HOW HAVE CHINA’S PRE-1978 HISTORICAL EXPERIENCES SHAPED IT’S “CHINA GOES GLOBAL” POLICIES?

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ABSTRACT

Before 1842, China was a major world economic power, about 30 percent of the world economy. From 1842 to 1901, China was forced to sign 29 “unequal treaties,” depriving China of much of its sovereignty. (China lost tariff autonomy, consular jurisdiction over foreigners, control over land in concession areas, inland shipping rights, control over foreign troops, and the right to outlaw opium and to tax businesses). These sovereignty losses correlated with China’s economy shrinking to about 5% of the world economy by 1949 (Maddison, 2009).

Communist China regained full sovereignty in 1949 and, even with a post-Korean War U.S.-led Western blockade; China’s planned economy model achieved average GDP per capita growth of 2.8% annually from 1949 to 1973, despite the disasters of the Great Leap Forward and Cultural Revolution (Maddison, 2009, p. 216). Though twice the per capita growth rate of India (1.4%), China’s growth was only 35% of Japan’s growth rate (8.0% from 1950 to 1973). After Mao’s 1976 death, Deng Xiaoping, with the new global political/economic environment, opened China to the global economy, achieving annual per capita growth of more than 5% (Maddison, 2009, p.216). China’s per capita income increased from USD 200 in 1978 to about USD 5000 in 2012, making China the world’s second largest economy.

We will explore how China used its post-1949 full sovereignty to combine lessons from China’s semi-sovereign past and its domestic experiences (Great Leap Forward and Cultural Revolution) to engage in Western-style market reforms and “China Goes Global” policies. These Chinese reforms were also based on the post-WWII changed international environment and the success of Japan and the Four Tigers in creating “miracle” economies.

- **Purpose:** Show how historical influences
- **Design/methodology/approach:** Descriptive, historical analysis
- **Findings:** Historical influences on China Goes Global policies
- **Research limitations:** limited historical data
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In this article we will argue that China’s post-1978 policies for foreign direct investment (FDI), for outbound Chinese foreign direct (ODI), for currency controls and rules, and for treatment of foreign trade and foreign businesses, have been influenced by three major historical factors:

- Chinese pre-1949 experiences with an open door to Foreign Direct Investment, foreign trade, and foreign business activities;
- Chinese domestic experiences from 1949 to 1978, particularly the Cultural Revolution; and
- The successful post-WWII economic development model of Japan and the four East Asian tiger economies (South Korea, Taiwan, Hong Kong, and Singapore) and major improvements in the post-WWII global political, economic and business environment.

Pre-1949 Experiences

China suffered major economic losses due to limitations on its pre-1949 sovereignty. These sovereignty limitations resulted from militarily-imposed provisions contained in 29 unequal treaties forced on China by foreign imperialist powers (Great Britain, France, the US, Russia, Japan, Germany, Austria, and Portugal), from 1842 to 1919.

Before 1842, the Chinese Qing dynasty (1644-1911) was largely cut off from international trade and foreign direct investment (FDI) due in part to Qing government concerns about outside influences that might stimulate anti-Qing movements. Qing officials were fearful of popular opposition because Qing rulers were Manchus, a minority nationality from Manchuria in Northeast China. Qing officials also believed that China did not need foreign goods.

The Qing government limited international trade to 13 officially designated Canton (Guangzhou) merchant firms (“Co-Hongs”) who were the sole government authorized Chinese agents able to export tea, silk and various fabrics and to import foreign goods.

Foreigners were unable to live in China, except for temporary all-male residency in their foreign “factories” (warehouses and offices) in Canton during the short trading season. Instead, foreigners had to live in the Portuguese colony of Macau, down the Pearl River from Canton.
Before the 1830s, the balance of trade favored China because while Chinese tea, silk, and fabrics had a large and profitable market in Europe and other parts of the world, there was comparatively much less Chinese demand for Western products. The difference in trade levels had to be made up by foreign payments of silver to Chinese merchants.

Many British merchants at that time believed that if they could trade in more Chinese ports, free of the Chinese official “Co-Hong” merchants, the export of British goods to China would increase and British merchants would not have to pay China so much silver for their purchases of Chinese products.

Chinese officials, however, resisted such foreign requests (such as the 1793 British Lord McCartney mission to Beijing asking for increased diplomatic contact and more open trade). Emperor Qianlong responded that China had a self-sufficient economy with enough of everything the Chinese people needed.

One product that seemed to have promise to balance the foreign trade was the sale of opium to Chinese.

The East India Company established an elaborate trading scheme partially relying on legal markets, and partially leveraging illicit ones. British merchants carrying no opium would buy tea in Canton on credit, and would balance their debts by selling opium at auction in Calcutta. From there, the opium would reach the Chinese coast hidden aboard British ships then smuggled into China by native merchants. British exports of opium to China grew from an estimated 15 tons in 1730 to 75 tons in 1773.

By the 1820s China was importing 900 tons of Bengali opium annually. By 1834, when the British East India Company lost its monopoly on British trade with China, foreign merchants were selling about 1,400 tons per year, reversing the balance of trade and causing an outflow of Chinese silver to purchase opium that hurt the Chinese economy and brought great personal grief to Chinese families.

The Qing Imperial court consequently sent Commissioner Lin Zexu to Canton in 1838 to combat the illegal opium trade. Lin wrote a letter to Queen Victoria suggesting that she stop the dangerous and illegal opium trade. Initially British traders turned over their illegal opium stocks for destruction, but within a year the British initiated the first Opium War in retaliation for China’s exercise of its sovereign rights to regulate foreign trade and enforce its ban on opium. Unfortunately, China lost the war and was forced to agree to the first unequal treaty, the Treaty of Nanjing, signed on August 29, 1842. The Treaty had the following unequal conditions and limitations on Chinese sovereignty:

1. The Chinese island and port of Hong Kong was seized by Great Britain;

2. China was forced to open five Chinese sea ports to British business and British residence (Guangzhou, Fuzhou, Xiamen, Ningbo and Shanghai);
3. China’s sovereign power over setting trade tariffs was taken from China. Tariffs on imports and exports were set at about 5 percent;

4. The British government demanded that its subjects in China enjoy “extraterritoriality,” which meant that they were thenceforth able to live without having to obey Chinese laws, to pay most Chinese taxes, or to be held accountable for defrauding Chinese through non-compliance with contracts; and

5. China was forced to pay as an indemnity the large sum of 21 million ounces of silver to cover the costs of the destroyed opium and British military expenses in the Opium War.

The 1842 Treaty of Nanjing continued until 1943 and was followed 28 additional unequal treaties signed with 8 foreign powers between 1842 and 1915. All the unequal treaties extended the same humiliating and Chinese sovereignty-limiting conditions to all foreign “treaty powers” through the “most favored nation” provision of the treaties.

China only began to regain its sovereignty in 1917 when Germany and Austria/Hungary were forced to relinquish their privileges after their defeat in WWI. In 1917 Russia voluntarily abandoned its treaty rights because of Leninist principles. The UK and the US, however, did not give up their treaty privileges until 1943, just after the Cairo Conference. France was the last power to abandon its unequal treaties, in 1946.

There were three areas of losses resulting from the unequal treaty limitations on Chinese sovereign control over foreign business: direct financial losses and social costs, indirect financial losses, and losses from lost economic opportunities.

Direct financial and social costs: The yearly cost to China from the import and consumption of foreign opium was roughly 28 million taels, or Chinese ounces of silver (about USD 30 million) annually from 1842 to 1897 (Thomas, 1984, p. 66). The social cost was an estimated 15 to 30 million regular users of opium by 1900, or 1 in 5 Chinese adult urban males (100 Doctors, 1899). Besides the direct financial losses from Chinese opium purchase and consumption, there were enormous indirect losses due to family instability and drug-induced incapacity to work.

China also lost administrative power over one of the two major sources of government income, i.e. trade tariffs and land taxes, in that pre-income tax time. Great Britain set high tariffs on opium exports from India, and high tariffs on Chinese tea exported to the UK. But the unequal treaties limited the level of tariffs that China could set as “a fair and regular tariff on imports and exports” that British officials set at a nominal 5% on most exports and imports. That was a very low level, even in the days of “free trade.”

The First Opium War was attacked in the (British) House of Commons by a newly elected young Member of Parliament, William Ewart Gladstone, who wondered if there
had ever been "a war more unjust in its origin, a war more calculated to cover this country with permanent disgrace, I do not know."

After China was again attacked and defeated in the Second Opium War in 1860, the opium trade was actually legalized and the tariff on opium was set at 8%.

**Indirect Costs:** There were significant indirect costs for Chinese owned and controlled enterprises in banking, manufacturing (cotton yarn and cotton goods, cigarettes, steel, silk, tea and many other areas), transportation (shipping and railways), and energy (mostly coal mines).

In all these areas of modern industry, many foreign merchants followed sharp business practices (they often violated Chinese law) and operated at a competitive advantage over Chinese enterprises since foreigners did not have to pay taxes. There were numerous examples of sharp dealing, of fraud and of cheating by foreigners that could not be punished in Chinese courts because of the treaty-required extraterritoriality of foreign businesses in China until 1949. For example, during the Boxer Rebellion a young American mining engineer and later US president, Herbert Hoover, representing a British mining company, Bewick Moreing, defrauded the Chinese-owned Kaiping Coal Mines Company of about 2/3rds of its ownership. Chinese officials sued and won in British courts, but British officials in China refused to enforce the court ruling, citing their responsibility to protect British interests.

China’s lack of control over its foreign exchange (mostly deposited in foreign banks) leads to major losses in tariff income. As the value of silver decreased in relation to the price of gold, the foreign powers only permitted China to collect its tariffs in silver, while having to make payment on loans from foreign banks, such the Hong Kong and Shanghai Banking Corporation, in gold. China’s 5 percent tariff became an effective 3 percent by 1900 due to this limitation on China’s sovereignty, costing China millions of taels in lost tariff income annually. China was permitted to renegotiate its effective tariff rate back up to 5 percent only after the imposition of the huge Boxer Indemnity and the increased tariff income was used to pay the Boxer indemnity and foreign loans, not to help China develop.

After 1895, there were two new areas of major economic loss resulting from additional foreign-imposed limitations on China’s financial sovereignty. First, foreign lenders demanded railway development concessions in exchange for the foreign loans that China needed to pay off its 1895 war indemnity to Japan. Chinese greatly resented these arbitrary economic concessions to foreigners that took the opportunity for most railway development in China away from Chinese. Chinese reactions sparked a “rights recovery movement” in the early 1900s and it was an additional railway concession demanded by the British in 1911 that helped trigger the 1911 Revolution. These concessions caused China to lose control of most Chinese railway development at a time when building railways was one of the most profitable areas of economic development everywhere in the world.
Second, when foreign promoters gained these uncompensated concessions to build Chinese railways, they agreed in their contracts to purchase Chinese rails if quality and price were comparable. The Chinese Hanyang Ironworks was established in 1889 to sell iron and steel products, particularly steel rails to railway companies in China, both Chinese and foreign. But foreign-financed railway companies reneged on their contract obligations and not one foreign railway promoter ever bought a Chinese rail. This loss of the Chinese rail market led to financial failure and by 1911 Hanyang Ironworks (then renamed HanYehPing Iron and Steel Company) was bankrupted and taken over by a Japanese creditor (Thomas, 1984, p. 148-149).

China was also unable to tax or regulate foreign businesses because of the unequal treaty-imposed provision of foreign extraterritoriality that is total freedom from Chinese law. The Chinese government therefore could only tax Chinese businesses, such as the Nanyang Brothers Tobacco Company, which therefore had higher costs, and lost market share to British American Tobacco (Cochran, 1980).

The overall effect of the unequal treaties on Chinese-owned economic development efforts was to limit Chinese to about 30-40 percent ownership of most areas of modern industry in China until 1949: railways (as described above), steamship companies (Liu, 1962), coal mines (such as the British company’s takeover of the Kaiping Coal Mines), banks (SHBC), cotton mills, and manufacturing (such as the Hanyang Ironworks). China had to wait to its regain full sovereignty in 1949 to begin to industrialize and develop its economy.

These losses in Chinese ownership correlated with a dramatic fall in Chinese per capita income from 1842 to 1949 (Maddison, 2001).

**Chinese Experiences from 1949 to 1978**

In 1949, the Chinese Communist Party (the CCP), led by Mao Zedong, took control of China after defeating the Nationalist Party (the KMT) in a civil war. The new Chinese government then regained its full Chinese sovereignty and repudiated the remaining unequal treaties and other foreign economic obligations incurred from 1842 to 1949.

The new Chinese government then set about rebuilding the economy and in 1950 they adopted the Soviet development model. China turned to the Soviet model first because they were fellow communists, and also because the Korean War brought about a US-led Western economic blockade of China. In 1950, China and the Soviet Union signed a Treaty of Friendship, Alliance and Mutual Assistance that included technology training and the construction of 156 industrial projects to assist China in its industrialization.

China’s pre-1949 experiences of economic loss and economic development failure from interaction with the pre-WWII global trade system seemed to confirm what Lenin had argued: that workers, and peasants would be exploited, and capitalist countries would colonize (take away the sovereignty of) non-Western countries and exploit them through
force of arms. The British colony of India and the French colony of Indochina (including Vietnam) were examples of imperialism in Asia. Colonization also occurred on a mass scale in Africa. Angus Maddison’s data on the pre-WWII showing the generally economic performance of the colonies provides evidence in support of this view (Maddison, 2001, p. 216).

Chinese communist leaders were convinced of the moral and economic superiority of socialism because of its supposed commitment to a better life for workers and peasants and because of the predatory policies of pre-WWII British and French imperialists. They also were convinced of the technological competitiveness of socialist countries by the SU defeat of Nazi Germany on the Eastern Front, the acquisition by the Soviet Union of atomic and hydrogen nuclear weapons, and finally the successful Sputnik satellite launching in 1957. Chinese communist leaders saw the Soviet Union as the leader of the growing communist world and as the model for China’s future.

China adopted the Soviet economic state-planning model, with various features that it has still kept. First the new post-1949 Chinese communist government took ownership of the entire economy, including the agricultural sector, the industrial sector, and the financial sector. Using its ownership of the economy, it began Soviet-style state planning of economic development (rather than using free market signals and prices), including setting the prices of all inputs such as labor, capital, energy, and raw materials, as well as all outputs such as types of products, and quantities, prices, and planned profits.

The government allocated labor and guaranteed and planned for employment, housing, schooling, and health for all Chinese through government established “dan-wei” (work units). In the “dan-wei”, the government controlled most aspects of Chinese daily life, such as what type of employment at what wages, what size and type of living accommodations, and even when to marry and how many children to have.

In China’s financial sector, the post-1949 communist government took over all aspects of the financial system including the issuing of currency (the RMB or “people’s currency,”) and state ownership of what little foreign currency China had. All foreign exchange was deposited in the state-owned Bank of China. In 1978 control of all foreign exchange was turned over to a new agency administered by the Bank of China, the State Administration of Foreign Exchange (SAFE). SAFE still has most of the original Bank of China control functions over China’s foreign exchange.

Since there was a great Chinese reluctance to trade with western capitalist countries after 1949, and China was economically blockaded by the US, China came to depend heavily on the Soviet bloc: later, after the 1960 Sino-Soviet split, China followed a policy of “self-reliance and hard struggle” due to the continued US embargo and without any Soviet Union assistance. In 1964, China declared itself free of both domestic and foreign debts.

Economic development progress was most impressive until 1957. But in 1958, Mao ordered the labeling of about 553,000 intellectuals as “rightists,” condemning them to
political and social punishment for 20 years. In 1958 Mao also mistakenly started the “Great Leap Forward,” a policy failure and human disaster that led to the starvation deaths of 30 to 40 million people, the largest famine in human history.

After 5 years of recovery from 1960 to 1965, Mao started another disastrous campaign, the 1966-1976 “Cultural Revolution,” that saw more millions suffer undeserved persecution, mistreatment, and sometimes death.

During the Cultural Revolution, China was mostly isolated. There were few political, economic, cultural or diplomatic interactions with the world. There were few reports or press coverage of the outside world except for negative reports on the West as part of the political education experienced by all Chinese.

In 1971, however, Chairman Mao (with President Nixon) turned to the US to balance the growing threat of the Soviet Union, just as the US played the “China Card” to balance the power of the Soviet Union. By 1974, some pragmatic Chinese communist leaders, particularly Prime Minister Zhou En-lai, also had begun to argue for the “4 Modernizations” (agriculture, industry, technology, and military), and for following a path that would depend much more on advanced Western technology (despite the Soviet Sputnik), and trade with Western countries. Contacts between China and US were opened by Ping-Pong diplomacy and the desire of US companies to gain access to the “China Market.”

By 1976, with the death of Chairman Mao and the end of the ten-year Cultural Revolution, Chinese had come to hate endless political campaigns and political persecution of cadres, intellectuals, and people unjustly and labeled as anti-revolutionaries. The Chinese people were thirsty to know what was going on outside of China and eager to improve their standard of living.

**Successful East Asian Development Model**

The third factor that influenced China between 1949 and 1976, was that while China was developing its economy using the Soviet development model with some success compared with other developing countries outside of East Asia, China’s immediate neighbors, led by Japan and including South Korea, Taiwan, Hong Kong and Singapore, began in the 1970s to experience an economic miracle of rapid (8-10 percent) GDP growth rate through export-led development (Maddison, 2001, p. 216). The East Asian Tiger model featured a relatively free market but with government-led economic development institutions (such as the Japanese Ministry of International Trade and Industry, or MITI). The East Asian tigers also shared cultural traits with China such as high savings, emphasis on education, collective efforts, and hard work. Overseas Chinese dominated the economies of most East Asian countries and were a growing economic force in East Asia. Japan and the Four Tigers also had various types of government control of foreign exchange, restrictions on foreign ownership of property, and quasi-neo-mercantilist trade policies and practices.
The global trade economy had also improved after WWII. Imperialism was no longer acceptable to the world community and international economic relationships were based on free competition rather than military conquest and unequal treaties. This environment created opportunities for China to enter the world market and to pursue economic development without losing its sovereignty.

**China’s Post-1978 Rejoining of the World Economy**

China’s post-1978 open door policies were influenced by the three above factors. The policies were developed by Long-March veteran Deng Xiaoping, who was able to gain power after a post-1976 struggle within the party with Maoists, including the “Gang of Four.” Deng set out a new national policy of shifting emphasis from class struggle to economic development. In 1978 Chinese leaders began rehabilitation of almost all of the people labeled “rightists” in 1958 and cadres labeled revisionists and capitalist roaders during the Cultural Revolution. Their personal dossiers were purged of past accusations, they were given back their jobs, and they were welcomed back to a normal Chinese life. To most Chinese, particularly young people, the Cultural Revolution was a time of social chaos and cultural destruction, and had resulted in 10 years of lost education and youth.

Based on China’s historical experiences with its first open door, when China had only limited sovereignty, and post-1949 China’s relative economic development successes with full sovereignty but traumatic and costly Maoist political campaigns, and, and finally the successful economic development example China’s East Asian Tiger neighbors and the apparent improved opportunities for economic growth from interaction with the global economy, China’s leadership decided to engage in unprecedented domestic economic reforms and a carefully controlled “going global” open door policy.

Beginning in 1978, Deng instituted a series of economic reforms in response to the continuing poverty of Chinese people. The first economic reforms were in agriculture, where he established the household responsibility system and reopened free agricultural markets, giving the peasants much more control over their local agricultural production decisions and permitting peasants to sell surplus production on the free market. The agricultural reforms led to a major upsurge of agricultural production.

The second market reform was to move most of the economy from state-determined prices to market prices for inputs and outputs, and over time to free up wages and labor mobility. The third area of reforms was to begin to open China up to the world economy through four special economic zones (SEZs) across from Hong Kong, Macau, and Taiwan, and to permit and encourage foreign direct investment (FDI), for the first time since 1949.

These were major changes in economic development policy and met much resistance within the Chinese Communist Party. Nevertheless, Deng and other reform leaders persisted and the reforms began to take hold and produce impressive results.
Post-1978 policy was to invite in foreign investors but carefully control them to try to insure that Chinese national interests were protected and that China gained maximum benefits from foreign capital, foreign technology, and foreign marketing skills. Methods to achieve these goals included: close control of the Chinese currency, and the use of FDI to build foreign exchange reserves, to assist Chinese be able to better export to international markets, to gain access to technology and know-how, to gain management skills, and finally to develop independent research and development capabilities.

To maximize Chinese benefit from opening to the world, the Chinese government controlled the allocation of Chinese labor and many other inputs to foreign investments through state allocation agencies, such as the State Administration of Foreign Experts Affairs following its plan of Overseas Expertise Introduction (OEI).

The Chinese government also controlled all foreign exchange through the State Administration of Foreign Exchange (SAFE). Beginning in 1979, foreign exchange was traded for “foreign exchange certificates,” designated in Chinese money. Later (1995), a simpler exchange system was introduced, from foreign exchange to Chinese currency, but still with government controls through SAFE.

Since 1991, Chinese foreign exchange current accounts have been freed up, but not capital account transactions (long term capital investments). Until today, the RMB is still not freely convertible, as local currency is in Japan, South Korea, Taiwan, Hong Kong, and Singapore, though it becoming more widely available to Chinese enterprises and citizens, and more widely used abroad.

China’s FDI originally began with limits on levels of foreign ownership in businesses in China, (no more than 49%). Later foreigners were permitted to set up wholly owned businesses in China, except in economic sectors such as telecommunications, transportation, certain energy sectors, and other industries related to national interest. These limits, similar to those in most East Asian countries as well as in the US, are meant to protect strategic Chinese industries.

Chinese regulations originally required that, in the initial stages, foreign businesses would only export their products to the international market, not the Chinese domestic market. That limitation has also been modified to some extent.

Chinese officials made strong efforts to convince foreigners to take a long-term perspective on their investments, to keep foreign currency within China, and to see China as a poor developing country that could use help from the generous side of developed economy citizens and investors.

In order to gain the maximum advantage from interaction with the global economy, China has continued many 1949-78 Soviet-style policies and controls, such as:

   a. Overseeing the collection, planning and allocation of all foreign currency. This system, along with low-priced Chinese currency that has helped fuel
large and growing Chinese exports, has permitted China to accumulate huge foreign exchange reserves, at USD 3.5 billion trillion, the largest in world history. This Chinese foreign currency reserve has provided China with sufficient foreign exchange that China could afford to import foreign technology (Japan, Hong Kong, Taiwan, and Singapore, using similar neo-mercantilist policies, also have very large foreign exchange reserves);

b. Continuing government involvement and at least partial ownership of major Chinese industries such as transportation, telecommunications, iron and steel, energy, and financial services;

c. Keeping a primary role for the Communist Party in all decision-making in the economy; and

d. Maintaining a complicated set of rules and the establishment of various agencies to control and regulate all aspects of foreign (and Chinese) economic activities in China to assure that Chinese society and Chinese individuals can gain maximum benefit from foreign direct investment.

In short, China has moved toward a more open economy with some private, state and collective and foreign ownership all coexisting, permitting foreign investment including wholly owned foreign subsidiaries, making foreign exchange gradually freely convertible, setting up export processing zones and special economic zones, and finally actively encouraging FDI, under strict Chinese control. China is also encouraging Outbound FDI by many of its most successful enterprises.

Conclusion

China has been very successful as a latecomer to the world economy over the last 30 years. Our analysis argues that the three factors, China’s pre-1949 experiences of forced opening, China’s 1949 to 1978 Soviet economic development model and costly political campaigns during that time, and the impressive successes of the East Asian Tiger model and the new economic development opportunities presented by the world economy, all have formed and influenced the policies that have permitted China’s successful post-1978 economic development.

Chinese leader’s reaction to the costs of the Soviet model and of Maoist political campaigns, as well as the economic successes that the market reforms and opening up have brought China, will continue to motivate the Chinese to not only keep the door open, but also to make it wider by Going Global.

The East Asia economic development model will have less influence on future Chinese economic expansion. China will instead conduct independent research on appropriate methods to continue developing the country of 1.3 billion people, already ranked as the second largest economy in the world.
China will still have the memory of its pre-1949 experiences, the 100 years of national humiliation ("bai nian guo chi"). China will also still keep in mind the destructive economic and social consequences due to China’s pre-1949 lost sovereignty. These memories will continue to make Chinese policy makers cautious about foreign investment and design gradualist policies both in FDI in China and Chinese investment in foreign countries (OFDI). At the same time, China will continue to carefully manage economic development to insure that Chinese will gain the most benefit from having a market system and access to the global system.

Chinese officials will not return to the Maoist campaign-style approach to development that in the end cost so many lives and caused so much suffering in the Anti-Rightist Campaigns, the Great Leap Forward, and the Cultural Revolution.

So far, China has suffered less each year from the poverty that it had previously experienced and that still stalks many of the poorest countries in the world (such as India, Pakistan, Bangladesh, and much of Africa).

As a result of the 30 years of rapid economic expansion, China faces serious new challenges: such as environmental degradation, worsening air quality, water pollution, and shortage of major resources, government corruption, and the long-run problems of an aging population. China also faces social challenges such as basic human rights, and uneven income distribution between the poor and rich and the coastal and inland regions.

China will have to begin a new round of reforms to deal with these serious issues that are currently emerging. We believe that the new reforms will still be influenced by China’s historical experiences and continued changes in international conditions.
References


