

10 Fast recovery, growth, development and the future

The nitty-gritty of Deng Xiaoping's reforms has been mulled over too much.¹ The essence of Deng's reforms was to permit the Chinese population the much delayed exit from Maoism to end the institutionalised poverty and under-development. Recovery, growth and development naturally followed.

Rural sector

Exit from Maoism

In rural China, that exit led to spontaneous, basic needs-driven changes at the village level in order to fill up 770 million stomachs, half-empty since the 1950s. So, the first powerful engine fired in Deng's reforms was in fact the sheer primal animal instinct for food. Such animal instinct needed no input from any official, Deng included.

The change started at the bottom of society in the most deprived sector. On one winter night of 1978, 18 peasants in Xiaogang Village, Fengyang County of Anhui desperately wanted to break free from Mao's communist farming and signed a secret contract under which they split the commune's land to form family farms as a way to feed their families.² This was illegal.

To put the record straight, this was in fact a 1962 scheme promoted by Liu Shaoqi after the Great Leap Famine, known as 'three selves and one quota' (*sanzi yibao*).³ Mao rejected it as 'reactionary revisionism'. Those who were involved were ruthlessly purged. Against this background, the Xiaogang contract included a clause that if any signatory was imprisoned or executed the rest of the gang were to raise the victim's family.⁴ Between hunger and the risk of prison or death, the peasants chose the latter.

At this point, Anhui was one of the poorest provinces in China. In 1977, a quarter of all villages (called 'production teams') in Anhui were unable to maintain the minimal output; 8 per cent of them no longer owned any draft animal or farming equipment (meaning that farming stopped altogether).⁵ Xiaogang was among the poorest villages in Anhui. So poor, it lost population, draft animals, farmland and outputs after 1955. From Mao's logic, the Xiaogang peasants should have been his blue-blooded supporters. The reality was that people's stomach was more sacred than Mao's utopia. Incidentally, towards the end of Mao's rule, begging became the main

occupation for many Anhui people. And, beggars were the province's main exports.⁶ In the winter of 1977, a substantial proportion of the rural population was anticipated by authorities to hit cities to beg.⁷ A great many came from Anhui.

Undoubtedly, the Xiaogang peasants already knew how to maximise in their family plots. Now, they wanted to apply the same model elsewhere to 'bake a larger cake'. After all, there were 10 times more food and 16 times more vegetables to be produced on the commune's land if the same rules for family plots applied. So, the gain was irresistible.

What truly remarkable was that these impoverished and brainwashed peasants worked out that Mao's collective landownership was a farce. It took them over twenty years to realise that. But they did, nonetheless just like what Abraham Lincoln told us, all the people cannot be fooled all of the time.⁸ Once the state ownership over land became clear, they simply subdivided rent like a group of serfs.

This lease-holding system, soon endorsed by Deng's state, is known as the output-cum-tenure (*lianchan chengbao zerenzhi*, literally 'output responsibility tenure'). The Xiaogang peasant unilateralism was replaced by proper bilateralism, as leases were openly contracted between state agents and farmers. The state landownership finally came out of the closet. According to the 2002 'Rural Land Contract Law' (*Nongcun Tudi Chengbao Fa*), the tenure was set for 30 years. With the tenure, farmers paid rent to the state in exchange for freedom in production with no interference from the land owner. But land alienation was not permitted.⁹ Lease-holding farms soon spread like wild fire. In places where local leaders endlessly debated on costs and benefits of the new tenancy, villagers simply went ahead to divide land themselves.¹⁰

This lease-holding reform was the first peasant emancipation after 1954. China-wide, the speed, scale and scope of this reform were solely determined by the degree of scarcity on ordinary people's dinner tables. This was where the 'Chinese characteristics' truly lay. These characteristics were the antithesis of Maoism.

Recovery and new growth

The exit paid off. The result speaks for itself. In the following year (1979), Xiaogang produced the amount of cereals equivalent to its 10 years' total under Mao's commune; it also broke its *per capita* record (Table 10.1).

The same success repeated elsewhere. Wherever lease-holding contracts were signed, food surplus piled up. In the early 1980s, in Funan (Anhui), a single family was able to produce the same amount of crop for sale as the whole village did under Mao; and a total cash income from farming in a single year surpassed the 20 year aggregate under Mao.¹¹ In North China, labour productivity increased 50 per cent; and land yield increased 200–300 per cent.¹² China's agriculture came back to its old glory (Table 10.2).

All these figures did not mean how productive the post-Mao systems became but how counter-productive Maoism used to be. One cannot help speculating firstly that if Liu Shaoqi's scheme in 1962 had been allowed to be materialised, the peasantry would have been rescued from Mao's hell of hunger two decades

Table 10.1 Economic data for Xiaogang Village, 1955–1979

	<i>Villagers</i>	<i>Draft animals</i>	<i>Land (mu)</i>	<i>Total output (kg)</i>	<i>Per capita output (kg)</i>
1955	170	30	1,100	90,000	529.4
1960	39	1	100	—	—
1968	95	—	—	5,000	52.6
1978	115	1	—	5,500	47.8
1979	115	1	—	66,000	573.9

Source: Tang, *Food Issues*, p. 289.

Table 10.2 National agricultural recovery from Maoism (1980=100), 1980–2000

	<i>Output</i>	<i>Sales made per household</i>
Cereals	144	214
Cotton	163	137
Fruits	916	672
Meats	—	214
Oilseeds	477	128
Tea	225	—

Source: NBS, *ZTN*, 2003, pp. 430–2, 442–3.

earlier; and secondly that the alien East-European ideology of rural collectivisation to establish a state serfdom was completely pointless for China in the first place.

According to a China-wide rural survey in 1988, about 80 per cent of the rural households fared well.¹³ It has been estimated that from 1978 to 1990, the real food consumption was doubled China-wide (to above 3,500 kcal a day).¹⁴ We know for certain that under Mao China's one billion people had 1,000-kcal-a-day food deficit at the 1930s' consumption level. So, a third of the food production and consumption was mere a recovery from the 1930s' level. With the newly found food abundance, the hateful famine-diet rationing was lifted in rural China in the 1980s and then in all cities in 1990.¹⁵ Consequently, for the first time since 1949, obesity, not malnutrition, has become headline news in the media, unthinkable under Mao.

Meanwhile, over 400 pieces of Maoist anti-market laws and regulations were abolished in the 1980s,¹⁶ including the scissors pricing and monopolistic rent. From 1985 on, the government agency was obliged to purchase rural products at the market price.¹⁷ The new headache for government agents was not how to fulfil the government targets but how to turn farmers away after the targets were fulfilled too quickly.

In total, China's agrarian GDP was multiplied by about 17-fold within a decade, thanks to the combination of a dual increase (1) in outputs by 10-fold from 95 per cent of all farmland, and (2) in market prices, by 70 per cent (as in 1978), of these outputs. Lease-holding rights now allowed ordinary producers to retain their outputs for incomes. Much of this was seen as privilege for the rural sector, as the income of the urban sector was still fixed at that time.

Rural income upsurge led to a boom in private investment in the rural economy for new growth. From 1978 to 2000, China's cultivated acreage increased by just 7 per cent; but irrigation acreage was doubled at an annual rate of 3.2 per cent.¹⁸ There was a 7-fold growth in machine power with an annual increase of 9 per cent.¹⁹ The input of chemical fertilisers increased nearly 10-fold at 10.7 per cent per year.²⁰ Growth in machines and fertilisers was faster than the GDP growth in the farming sector during the same period.

Private investment quietly changed the nature of the Chinese economy. Not only villages and towns, some provinces as a whole were privatised. For example, in 2000 the private sector in Zhejiang Province controlled 80 per cent of all assets, provided over 90 per cent of all jobs, sales and profits.²¹ It made Zhejiang the second wealthiest province in China next to Guangdong.²²

Coupled with this change, people's general consumption level increased 400 per cent (7.1 per cent annually) from 1980 to 2000 (352 per cent or 6.5 per cent a year for the rural sector).²³ The sumptuary ceiling was a thing of the past. Household consumption of electricity increased the fastest: nearly 10-fold from 1983 to 2000 (14.5 per cent per year).²⁴ Private savings soared for the first time.²⁵ The share of the state revenue in China's total GDP was more than halved in 2000 from Mao's level.²⁶

The most significant progress out of the rural recovery and new growth was poverty eradication. By 1988, poverty was reduced sharply by 76 per cent, faster than rural GDP growth (Table 10.3).

Researchers have now indicated that lease-holding of land contributed 87 per cent to the revitalising of China's agricultural productivity;²⁷ and the ending of the scissors pricing, about 20 per cent.²⁸ So, what held Mao's China back were malign institutions. Once the anti-growth institutions were removed, China was fully capable of feeding its population properly as had done prior to 1949. In other words, the Chinese did not make themselves hungry and poor after 1949. Mao did.

Structural change from below

Ten years after the exit from Maoism, all the mechanisms of agriculture-led industrialisation began to operate in China just as in seventeenth-century England and nineteenth-century Japan.²⁹ There were a rise of village and township industry and a surge of city-bound emigration, again unthinkable under Mao's rule.

Rural industrialisation

Everything began with the rise of rural productivity and income. By the time when the reforms started, the rural sector had an oversupply of 30 million labourers for

Table 10.3 Poverty reduction from Maoism (% in total population), 1978–1988

	1978	1988	Annul reduction rate (%)
Rural	65.1	15.7	15.3
National	49.3	15.9	12.1

Source: Chen, *Income Differentiation*, pp. 132–3.

farming,³⁰ accounting for 12 per cent of all rural working population.³¹ Huge gain in rural productivity after the reforms made even more people redundant in farming. But they were unable to legally enter cities for employment due to the *hukou* restrictions. On the other hand, the new rural wealth since the lease-holding reform pushed up the rural aggregate demand for manufactures and services whose supply was still controlled by the state-owned sector. This created opportunities for the rural sector to produce consumer goods and services for both the rural and the urban sectors, bypassing the urban sector.

Meanwhile, the rural marketisation sent a clear signal that manufacturing and services had more value-adding capacity than farming: in 1990, the daily wage rate in manufacturing was 24 per cent higher than farming; and that in services, 88 per cent higher.³²

Rural entrepreneurs, often village officials, began to exploit the new market fortune.³³ They set up industrial enterprises in rural regions where the Maoist hang-over was the weakest, often disguised as collective firms for political correctness.³⁴ These were the very first market-oriented businesses in China since 1957.³⁵ They produced everything from toys, clothes to white goods. With their competitive prices, quality and quantity, these rural enterprises swept the consumer goods market across China and caused landslide closing down of the state-run light industry.³⁶ For the first time the humble grassroots market economy defeated the privileged command economy in an open competition.

From 1980 to 2000, the number of rural enterprises expanded 14.4 per cent per year; their workers, 6.2 per cent; their net profit, 22.2 per cent.³⁷ By 1994, township and village enterprises had claimed over 40 per cent of China's industrial GDP.³⁸ From 1989 onwards, these enterprises began to export. The total value of their exports grew 34 per cent a year from 1990 to 2000 and reached 887.0 billion *yuan* in 2000.³⁹

As 70 per cent of the new industrial workers stayed in rural regions,⁴⁰ China entered a phase of rural industrialisation. In the later 1980s, non-farming activities accounted for 58 per cent of the rural households' income.⁴¹ By the end of the 1990s, farming became increasingly rural by-employment.⁴² A decade later, full-time farmers declined to 50 per cent of the rural employees (2000),⁴³ while the income from farming dropped to a third of the rural total.⁴⁴ By then, less than 3 per cent of all rural households still lived exclusively on farming; a third of the rural households no longer farmed at all.⁴⁵ After 1990, inevitably, 1.3 million hectares of farmland were abandoned and China's food output declined at about 5 per cent annually.⁴⁶

City-bond emigration

The business model of village and township enterprises was essentially that of 'vent-for-surplus'.⁴⁷ Eventually, these firms faced impassable constraints to enter technology-intensive and capital-intensive markets like sky scrapers, fast trains, automobiles and microelectronics where the new demand expanded. But the supply of non-farming workers kept multiplying in the rural sector thanks to the efficiency of post-Mao farming. Meanwhile, economic reforms in the urban sector gradually gained its momentum. Export-led foreign direct investment and private business were booming there. But China's small urban population was not enough to meet the labour market demand in cities.

A tsunami of city-bound emigration was followed, the first of its kind in Chinese history in terms of scale, scope and density. According to the 2000 national census, a quarter of the rural workforce (88 million) had moved to cities.⁴⁸ The real figure was probably 40 per cent higher.⁴⁹ Suddenly, China became a textbook case of Arthur Lewis' dualism.⁵⁰ In the last decade of the twentieth century, China's urbanisation rate grew 3.2 per cent a year, outstripping Mao's record by 10 times.⁵¹

Now, for the first time after 1949, progresses in people's living standards, industrialisation and urbanisation were all synchronised in a virtuous circle, something Mao never achieved.

Urban sector

The spontaneous rise in lease-holding land property rights, growth of rural enterprises and outflow of rural workers to cities have created an impression that Deng's reforms were passive, unguided and unaided. Such passiveness could not work in the urban sector reforms for several obvious reasons. Firstly, unlike farming which has the 'diseconomies of scale', most urban enterprises cannot be broken up easily into smaller bits without damaging their integrity. Mao's re-location of the defence industry to the mountainous regions set an appalling precedent. Secondly, urban reforms were not as urgent as food. So, the drive from the primal animal instinct did not work here. Third, the urban sector was the main beneficiary of the Maoist monopoly and rent-seeking. Most Mao loyalists and resistance to reforms came from that sector. Finally, the greatest challenge has been how to return all the public assets which had been forcefully put under Maoist control (hence becoming the private goods of the state) back to their lawful owners who were completely denied access to these assets and their growth under Maoism. Urban reforms thus required a different strategy.

Changes coming from above and outside

As a matter of fact, within five short years from 1979 to 1984, all the main steps known to us today were carefully planned under Deng to end price control, ownership control and geographic control in the urban sector:⁵²

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

Of all these measures, the two most effective instruments were foreign direct investment (FDI) and international trade.⁵³ Bear in mind, at one time, just four communist countries maintained the formal diplomatic tie with Mao's China: North Korea, North Vietnam, Romania and Albania. Only did President Richard Nixon's *savoir-faire* and pro-active global anti-Soviet strategy in the early 1970s rescue China from Mao's xenophobia. But the last time when foreign capital was openly welcomed in China was the republican Nanjing Decade.⁵⁴

Deng wisely used foreign capital as a lever to prise open the Maoist urban stronghold without immediate privatisation of the state sector. In 1984, China opened 14 major coastal cities and their hinterlands to the outside world.⁵⁵ This was the beginning of what can be called the 'Second Westernisation Movement' since the 1860s. In 2002, there were 45 economic and technical development districts across China; each enjoyed close to 30 per cent growth in investment, GDP, and export in that year alone.⁵⁶

When Deng decided to jump-start the economy, he set a target of importing US\$ 80 billion foreign capital (together with foreign technology).⁵⁷ Deng's target turned out to be too conservative. From 1979 to 2000, China's cumulative FDI-related capital was worth US\$ 346.6 billion, equivalent to a third of China's total GDP of 2000.⁵⁸ In 2004, China surpassed the United States and became the largest FDI recipient in the world. The Chinese government gained, too. The share of tax revenue from foreign firms grew from under 5 per cent in 1992 to over 20 per cent in 2002.⁵⁹ Between 1996 and 2000, the state also commanded fiscal revenues 27 times its Maoist counterparts (1971–1975, constant price).⁶⁰

The robustness of foreign firms opened Chinese eyes: foreign-invested enterprises employed 3 per cent of China's total workforce, but responsible for about a third of China's total GDP (as in 2004).⁶¹ Compared with the FDI efficiency, 60 per cent of the capital investment and 90 per cent of the workforce were wasted under Maoism.

The Maoist urban economy retreated under the pressure of imported and home-born capitalism. In 1990–1999, the number of workers employed by the state sector dropped 2.1 per cent per year. In contrast, the number of sole traders increased 12.8 per cent a year; the number of workers hired by private firms, 28.1 per cent a year; and the number of workers hired by foreign firms, 31.7 per cent a year.⁶² In absolute terms, from 1995 to 2000, the Maoist industry laid off 48.1 million workers (or 70 per cent of the Maoist workforce) and ceased to be a net job provider. The private economy on the other hand created 182.1 million vacancies.⁶³ The capitalist economy allowed China's reforms to avoid massive urban unemployment: from 1980 to 2000, China's unemployment rate was only 2.7 per cent on average,⁶⁴ remarkable compared with high unemployment records in ex-Soviet Bloc countries' market reforms.

Consequently, China's job market was systematically privatised: in 2000 the total non-state employed workers accounted for 92 per cent of all workers *vis-à-vis* the state sector's 7.5 per cent.⁶⁵ China's GDP was also privatised: 70 per cent of the industrial GDP came from non-state firms.⁶⁶

On the international trade front, apart from tax rebates for exporters, the post-Mao government stuck to mercantilism and lowered the RMB *yuan* to US dollar exchange rate by nearly 70 per cent from 1978 to 1991 to make China's exports cheaper.⁶⁷ China's two-digit inflation in the 1980s also boosted exports.⁶⁸ From 1978 to 2000, the total value of China's foreign trade increased 110 times, 23.8 per cent annually.⁶⁹ Foreign trade value reached US\$ 474.3 billion in 2000, equivalent to 44 per cent of China's total GDP, compared with the humble start of less than 10 per cent of the GDP back in 1978.⁷⁰ China quickly moved up in the trade league table and surpassed Japan (2004) and Germany (2011).

As a result, the state accumulated the largest ever current account surplus and foreign reserves since 1800: US\$ 24.1 billion and US\$ 165.6 billion (2000), respectively.⁷¹ They grew to US\$ 300 billion and 2 trillion in 2008. Meanwhile China emerged as the second largest national economy in the world (2010).

Export-oriented industrialisation

Foreign trade and investment necessarily switched the Chinese economy to 'export-oriented industrialisation' (EOI).⁷² The beauty of EOI is that industrialisation pays for itself without burdening domestic consumption, savings and taxes.

On the whole, China's FDI owed much to investment by overseas Chinese and the Asian Tigers; while China's EOI, to consumers of the G7 countries. By 2000, 53 per cent of China's FDI had come from Hong Kong, Taiwan, Singapore and South Korea.⁷³ On the other side of the equation, in 2000, 53 per cent of China's exports went to the United States, the European Union and Japan.⁷⁴ In the process, China became the new 'Workshop of the World': 90 per cent of its exports were manufactures (2000).⁷⁵ There is no sign for China's status to change in the near future.

National economy

High income and low poverty

The assessment of Deng's reforms can all boil down to market freedom, *per capita* GDP growth and poverty reduction. In 1977, there was no functional market in China. By 2000, 85 per cent of China's products had been dictated by the market.⁷⁶ When the reforms began, China's *per capita* GDP was well under US\$ 200 (1977) at the very bottom of the world league table. In 2003, it reached US\$ 4,990 (PPP).⁷⁷ The World Bank has identified the year 1999 as the time when China joined the rank of low middle-income countries.⁷⁸ Meanwhile, China's poverty rate declined sharply from about half of the population in 1978 to a single digit in 2000.⁷⁹ This is a miracle given that in the early 1980s China as a whole was 'below the world poverty line';⁸⁰ and 'to call China poor is an understatement'.⁸¹ Deng's mission for US \$1,000 *per capita* in GDP was fully accomplished.

New classes

In 2000, the majority of China's industrial workers were made of modern proletarians for the first time.⁸² A middle class of 82 million professionals also emerged, constituting 12 per cent of China's workforce.⁸³ But by far, the main beneficiaries of Deng's urban reforms were China's new bourgeoisie. In 2000, it had 4 million members, owning 1.8 million firms with 1,330 billion *yuan* assets and 20.1 million workers.⁸⁴ Its members doubled to 8 million in 2003.⁸⁵ RMB millionaires grew one million in number each year since China joined WTO in 2001.⁸⁶

The new capitalist class was protected by the party leadership in a state-entrepreneur alliance. From 1997 on, Jiang Zemin repeatedly announced that business people were worthy citizens with full rights and that production factors other than labour (i.e. capital and technology) were entitled to yield incomes.⁸⁷ The party thus dumped Marx's 'labour theory of value' and returned to David Ricardo (1772–1823). More importantly, the new bourgeoisie began to show their interest in politics: by 2003, over 9,000 of them had entered People's Congresses (*Renda*) at various levels and 32,000 served as policy consultants in Political Consultative Conferences (*Zhengxie*).⁸⁸

Current and future challenges*Hang-over of Maoism*

Mao was gone but the hang-over of Maoism is still highly visible. In fact, China's current environmental and institutional problems have their distinct origins in Maoism. For example, there is the heavy burden of inefficiency and bad debts of the moribund state-owned sector. Ordinary workers' rights have often been ignored and violated due to the absence of independent labour unions, a legacy of Mao's dictatorship.

Government rent-seeking, sometimes excessive, is ever obvious. Now, state monopolistic rents run into several hundred billion *yuan* a year.⁸⁹ It has also been estimated that since 1978 state land sales alone have yielded 2,000 billion *yuan*.⁹⁰ These rents support artificial high incomes for the employees of the state-owned enterprises. In 2009, these enterprises employed about 8 per cent of China's non-farming workforce but commanded disproportionately 55 per cent of China's total wage bill.⁹¹ These rents also support parasitic entertainment expenses by officials. In 2004, these expenses ran into a quarter of the government annual revenue, compared with mere 4 per cent in 1978 when reforms just began.⁹² The negligence of the rural sector recurs with the thorny 'three rural problems' (rural life, farming and farmers, *sannong wenti*). The rural–urban income gap has also widened.⁹³ All these remind us of Mao's second model.

Above all, official and business corruption has been commonplace.⁹⁴ From 1978 to 2000, the number of corruption cases increased 22 per cent a year,⁹⁵ much faster than China's GDP growth. It has been estimated that corruption costs China 650–800 billion *yuan* annually in the 1990s.⁹⁶ From 1978 to 2000, a total of 15,037 billion *yuan* were embezzled, equivalent to China's GDP of 1998 and 1999 put together.⁹⁷

From 1978 to 1998, a total of 2.4 million officials were found guilty of vice of various types; the vast majority, over 70 per cent, were officials of Maoist state-owned enterprises. Corruption has become a highly organised business, as revealed in the major cases of Xiamen (Amoy), Shenyang and Tangshan in 2000–2002, where several dozen party bosses were involved in each case.⁹⁸ It has been common for guilty officials to take refuge overseas with their illegal wealth. Many have been ready to do so, known as ‘officials with families and assets permanently overseas’ (*luo guan*). This social disease has infected China’s judiciary and law enforcement.⁹⁹ No place is immune. In this context, ‘know-who’ (or *guanxi*) has become more important than ‘know-how’. In 1999, China was among the top 20 most corrupt countries in the world.¹⁰⁰ There is no sign for China’s ranking to change.

Then, there is the much talked about Gini coefficient crisis. China’s Gini reading was exacerbated from 0.28 in 1983 to 0.48 in 2000, making China one of the least equal societies on earth.¹⁰¹ Evidently, a vested interest group has formed in post-Mao China.¹⁰² It has been commonly cited that 98 per cent of China’s population live on less than 2,000 *yuan* per month;¹⁰³ while 3,220 business tycoons each is worth over 100 million *yuan*.¹⁰⁴ Or, 0.4 per cent of China’s population are now believed to control 70 per cent of the country’s wealth.¹⁰⁵ In particular, the sharp contrast between the underpaid rural migrant workers (*mingong*) and the super-wealthy (*dakuan*) has become an eyesore since the 1990s. This shocking inequality separates China from the ‘East Asian Model’ represented by post-war Japan, South Korea and Taiwan, but makes China rank with Latin America or Africa. In this context each *yuan* made for China’s GDP disproportionately benefits the rich more than the general public.

Given that none of the supra-wealthy has the bequeathed ‘old money’, their wind-fall must come from monopoly of the Maoist type. Accordingly, the state ownership is ultimately responsible for hastening China’s high-level inequality.¹⁰⁶ So far, there has been no credible evidence for the ‘Kuznets Curve’ to take effect universally. To leave the inequality issue to the future generation is not an option politically.¹⁰⁷

Last but not the least, there is the burning environmental issue. By 1995, the environmental damages had cost China a total of US\$ 75 billion.¹⁰⁸ China’s environmental plight was the symptom of Maoist provincial self-sufficiency and input-intensive production model (his first model). China has about 3,000 steel firms of whom only three have the annual capacity of 8 million tonnes (as in 2000).¹⁰⁹ In the 1990s, to produce one unit of GDP China used 2.5 times energy as India, 4 times as the United States and 7 times as Japan.¹¹⁰ Hence, China used 15 per cent of the world’s energy, 30 per cent of the world’s steel and 54 per cent of the world’s concrete to produce 5.5 per cent of the world’s GDP (2006).¹¹¹ Meanwhile, China is already a pollutant superpower in the world.

The problem is one of path dependency in that China’s production inefficiency has so far been comfortably overcompensated by its cheap labour, again Mao’s legacy (his second model), which costs merely one-tenth of that in Europe and the United States.¹¹² This is where the incentives lie to continue the wasteful practice at least in the short run.¹¹³

It has become increasingly clear that most of the problems ranging from bad bank loans to environmental damages are the forms of the 'after-life' of Maoism.¹¹⁴ Worryingly, the Maoist approach was openly reinstated by a 2006 decree of the State Council to single out seven 'key sectors' under the absolute control of the state.¹¹⁵ The private sector has been fenced out, known as 'the advancing state sector forcing the private sector to retreat' (*guojin mintui*).¹¹⁶ Mao's China had been there and done that. The result is highly predictable.

These above social and environmental problems have been largely externalities of Deng's original reforms. Even so, the Dengist state has been rather un-prepared for the onslaught of these problems. In particular, there has been a lack of checks and balances in China's institutions/systems, which is described as 'six no-s' (*liu wu*):¹¹⁷

No independent auditor to monitor the economy,
 No independent central bank to regulate the monetary and capital markets,
 No central agent to control tax collections,
 No independent auditor to monitor unauthorised expenditures,
 No independent voice of shareholders to veto executives' decisions, and
 No independent press to guard public interests.

Clearly, the post-Mao state-rebuilding has been lagging behind the rapid economic advancement. Deng Xiaoping warned in 1986: 'Whether all our reforms are successful or not depends on the reform of our political system'.¹¹⁸ Unfortunately, such reforms have been painfully slow precisely because of the hang-over of Maoism.

All these growth problems have been translated into business environment in China. Despite a range of apparent strengthens in the Chinese economy,¹¹⁹ if one takes away cheap labour and low environmental costs, China's investment conditions for foreign firms have been no better than Russia, Indonesia or the Philippines.¹²⁰ If so, one cannot take China's future growth for granted.

Growth limits

Despite its impressive track record of the past three decades, China has been increasingly facing growth limits. To put production aside, there is a market capacity issue. As China is now able to shift the world's aggregate supply curve of certain commodities by a huge margin in what is called 'supply-driven model', China's growth may not be sustainable when the profit margin falls as the result of the aggregate demand lagging behind the supply (see Appendix 13).

In addition, China's integration with the global economy means risks as well as opportunities. Unilateral depreciation of any of G7's currencies will mean an immediate loss in the value of China's foreign reserves. And, any unilateral appreciation of RMB will immediately reduce China's export capacity.

Finally, the rest of Asia has been growing fast, too. Measured by PPP *per capita*, China's ranking in Asia remained more or less the same from 1990 to 2000/2001, overtaking only Indonesia. China's *per capita* GDP gap with South

Korea and Taiwan improved only 10 per cent during the same period.¹²¹ This challenges any claim of China's growth exceptionalism since 1978.

Growth limits are unavoidable if an economy stays with the same production possibility frontier. The key to bypassing growth limits has to be technology and total factor productivity, which in turn requires persistent pre-emptive investment in education and research at least on the G7's level. China has a long way to go, because China still needs to break away from the Maoist budget discrimination against education and research.

Final remarks

Deng's reforms have been spectacularly successful. They have changed China from a mismanaged, closed, rural and poverty-stricken economy to a large, open and fast modernising one. Generally speaking, China never has it so good since 1800.

One thing is sure: China is fully capable of producing plenty of food, generating speedy industrialisation, commercialisation and urbanisation and eradicating absolute poverty all at once when the population increases fast. To blame China's population size for Mao's growth failure is both ignorant and irresponsible.

Given that Deng's reforms have made economic wonders within just one generation, one naturally wonders what China could have looked like if its growth and development had not been so frequently and so violently interrupted by blunders and felonies committed by state-builders prior to 1978.