievements along the official line. The evidence has come from several aspects. First, the increase in the industrial workforce (1.76 percent per year) was slower than China’s population growth (2.03 percent per year), suggesting that China’s industrialisation process stalled.⁸

	Industrial workforce (I)	Total population (II)	I/II %
1959	45.5	672.1	6.8
1974	59.1	908.6	6.5
Annual growth(%)	1.76	2.03	

Second, Maoist urban nominal wages were frozen from 1957 onwards. With inflation, workers' real wage eroded badly: by 1978, it halved its 1957 level (see Table 1).

Table 1. Nominal and Real Wage in the State Sector, 1957–78

Year	Nominal wage (annual)	Index	Real wage (1957 price)*	Index
1957	637	100	637	100
1965	652	93	539	85
1976	605	86	327	51
1978	644	88	310	49

Source: Based on V. D. Lippit, *The Economic Development of China* (Armonk, New York and New York: M. E. Sharpe, 1987), 150; cf. Zhao, "Path, Stages and Main Lessons."

Note: *Conversion is based on the average inflation rate of 2.01% per year for the period of 1950 to 1978, based on Li, "Macro Control," 49–50.

To put the Maoist frozen wage in historical perspectives, a social survey during 1920–1928 indicates that China's railway workers' wages were on the rise.⁹ Such a decline in industrial wages confirms a low demand for industrial growth in the economy.

Thirdly, by the end of his rule, at least 77 percent of China's workforce was locked in the agricultural sector (as in 1975).¹⁰ Structurally, the Maoist economy is not too different from that under the Republicans when 75 percent of China's workforce was employed by the agricultural sector (as in 1946). The point is that countries with 70 percent of the population engaged in agriculture were historically pre-industrial, exemplified by Meiji Japan in 1872 (at 72 percent), Tsarist Russia in 1914 (at 75 percent), and colonial India in 1901 (at 65 percent).¹¹

Fourthly, illiterate in economic growth, whenever Mao decided to muddle through the Chinese economy, disasters occurred. His notorious 'Great Leap Forwards' in 1959–61 caused the largest peace-time famine in human history: 30 to 40 million Chinese died.¹² Moreover, his blind investment in heavy industry stunted the economy. It was documented that under Mao the amount of state investment was a quarter of China's annual GDP each year and that the state capital assets to GDP ratio (hence the asset's GDP yield level) was about unity after 1957.¹³ It means that, after each round of re-investment of a quarter of China's GDP, the Maoist economy would

Deng

enlarge by a quarter, *ceteris paribus*. Theoretically, therefore, after 25 years (1952 to 1977) China's capital stock should have grown to an equivalent of 264.7 times of its starting size (24.1 billion *yuan* in the 1952 constant price) to a total of 6,379.3 billion *yuan*.¹⁴ In reality, the registered state-owned fixed capital assets (*guding zichan*) in 1978 were mere 448.2 billion *yuan* (constant price).¹⁵ The actual growth was merely seven percent of the expected total. The point is that to achieve a growth from 24.1 billion *yuan* to 448.2 billion *yuan*, China only needed 12.4 percent GDP each year for capital formation and investment. So, 12.6 percent of the annual GDP for re-investment was wasted in the process.¹⁶ The aggregate compounded waste was about 19 years' total GDP of China at the starting level (1952). The root cause of the problem was low investment returns due to productivity. The returns of China's annual investment declined by over 70 percent under Mao's rule:¹⁷

	Annual investment return rate (%)
1963 – 5	57 (100)
1971 – 5	15 (26)

From 1952 to 1978, China's capital productivity increased minus 3.1 percent a year, and China's total factor productivity minus 1.4 percent a year.¹⁸ So, the economy went backwards.

Last but not least, Mao's decade-long self-destruction of the Cultural Revolution nearly wrecked the Chinese economy, as announced in February 1978 at the Fifth People's Congress by the Premier Hua Guofeng (1921–2008),

[Due to Mao's Cultural Revolution,] we lost 100 billion *yuan* in industrial GDP, 28 million tons of steel, 40 billion *yuan* fiscal revenue. Our entire economy was on the brink of collapse.¹⁹

C. Deng Xiaoping's reforms

In the context of Mao's failure in economic growth and development, it becomes easier to understand why and how Deng Xiaoping's reforms have succeeded: by 1978, China's economy had touched rock bottom and had nothing to lose as Maoism had done so much damage to the country. During Mao's reign, Deng and his fellow enlightened Communists were fully aware of the miraculous growth in Japan and the Asian Tigers.²⁰ Deng

was reported to state that

‘In the 1950s the technological gap between China and Japan was insignificant. But we isolated ourselves during the following 20 years and did not have international competitiveness on our agenda. It was during this period that Japan became an economic power.’²⁰

It was not a hard choice to make a switch to the Asian Tigers’ market model. Deng’s personal quality and vision played a crucial part in directly challenging Maoism and leading China out of the Maoist impasse.²²

The Dengist reforms represented a major discontinuity not only in handling capitalism in the Chinese Communist Movement since 1921 but also in China’s dealing with the outside world since 1949. Much has been discussed about the nitty-gritty of Deng Xiaoping’s reforms.²³ The general purpose of Deng’s reforms was simply to offer the Chinese population an exit from the Maoist extra-economic control over land, capital and labour which ended in a deadlock and hence to free them from hunger and poverty by restoring individual incentives and personal wealth, known as “socialism with Chinese characteristics” and “socialist market economy.”

It is an open secret that these “Chinese characteristics” were a capitalist market economy under a political rule of a communist party. In 1980 he announced that

‘Modernisation is the key to all our solutions to internal and external problems [associated with Maoism]. By the end of this century, we must try our best to reach a GDP at 1,000 American Dollars per head and live a reasonably comfortable life [xiaokang].’²⁵

This was truly an earth-shaking, no-nonsense nationalistic talk. The mentioning of American Dollars as a benchmark for a comfortable material life alone would get any one in serious trouble three years earlier when Mao was still kicking. One only needs to remember that in the last Maoist party constitution of 1973, the mission of the party was described as to engage solely with “class struggle.”²⁶

In his 1990–1 tour to South China, Deng went one step further:

‘Our officials have hesitated in reforms. They have feared of too much capitalism in China. The criterion to judge whether we are with capitalism or with socialism is to see whether we ... improve people’s living standards.’²⁷

Here, Deng advocated the idea that to improve people’s living standards is the foundation of the legitimacy to rule China.

In terms of the actual processes of socio-economic changes, the Dengist reforms came first from the grassroots in rural China which was then matched by changes in a top-down fashion in the urban sector. The initial anti-Maoist undercurrent emerged independently in 1978 with no input from any official. It began in one of the poorest provinces Anhui and in the most vulnerable sector of farming. On one post-harvest winter night, 18 farmers in Fengyang Village who desperately wanted to break free from their collective farming signed a secret contract under which they collectively paid rent to their commune but unilaterally split the land between family farms. This was illegal but offered farmers some hope because that village was so poor that begging for food was a farmer's winter occupation.²⁸ As Mao's treat of class struggle was still active at the time, the contract included a clause that if anyone was purged the rest were to raise the victim's families.²⁹

What was truly remarkable was that these poor and isolated peasants actually worked out that Mao's collective landownership was a lie, as no commune member legally had a share of land, let alone the right to alienate his or her share.³⁰ It took them over twenty years to realise that. But they did, nonetheless. Once this became clear, they subdivided tenancy to achieve "Pareto efficiency" among themselves as tenants. This was by far the most daring rebellion against Maoism which soon wrecked the rural commune system after twenty years of brutal suppression. The gamble paid off. In North China, immediately after the subdivision of tenancy, labour productivity increased 50 percent; and land yield increased 200–300 percent.³¹ The trend continued. By 1986, in rural Zhejiang, private earnings accounted for half of all incomes while the share of collective income dropped to one third.³² In the early 1980s, in Funan County (Anhui), a family was able to produce the same amount of crop surplus for sale as the whole production brigade (village) previously; and the total cash income from farming in a single year surpassed the twenty year aggregate under Mao's commune.³³

Official endorsement soon followed in a matter of months. The new system that followed is known as the output-cum-tenure (*lianchan chengbao zerenzhi*, literally "output responsibility tenure") constructed between state agents (often disguised as the manager of a rural commune) and family farmers. The early peasant unilateralism was replaced by proper bilateralism. But one condition must apply: land alienation was not permitted.³⁴ The state landownership finally came out of the closet after Mao's systematic falsehood that existed since 1957. China's age old "permanent lease-holding rights"

(*yongdian*) were revived.³⁵ According to Clause 20 of the 2002 “Rural Land Contract Law” (*Nongcun Tudi Chengbao Fa*), the tenure on the state land is set for 30 years for family farms. The rebuilding of family farms soon spread like wild fire.

Private capital investment boomed. From 1978 to 2000, cultivated acreage increased by just 7 percent; but irrigation acreage was doubled.³⁶ There was a sevenfold growth in the total machine power in farming with an annual growth of 9 percent.³⁷ The input of chemical fertilizers increased nearly tenfold with annual growth of 10.7 percent.³⁸ Both rates were faster than the GDP growth in the farming sector during the same time. Researchers have now indicated that decollectivisation was by far the single greatest contributor to the revitalising of China’s agricultural productivity: up to 87 percent.³⁹ Technology contributed up to 40 percent; and the ending of the scissors pricing, about 20 percent.⁴⁰ The Maoist compulsory workdays for each peasant to devote to collective farming ended. China’s agriculture began to repeat its old glory of crop outputs (2000 compared with 1980, 1980 = 100) and crop sales (2000 compared with 1985, 1985 = 100);⁴¹

	Output (%)	Sales per household (%)
Cereals	144	214
Oilseeds	477	128
Cotton	163	137
Tea	225	–
Fruits	916	672
Meats	–	214

China’s chronic food scarcity was replaced by food abundance. In 1990, the intolerable food ration finally came to an end in all cities.⁴² Ordinary Chinese were able to eat as much as their wallets allowed for the first time since 1957. Meanwhile, the ordinary Chinese wallets became fatter for the first time since 1960. The Chinese physical stature began to improve from the 1980s on. In addition, for the first time since 1930, obesity, not malnutrition, has become headline news in the media.

The increased incomes of the peasants pushed up the aggregate demand for manufactures and services (such as transport and catering) that the peasantry were unable to afford under Mao. The old pattern of agriculture-led industrial growth, common in world history, now repeated itself in China. However, the Maoist state-owned urban sector, still with

command-economy shackles and heavy industry bias, responded to the peasant demand shock too slowly during much of the 1980s. This created opportunities for the rural sectors to produce their own manufactures and services, hence a rise in village and township enterprises. Local governments and communities began to act like entrepreneurs to exploit the new market fortune.⁴³ These enterprises were the first completely market-oriented businesses on China's soil since 1957. This led to some remarkable change in the employment pattern in the rural economy. According to the rural survey in 1988, the share of collective activities accounted for just a quarter of all China's rural household income. Three-quarters of the income came from private undertakings.⁴⁴ The share from non-farming activities reached 58 percent of China's rural household income.⁴⁵ In another account, the number of full-time farmers dropped by about 50 percent in 2000,⁴⁶ while the share of income from farming dropped to about a third at the same time.⁴⁷ According to the survey, less than three percent of the rural households exclusively lived on farming; 30 percent of the rural households no longer farmed at all.⁴⁸ Some rural regions became modestly industrialised. For example, in the Jiangsu region, from 1978 to 1988 non-farming workers more than doubled, non-farming investment increased fifteenfold, and non-farming labour productivity increase ninefold.⁴⁹ In that region, the share of rural manufacturing accounted for 68 percent of the local GDP with 53 percent of the labour force; rural services rose to 15 percent of the GDP with 10 percent of the labour force.⁵⁰

The knock-on effect followed. Some provinces as a whole have been privatised. For example, in 2000 the private sector in Zhejiang controlled 80 percent of all assets, and provided over 90 percent of all jobs, sales, and profits.⁵¹ The private economy made Zhejiang the second wealthiest province in China (only three percent lower than Guangdong).⁵² The Maoist economy was irrelevant to that province.

China-wide, the same trend was apparent. By 1984, about 100 million rural workers had engaged in manufacturing and services. Most of them, 70 percent, stayed in rural regions but worked for township and village enterprises.⁵³ From 1980 to 2000, the number of township and village enterprises exploded fourteenfold (14.4 percent increase a year) to 21.1 million; the number of workers these enterprises hired was more than trebled (6.2 percent a year) to 128.2 million. The most impressive aspect was the value-adding capacity of these enterprises. From 1980 to 2000, their total revenues grew eighteen times (29.7 percent a year, current prices) to 1,078.3

billion *yuan*; their net profit increased nearly six times (22.2 percent a year, current prices) to 648.2 billion *yuan*.⁵⁴ From 1989 onwards, rural enterprises began to export. The total value of their exports reached 887.0 billion *yuan* in 2000 which was over eighteen times of their 1990 level.⁵⁵ These numbers represent a true great leap forward towards non-agrarian growth and development. With their competitive prices, quality and quantity, township and village enterprises swept the wage goods market everywhere in China. They shook the tightly controlled state sector to pieces and consequently caused landslide closing down of the state-own light industry. A great many state factories simply joined village and township firms to survive. This was the first time the humble grassroots market economy so convincingly defeated the privileged state-run command economy.

Understandably, village and township enterprises had its limits in technology and management, and its expansion gradually slowed down in the 1990s. Also, the lack of property rights and workers' rights began to take its toll. In the 1990s, rural industrial workers left in large numbers to cities where workers' rights were better defined and respected. After all, it was them who provided the capital in the past 50 years to build these cities. It was time for them to claim their fair share there. This led to the most visible change of city-bound migration that was persistently restricted during the Maoist era. There were both a "pull factor" and a "push factor" to make rural people so willing to leave land: (1) higher incomes in cities, and (2) a lack of private ownership over land in the farming sector. Post-Mao China became a textbook case for Arthur Lewis' dualism.⁵⁶ According to the 2000 national census, conservatively 88 million rural people had moved to cities, accounting for a quarter of the rural workforce of the time.⁵⁷ The real figure was likely 40 percent higher.⁵⁸ In a bizarre twist, capitalism has returned a favour to Maoism by rescuing the failing communist economy because Maoism made so many landless labourers so available and so cheap. China's landscape of urbanisation changed. In 2000, China's urban population doubled its 1978 level and China's urbanisation rate reached for the first time in Chinese long history 36.2 percent.⁵⁹ The annual growth rate was 3.2 percent, over ten times faster than Mao's record. For the first time after 1949 living standard improvement, industrial growth, modernisation, and urbanisation synchronised in China. It is no exaggeration that the privatisation of the rural economy saved China from Maoist ruins.

The Dengist state was not passive. Given Mao's political crimes and

economic mismanagement, the legitimacy of the ruling Communist Party was severely eroded. Reforms were the only hope to redeem Mao's decades-long pandemonium. The stakes were high. For the reformers, the state-owned sector was the colossal stronghold of Maoism in the economy. Deng and his followers grasped the nettle. From 1979 to 1984, all the main steps to tackle the state-owned sector known to us today were carefully planned with the following measures:⁶⁰

- (1) Establishment of Special Economic Zones (1979),
- (2) Doctrine of "two systems within one country" (*yiguo liangzhi*) (1980),
- (3) Permission of foreign investment and tourism (1980),
- (4) Abolition of administrative barriers across regions (1980),
- (5) Establishment of duty contracts for managers (1981),
- (6) Replacement of "profit submission" with formal taxes (1981),
- (7) Deregulation of price control over all consumer goods (1982),
- (8) Deregulation of procurement of all rural products (1983),
- (9) Permission to employ foreigners (1983),
- (10) Deregulation of geographic control over foreign businesses (1984).

The opening up of fourteen major coastal cities and their hinterlands in 1984 was truly a great leap forward towards what can be called China's second Westernisation Movement.⁶¹ The capitalist genie was reintroduced to society after a long interval since 1956. After these fourteen cities, China passed the point of no return to Maoism. By 2002, China had 45 economic and technical development districts (*jingji jishu kaifaqu*). All had 30 or near 30 percent growth in investment, GDP, and export in that year.⁶²

Of all these measures, the single most effective one was the deregulation of the state control over the economy and resumption of Foreign Direct Investment (FDI). Deng used them as a lever to prize the urban sector open without immediate privatisation of the state sector. Foreign firms created

a small but internationally efficient workforce: in 2000, foreign companies (including those of Hong Kong and Macao) hired only 6.4 million workers (vis-à-vis 24.1 million hired by the rest of the private companies).⁶³ It set a new benchmark for economic efficiency in China. More importantly, to open China's door for foreign trade and investment necessarily switched the economy to the model of "export-oriented industrialisation" (EOI),⁶⁴ a strategy that China had until 1936. EOI has opened the floodgate for cheap foreign capital and technology to meet with an unlimited supply of cheap labour in China in order to produce goods cheaply for the rest of the world. The beauty of EOI is that industrialisation pays for itself and does not burden domestic consumption, savings, and taxes. In effect, from the viewpoint of Sun Yat-sen, to import foreign capital was the only way in which China was able to develop.⁶⁵ Most importantly, EOI package has finally stopped the wasteful practice of producing deadweight by heavy industry in the name of industrialisation. China's foreign trade value reached US\$ 474.3 billion in 2000, equivalent to 44 percent of China's total GDP.⁶⁶ The figure has been on the rise by the day. FDI and EOI mutually reinforced each other in a virtuous cycle. Together, they changed China's growth trajectory.

On the whole, China's FDI owed much to investors of overseas Chinese and the Asian Tigers while China's EOI owed much to consumers of G7 countries. By 2000, 53 percent of China's FDI came from Hong Kong, Taiwan, Singapore, and South Korea.⁶⁷ On the other side of the equation, in 2000, 53 percent of China's exports went to the United States, the European Union, and Japan.⁶⁸ The loop was complete. In the process, China has finally found its newly established comparative advantage in the global economy. From 1978 to 2000, the total value of China's foreign trade increased 110 times (from 35.5 billion *yuan* to 3,927.3 billion *yuan*, current prices). China finally came out of the Maoist agrarian trap and became the "workshop of the world": 90 percent of China's exports were manufactures (as in 2000).⁶⁹

To march FDI, China's domestic market economy was reinstated after 27 years of Maoism. In the 1980s, a total of over 400 pieces of anti-market laws and government regulations were abolished.⁷⁰ With it, economic activities were mainly dictated by demand and supply, not by orders from the state planning commission. This was the most powerful antithesis to the Maoist state ownership. China's domestic re-marketisation was intensified by FDI. Armed with their financial and technological muscles, foreign investors formed the most powerful external antithesis of the Maoist state ownership.

The Maoist economy was doomed. In absolute terms, from 1995 to 2000, the Maoist urban sector lost a total of 48.1 million workers (70 percent of Mao's

industrial workforce) and was no longer a net job provider in the economy. Meanwhile, the private economy created a total of 182.1 million vacancies, offsetting the job losses in the Maoist economy by massive 134.0 million new jobs.⁷¹ Evidence has confirmed that the majority of China’s industrial workers are new wage labourers, or proletarians.⁷² The capitalist economy allowed the failing Maoist economy to die with dignity without massive unemployment: from 1980 to 2000, China’s unemployment rate was a modest 2.7 percent on average.⁷³ This was remarkable compared with appalling unemployment records in most ex-Soviet Bloc countries in their market reforms.

Behind the scenes, the real movers and shakers were the new bourgeoisies. They emerged under the wing of the new party leadership of Jiang Zemin. In 1997 and 2002 Jiang announced twice at the party’s congress that business people were citizens of full rights and production factors other than labour (such as capital and technology) were equally entitled to yield returns.⁷⁴ This is the fatal blow to the Marxian labour theory of value. In 2000, this new class had four million members who owned a total of 1.8 million firms with 1,330 billion *yuan* assets and 20.1 million workers.⁷⁵ The number was doubled to eight million in 2003.⁷⁶ In another account, China’s millionaires grew at the speed of one million a year after China joined the World Trade Organization (WTO) in 2001.⁷⁷ This newly emerged class quietly pushed itself to the political arena. By 2000, 13,900 private entrepreneurs had entered local parliaments (called “people’s congresses”) and local think-tanks (called “people’s political consultative conferences”); eight had managed to join the National People’s Congress.⁷⁸ There was also a new middle class of professionals. By 2000, it had had 82.0 million members, constituting 12 percent of China’s workforce.⁷⁹

Overall, Deng outperformed Mao in 15 areas:

	Mao Zedong	Deng Xiaoping
Consumer revolution	No	Yes
Economic freedom	No	Yes
Efficient resource allocation	No	Yes
Fast technological change	No	Yes
Fast urbanisation	No	Yes
Firms and workers’ incentives	No	Yes
Freeing from budget constraints	No	Yes

Freeing from excessive and wide poverty	No	Yes
Freeing from low level equilibrium	No	Yes
Freeing from man-made famine	No	Yes
Freeing from negative GDP growth	No	Yes
Higher income for ordinary people	No	Yes
Modern economic structure	No	Yes
Private property rights (<i>de facto</i>)	No	Yes
Cashing in China's comparative advantage	No	Yes

D. Conclusion: overall assessment

It was true that today's China could not have started from nothing in 1978.⁸⁰ But to attribute the Dengist growth potentials directly to Mao's rule, as many have done, will be an unforgivable mistake. Mao's Eurocentrism and economic illiteracy cost China dearly.

If we agree that the Dengist reforms, which represented a deliberate U-turn from the Eurocentric approach and a close imitation of the model of the Asian Tigers, are mainly to reinstate private interests and public entitlements that were brutally denied by Mao, these reforms reflect the legacy of old Confucian China. Such a legacy has nurtured what is internationally recognised as the "entrepreneurial spirit of the overseas Chinese." One has to question why and how the same spirit was extinguished inside China under Mao. The Maoist hardware in the form of the state-owned industry did not serve as a launch pad of the Dengist economic take-off. Rather, as our evidence shows, it was a heavy burden that significantly reduced the payload during that take-off. To link Mao's decades long misconduct to China's current growth miracle is no more than a wishful fantasy.

The Dengist state succeeded in re-orienting itself towards the market and towards its own people, its economy, and its rapport with the outside world.

After all, the market is far more democratic than the centrally planned economy. By 2000, 85 percent of China's commodities were solely dictated by the market.⁸¹ Technocrats have replaced Maoist ideologues to nurture the market, economic growth, and development. The results speak for themselves: for the first time since 1800, China's economic structure has changed towards modernity; for the first time since 1949, China has departed from a product-scarce economy and become a product-rich economy; for the first time since 1949, getting rich has become a real possibility for many ordinary Chinese. More importantly, for the first time the structural change and output increase have come in unison with a rise in ordinary people's living standards. China's population today is exponentially better off than in Mao's era: at least ordinary Chinese are able to eat properly and have a dispensable income for consumer goods. Politically, they are no longer captives of Mao's personal cult. Economically, they no longer work for nothing. In short, the reforms have made China visibly prosperous again.

It will be naïve to expect China's reforms to be problem-free. Domestically, the heavy burden of the moribund state-owned sector continues, which may drag the economy down with its bad debts; the income gap measured by the Gini coefficient has increased from 0.28 (as in 1983) to an alarming 0.47 (2012, the official figure), which may jeopardise social tranquillity.⁸² Ordinary workers' rights have often been ignored and violated, which sometimes has had explosive social consequences. The rural economy has slowed down at least in relative terms and the income gap between the urban and rural sectors has widened, which is reflected by the thorny "three rural problems" (*sannong wenti*) regarding rural life, farming and farmers. Above all, China has been consistently ranked one of the top 20 most corrupt countries in the world since the 1990s.⁸³ From 1978 to 2000, the number of corruption cases increased 22 percent a year, much faster than China's GDP growth, meaning that the privileged few are raking in much faster than the general population. It has been argued that unless China goes for a democracy a minimum 10 percent of GDP per year goes to official corruption indefinitely.⁸⁴ Unfortunately, not enough progress has been made since 1978. As a result, official and business corruption has been commonplace on all levels of the bureaucracy and military which has in turn nurtured vested interest groups in society, putting China's social stability in real jeopardy.⁸⁵

Moreover, there has been the environmental issue regarding depletion of resources and global warming. Back in 1995, the environmental damage had already cost China a total of US\$ 75 billion,⁸⁶ more than China's intake of foreign direct investment of the time.⁸⁷

However, it is fair to suggest that economic inequality, official corruption and environmental damages are not China-specific. Rather, they are global. Even so, the Dengist state was rather ill-prepared for the onslaught of these three problems, not to mention that these problems collude head on with what the ruling party has repeatedly promised to the general public. Official corruption and environmental damage in particular have been exacerbated by a lack of counterbalance and checks in the Chinese system, which is commonly described as “six no’s” (*liu wu*): no independent auditor to monitor the economy, no independent central bank to regulate the monetary and capital markets, no central agent to control tax collections, no institution to control local expenditures (which fuel official corruption), no independent voice of shareholders to veto CEO’s decision (which allows fat cat bonuses), and no independent press to guard public interests (especially pollution and economic compensation).⁸⁸ However, they are all symptoms of a lack of political reforms of the Soviet party-state system right from the beginning when Deng’s reforms began in the late 1970s.

China future is now very uncertain despite its status as the largest trader and the second largest economy in the world. The vigorously publicised “China’s Dream” (*Zhongguo meng*) may turn out to be a socio-economic nightmare in the end.

Notes

1. This is equivalent to US\$ 1,080–1,944 billion of the 2005 price with a factor of 10.8 for inflation (on line: <http://mykindred.com/cloud/TX/Documents/dollar>.); see Zheng Yi (ed.), *Jiang Jieshi Zenyang Shiqu Dalu (How Chiang Kai-shek Lost Mainland)* (Hong Kong: Hong Kong Art and Literature Press, 2006), 472; Chen Xiaqing, *Li Jifeng and Zhu Lexian, Kangzhan Shiwu Nian (Fifteen Years of Counter-Japanese Invasion)* (Nanning: Guangxi Normal University Press, 2008), 396.
2. Based on the 1942 exchange rate at US\$ 1 = Chinese ¥ 20, and hence 2,000,000 million Chinese silver *yuan*; see “Global Financial Data” (on line: <http://www.globalfinancialdata.com/index>.). China’s total annual GDP is based on the estimate of 22 to 30,000 million silver *yuan* before the war, based on Wu Baosan, “Zhongguo Guomin Suode, 1933, 1936 Ji 1946” (China’s National Income, 1933, 1936 and 1946), *Shehui Kexue Zazhi (Social Sciences Magazine)* 9/2 (December 1947): 12–30; Ta-chung Liu and Kung-chia Yeh, *The Economy of the Chinese Mainland: National Income and Economic Development, 1933–1959* (Princeton: Princeton University Press, 1965), 66.
3. Jiang Zemin, “Yishi Weijian Kaichuang Weilai” (Taking Warning from the Past for the Future), *Renmin Ribao Haiwaiban (People’s Daily, Overseas Edition)* (November 30, 1998): 1; Chen et al., op cit, 396.

4. Grace M. Hawes, *The Marshall Plan for China, the Economic Cooperation Administration 1948–1949* (Cambridge [MA]: Schenkman Publishing Co., 1977).
5. Zheng, op cit, 251, 426. See also Peter Vladimirov, *The Vladimirov Diaries, Yanan, China: 1942–1945* (New York: Doubleday, 1975), 502.
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49. *Ibid.*, 354.
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51. Lu, op cit, 238.
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