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# **China Emerges as a Global Power on 60th Birthday**

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The China Policy Institute, part of the School of Contemporary Chinese Studies at The University of Nottingham, was set up to analyse critical policy challenges faced by China in its rapid development. Its goals are to help expand the knowledge and understanding of contemporary China in Britain, Europe and worldwide, to help build a more informed dialogue between China and the UK and Europe, and to contribute to government and business strategies.

## **Executive Summary**

1. On its 60<sup>th</sup> anniversary, China will demonstrate to the world that it has become a major world power at Tiananmen Square on 1 October 2009.
2. China is predicted to become the second largest economy in the world, surpassing Japan, and is set to overtake the US to become the largest within 20 years.
3. China's economic success has not been achieved without conflicts, struggles and problems.
4. Development in the first 30 years had produced mixed results. It laid a good foundation for agricultural and industrial development, but the country was tormented by the Great Leap Forward and the Cultural Revolution.
5. The success of economic reforms must be credited to Deng's pragmatic and experimental approaches, or the so-called 'Black and White Cat' and 'Groping Stones to Cross the River' theories.
6. Institutional reforms and globalisation were important policies promoted by Deng, helping China to achieve an unbroken record of rapid growth for three decades.
7. China is now a global industrial powerhouse, producing a large proportion of the key agricultural and industrial goods in the world.
8. It also aims to become a leading nation in science, technology and innovation. It has become one of the world's front-runners in areas such as space, engineering, agricultural, computer, energy and biological technologies.
9. China has laid down a clear national strategy to help its large state-owned enterprises to become powerful global businesses through foreign investments, acquisitions and mergers. The three largest banks in the world by market value are now found in China.

10. The current world financial crisis has been a catalyst for China's re-emergence as a world superpower. Many industrialised economies are experiencing deep recession but China is still set to grow by 8% in 2009.
11. The essence of the so-called China model is the successful combination of market and state, reformed authoritarianism and controlled freedom, and the ability of the state to mobilise national resources for large projects to meet national development plans quickly and effectively.
12. Its people's hardworking spirit, high savings and investments, and education are other factors of China's economic miracle.
13. China faces serious challenges and constraints to its future development, namely, rising income inequality, corruption and environmental degradation. These problems need to be resolved or they will become serious threats to its future development and prosperity.
14. The west needs to understand China better with its seemingly unstoppable re-emergence as a world superpower.

# **China Emerges as a Global Power on 60<sup>th</sup> Birthday**

Shujie Yao<sup>1</sup>

## **Introduction**

- 1.1 China is busy preparing for its 60<sup>th</sup> birthday on 1 October 2009. On the day at the Tiananmen Square, tens of thousands of people will gather to witness the most spectacular displays of military hardware and synchronised moving matrices of soldiers.
- 1.2 The PRC will use this opportunity to show the entire world that it has emerged as a major world economic and military power. This paper aims to explain how China has managed to transform itself from an isolated and poor nation to be a leading dynamic, globalised and prosperous industrialising economy on earth.

## **The giant awakes**

- 2.1 Napoleon once said of China: "Here lies a sleeping giant. Let him sleep, for when he wakes up he will shake the world." After sixty years of development since the People's Republic of China was established, this giant is now fully awake and truly is shaking the world.
- 2.2 For many centuries, China was the world's biggest economy, accounting for about one-quarter of the world's gross domestic product (GDP) before 1800.
- 2.3 Over the next 150 years China not only failed to keep pace with Western countries going through the Industrial Revolution, but it diverged even more. This was due in part to the incapacity of the late Qing Government to implement modernising reforms that would have allowed China to adopt foreign technology and engage in the globalisation boom between 1850 and 1914. The country was increasingly perceived to be the 'sick man of Asia,' afflicted by domestic uprisings, civil wars and foreign invasions.

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- 2.4 The significance of the People’s Republic of China (PRC) lies not in its establishment and rule by the Chinese Communist Party, but in its bringing to an end the country’s century-long wars and isolation, allowing its people to rebuild the nation in peace and dignity.
- 2.5 China has a lot to celebrate on its 60<sup>th</sup> birthday. It is now the third largest economy and is predicted to overtake Japan this year as the second largest in the world. It has become a leading nation in terms of higher education, scientific innovation and technological progress. Despite frequent conflicts and disputes, China has nurtured rather harmonious relationships with the world’s most powerful political blocs, including the US, Russia, Eastern Europe, Japan, the EU and ASEAN. It has also played increasingly important roles in the regional economic development and growth of Africa and Latin America.
- 2.6 China’s success has not come easily. The last sixty years of its development can be divided equally into two sub-periods: the pre-reform period of 1949-1978 and the reform period of 1978-2009 (Table 1). In retrospect, the first sub-period can be regarded as an experimental stage for the Chinese model of development. During this period while some great achievements were made, so were a lot of mistakes with devastating social and economic consequences. The development of the second sub-period was based on the achievements and mistakes made during the first sub-period.

Table 1 Major events in China’s 60 years

Period	Event	Comments
1949-52	Land reforms	Equal land distribution
1953-57	1st 5-Year Plan	Collectivization
1958-61	Great Leap Forward	People’s commune and famine
1962-65	Recovery	Free market and production
1966-76	Cultural Revolution	Class struggle, nationalization
1976	Mao's death	Hua Guofeng became party chief
1978	Reforms started guided by Deng	Hu Yaobang became party chief
1989	Jiang Zemin became party chief	Guided by Deng for deeper reforms
1997	Deng's death	Hong Kong returned to China
2002	Hu Jintao became party chief	China steps up as a world power
2006-10	11 <sup>th</sup> 5-Years Plan	Aiming to be a science-technology strong nation
2008-09	World finance crisis	Remaining strong, 9% & 8% growth

### **Mixed results of the pre-reform era**

- 3.1 Most researchers and commentators consider the pre-reform period as a lost time for China, emphasizing the mistakes and consequences made by Mao Zedong in his relentless drive for political struggles within the party and the state.
- 3.2 In retrospect, not everything done in this period was wrong. In fact, China had achieved a lot, laying the basic foundations in agricultural, industrial, education and healthcare for development in the reform period. Of course, the Great Leap Forward movement (1958-61) and the Cultural Revolution (1966-76) were two important disastrous episodes that were responsible for the country's isolation and poverty.
- 3.3 One of China's great achievements in the pre-reform period was rural land reform which enabled all households to have a piece of land as a basic means of production. There are a few advantages in the equal distribution of land in economic and social development. It provides the most effective institution for poverty reduction, equality-enhancement and land productivity growth. No other country in the world with a similar rural population has managed to re-distribute land from rich land owners to poor landless peasants on an equal basis.
- 3.4 Land reform in China has had a long lasting effect up till today despite progressive industrialization and urbanization taking place for six decades. In the past when the level of urbanization was low, it made sure that all rural people had a basic means of survival. At present with the high and increasing level of urbanization, it effectively acts as a safety net mechanism for rural migrant workers seeking employment in towns and cities. When rural migrant workers cannot find jobs in the cities, they may go back to their villages to resume farming or supplement their income by farming. With some 150 million rural migrants on the move, this is vitally important for China's social and political stability.
- 3.5 Another achievement during the pre-reform period was urban industrialization and the development of a modern agricultural production system. From 1952 to 1978, the contribution of industrial value-added to GDP rose from 20% to 48%

and industrial employment to total employment from 7% to 17%. Total production of steel rose from 1.4 million tons to 32 million tons and total grain production from 164 million tons to 305 million tons.

- 3.6 Other achievements in this period included the popularisation of primary and secondary education and the eradication of many deadly diseases in the vast countryside. Life expectancy almost doubled in 30 years and infant mortality rate was substantially reduced.
- 3.7 The biggest mistakes in the pre-reform period included the Great Leap Forward Movement and the Cultural Revolution. These political movements were intended to accelerate China's economic growth but they all turned out to yield catastrophic consequences.
- 3.8 Coupled with unusual poor weather, the Great Leap Forward Movement during 1959-61 resulted in a huge famine, causing more than 31 million lost births and over 18 million deaths.<sup>2</sup> The Cultural Revolution disrupted the higher education system, purged millions of innocent intellectuals and party officials, and rendered the whole economy stagnant.
- 3.9 The negative consequences of the political mistakes made during this period, nonetheless, became useful lessons for the post-1978 economic reforms. The relatively sound agricultural, industrial, healthcare and basic education systems created in this period provided an important stepping stone for the Chinese economy to take off in the reform era.

### **Economic reforms: rapid growth and prosperity**

- 4.1 Learning from the mistakes of the Great Leap Forward and the Cultural Revolution, Deng Xiaoping promoted a pragmatic and experimental strategy for China's economic development from 1978.
- 4.2 After Mao's death and the downfall of the Gang of Four in 1976, Deng was effectively the most important political leader and chief architect of economic

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<sup>2</sup>Yao, Shujie (1999) Comment: a note on the causal factors of the China's famine during 1959-61, *Journal of Political Economy*, 107 (6-1):1365-1372.

reforms. The first stage of reform was during 1978-92, characterised by institutional changes in agriculture and industry.

4.3 In agriculture, the household production responsibility system replaced the Commune system, enabling farmers to plough their allocated plots of land (thanks to land reforms in 1949-52) without much state intervention in their production decision. The system provided the largest possible reward mechanism for all farmers who were entitled to keep what they produced after delivering a fixed amount to the production teams and the state.

4.4 As a result, labour and land productivity enjoyed multiple-fold growth, producing enough food and materials to feed and clothe the most populous nation on earth. For instance, from 1978 to 2008, grain output rose from 305 million tons to over 500 million tons, meat production from 9 million tons to 70 million tons, and fish production from 5 million tons to 50 million tons (Table 2).

Table 2 Main economic achievements of China's 60 years

Key indicators	1952	1978	2007	'1952-07
Population (million)	575.0	963.0	1,321	1.52
Rural as %	87.6	82.1	55	-0.84
Employment (million)	207.0	402.0	770	2.42
Agriculture as %	83.6	70.6	41	-1.29
GDP current prices (RMB bilion)	68.0	364.5	24,953	11.33
Agriculture as %	50.0	27.9	11	-2.72
Real GDP index (1978=100)	26.0	100.0	1,500	7.65
Real GDP index (1978=100)				
Rural income/head index (1978=100)	63.3	100.0	734	4.56
Urban income/head index (1978=100)	46.1	100.0	752	5.21
Bank Deposit (RMB billion)	0.9	21.0	17,253	19.64
Key agricultural/industrial products				
grain (million tons)	164.0	305.0	502	2.05
meat products (million tons)	3.4	8.6	69	5.61
fish (million tons)	1.7	4.7	48	6.28
cloth (billion metres)	3.8	11.0	68	5.38
colour TV sets (million sets)	0.0	0.1	85	
coal (million tons)	66.0	620.0	2,526	6.85
electricity (billion kwh)	7.3	256.6	3,282	11.75
Crude steel (million tons)	1.4	31.8	489	11.31
cement (million tons)	2.9	65.2	1,361	11.86
fertiliser (million tons)	0.0	8.7	58	14.15

vehicles (1000 units)	0.0	149.1	8,889	
Foreign trade (\$billion)	1.9	20.6	2,174	13.66

Notes: FDI = foreign direct investments, KWH = kilowatt hours. The latest and most complete data from official sources are for 2007 only.

- 4.5 The enormous growth in agricultural production was achieved with significantly less labour and agricultural land. Agricultural labour as a proportion of total labour declined from 70% to 40%.
- 4.6 Rising agricultural productivity brought a seemingly unlimited supply of raw materials and labour to fuel China's relentless industrialisation and urbanisation drive in the following decades. In the meantime, urban and industrial reforms greatly improved the efficiency of state-owned industries and encouraged the non-state economy to flourish.
- 4.7 The reforms since 1992 have been dominated by the push for exports, openness and 'ownership diversification' (privatisation). China has become one of the world's largest hosts of foreign direct investment (FDI), and one of its largest trading nations. From 1979 to 2008, China absorbed over \$900 billion of FDI from about 200 countries. The volume of trade increased 120-fold, from \$21 billion in 1978 to \$2,562 billion in 2008. Its world ranking rose from 23rd to 2nd over the same period. In the first half of 2009, it overtook Germany for the first time to become the world's largest exporter of merchandise goods.
- 4.8 Just a few years ago, China was unknown for its outward FDI, but by the end of 2009, outward FDI may surpass total inflows for the first time, signifying the transformation of the country's status to a net investing country. The total amount of fixed assets of Chinese overseas investing firms had surpassed \$1 trillion by 2008.

### **Secrets of the Chinese Miracle**

- 5.1 Openness and globalization are important factors for China's economic success. It is reported that FDI was responsible for up to one-third of the country's total factor productivity growth, equivalent to about 1.5% of the country's GDP growth per year over 1979-2005.<sup>3</sup> FDI and exports have been mutually

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<sup>3</sup> Yao, Shujie and Kailei, Wei (2007) Economic growth in the presence of FDI from a newly industrializing economy's perspective, *Journal of Comparative Economics*, 35(1), 211-234.

enhancing, propelling China's technological progress and economic growth, enabling its economy to achieve an unbroken record of almost two-digit annual growth for 30 years.

5.2 Other important factors responsible for China's economic miracle include its people's hardworking spirit, technological innovation, high rates of savings and investment, education system and human resource development, and ownership and institutional reforms.

5.3 In 2007, China replaced Germany as the third-largest economy in the world. And now, thanks to the financial crisis which began in the US in 2007, it is set to become the second largest economy by the end of 2009, overtaking Japan (Table 3).

Table 3 GDP (US\$3 trillion) in the top 5 economies

GDP	US	Japan	Germany	China	UK
2005	12.38	4.55	2.79	2.29	2.24
2006	13.25	4.37	2.90	2.79	2.39
2007	13.84	4.38	3.32	3.47	2.77
2008	14.10	4.68	3.37	4.42	2.73

Source: World Bank International Comparison Program 2005, The Economist Intelligence Unit, Country Profile 2007 & 2008, and NBS of China. Data in 2008 for the US, Germany, Japan and the UK are estimated by authors.

5.4 As China has a large population of 1.3 billion, becoming the world's second-largest or even largest economy does not imply that the country is rich. In fact, it remains a low to middle-income economy in terms of per capita GDP. So why will it be able to shake the world? There are three reasons:

5.4.1 China has entered the fast track of industrialization and urbanization, implying that whatever happens to the rest of the world, as long as it is able to maintain political, macro-economic and social stability, it will continue to grow rapidly and for the better.

5.4.2 Even though China's GDP per capita is still low, its total GDP is vast. Due to differences in population size, the impact of a 1 per cent growth in China's GDP per capita is equivalent to a 10 per cent growth in Japan

and a 16 per cent growth in the four Asian 'tigers' - South Korea, Taiwan, Hong Kong and Singapore - combined.

5.4.3 The low level of GDP per capita at present implies massive room for growth in the future. China can still take advantage of its relative backwardness to achieve high growth.

5.5 China is the world's largest producer of many key industrial and agricultural products, including rolled steel (566 million tons, crude steel 489 million tons), coal (2.5 billion tons), cloth (67.5 billion metres), chemical fertilizers (58 million tons), colour TVs (85 million sets), bicycles (75 million), motor bicycles (25 million) and personal computers (121 million, or 30% of world output). It also produces two-thirds of the world's photocopiers, microwaves and shoes, 60% of mobile phones and 75% of toys. In 2009, many western economies have fallen into deep crises, but China may well overtake the US to become the world's largest consumer and producer of motor vehicles for the first time, with total production and sales expected to reach a record of 12 million units.

### **Financial crisis – catalysis for China's re-emergence**

6.1 The present global financial crisis has slowed China's exports and GDP growth. Yet the crisis is not causing huge damage, unlike in the US, Japan and the 'big four' European countries of Germany, France, Britain and Italy. Each of these economies may suffer a contraction of up to 4 per cent in 2009, whereas China still has a chance to reach its 8 per cent growth target.

6.2 In the US, the investment banks that once dominated Wall Street have either closed, merged or metamorphosed into commercial banks. The insurance company AIG recorded a historic loss of more than \$100 billion in a year. The world's two largest banks in 2007, Citibank and Bank of America, at one point lost up to 95 per cent of their stock value. Two of Detroit's 'big three' automakers have filed for bankruptcy.

6.3 By contrast, China is emerging from the crisis as a big winner and set to lead the world out of recession. Even though GDP growth has slowed and exports dropped by more than 30 per cent from the third quarter of 2008 to the second quarter of 2009, China now owns four of the top 10 banks in the world in terms

of market capitalisation – including the top three: Industrial and Commercial Bank of China, China Construction Bank and Bank of China.

- 6.4 In 1997 Chinese companies accounted for only three per cent of the total profits created by the top 100 in the Fortune 500, but by 2008, their share had shot up to 40 per cent. In May 2009 China National Petroleum Corporation (CNPC) overtook ExxonMobil to become the world's largest company by market capitalisation. In addition, China has become one of the largest outward investors in the world. Its outward FDI rocketed from almost nothing in 2002 to over US\$50 billion in 2008 and may double in 2009.
- 6.5 The latest annual survey by *Fortune* magazine shows that for the first time in 10 years, the world's largest company by sales - the Royal Dutch Shell Oil Company - is not from the US. The US still has 140 companies listed among the top 500, and China only 37, but this is the lowest figure for the US and the highest for China since records began in 1995. For the first time, the Chinese petrochemicals company Sinopec is in the top 10.
- 6.6 The rankings of the top companies in the world show clearly that the US's absolute dominance in world business is facing serious challenges from the rest of the world, especially China, for the first time since the dawn of the 21st century. China's re-emergence as a world business power has shifted, and will continue to shift, the balance of power in the world's economy and international politics from west to east in the new century.
- 6.7 China's per capita GDP was less than 1 per cent of the US's in 1978, now it is one-tenth measured in nominal dollars and one-fifth in PPP (purchasing power parity) dollars. The gap in per capita incomes between the two countries is rapidly narrowing. Measured in nominal dollars, China's total GDP is less than one-third of the US's (Table 3), but measured in PPP dollars, it is over four-fifths of the US's (\$11.5 trillion versus \$14.1 trillion).
- 6.8 Based on past records, and taking into account China's expected growth rate in the next two decades, China will overtake the US to become the largest economy in the world within five years measured in PPP terms, and within 20 years measured in nominal terms.<sup>4</sup>

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<sup>4</sup> These predictions are based on the assumption that the US economy will grow 3% per year and the Chinese economy 9% per year, assuming constant nominal exchange and inflation rates

- 6.9 China has a clear national strategy to become a powerful world business leader. Its government has been supporting and fostering a large number of gigantic state-owned industrial groups. These selected groups have been allowed to grow rapidly in size and profitability domestically, and then encouraged by the state to expand globally.
- 6.10 State-owned banks are providing strong financial support for them to make foreign acquisitions and deepen their foreign market penetration. Through capturing market share and making acquisitions overseas, they are competing directly with, or working alongside, the world's most powerful transnational corporations, such as Rio Tinto. Although they are generally on the right track, there have been unforeseen setbacks and hardship.<sup>5</sup>
- 6.11 Nevertheless, China will learn its lessons and help propel even more and better companies – as well as their leaders – onto the international stage. The most recent foreign successes included Sinopec's US\$7.5 billion acquisition of the Canadian oil company Addax in August 2009, and Minmetals' US\$1.38bn purchase of Australia's Oz Minerals in June 2009, among others. Chinese firms have embarked on their new Long March in the global economy – and they will come back stronger following every defeat.
- 6.12 The dynamism of China's domestic economy has been supported by reforms of state-owned enterprises (SOEs), including state-owned commercial banks, and the rapid growth of private sector and foreign-invested firms in the country. Before economic reforms, SOEs were responsible for over 90 per cent of industrial employment and output. By 2009, their share was less than 10 per cent. Even SOEs themselves have become share-holding companies or been privatised. Most large SOEs have been listed on the stock exchanges and about one-third of their shares are tradable.
- 6.13 For all the many criticisms of its political structure and one-party rule, China has time and again demonstrated to the rest of the world that its political and

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for both countries. If the Chinese currency continues to appreciate against the dollars as it has done in the past decade, and/or if China's domestic inflation rate is to be higher than the US's, China does not require a constant six percentage growth advantage over the US to catch up with the latter given the time frame. As a result, a more optimistic scenario is that China may even overtake the US earlier, say by 2020, see David Shambaugh (2009), *The road to prosperity*, *Time*, 174(12), 18-23. Of course, the catching up process may take longer if some of our assumptions turn out to be too optimistic.

<sup>5</sup> China National Offshore Oil Corporation failed in a bid to acquire Unocal in 2005, and in June 2009 the Chinalco-Rio Tinto deal came to a sorry end for the Chinese.

economic model can be an effective tool for its economic success. What has been proven successful (or unsuccessful) in the west, especially the so-called Washington Consensus may not be suitable for China, due to its huge economic, political, cultural, or even historical differences. The success of China has not been attributed to its ability to copy from the western development model, but to its ability to take advantage of the western model and modify it to suit the reality of Chinese culture and society.

- 6.14 This modified model is now popularly termed as the China model and the key advantages of this model include the ability to gather resources quickly on a massive scale, to cope with natural disasters with unbelievable speed and effect, to grow at a pace hardly ever matched by anyone else, and to achieve development goals with well-designed national, regional and sectoral medium- to long-term plans.
- 6.15 The Chinese model has successfully combined the advantages of the state and market, deliberative authoritarianism and circumscribed freedom, public and private ownership, capitalism and feudal-socialism. All this boils down to Deng's pragmatism, exemplified by his 'black and white cat' theory – 'it does not matter whether a cat is black or white, so long as it catches mice' -- and experimentalism by his 'groping for stones to cross the river' theory.'
- 6.16 It is easy to cite occasions in which China has surpassed its competitors' expectations. They include its hosting of the 2008 Beijing Olympics, rescue and rebuilding efforts following the Sichuan earthquake, and the fight against SARS, to name just a few. Even in the current financial crisis, China is able to start many construction projects immediately, helping to stimulate not only its own economy but the recovery of many other countries.

### **Challenges and constraints: treading an uncertain and thorny path**

- 7.1 Of course, China has weaknesses and faces serious challenges, including widening inequality in many dimensions (rural-urban, inter-regional, inter-sectoral and inter-class), pollution and corruption. These problems are hard to resolve and will remain the most serious threats to the country's future growth and development.

- 7.2 One side effect of fast economic growth is that the newly created wealth has not been fairly, let alone equally, distributed. The rich have become much richer and the poor not much better off over the last few decades.
- 7.3 Although a few hundreds of millions of people have been lifted out of poverty, the absolute number of poor and low-income people remains large. Depending on which poverty threshold is used, the poverty headcount in China ranges from 40 million (official poverty line) to 207 million (World Bank's \$1.25 per head per day line).
- 7.4 In contrast, the scale of wealth accumulation by the top 1% of the population is staggering.<sup>6</sup> The Gini coefficient measuring income inequality has risen from about 0.2 in 1978 to about 0.45 today, approaching the highest in the world.
- 7.5 Rural-urban income inequality measured by urban-rural per capita income ratio rose from 1.8 in 1984 to 3.4 by 2007 (RMB 13,786 vs RMB 4,140). Per capita income ratio of the rural population between the richest and poorest provinces was 4.4 (RMB 10,144 in rural Shanghai vs RMB 2,328 in rural Gansu). For the urban population, this ratio was 2.4 in the same year (RMB 23,623 in urban Shanghai vs RMB 10,012 in urban Gansu).
- 7.6 In 2007, the ratio of annual earnings between the highest and lowest earning sectors in urban industries was 4.4 (RMB 47,700 in ICT vs RMB 10,847 in agriculture). Within the same sector, the same region, or even the same work unit (e.g., the same university), earning differentials between the high and low earners are huge. A top professor in a key national university can earn more than one million RMB per year, while the average salary of the entire Chinese education sector is less than RMB 30,000. Senior managers of large state-owned enterprises can earn a few hundred times more than factory workers.
- 7.7 Corruption has been a critical factor for widening income inequality in China. In the past, a state or party official could be served with a death penalty if he or she illegally obtained less than half a million RMB. Today, numerous corrupt officials are reported to have illegally obtained tens of millions, or even hundreds of millions RMB.

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<sup>6</sup> The Hu Run list of the richest Chinese in 2009 includes 1,000 people with a minimum wealth of RMB one billion. The richest person has a total wealth of RMB 35 billion. The estimated total wealth of these 1,000 people will be more than 10% of China's total GDP in the same year.

- 7.8 The number of corrupt cases is difficult to estimate, as illustrated by the recent anti-corruption and anti-illegal business campaign launched in Chongqing city. The campaign has revealed an incredibly large amount of illegal money and number of corrupt officials.<sup>7</sup>
- 7.9 Environmental degradation is another threat to China's sustainable development. People's material living standards have been raised enormously, as reflected by the rapid growth in per capita income, and the abundance of consumer goods in ordinary Chinese households. However, pollution of the water system, air and soil has become a serious threat to people's health and living environment, let alone causing change to the climate. The phenomenal increases in the production and consumption of motor vehicles, electricity, electronic appliances, steel, coal, cements, toys and the like have impinged on and will continue to bring about huge damage to the living environment.
- 7.10 Under the leadership of Hu Jintao and Wen Jiabao, many efforts have been made to address these economic, social and environmental issues mentioned above. More resources have been used to support the poor, especially those in the countryside, through school fees exemptions, healthcare subsidies, and the provision of state pensions to people aged over 60.
- 7.11 The western provinces have been further supported by various new policies. Apart from rebuilding programmes in Sichuan and other earthquake-affected provinces, more resources and preferential policies have been earmarked for the country's poorest regions. These include the construction of large infrastructure projects and the provision of state subsidies to support various social and economic programmes.
- 7.12 In the prosperous eastern provinces, inefficient and pollutive businesses are being closed down and investments are being made to upgrade industrial technologies. State investments are also being made to reduce the country's dependency on non-renewable resources and CO<sub>2</sub> emissions through, for example, increasing the electricity-generating capacity of wind, solar, hydro and nuclear powers, developing more efficient (hybrid) cars and motorcycles, and converting low-yield croplands in the western regions to forests or grasslands.

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<sup>7</sup> The former policy chief of Chongqing Municipal, Wen Qian, buried RMB 20 million of cash in a local fish pond. Over 200 mid- and high-ranking party and government officials were arrested during the campaign. They were found guilty of providing protection to illegal businesses and receiving massive amounts of 'protection' fees.

- 7.13 China's fight against corruption has resulted in the investigation and prosecution of numerous party and state officials across the country. The severe punishment on corrupt officials may not necessarily eradicate corruption but it has been the only tool to prevent it from becoming a serious threat to the one-party rule and political stability.

### **Way forward**

- 8.1 The various government policies have produced some remarkable results, yet to become a large and strong nation, China needs to do more in the coming decades. The financial crisis has affected all countries but also thrown up great opportunities for China.
- 8.2 Declining exports have forced Chinese companies to become more competitive, to move up the technological ladder, to re-balance their geographical distribution and to become more efficient in their use of resources and energy. Depressed oil and material prices will help China sustain its high economic growth as it is the largest importer of such commodities. Economic contraction in the US, Japan and other large industrialised countries has accelerated China's convergence with them. This will continue to speed up in the years to come.
- 8.3 As the PRC celebrates its 60th birthday, people will learn to understand more of the country and prepare themselves for more direct and tougher competition from this awakening giant.