

# Reform and opening up economics essay



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November 10, 2001 is the date that proved the success of China's Economic Reform and Open-Door Policy, which was implemented by one of the world's most renowned leaders – Deng Xiaoping, for the reason that China was finally admitted into the World Trade Organization at its 4th Ministerial Meeting in Doha, after 15 years of rough talks.( Arlene 1)Since the strategic change occurred in 1978, the dominant official doctrine in China has been one of political reform (mainly loosening the communist grip) and revitalizing the economy, and the new foreign policy welcomes interaction and cooperation with the outside world. Thus, reform and opening up have been repeatedly announced by the Chinese authorities to be at the core of the overall new development since 1978. That policy enabled China to be one of few countries that transformed from a developing state to a world power within a relatively short time frame. China also has had to carve out a new role for itself and to define its responsibilities as an influential state both at the regional and international levels. However, this reform and open door policy has also cause some elemental problems in the areas of income parity, cultural impact and environment, as well as leading China to Capitalism instead of its own Socialism with Chinese characteristics.

#### Background Information:

The Economic Reform and Open-door Policy basically have two different parts that made equal impact to China's economy. Since 1978, new economic structures were introduced gradually and selectively. There existed some blueprint for economic reform, which outlined a number of preliminary principles that could be pursued. The fundamental principle was that “ all economic activities in the socialist economy should be quantified in

contractual relationships, so that their relative values could be visible.”

(Flemming 218) Ever since then, trade volume with other countries has increased phenomenally, with China being famous for its trade surplus with major Western countries. At the same time, it's also opened China's door to foreign investment and transfer of technology- thus ending its long isolation from the rest of the world, an isolation imposed mainly by Mao's ideological rigidity. China experienced a rapid development in economic relations with foreign countries during the following twenty years. Major indications of this development are a sharp increase in foreign trade, utilization of foreign direct investment from foreign enterprises, importation and exportation technologies, and international economic and technological cooperation. Both parts of the Policy are tightly integrated and influence each other in order to reach a better economy environment in China.

Pros and Cons:

There is no doubt about the positive effect of the reform in China's economy. China's economy has gone through a huge development after Deng Xiaoping initiated the reform and open-door policy. After opening up its economy to the rest of the world in 1979, China has been able to double its gross domestic product (GDP) twice by 1994, with an average annual real growth rate of ten point five percent. (Cong 4) These figures truly show how fast China's economy has grown within the last two decades. Under the reform and opening policy, people no longer need to obtain everything by the allocation system, food stamps were eliminated and in a real sense, people could get what they're willing to pay. Whereas in the old days, people had little incentive to work hard except for ideological reasons due to the

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relatively equal standard wages; monetary incentive and practical compensation became realistic after the reform. The days of casually reading newspaper while drinking tea at work were gone. In its place came competition as well as compensation and bonuses based on merits and skills.

Coins have two sides; income inequality tore a huge gap between the rich and poor or the educated and the uneducated. Also, the rate of inflation which started to occur during the 80s with the rapid economic growth has made things expensive to afford. Income disparity, materialism and inflation have contributed negatively to corruption and made it worse than ever. People, especially the highly educated, feel unsatisfied of the change that China was going through during the late 70s to 80s. Thus they held a demonstration in Tiananmen Square against the corruption, income gap and rapid inflation. Those are all the issues that China was facing after Deng Xiaoping implemented the reform and open-door policy which made people wonder whether it is a good policy for China to follow after all.

### Income inequality

The most serious problem caused by the reform and open-door policy is income disparity on China. Since most reforms started running in major coastal cities and metropolitan areas only, a huge income and development gap exists between the country sides and cities, as well as between inland and coastal areas. Major causes include the extension of special privileges for attracting foreign investments to already advantageous coastal areas, poor education in the countryside as well as government directives concentrating on designated areas. Rising inequality has been a common

feature of international economic development in the most recent decades, and China is no exception. One of the world's most egalitarian societies in the 1970s, China in the 1980s and 1990s became one of the more unequal countries in its region and among developing countries generally. This retreat from equality has thus been unusually rapid.

China's leaders regard the income distribution of the collective era, before reform began in the late 1970s, as having been excessively egalitarian from the perspective of encouraging economic growth, and they have openly promoted greater inequality with the slogan, "Let some get rich first." At the same time, however, they appear to have been taken aback by the strength of centrifugal forces as the more developed eastern coastal regions have grown rapidly away from the much more backward west, and they have accordingly spoken out against polarization. Yet not only was there no pronounced policy agenda dealing with income distribution until quite recently, but quite a few important policies have served to reinforce the polarizing tendencies.

The Gini Coefficient of inequality in household income, the most widely used summary measure of the degree of inequality used to show the degree of income inequality between different groups of households in the population and how inequality of incomes has been changing over a period of time, rose by seven percentage points, or by 1.0 percentage point per year, between 1988 and 1995. (Carl 4) Wage difference and opportunities made more and more rural people move to the urban areas, causing a huge moving population that destabilizes the social and cultural environment of the country. Significant differences in the population dynamics of urban and rural

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areas in China have been discovered. A research find out that China's population density is high in the southeast on the coastal region; in fact, 43 percent of the overall land contains 94 percent of its population.(Carl 8) This situation is becoming worse since income disparity is not something that could be solved in a short time frame.

Income disparity and the lack of job opportunities in the countryside not only cause population to shift to the urban areas, it also brings up the crime rate in the major cities. According to Xinhua – a major news agency, China had 923, 000 cases of serious crime between January and March 2004, an increase of 14. 2 percent over the same period in 2003. There were 693, 000 theft cases, up 17. 1 percent, while robberies rose year on year by 8. 6 percent with 74, 000 incident recorded.(Carl14) Those striking figures show that income inequality does cause some serious social problems to a developing China. The Tiananmen Square Incident is also a strong evidence of people's dissatisfaction with these issues, on top of their demanding more freedom in all areas of life. Therefore, income inequality does create some social problems that could either slow down or negate China's economic growth.

### Underground Capitalism

China's market reform process has led the country not toward a new form of socialism, but rather an increasingly hierarchical and brutal form of capitalism. The party elites who feared losing their privileges faced with popular demands for change. They sought a reform process that would enable for them to achieve a more secure form of control over the wealth of

the country. However, this kind of thought led them to embrace capitalism with Chinese characteristics.

In Mao's era, everybody got an equal share of the pie since China was wearing a pure Communist outfit. After the reform, even though Chinese government uses market socialism to be their political front, China was actually taking steps towards Capitalism. As we all know socialism's advance level is communism, and communism is the total opposite of capitalism. China was formed under socialism – a composite of social ideas including co-ownership of production, materials and assets, and equality of all people. However, China has been diverting from the socialist path. One of the famous Chinese film makers, Li Yang, has made a feature film called “ Blind Shaft’ . This film offers an unleavened look at the underside of Chinese-style capitalism that was previously available only in print.

Corruption is the most noticeable issue that came out of China's materialization and proximity to capitalism. It wasn't such a big problem since distribution of income and property was fairly equal among the masses. People simply couldn't offer much and were much more idealistic to pursue material accumulation. After the reform, China's development direction has focused primarily on privatization of the economy and ways to raise the general standard of living. That's basically following Capitalism because capitalism is an economic system which is composed primarily of privately owned enterprises competing in a free market. Therefore, reform and open-door policy is pushing China towards Capitalism instead of Socialism, which is against China's original tendency.

## Corruption

Corruption, another troublesome problem in China has become worse than ever after the reform. Chinese society in the days of pure communism has three distinguishing characteristics: Monopoly of power held by the communist party, state ownership of property, and central planning of production. These basic socialist features shaped the expression of corruption in China between the 70s and 90s. The reforms have brought important changes in the type of cadre able to wield power, the resources used for a power base, and the impact of that power. The reform clearly has made peasants more vulnerable as individuals to a wide variety of arbitrary or discriminatory behavior by officials and petty clerks than during the Mao's era. The reforms have also increased the legitimacy of amassing money and material goods, and thus of demanding these things in return for favorable decisions. And the reform have created many gray areas in term of what constitutes entrepreneurial activity versus illicit money making through the abuse of power. Since only party members can wield considerable power in any organization and they have control of most state owned properties, privatization has enabled many of them to gain profusely in a personal, monetary way during the transformation.

Four years ago China sentenced seven people to death for tax fraud in connection with what could be the biggest corruption case of the communist era. (Lionel48) A statistic from Chinese Government mentions that the number of the corruption case is decreasing, but more and more officials in higher ranks of all levels of government have been found to be involved in high level corruption. The problem and dilemma is that those engaged in

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corruption with a solid high powered backing or background often can not be touched. When these forty years are divided into the two periods of classical and reform socialism, the pre-1976 society had fewer cases of corruption involving less money and fewer people than did the post-1976 society. Those facts do support the argument that after the reform, China's corruption came to a point that citizens could no longer tolerate. Again the Tiananmen Square Incident in 1989 is a proof of this.

### Tiananmen Square Incident

1989's Tiananmen Square Incident is one of the most magnificent student demonstration which against a background of dissent, coupled with the rising inflation and official corruption, combined to cause the spontaneous, student-led mass movement to emerge in April 1989. This incident truly reflects how bad the official corruptions have become that students no longer could endure. Even though, by 1989, China's economic reforms had achieved massive success, not all had benefited equally. The rampant corruption and the procurement of wealth by the relatives and friends of important Party leaders, found little favors in the eyes of the less fortunate; a bout of severe inflation, the control of which involved a slowdown in industrial growth, was exacerbating the resentment of those with low income. Many of the most dissatisfied were students, voicing over their dissatisfaction on inadequate funding for education, especially higher education on top of everything else. The movement of 1989 is a manifestation of China's unsuccessful attempt at modernization since its opening to the West during the past ten years.

The confrontation at Tiananmen Square can be seen as a conflict between the old and the new, between the young and the old, between Chinese and the West. People realized that Chinese youths has already transformed and became westernized under the impact of the reform. They have had a chance to meet a fresh new world built up by liberalism. Tiananmen Incident is caused by the reform; however, it also brought out a new problem behind the opening policy which is cultural impact on youth.

### Cultural Impact

Liberalism is the key cultural impact from the West that forced people to fight against government centered politics and tight control of information and other personal freedoms. Tiananmen Square Incident is the first demonstration by the young people in China to speak out openly about what's on their mind – that China should move on to true liberalism and democracy in the near future. The foundation of democracy in the Chinese mind is individualism. However, individualism is a threat to its culture. Also, it is hard to make China a democracy since its population, history and deeply embedded culture doesn't allow China to do so.

The other culture impact which brought a lot of changes to the Chinese people is the attitude toward sex. In the traditional Chinese culture, sex before marriage is not allowed, and the commitment of marriage is deemed much more serious than by people from western countries. As long as the couple is married, divorce is rarely a path that they choose to walk due to societal expectations. However, after the reform, Chinese people have got to know much about the western culture, which is totally different. A research

from United States raised the fact that the average age of youths who engage in sexual activities before marriage is younger than before. More than seventy-nine percent of the girls at aged twenty one already possess sexual experience. This indicates that traditional Chinese culture is undergoing a radical shift.

### Environmental Problem

Last but not the least, since the reform more industries were built up in China, especially in industrial districts such as Chongqing. Environmental problems have become one of the dominate problems in China within the last two decades or so. Rapid urban and industrial growth in China has led to serious environmental degradation. Before China opened to the world, the main industry in China was agriculture.

In the last twenty years, during which science and technology grew rapidly, industrialization in China has intensified tremendously. However this growth put a huge weight on the environment and worsened pollution unimaginably. Five of the world's ten most polluted cities are in China and the pollutant level is 2-5 times above the World Health Organization's guidelines for safe exposure. (Vaclav Smil201)

Since the economy took off, people own more and more cars, especially in the coastal cities. These cars emitted about ten to fifteen percent more exhaust than the American cars. Also, the fuel being used is much poorer in quality than other developed countries. As the number of cars has increased exponentially, the gas station will also increase. Therefore, these activities will produce an even larger amount of air pollution, increasing emissions of

carbon monoxide, sulphur dioxide, nitrogen oxides, hydrocarbon, ozone and particulates. Furthermore, excess industrialization will worsen air pollution and water pollution as well. The majority of the 50, 000km of China's major rivers are so polluted that 80 percent no longer contain fish. (“

Environmental”) Deforestation is another serious environmental problem in China. The need for China to build more basic infrastructure such as roads and highways to keep up with the economic pace, combined with the ever increasing demand and consumption of raw materials have greatly contracted the size of forests. Serious deforestation could lead to desertification. China's State Forestry Administration mentioned in 1999 that desert increases on average of 10400sq km per year in China.( Year book 56) Economic expansion brought on by the policy causes serious implications for the environment that needs to be thought out and dealt with in an effective and efficient manner.

### Solution

The problems caused by the reform could be solved by some of the following solutions. First of all, the Chinese government needs to put more budgets in education. Educated the people would know how to evaluate the cultural impact from western countries, and they could find a suitable way to develop themselves. As long as people are educated and could understand the negative effect of corruption and culture impact, people would know how to improve the situation that they will face in the near future. Furthermore, China can not focus solely on rapidly expanding the economy, but should put more attention to people's overall standard of living and equality. They could put some action on releasing the pressure of inflation which is happening in

China, like they did earlier this year by tightening control over the increasing housing prices. A more balanced development approach involving more effort for the inner cities and countryside would definitely ease the gap between the haves and the have-nots. Environmental wise, the Chinese government should put more effort on figuring out how to lessen the pollution caused by heavy industrialization.

## Conclusion

Even though China's economy has undergone tremendously growth after Deng Xiaoping's reform, the Chinese government should put more effort into solving the problems that come with the reform while maintaining stability and growth before the problems get out of hand and destabilize the country, as some of the issues could potentially bring about. Deng Xiaoping said that we shouldn't avoid the fresh air that comes into the room just because of some housefly. However, since China has already opened the window to let in the fresh air, it's time to work on the "housefly" in order to get clearer and fresher air. The sleeping dragon will truly wake up when China makes striking improvements on the problems that its facing today.