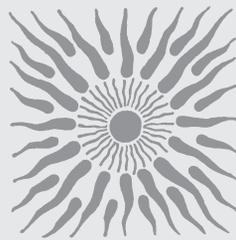


China Copes with Globalization

A MIXED REVIEW



A REPORT BY
THE INTERNATIONAL FORUM
ON GLOBALIZATION

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The International Forum on Globalization (IFG) is a research and educational institution comprised of leading scholars, economists, researchers, and activists from around the globe.

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FOREWARD

The International Forum on Globalization (IFG) is pleased to present this briefing on some of the key issues now at play from the impact of globalization in China. On the eve of the World Trade Organization (WTO) Ministerial meeting in Hong Kong—with the eyes of the world on China—IFG visiting scholar and author, Dale Wen, offers some new perspectives not normally presented by western media and policymakers. A native of China, Ms. Wen has observed major changes in her country over the last few decades as it has shifted from a rural and state-directed economy toward an urbanized industrial and privatized system.

Western and Chinese media attribute China's growth to free market reforms, but a deeper examination reveals flaws in this commonly accepted thinking. Much of this report examines the current market-oriented reforms to those of the Maoist era in order to balance the views of many in the West who tout China's move toward globalization as being overwhelmingly positive while assigning all of its problems to Mao's Cultural Revolution.

This primer intends to serve as a briefing on the implications of China's evolving role in the global economy and help build bridges and greater understanding between emerging social movements in China and international civil society.

— DEBI BARKER, IFG International Director

EXECUTIVE SUMMARY

China entered the World Trade Organization (WTO) in December 2001 after more than two decades of reforms aimed at gradually shifting the country toward a free market economy that is more open to foreign investment and trade. These reforms not only gained the country acceptance into the global trading body, they have also earned the praise of the World Bank and other economists who herald China as a great success story of economic globalization.

China has indeed become a magnet for foreign investment and an export powerhouse. Its strong economic growth over the past 25 years (averaging more than 9 percent annually) is unparalleled in modern history. China's "economic miracle" also coincided with a dramatic drop in extreme poverty (people living on \$1 or less per day), from 250 million people in 1978 to 30 million in 2000.¹

However, official figures on exports and investments do not give a complete picture of the experience of the Chinese people during this period of rapid social and economic change. This report looks at how the free market reforms have affected broader quality of life indicators such as inequality, natural resources and environment, health and education as well as jobs and poverty.

Several indicators cause concern about China's embrace of economic globalization policies:

Poverty and Inequality

❖ The gap between the "haves" and the "have nots" has increased dramatically since China's adoption of a "free market" economy. In the early 1980s, the richest 10 percent of the population earned less than 20 percent of the national income. By 2005, the top 10 percent earned 45 percent of the income, while the bottom 10 percent earned only 1.4 percent.²

- ❖ Despite spectacular growth in China's Gross Domestic Product (GDP), 42 percent of rural households in China experienced a decreased income in absolute terms from 2000 to 2002.³
- ❖ The measure of inequality used by the United Nations (UN), called the "Gini ratio," indicates a growing gap in China. Between 1980 and 2005, the ratio rose from 0.2 (considered acceptable) to 0.45 (signifying serious polarization and increasing social unrest).⁴

Labor

- ❖ China is experiencing a net loss of manufacturing jobs. From 1995 to 2002 manufacturing jobs decreased overall by 15 percent from 98 million to 83 million.⁵
- ❖ Sweatshop factories are a result of intense privatization of industry. During the last few decades, China privatized many state-owned enterprises and opened the door to foreign- and joint-owned firms—the majority of which are producing goods for foreign markets. At the state-owned enterprises, most workers enjoyed lifetime employment, health care, education, and other social benefits. Today, under the mantra of market competition, Chinese workers now have lower wages in terms of purchasing power, fewer benefits, longer work hours, increasing work-related injuries, and other associated problems.⁶
- ❖ In the Pearl River and Yangtze River delta regions, where most export-oriented industrial plants are located, migrant workers routinely work 12 hours a day, 7 days a week; during the busy season a 13- to 15-hour day is not uncommon.⁷

Environmental Damage

- ❖ Rapid industrialization is producing massive environmental devastation. China is the world's second largest greenhouse gas emitter (the U.S. is first).⁸
- ❖ About 60 percent of China's major rivers are classified as being unsuitable for human contact.⁹
- ❖ Seven of the ten most polluted cities in the world are located in China. Air pollution alone claims 300,000 lives prematurely per year. Acid rain falls on 1/3 of the territory. More than 1/3 of industrial wastewater and 2/3 of municipal wastewater is released into waterways without any treatment.¹⁰
- ❖ Over the last few decades, increased industrial agriculture and commercial grazing has resulted in creating over 2.67 million square kilometers of desert land—around 27.9 percent of China's total territory.¹¹
- ❖ Many claim that foreign investment and the introduction of "green" technology will help clean up the environment in China; however, this has not been the case to date. One of the reasons for this is because China's State Environmental Protection Agency (SEPA) has little authority. SEPA estimates that although water treatment facilities are installed in most major industrial plants under government mandate, around one-third are not operated at all and another one-third operate occasionally. Often the fines it levies are less than the expenses of using the "green" technology. (*Business Week*, August 22, 2005)

Rural Areas and Farmers in Decline

- ❖ The sugarcane province of Guangxi once had a thriving sugarcane economy but when China became a member of the WTO, cheap, highly subsidized sugarcane flooded its market and millions of Chinese

sugarcane farmers have been pushed into poverty (most farmers in this region owned less than one hectare of land). Before China entered the WTO, the price for raw sugarcane was around 250 yuan per ton. After China entered the globalized market, sugarcane prices plummeted to 190 yuan per ton between 2002 and 2003, then further down to 170 yuan per ton between 2003 and 2004.¹²

- ❖ By 1978 around 85 percent of the rural population was covered by collective health care; today, more than 80 percent of the rural population does not have any form of health care.¹³
- ❖ Although higher education has increased in recent years, basic public education in rural areas has decreased. One rural area study reveals that 70 percent of youth finished high school in 1976; but the rate dropped to less than 10 percent by the late 1990s.¹⁴



Contrary to common perceptions, the Chinese people have not been merely passive actors in their country's transformation. Many are concerned that the leap into the global economic system and the WTO is generating serious problems. Incidences of mass protests, demonstrations, and direct clashes with the government have increased from 58,000 in 2003 to 74,000 in 2004, more than 10 times compared to a decade ago.¹⁵ The final section of this report highlights some of the efforts in China calling for alternative models.

INTRODUCTION: CHINA'S ECONOMIC POLICIES FROM MAO TO PRESENT

By Debi Barker and Dale Wen

MAOIST ERA (1949–1978)

The Maoist industrialization drive and economic policies from 1949 to 1978 were far from perfect, yet some of the overall achievements are quite impressive. U.S. historian Maurice Meisner's book, *Mao's China and After*, notes some of the highlights: China's national income grew five-fold in 25 years (1952–1978); the industrial working class grew from 3 million in 1952 to 50 million in the mid-1970s—this includes 28 million peasants who worked in communal industries under a policy of small-scale rural industrialization. Additionally, China's industrial output increased at an average annual rate of 11.3 percent between 1952 and 1978.¹⁶

Prior to 1978, there were two forms of ownership of industrial enterprises in China: “all peoples” ownership, which was changed into “state ownership” in the late 1980s, and collective ownership (owned by villages or communities). The phrase “iron rice bowl” was often used to describe industrial employment and its associated benefits. Wages were quite low; however, employees enjoyed lifetime employment, guaranteed pension benefits, health care, housing, and education for dependents, paid maternity leave, and other such benefits which created a high level of societal equity and security.

In addition to lifetime employment and material benefits, many Chinese workers engaged in decision making and management issues at their place of employment. In 1960, employees of Anshan Iron and Steel Corporation wrote the *Charter of Anshan Iron and Steel Corporation* which laid out principles of participation, reform, and integration. In recent years, many management experts acknowledge the similarities between the *Charter* and “new management” styles adopted in recent years in Japan, Europe, and the U.S.—ideas such as total quality management (TQM) and other employee participatory programs.

This high level of engagement in the management process fostered an elevated sense of ownership among all levels of employees and created a corporate culture unique to China reflected in a popular saying, “treat the factory as one’s own home.”

In his 1997 book *Market and Institutional Regulation in Chinese Industrialization*, researcher Dic Lo argues that Chinese state-owned and collective enterprises were institutions accountable to major stakeholders—such as creditors and employees. In contrast, private and publicly traded enterprises are driven by the principle of maximizing shareholder profits.

CHINA’S REFORM ERA — TOWARD A MARKET ECONOMY (1978–1992)

In 1978 the Chinese government began an official “reform” era. During the initial ten to fifteen years, some salient features of the reform included: breaking up of rural communes; designating Special Economic Zones (SEZs); and introducing “market mechanisms” into state-owned enterprises (SOEs). Worker benefits and the existing social safety net were steadily eroded by the market-oriented reform.

A host of reasons contributed toward the reform. Ideological differences have always existed among high-ranking Party members. Deng Xiaoping, the officially recognized “architect of China’s reform,” had been repeatedly labeled as a “capitalist roader” in many internal debates and struggles between 1949 and 1976. When Deng consolidated power in late 1978, he was poised to take the country into a new direction.

The normalization of relations between China and the U.S., and the West in general, began in 1972 with Nixon’s visit to China. In December 1978, Washington and Beijing announced that the two countries had agreed to establish official diplomatic ties. Deng presided over the climax of this diplomatic process initiated by Mao and visited the U.S. in January 1979, the first official state visit between the two countries. His U.S. visit was widely publicized in both countries. It was reported that he was deeply impressed by the material wealth of the U.S, which seems to have significantly influenced his thinking and consequent policy measures. Reform slogans such as “to get rich is glorious,” and “development is the absolute need” reflect this thinking.

U.S. President Ronald Reagan and UK Prime Minister Margaret Thatcher ushered in the “golden age” of privatization and neo-liberal economics in the ‘80s. The ideologies of market competition and social Darwinism were introduced into China as “the recipe” for success, convincing many officials and intellectuals to follow this path forward. Additionally, the East Asian Tigers (Hong Kong, Singapore, South Korea, and Taiwan) were experiencing great economic success, offering attractive examples of export-oriented models. SEZs set up along China’s coast were modeled after these regions.

While the reform was largely a “revolution from the top,” it did gather some popular support at the time. There was some general dissatisfaction among Chinese citizens—Mao’s promise of a utopian society had yet to manifest itself in the eyes of many. In his pursuit of egalitarian values, Mao had repeatedly tried to strip the elites (especially Party bureaucrats and the intelligentsia) of the privileges they normally enjoyed. For example, many were sent to the countryside or factories to work with peasants and workers, to be “re-educated” by the working people. Many felt that they had been wronged and victimized in the process. By speaking to their grievances, Deng successfully garnered sympathy and support for reform from this group. While the elites only made up a small minority of the population, their political clout was considerable.

Finally, another utopia was presented to millions of Chinese through television, introduced into both urban and rural communities in the late 1970s and early 1980s. Movies and TV series from Hong Kong, Taiwan and Japan flooded in, often portraying luxurious lifestyles. Around the mid 1980s, U.S. TV shows such as “Dallas,” and later, “Bay Watch,” portrayed a world of luxury and leisure. For millions of Chinese citizens, these dazzling lifestyles represented the way all Americans lived—everyone was rich and lived with few, if any, constraints (and no one seemed to have to work). These images fostered a worship of U.S. culture.

Smashing the Iron Rice Bowl

All of the above factors, and others, contributed to a new direction in China’s economic policies. Central features of the urban reform included reform of SOEs to be more market oriented, and opening up to foreign capital and investment. Also, some SEZs were created during this period.

In late 1979, the government selected several thousand state-owned enterprises to operate on a profit-making basis. In early 1980, the program was expanded to cover 16 percent of SOEs. The program was suspended at the end of 1980 because of a host of unanticipated fiscal and social problems including a burst of inflation. However, in 1984, the market-oriented reform resumed.

The restructuring effort was centered on “smashing the iron rice bowl,” as reformist rhetoric of the time had it. The logic was that labor productivity could be increased greatly by ending the lifetime job security. Some new bonus and profit sharing schemes were implemented to stimulate production, as well as to mitigate opposition from employees.

Still the opposition was intense and bitter, and the reformers compromised eventually: regular workers already employed in SOEs would retain their job security and welfare guarantees, but new workers would be hired on a contractual basis. Over the years, a bewildering variety of contractual arrangements were worked out in different localities and enterprises, often with watered down benefits for new employees.

SEZs in China functioned in a similar manner as other “special” or “free” economic zones such as the *maquiladoras* in Mexico. SEZs gave tax incentives to foreign- and joint-owned corporations to attract foreign direct investment. Tax favors included: exemption from paying taxes in their first two profit-making years; tax write-offs of employee wages; and other such privileges. Sweatshop conditions did not arise immediately. New private enterprises were compelled to maintain fairly decent labor conditions and offer generous salaries in order to compete for Chinese workers. Thus, many still received benefits including public education and health care; guaranteed pensions; subsidized housing in urban areas; and other amenities similar to those provided by SOEs.

However, in 1982, with little fanfare, the Chinese government quietly removed a clause granting the right to strike from the Constitution, a right previously enshrined by Mao in 1975. At the time, the change raised little concern: who would want to strike when people are treating the factories as their own homes? In hindsight, it marked the beginning of worker exploitation on a massive scale.

Rural Communities in Crises

The key component of the rural reform was the de facto privatization of agriculture: rural collectives, or communes, were disbanded. Though land ownership continued to belong to the village officially, usage right was contracted to individual households. Contrary to popular belief in the West, the collective system was not an entirely new invention by the Communists—for thousands of years, various forms of communal land ownership had coexisted with private land ownership in China, particularly in areas of high population density. This system of sharing land enabled regions to produce enough food for the community. The collective system under Mao was not perfect and some communes were failing. However, the majority of rural people experienced secure, dignified lives with social benefits including public health care and education.

Instead of adjusting the collective system, radical reform was enacted. Land was contracted to individual households instead of being owned by the commune. The dissolution of the commune via de facto land privatization meant that many functions such as marketing and health coops previously organized by the community, or commune, could no longer be sustained. Simultaneously, the government decreased expenditure in rural investment so no replacement systems were established.

The early years of rural reform did experience a surge of agriculture outputs and rural income, largely due to the introduction of chemical fertilizers, pesticides, and hybrid seeds. But when the government lifted price controls on agricultural inputs in the mid 1980s, prices radically increased and many peasants could no longer afford these items. Additionally, the tiny family farms (almost all under 1 hectare) were more vulnerable to natural disasters and market fluctuations.

In addition to declining rural public services, income losses were staggering—for example, 42 percent of rural household income decreased in absolute terms between 2000 and 2002.¹⁷ When China joined WTO in 2001, cheap, highly subsidized agricultural commodities from industrial nations flooded into the country, posing a further challenge to the already ailing rural sector. As a result of decollectivization and participation in the global trade arena, millions from rural regions migrated to cities and manufacturing centers.

Decollectivization had important social impacts as well. Previous entitlements for women under collective rights were undermined, as the male heads of household were designated as contract owners. Communes used to provide support for old people who did not have family support. The deterioration or total disappearance of such benefits created a strong incentive to have more children. The fragmentation of rural community resulted in a sharp increase in crime and other social maladies.

While traditional Chinese rural life might not have been a utopia of material goods, many now look back to a time of dignified livelihoods and relatively harmonious communities as a kind of utopia that quickly disappeared under the reform.

Period of Economic Boon

During this period, China experienced remarkable economic growth. In terms of GDP numbers, its progress in reducing extreme poverty is impressive. In 1999, the World Bank raised China's classification from a "low income" to a "lower middle-income" country based on its rise in income per capita. The rationing system of the late 1970s, which covered basic items such as grain, cooking oil, sugar, eggs, meat, and clothes disappeared and many modern luxuries like TVs, washing machines, and refrigerators are now in millions of homes, particularly in urban areas. Car ownership, unheard of 20 years ago, has skyrocketed today in the capital city of Beijing.

Many in the West have hailed China's adoption of the free market as being central to its economic success. However, it is noteworthy that central planning continued to play an important role in the first 10-15 years of reform. In many ways, the Chinese government followed the model of the Asian Tiger economies by heavily regulating foreign trade and foreign investment as well as domestic industry. The central government also maintained control of public services. China's state-directed development greatly contrasts with the shock therapy programs implemented in Eastern Europe and the Soviet Union, where foreign capital and corporations have flooded in with little government intervention or regulation. Still, the destabilizing effect of reform began to be felt across the sectors by the end of the 1980s, leading to growing dissatisfaction.

Tiananmen Square

The massive protest in Tiananmen Square in 1989 was represented in the West as a demonstration calling for freedom and democracy. This was indeed part of the impetus from the student protesters; however, the most popular and well-supported call of the movement was denouncement of official economic policies and corresponding corruption—reflecting that social ills brought by the reform process were at the center of discontent. In the early months of 1989, the annual inflation rate reached a record high of 25 percent (inflation was kept below 1 to 2 percent throughout the Maoist Era), setting up the stage for the later protests.

The western media has often neglected the important social and economic background of this movement, describing it in simple terms of "pro-West" versus "anti-Communist." According to Wang Hui, a leading scholar in Beijing, the protests emerged in response to a series of market-based decentralizing policies and are therefore a part of the worldwide resistance to neo-liberal policies (see Wang's book *China's New Order*). Indeed, three months prior to the Tiananmen event, reform leader Deng Xiaoping realized that "China cannot allow demonstrations to happen too easily, ...or else foreign investment will stop flowing in."¹⁸

FURTHER REFORM — RAPID ADOPTION OF GLOBALIZATION (1992 TO 2003)

After the protests at Tiananmen Square, many market-oriented reforms were halted. But in 1992, Deng Xiaoping organized the much heralded "Southern Tour," visiting Shenzhen, the first SEZ, and the market-oriented reform was re-ignited. Since then, the Chinese government has further embraced the tenets of economic globalization. Privatization of collective enterprises and SOEs increased. Many believe this period triggered an intense "race to the bottom" for workers.

The number of SEZs and foreign enterprises exploded. Further benefits, including tax advantages, were extended to private and foreign businesses that were not given to SOEs. Even with such advantages, foreign corporations often routinely avoid paying taxes in China by hiding profits. For example, a Nike subsidiary in Suzhou earned around \$85 million in revenues in 2001, with its Chinese market share growing in double digits annually, yet it reported a loss over several years. In fact, 51 to 55 percent of foreign enterprises in China claimed losses in 2003.¹⁹

According to the Chinese government's 1995 Industrial Census, SOEs and collectives paid two to three times higher taxes than foreign-owned industry. This trend continues. Additionally, SOEs and collectives contribute to education, health care, and other benefits for employees; privatized firms are not required to do this.

Birth of Sweatshops

Unable to compete with advantages given to foreign-owned firms, SOEs shed millions of workers and decreased social benefits during this period. Millions more from rural regions were added to the labor pool because of the loss of livelihoods and degraded community due to the rural reform program. These new migrant workers flooded into coastal regions and urban centers, desperate for jobs. With a surplus of workers, and no competition from diminishing SOEs, industries have tightened their grip on workers and sweatshops have become the norm. Especially in the coastal SEZs—where most foreign corporations do business—Chinese workers now have lower wages in terms of purchasing power, fewer benefits, longer work hours, increasing work-related injuries, and other associated problems compared to ten years ago.

WTO Accession

The first step of China's reform package was the structural reform of its internal economy. The second step was to further engage with world markets. Joining the WTO in 2001 signaled a huge move toward completing the reform.

Under WTO accession terms, China is obligated to eliminate all import quotas by 2006 and reduce tariffs over time; and open up to further imports. Already, these rules have impacted rural communities and farmers. For example, sugarcane prices paid to Chinese farmers plummeted upon the introduction of imported, cheap foreign sugarcane—from 250 per ton to about 190 yuan per ton between 2002 and 2003; then further down to 170 yuan per ton for 2003 and 2004.²⁰

Foreign firms and investors have greatly expanded rights—they can now own up to 50 percent of foreign-owned enterprises in industries such as telecom and insurance (percentage of foreign ownership in some industries was previously monitored and restricted).

There are many other trade rules that China must now subscribe to, including the expansive WTO “national treatment” clause which states that foreign investors must be given the same considerations and treatment as domestic businesses. This, of course, greatly inhibits China's ability to direct its economy and gives more rights to global markets and investors.

TODAY: CHINA AT THE CROSSROAD— WHICH WAY FORWARD?

China is an economic powerhouse in the world, largely because of its political decisions to open its borders and adopt a “free” market system. However, many are concerned that the benefits of economic globalization in China are enjoyed by the few at the expense of the many. In keeping with a now familiar pattern of globalization, the gap between the haves and the have-nots in China has greatly increased. In the early 1980s, the richest 10 percent of the population earned less than 20 percent of the national income. By 2005, the top 10 percent earned 45 percent of the income, while the bottom 10 percent earned only 1.4 percent.²¹ And many measures of quality of life have stagnated or declined for millions.

Environmental Consequences

The state of the ecology is one of the most critical factors that will determine China’s future. Admittedly, many SOEs were not perfect stewards of the environment. Mao’s industrial development was mainly focused on creating a system of social equity. The link between natural resources and social well-being was poorly understood in many aspects. However, as bad as some industrial practices were then, China’s shift into an export-oriented market system has pushed its natural resources to the brink of collapse.

Adopting chemical farming has been a major detriment to China’s natural resources. Chemical fertilizer usage more than doubled between 1978 and 1984 while application of manure and green fertilizers declined significantly. In combination with other factors, chemicals have seriously polluted water systems, contributed to high degrees of soil erosion and salination, harmed wildlife, and compromised the health of Chinese citizens. Estimates reveal that around 40 percent of the country’s arable land is degraded. About one-fifth of arable land is contaminated by heavy metals (cadmium, arsenic, lead, and others). Water runoff from fields, along with municipal and industrial wastewater dumped into the rivers, has rendered around 60 percent of the water in China’s seven major river systems unsuitable for human contact according to China’s State Environmental Protection Administration.

In a candid interview with the German magazine *Der Spiegel*, China’s deputy minister of the environment, Pan Yue, addressed the environmental crises: “Our raw materials are scarce, we don’t have enough land, and our population is constantly growing. ...Cities are growing, but desert areas are expanding at the same time; habitable and usable land has been halved over the past 50 years.... [China’s GDP miracle] will end soon because the environment can no longer keep pace.”

The situation is dire not only for China. Climate change, water pollution and shortages, acid rain, wildlife extinction, and many other factors affect the health of the entire globe.

Labor—The Race to the Bottom

Western corporations proudly point out their contributions toward creating happy workplaces—introduction of clean technology, worker safety measures, etc. While some factories have incorporated higher environmental and labor standards, they are the exception. Many corporations eagerly display such “flagship” factories; however, they do not reveal that the majority of manufacturing is done by contract factories where worker and environmental abuse continues far from the view of western consumers, shareholders, and media.

Global trade policies, such as agreements in the WTO, restrict governments' rights to set labor, environment, and public safety standards by restricting rules that may be "trade barriers." This effectively places a ceiling on such standards; yet no minimum standard exists. As a result, corporations roam the world seeking the lowest worker and environmental requirements. Today's definition of market competitiveness is that countries lower standards in a bid to attract industry. Corporations move to regions and countries providing the lowest labor and environmental requirements. Today's market competition pits workers and farmers around the world against one another as they fight to maintain jobs and livelihoods.

China is now a corporate haven of low worker and environmental requirements and its benefactors are mainly foreign firms and western consumers. In 2003, foreign funded enterprises accounted for 55 percent of China's exports. Additionally, research shows that most foreign investment flows out of China.²²



Along with many other countries, China is experiencing the paradox of globalization—economic indicators may rise, yet an increase in poverty, loss of jobs, and social inequities often accompany the financial indicators of "success." With the mounting rural crisis, worker abuses, ecological degradation, income gap, and many other problems, China is standing at the crossroad.

Millions of those who are negatively impacted are becoming more vocal day by day. China's official media reported that last year there were 74,000 incidents of social unrest, up from 10,000 in 1993.²³ There is a strong resurgence of Maoism, especially among the working poor.

Since President Hu Jintao and Prime Minister Wen Jiabao took office in 2003, there have been signs of policy adjustments. The plights of marginalized groups are increasingly covered by the media, and the government has taken some measures to address their grievances. Instead of saying "development is the absolute need," the new government is now advocating for "scientific development" and "people-centered development." Yet, so far the adjustments have not touched the essence of the neoliberal policies carried out in the last two decades.

Should China continue on the path of market-oriented reform? The implicit promise of the reform is that the U.S. way of life will be achieved for everyone—but, is the U.S. lifestyle a model to emulate? Can it really be achieved for the majority of people? Or is it time to reexamine this process and think about alternatives? These are some of the questions that Chinese leaders and Chinese people are discussing today.

Section One

CONSEQUENCES OF REFORM POLICIES

I. THE PLIGHT OF RURAL AREAS

Deng Xiaoping's reforms began with China's rural areas in the late 1970s. Initially, agriculture output and rural income increased significantly, a fact that was used to justify further reforms in rural as well as urban areas. But economic growth in rural areas slowed down considerably in the mid 1980s. By the late 1980s and early 1990s, most rural areas entered a state of stagnation or even degeneration. Today, China's rural areas face an unprecedented crisis.

Before 1978, most Chinese farmers were organized into collective communes. Several studies found that about one-third of the communes were doing very well; one-third in the middle showed potential but were facing some problems; and the bottom one-third had serious mismanagement problems and were stagnating.²⁴ Based on this data, some communes required serious reform, possibly including new forms of organization and management, but the majority only needed fine-tuning. Nevertheless, the entire commune system was put through a major overhaul beginning in 1978.

The first step of the reform replaced the commune-based agricultural production system with a family-based production system. This weakened the communes, however, other functions such as marketing co-ops, public services, etc. were still organized by the collectives. In September 1980, the government completely disbanded the communes when it ordered total de-collectivization of all aspects of agricultural production and marketing. While many officials and farmers of the struggling communes welcomed the top-down reform, the majority of communes were skeptical.

The Rise of Chemical-Based Agriculture

During this period, Chinese agriculture was also transformed through the massive introduction of chemical fertilizers, pesticides, and hybrid seeds. Fertilizer usage more than doubled between 1978-1984, and farmers to achieved record harvests. In 1979, the government raised the price it paid to farmers for the grain they were obliged to sell to the state by 20 percent and offered a 50 percent premium on grains delivered above quotas.²⁵

Another factor that contributed to the short-term increase in household income was the exploitation of communal assets. For example, there was no control over rampant cutting of trees planted by communes over the previous 30 years as roadside windbreaks to prevent erosion. In merely four years, between 1985 and 1989, there was a 48 percent decline in the area covered by windbreaks nationwide.²⁶

The official media still attribute the rural boon period (1978-1984) to the de-collectivization process. Yet, more than two-thirds of the gains were achieved before 1982, the year de-collectivization was carried out on a large scale. Other factors, such as rising grain prices and the use of chemical fertilizers, contributed much more to a short-lived success. After state support for agricultural inputs was lifted in the mid-1980s, prices skyrocketed. Between 1984 and 1989, fertilizer prices rose 46 percent and pesticide prices rose more than 80 percent.²⁷ By that time, farmers were trapped in a vicious circle, compelled to pump more chemicals into the fields to keep up yields as the organic matter in the soil declined.

The de facto privatization of agriculture has had profound long-term environmental and economic effects. Given the high population density, family farms are often less than one hectare, or even less than half a hectare. This has destroyed any possibility for economies of scale and equipment once owned collectively, such as tractors. The inputs are too expensive for individual families. As a result, many villages experienced de-mechanization in the initial years of privatization. And as farmers put more labor into tasks previously done by machines, they had to cut back on other types of work, including good farming practices such as the application of organic and green manure.

Compared to the communes, the family farms are also much more vulnerable to natural disasters and market fluctuations, which can put pressure on farmers to overtax the environment. The small size of the farms leads to other environmental problems. As one farmer observed, “When I apply pesticide, the pests simply migrate to my neighbor’s field; the next day when he applies pesticide, all the pests come back to my plot. We end up wasting lots of chemicals while achieving very little.”

Impact on Women

The family contract system has also had negative social impacts. By designating male heads of households as the major contract holders, the system undermined the rights of women.²⁸ In the collective labor arrangement, women’s contributions were officially acknowledged and rural women enjoyed unprecedented participation in public affairs, as reflected in one famous slogan of the time—“women can support half of heaven.” The communes also provided a public space for socializing and even flirting. Especially in the well-run collectives, labor could be enjoyable for young people, who engaged in friendly labor competitions and sang songs and told stories as they worked.²⁹ The disappearance of this public space plummeted women back into the constraints of their families. Not surprisingly, in many villages, young women were the first ones to leave in search of job opportunities in the cities as nannies or assembly line workers.

Decline in Public Services

De-collectivization would not have been so catastrophic if the government had invested in rural collective institutions, such as health and marketing cooperatives. But this did not happen. Government expenditure on agriculture, as a percentage of total national expenditure, has been in steady decline since the 1980s. From 10.5 percent in the period 1976-1980, it had fallen to 5 percent in 1981-1985 and 3.3 percent in 1985-1990.³⁰ Though the total infrastructure investment increased by several folds in the reform era, the share of infrastructure investment in the rural sector decreased from 10.6 percent in 1979 to 2.8 percent in 1992 and 1.7 percent in 1994.³¹ In addition to direct monetary investment, the government previously provided human resource support for rural public goods including water works, flood/drought