



China's Economic Development History and Xi Jinping's “China Dream:”

An Overview with Personal Reflections

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Table of Contents

China’s Economic Development History and Xi Jinping’s “China Dream:”	1
China’s “Two Historical Failures” at Economic Development	2
China’s Partial and Uneven Development under Mao	4
Explaining the Success of China’s Economic Reforms	8
A. The Cold War Shifts to China’s Advantage.....	8
B. China Charts its own Path to Market Reform	10
C. The Exploitation of Migrant Labour.....	12
China’s Economic Challenges.....	16
A. The State Strikes Back	17
B. China’s Daunting Demography	18
C. The <i>Hukou</i> System Engine of Development Becomes a Major Obstacle.....	20
Conclusions.....	24
About the Author	25
About the Centre	26

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Martin K. Whyte

You foreigners are all too anxious to wake us and to start us on a new road. And you will do it. But you will regret it, for once awakening and started, we shall go fast and further than you think. Much further than you want.

--Manchu statesman Wenxiang, statement to a visiting Westerner, 1865¹

Since Xi Jinping became the Chinese Communist Party's leader in 2012, many of his bold initiatives have been framed in terms of a national quest to pursue the "China dream." The central meaning of this phrase is that China should continue the extraordinary successes in economic development achieved in recent decades so that the country can eventually become, at a minimum, a moderately prosperous society, and at a maximum, can resume its rightful place as the richest country in the world, surpassing the United States, Japan, and advanced European countries (as Wenxiang predicted in the mid-19th century). Will China succeed in this ambitious quest, or will the serious challenges China now faces lead her to join the Soviet Union and Japan as nations that tried to become "number one" but failed?² In order to speculate about how to answer this question, this essay will briefly review China's rocky economic development history prior to 1949, the partial and distorted development of the Mao era, the sources of the unexpected economic boom after 1978, and some serious obstacles the country now faces in the quest to achieve Xi's "China dream."

¹ Quoted in Donald Treadgold, *The West in Russia and China: Volume 2. China 1582-1949*, New York: Cambridge University Press, 1973, p. 67.

² My phrasing here is drawn from the controversial 1979 book by my former teacher, Ezra Vogel, *Japan as Number One* (Cambridge: Harvard University Press), and I also have in mind Nikita Khrushchev's famous 1956 prediction made to Western ambassadors at a diplomatic reception, "We will bury you!"

China's "Two Historical Failures" at Economic Development

There is a historical reality behind the notion of China "resuming its rightful place" in the world, for up until the 18th century, that country was arguably the most advanced civilization on earth, one whose splendours had bedazzled Marco Polo during his travels in China in the 13th century. However, from the 18th century onward, Western countries developed much more rapidly, with China falling behind and becoming increasingly impoverished. When I was in graduate school studying the sociology of development, a substantial literature existed documenting how and why China had been a failure at economic development not once but twice. The first failure was when scrappy little England rather than China launched the industrial revolution. The second failure was when Japan responded (in the 1868 Meiji Restoration) to challenges from Western powers with dramatic reforms that launched that country on the road to becoming a modern industrial power, while China failed in its attempts to do the same. Within a few decades this divergence had painful consequences, as Japan inflicted a humiliating defeat on China in the first Sino-Japanese War of 1895.³

The dominant explanations I learned as a student for China's "two failures" were cultural: that China's arrogant pride in its ancient civilization led to resistance to reforms and innovations based upon Western experience, while Confucian family culture, and the central value of filial piety in particular, resulted in a nation of subservient and obedient young people rather than self-interested and entrepreneurial risk-takers. Japan, although also a Confucian culture, was seen as able to respond better to the Western challenge due to crucial differences from China: a historical "samurai ethic" that became a functional equivalent to the Protestant

³ I discuss these "two failures" in greater detail in my paper, "Paradoxes of China's Economic Boom," *Annual Review of Sociology*, 2009, 35: 371-92.

ethic, a higher status of merchants, and a family system that made it possible to select the most capable son, or even an adopted one, as the heir to a family business.⁴

The claim that China's relative failures at economic development were due to long-standing cultural deficiencies was already becoming hard to take seriously in my graduate student days because after 1960 the most dynamic region in the world economy was East Asia, and the "Asian tigers" were all Confucian societies (including Japan and South Korea), and three of them were Chinese—Taiwan, Hong Kong, and Singapore. In retrospect, it seems more reasonable to attribute China's second failure to the century of rebellions, wars, and inept national leadership that began in the 1840s. Thomas Rawski presents evidence that in the one decade of relative peace and political stability during this span, the "Nanking decade" from 1927 to 1937, China enjoyed substantial economic growth and improving living standards.⁵

⁴ The original and most influential scholarly treatment of China's first failure was by Max Weber in his books, *The Protestant Ethic and the Spirit of Capitalism*, London: Allen & Unwin, 1930 [originally 1905] and *The Religion of China*, New York: The Free Press, 1951 [originally 1915]. The argument for the Japanese samurai ethic as a functional equivalent to the Protestant ethic was made by Robert Bellah in *Tokugawa Religion: The Values of Pre-Industrial Japan*, Glencoe, IL: The Free Press, 1957. The claim about subtle but important differences between Japan and China in family practices was made by Marion Levy, Jr. in "Contrasting Factors in the Modernization of China and Japan," in S. Kuznets, W. Moore, and J. J. Spengler, eds., *Economic Growth: Brazil, India, Japan*, Durham, NC: Duke University Press, 1955. (The Japanese tradition emphasized impartible inheritance by a single heir in contrast with the Chinese custom of partible inheritance, with equal shares going to each son.) See also Gilbert Rozman, ed. *The Modernization of China*, New York: The Free Press, 1981. To be sure, the literature contains some non-cultural explanations for China's failures at development, such as Mark Elvin's claim that Qing China suffered from a "high level equilibrium trap," with a well developed commercial system that made possible such rapid and effective responses to changes in supply and demand for goods and services that severe shortages and bottle-necks that could have led to technological innovations were unlikely to occur. See his book, *The Pattern of the Chinese Past*, Stanford: Stanford University Press, 1973. Subsequently Kenneth Pomeranz argued (in *The Great Divergence: China, Europe, and the Making of the Modern World Economy*, Princeton: Princeton University Press, 2000) that the crucial difference was that scrappy England possessed two resources China lacked: easily accessible coal deposits and the wealth flowing from overseas colonies.

⁵ Thomas Rawski, *Economic Growth in Prewar China*, Berkeley: University of California Press, 1989. A considerable literature has arisen since my student days that argues that Chinese culture, and the Chinese family system in particular, provides a built-in engine of economic growth, rather than an obstacle. I review this debate in my article, "The Chinese Family and Economic Development: Obstacle or Engine?" *Economic Development and Cultural Change*, 1996, 45: 1-30.

For Mainland China itself, the period after 1949 did not resemble a “tiger” economy. Instead, the victorious Chinese Communist Party (CCP) launched an attempt to develop as a centrally planned socialist economy, an attempt that was at best partially successful. I consider next the nature of the partial but uneven development that took place under Mao Zedong and why after his death no China analyst, including myself, anticipated how dramatically the country’s development trajectory would change after 1978.

China’s Partial and Uneven Development under Mao

By the middle of the 1950s, China had been transformed into a centrally planned state socialist economy, without meaningful private or foreign enterprises or property ownership, and with state planning and control of labour allocation, wages, prices, and much else.⁶ As already indicated, the economic record of the Mao-era socialist economy was an uneven combination one authority characterizes as “major successes and disastrous failure.”⁷ China achieved national economic autonomy, brought inflation under control, eliminated foreign debts, successfully carried out a socialist transformation of the economy and achieved respectable overall economic growth in the planned economy period (a roughly 4% average annual increase in national income per capita, according to Barry Naughton)⁸, despite the massive state-induced depression and famine (causing more than 30 million excess deaths) that

⁶ Throughout this essay, socialism or state socialism refers to an economic system based upon state or collective ownership of all productive resources and central planning, the type of economy first developed in the Soviet Union. So Scandinavian countries, the United Kingdom, Venezuela, and other societies sometimes referred to as socialist do not qualify in my usage.

⁷ Barry Naughton, “The Pattern and Legacy of Economic Growth in the Mao Era,” in J. Kallgren, K. Lieberthal, R. MacFarquhar, and F. Wakeman, eds., *Perspectives on Modern China*, Armonk, NY: M.E. Sharpe, 1991, p. 227.

⁸ Ibid.

occurred in 1959-1961 due to the disastrous Great Leap Forward.⁹ China by 1978 was much more developed in terms of industrial production, railways, bridges, and other sinews of a modern economy, not to mention in terms of military strength, with a larger and better armed PLA and successful explosion of an atom bomb in 1964.

However, China also shared the general features of all state socialist societies, so that the nation's development was very lop-sided and inefficient. As in the Soviet Union, China emphasized heavy industry, construction, transportation and the military, while it very much neglected or was very unsuccessful at light industry and consumer goods production, housing, agriculture and food distribution. There were several positive features that China shared with other socialist countries: progress in eliminating illiteracy and spreading basic schooling, in combatting infectious diseases and improving citizen health and prolonging life spans and in attaining high levels of mobilization of women as well as men into full time employment. China also exhibited an extreme version of the shared socialist trait of under-urbanization, with only about 20% of the population residing in China's cities in 1978, not much changed from the figure during the 1950s.¹⁰

If one ignores for the moment the Great Leap Forward mass famine, by the end of the Mao era China was managing to feed almost twice as many people as in 1949 (approaching 1 billion, compared to around 500 million), but just barely. Food and many consumer goods were tightly rationed in China's cities during the 1970s, with many urbanites feeling hungry on a regular

⁹ The total of excess deaths resulting from the Leap is a matter of debate. Several demographic analyses converge on the estimate of 30 million. See, for example, Judith Banister, *China's Changing Population*, Stanford: Stanford University Press, 1987, pp. 85, 118. However, some works claim a much higher total, such as the at least 45 million claimed by Frank Dikotter in his book, *Mao's Great Famine*, New York: Walker and Company, 2010.

¹⁰ China may be unique among developing countries in having its largest city, Shanghai, lose population in the Mao era, going from 6.9 million residents in 1960 to only 5.5 million in 1977. See the online source, macrotrends.net/cities/20656/Shanghai/population.

basis. And the majority of the population was locked into desperate poverty in rural areas by the severe migration restrictions of China's form of collectivized agriculture, the people's commune system, a form of subjugation that can be characterized as "socialist serfdom."¹¹ Despite the restrictions on migration to the cities, the neglect of housing construction and maintenance characteristic of all state socialist societies meant that by 1978 the average urban family had 20% less housing space than had been the case in 1952.¹² Many urban families in the late-Mao era had to share bathroom and kitchen facilities with neighbours, light "beehive coal" briquettes to cook food and heat water for bathing and doing laundry and find time to shop on a daily basis, with no refrigerators or other modern appliances. As in other socialist societies, the range of clothing, footwear, and other consumer goods was extremely limited and of poor quality.

Mao and his CCP colleagues had promised their citizens in the 1950s that a socialist economy would produce not only rising industrial and military strength but also much improved living standards, but in Mao's final years the latter unmet promise was generating high levels of consumer frustration as well as gnawing hunger for many. The inefficiencies of the socialist economy were such that China could maintain the unusually high levels of investment needed to sustain growth only by keeping popular living standards depressed.¹³

¹¹ See the justification for this characterization in my book, *Myth of the Social Volcano*, Stanford: Stanford University Press, 2010, Chapter 1. While Chinese peasants for centuries had been free to migrate to the cities in search of greater opportunities, or even overseas, after 1960 with rare exceptions they were as bound to the soil as medieval European serfs. Soviet *kolkhozniki*, even though also subject to some migration restrictions, were much more able to enter colleges and be recruited by urban factories, so that urbanization in the USSR was not as effectively stifled as in the PRC.

¹² Martin King Whyte and William L. Parish, *Urban Life in Contemporary China*, Chicago: University of Chicago Press, 1984, p. 79.

¹³ I recall in 1977 in Hong Kong interviewing former PRC urban residents who told me that they had worked for twenty years without receiving a single wage increase. When I had an opportunity the next year to get a short-term tourist visa in Hong Kong to spend a weekend walking around Guangzhou, I was struck by seeing fruit stores that had on sale only watermelons and bottles of orange soda pop (at a time when I had been consuming mangos, lychee and other fruit grown in the mainland that was all being exported to Hong Kong to earn foreign exchange that allowed China to pay for the German fertilizer factories and Boeing 707 jets that it

Despite China's ability to maintain some economic growth prior to Mao's death in 1976, she also shared the downward trend of the other state socialist societies, with it becoming harder and harder to maintain positive growth. By the 1970s, Japan and the East Asian tigers were regularly growing at very fast speeds and China was rapidly losing ground, a fact that Deng Xiaoping and his colleagues in the post-Mao leadership were painfully aware of.

Given the uneven and inefficient nature of the Chinese socialist economy, I don't think anyone recognized or could have predicted that China in 1978 was about to take off on a trajectory of rapid and much more balanced economic growth that would surpass the earlier accomplishments of Japan and the Tigers. I certainly did not. I clearly recall an experience when I was conducting research at the old Universities Service Centre (USC) in Hong Kong in 1978. I had just heard news reports that China was planning to stop following the Soviet-style state socialist model of development and instead institute market reforms and switch to following the Japanese model, which essentially involved development powered by manufacturing goods for export to richer countries. I looked up at a bulletin board in the USC and saw an earlier photo there of Mao Zedong and Lin Biao (his former Defence Minister, who died in a mysterious plane crash in 1971), both of them wearing poorly tailored and ill-fitting PLA uniforms. I also had recently read somewhere that China's leading export product at that time was industrial brushes made from hog bristles. As I looked up at the photo, I said to myself, "This is never going to work. Who is going to want to buy anything made by these guys?" Obviously I couldn't have been more wrong, since today much of the clothing I wear,

was then purchasing). During that visit I also viewed from my hotel window peasant vendors who brought goods into Guangzhou and tried to put out a blanket to sell them on the street, only to be immediately set upon by police, who seized them and their goods and transported them away. (Peasant markets were then allowed only outside the city limits, and I had to take a long-distance bus out from Guangzhou to view such a market in operation.) These are fairly typical maladies of a state socialist economy. My first personal experience of these maladies occurred when I was on a language study tour of the Soviet Union in 1963, where I was repeatedly approached on the street by Russians who wanted to know whether I had any blue jeans I could sell them.

the toys my children have played with, the mobile phone I depend upon and much else are made in China. How can this incredible turn-around be explained—from relative failure at economic growth prior to 1949 and then inefficient laggard in the Mao era to the world’s most dynamically growing economy for more than 40 years after 1978?

Explaining the Success of China’s Economic Reforms

In retrospect, China’s unanticipated and sustained economic boom after 1978 had multiple causes and benefited from a serendipitous combination of factors and historical contingencies. Here I would highlight three particular factors: the benefits to China of the changing nature of the Cold War, the ability of China to ignore the experts and plot its own distinctive path to dismantling the planned socialist economy, and a clever if pernicious strategy to draw on China’s “socialist serfdom” institutions to power economic growth from the 1980s onward.

A. The Cold War Shifts to China’s Advantage

China could not have achieved its spectacular growth if the trade embargoes imposed on that country since the Korean War by the United States and other Western countries had remained in place. When I was preparing in 1969 to return from my first year living in Hong Kong, I was worried about a Red Guard “squeaky doll” that I had purchased for my toddler son in one of the Mainland Products stores in the British colony. I knew that it was illegal to bring goods made in the PRC into the US, but I didn’t want my son to be deprived of his noisy toy. I confess that I wrapped the squeaky doll in some dirty clothing in one of our suitcases, and fortunately the US Customs officers did not discover my hidden contraband. How things have changed, with the changes beginning even before Mao died. After the Nixon visit to China

in 1972, the US ban ended and by 1973 when I made my first visit to the PRC, I saw 10 brand new Boeing 707 jets sitting on the tarmac in the Beijing airport, being readied to be put into domestic airline service. The U.S. desire to enlist China as an ally in the Cold War against the Soviet Union produced dramatic changes almost overnight. Once market reforms and the “Open Door” policy were launched, China rapidly transformed its economy in order to start selling manufactured goods overseas, with exports soon outpacing imports.

A key role in this early transformation was played by township and village enterprises (TVEs), as village factories that under Mao had been restricted to producing farm tools, cement, and crude fertilizers for local use were converted to manufacturers of inexpensive goods for export. The TVEs were so successful during the 1980s because of a factor I hadn’t considered in my earlier scepticism: the reality that enterprises in Hong Kong, increasingly facing rising labour costs that threatened their advantage in manufacturing cheap goods for sale in Western markets, were eager to take advantage of much cheaper labour costs in the PRC. Even though China starting in 1979 began establishing special export zones (SEZs, the most prominent being Shenzhen, adjacent to Hong Kong) in order to attract investments from major Western and Japanese firms, much of the initial foreign investment in the PRC came from Hong Kong, as entrepreneurs in that colony drew on their kinship links back in their native villages in China to provide funds and quality control and marketing expertise to make the TVEs they invested in successful.¹⁴ (Subsequently the same rising labour cost factor drove large numbers of firms in Taiwan, South Korea, and Japan to also invest heavily in the PRC.) Obviously it makes it a lot easier to switch from manufacturing hog bristle brushes to athletic

¹⁴ The pivotal role of TVEs in launching China’s economic boom and the role of Hong Kong capital and expertise in the growth of TVEs are described in Yasheng Huang, *Capitalism with Chinese Characteristics*, New York: Cambridge University Press, 2008.

shoes if you have funding, advice, and assistance from Asian firms that already have been successfully marketing the same products to Wal-Mart, K-Mart, and other Western retailers.¹⁵ Just as obviously, China's economic boom would not have been possible without the relatively sudden and dramatic shift in Western policy from trying to isolate and weaken China to trying to assist in its development and welcoming its products into our stores.¹⁶

B. China Charts its own Path to Market Reform

Another key factor in explaining the Chinese economic boom is that China began its market reform programme earlier than other centrally planned socialist societies (1978 versus 1989-1991) and was able to chart its own course, rather than follow the advice of Western experts. (And it turned out that the expert advice was mostly wrong.) China was able to chart its own course in part because although it was substantially poorer than the Soviet Union and Eastern European countries, unlike them it had essentially no foreign debt at the beginning of the transformation. (Indebtedness to foreign banks and governments means you at least have to listen to their reform advice, if not follow it.) A particularly crucial strategic decision that China made was not to try to quickly and thoroughly privatize all elements of the existing state planned economy—the “big bang” or “shock therapy” approach recommended by most experts. Instead, China adopted a gradual reform sequencing that employed as a central

¹⁵ The former Soviet Union and its East European satellites did not have anything like the rich and resourceful diaspora of Hong Kong and beyond to help them break into Western markets with their manufactured goods.

¹⁶ Although the focus in my discussion here is on manufacturing and commerce, the changed Western policy involved much more, including diverse efforts by the World Bank and other development agencies, foreign foundations and Western governments to assist China in transforming its Soviet-style institutions into ones more suited to market-oriented global competition. For example, China sent a delegation to the United States in the 1980s to visit the National Science Foundation (NSF), where my wife worked at the time, in order to learn how a modern government research granting agency should be organized, conduct peer reviews, assess progress in grant fulfillment, etc. Today China's NSF is much better funded than the US NSF it was modeled after and some critics now contend that we in the West gave away too much.

component what one economist characterized as “growing out of the plan.”¹⁷ Existing state-owned enterprises were allowed to continue in business and remain socialist in form, while encouraged to change their internal procedures to become more efficient and to orient increasing portions of their output to meet market demands, rather than state planning targets. The more important change was that the strict prohibition against private enterprise dating from the 1950s was dropped, allowing and encouraging Chinese to establish new, market-oriented private businesses that aimed to meet market demands domestically and overseas. Multiple incentives were also provided to foreign companies, initially in SEZs and then much more widely, to encourage them to set up business operations in China or to invest in joint ventures with Chinese firms. For the first time since the 1950s, domestic and foreign capitalists could again profit by employing Chinese labour.

In agriculture, the people’s communes were disbanded in the early 1980s, with a return to family farming (but without privatizing agricultural fields, which were subdivided among farm families but remained collective property). The initial winners in China’s reforms were the re-legitimized family farmers, with rural incomes growing at roughly 7% a year in the first half of the 1980s, much faster than urban incomes. The previously mentioned TVEs initially were generally collectively owned by villages, but by the end of the 1980s most had been privatized, with local entrepreneurs bidding to take over running and trying to profit from them.

Eventually in the 1990s there was a major down-sizing of state-owned enterprises (SOEs), with some poorly performing firms merged, privatized or going out of business, but by not

¹⁷ Barry Naughton, *Growing Out of the Plan: Chinese Economic Reform, 1978-1993*, New York: Cambridge University Press, 1995. I discuss the reasons that China adopted its gradualist reform strategy, and how it differed from what happened in Eastern Europe, in my essay, “Paradoxes of China’s Economic Boom,” op. cit. For the most comprehensive discussion of how China’s reforms were developed and carried out, see Ezra F. Vogel, *Deng Xiaoping and the Transformation of China*, Cambridge: Harvard University Press, 2011.

launching an initial systematic privatization of state firms, China avoided the massive unemployment crisis that fuelled the post-socialist depressions in Eastern Europe and the former Soviet Union. China's gradualist approach led to a much more successful post-socialist transition than in Eastern Europe, with the non-state sectors of the economy (private and foreign-invested firms) increasing very rapidly and providing the main engines of overall growth throughout the reform period right up to the present.

C. The Exploitation of Migrant Labour

The first two explanations for China's success considered here (the shift in the Cold War to China's benefit, China's gradualist approach to market reforms) have been frequently emphasized in earlier discussions of why China's economy boomed after 1978. The third factor I emphasize is less often stressed: China's ability to convert its prior institutions of "socialist serfdom" into a massive generator of low cost labour power that became the central engine of the nation's economic boom. As noted earlier, as of 1978, about 80% of China's population still lived in rural areas and rural youths, although much healthier and better educated than their counterparts in pre-revolutionary times (and already having acquired experience in working together under the direction of non-family members), were almost totally prevented from leaving their villages and were obligated to participate in agricultural labour.¹⁸

With the launching of the reforms, what changed was that the migration restrictions that dated back to the 1950s were relaxed and then eliminated, along with the mandate that rural youths had to participate in agricultural labour. So villagers whose labour was no longer essential to their family's farming activities were free to migrate elsewhere and seek better-

¹⁸ Rural women could move at marriage into their husband's village, but neither sex could move to a town or city except in rare circumstances (such as being admitted to college and then assigned to an urban job).

paid non-agricultural employment (as Chinese villagers had always been able to do before the 1950s). The desperate poverty in which Mao had left the rural population meant that millions of rural youths (and many who were no longer youths) were only too eager to escape their villages and seek such better opportunities. It is obvious that the massive export-oriented factories that have been central to China's boom, as well as the impressive urban housing developments, skyscrapers, highways, high-speed rail lines and shiny new airports, would not have been possible without the flood of cheap migrant labour from Chinese villages (with this "floating population" estimated to total 290 million in 2019, about 20% of the population).¹⁹ Most of the urban jobs in restaurants, clothing sales, domestic work and entertainment have also been filled by migrants.

There was a second strategic choice, beyond ending migration restrictions, that was key to enabling China to successfully exploit migrant labour, and that involved the *hukou* (household registration) system that was established under Mao during the 1950s. Under this system, every individual was classified at birth as having either agricultural or non-agricultural *hukou* (based upon the status of the mother, rather than the father). One's *hukou* status at birth was recorded in all official documents and followed you through life, except in the unlikely event that you were able to get it changed bureaucratically (for example, if a rural youth gained entrance to a university and then was assigned an urban job after graduation). The key strategic decision in this case was not to change or eliminate this rural versus urban division of the population, as enshrined in the *hukou* system.²⁰ Rural citizens could now become migrant workers in the

¹⁹ In 1973 when I visited the PRC for the first time, the delegation I was a member of had to take a train to the border of Hong Kong and then walk across the bridge to Shenzhen and board another train to Guangzhou. At the time Shenzhen was a sleepy train depot surrounded by farm fields, with few buildings, not to mention residents. Now Shenzhen is a city of over 12 million, overwhelmingly migrants drawn by the economic opportunities there.

²⁰ There were two distinctive systems of inherited status in Mao's China, this system of labeling individuals as of rural versus urban origins, and a system of class origin categories that dated back to 1949 (so that one might

cities, and perhaps live and work there for many years, but they would still almost always retain their classification as of rural origin. They remained identified as a separate and lower status caste-like group, not entitled to a whole range of opportunities and benefits that fellow workers and neighbours of urban origins were entitled to.²¹

In the early period of the reforms there were lists of organizations and occupations that were prohibited from hiring migrants (a practice subsequently repudiated). If migrant parents had children with them in the city until recently they were not able to send them to local public schools unless they paid special high fees. As a result of this prohibition, in recent years China has had more than 60 million “left-behind children” whose village schooling is supervised mostly by grandparents (who may be semi-literate), thereby allowing their parents to keep earning migrant wages in the city. Migrants also have not been entitled to the same welfare benefits and social programs that their urban-origin neighbours enjoy. For example, even if they have obtained public medical insurance coverage, migrants have usually been covered by a village cooperative medical insurance plan back in the village from which they came, not by the plans of their urban employers. Migrants were also left out of the mass urban housing privatization campaign of the late 1990s, which transformed urban origin citizens into property owners.

Why the strategic decision to retain the *hukou* system labelling of the population into rural versus urban origins is crucial is that it made it possible to keep migrant wages and benefits low, thereby keeping the organizations that employed them competitive and highly profitable.

be labeled as of landlord origin, even if it was your grandfather who owned land decades ago). By 1979 the class origin label system was repudiated and eliminated from personal identification documents, but the *hukou* categories remained in place.

²¹ See the discussion in the conference volume I edited, *One Country, Two Societies: Rural-Urban Inequality in Contemporary China*, Cambridge: Harvard University Press, 2010.

China's migrants have not only provided the primary labour power that has powered the nation's economic boom, but through their depressed earnings and benefits they have also minimized the costs and maximized the profits of the foreign and domestic firms and local governments that employ their labour.²² And because living standards were so depressed in the people's communes of the Mao era, and because they can generally earn much more even today by working as *nongmingong* (peasant, i.e. migrant, workers) than they could by remaining in farming, migrants for the most part have been willing to work long hours and endure difficult conditions, doing jobs that urbanites do not want to perform, without challenging in a major way the pernicious system of exploitation that victimizes them.²³ There is a considerable irony in the fact that China's economic boom has been enabled by a system of extraction of surplus value from migrant labourers that Marx would classify as rank exploitation, a system that has its roots in the state socialist institutions established under Mao during the 1950s.

²² According to the Hurun Agency, in 2020 China had more US \$ billionaires than the United States (799 versus 626). See Shi Jing, "Hurun Global Rich List 2020 Unveiled," *China Daily*, February 26, 2020.

²³ To be sure, labor activism by migrants is common and on the increase, but more over unpaid wages, bad working conditions and other local abuses, not to challenge the migrant labour system itself. The current institutions, including docile official trade unions, make it difficult for migrant workers even to negotiate for increased wages.

China's Economic Challenges

China's economic boom has already been slowing in recent years, going from often double-digit annual growth rates to only 6-7% recently, according to official statistics.²⁴ Among analysts and experts, considerable debate has arisen about what the future holds. If China could sustain 6-7% annual gains for the foreseeable future, that is still faster growth than any of the rich countries of the world have been recording recently, leading to the prospect that China could continue to close the gap and rise from its present position as a middle-income country to eventually become one of the richer countries in the world. However, China faces a number of serious challenges in its quest to pursue Xi Jinping's "China dream," and sceptics argue that this optimistic scenario is unlikely to be realized. As a possibly biased American who has already confessed in these pages to his poor past record in predicting the future of China's economic growth, I would be foolish to try to conclude this essay with my own guess about whether the China economic growth optimists or pessimists are more correct. However, I would like to emphasize three major challenges China is already facing that may make the realization of the China dream difficult: the shift backward toward favouring state over private firms, the rapid aging of the population and the obstacles to growth now stemming from China's *hukou* system.²⁵

²⁴ I am aware that some analysts believe that government pressure to achieve national growth targets leads to biases and inflation in the official growth statistics in recent years, with the actual rate of growth probably substantially lower, perhaps only 2-5% annually, even before the 2020 coronavirus epidemic. This essay will not address the long-term impact of the epidemic, which at the time of writing is having a very severe impact, with the Chinese economy declining by 6.8% in the first quarter of 2020 (see Keith Bradsher, "China's Economy Shrinks, Ending a Nearly Half Century of Growth," *New York Times*, April 16, 2020). Economic recovery may be difficult and prolonged for China, not only because of the problems in reviving production and consumption domestically, but because of the sharp and likely extended decline in global demand for Chinese goods.

²⁵ There are many serious challenges China faces that I won't discuss here, such as pollution and environmental degradation, ethnic conflict, worrisome levels of local debt and the difficulties of maintaining strict political and

A. The State Strikes Back

As noted earlier, China's gradualist strategy for its post-socialist transition was particularly successful because it allowed more efficient and productive private and foreign-invested firms to blossom and become the main engines of growth and providers of employment, goods and services. State firms were not subjected to mass privatization initially, and those that remained in operation in subsequent decades underwent internal reforms intended to make them more efficient and profitable. But even in recent times, the state-private gap in productivity has remained, with the health of the Chinese economy very dependent upon the non-state sectors of the economy.²⁶

When Xi Jinping became China's leader in 2012, many observers expected, or perhaps hoped, that his quest for the China dream and the associated desire to maintain high rates of economic growth would necessarily lead him to adopt policies that would advance market reforms further in order to favour the most dynamic sectors of the economy, the non-state sectors. But that is not what has happened. Although at various times Xi has had positive things to say about private firms and the need for more market reforms, fairly systematically he has presided over a swing back of the pendulum, with state firms increasingly favoured in terms of financing and government support. At the same time private and foreign firms have been pressured to submit to increasing state controls, as in requirements that they establish CCP committees and give CCP secretaries prominent voices in firm decision-making. In addition, recurring proposals to privatize agricultural land to stimulate the rural economy have continued

communication controls over a restive and increasingly well-educated population. I highlight here only three challenges I think will be particularly important in the years to come.

²⁶ Nicholas Lardy, *Markets over Mao: The Rise of Private Business in China*, Washington, DC: Peterson Institute, 2014.

to be squelched. So despite Xi's desire to boost China's declining economic growth rate, the actual economic policies he has been pursuing are likely to do the opposite. Economist Nicholas Lardy, who in 2014 published an upbeat book, *Markets over Mao*, in 2019 published a new book that acknowledged the changed reality that I use for the title of this section: *The State Strikes Back*.²⁷ Unless this favoring of less productive state firms is reversed in years ahead, maintaining strong economic growth will be difficult.²⁸

B. China's Daunting Demography

China is already facing difficult challenges due to its unique demographic history. The combination of improved health standards leading to longer life spans and an extraordinarily rapid decline in birth rates (which began and occurred most dramatically during the 1970s, prior to the launching of that nation's infamous one-child policy)²⁹ has led to China aging much more rapidly than other societies. As some frame the challenge this poses, "China is growing old before getting rich."³⁰ With many families having only one child, the traditional expectation of relying on grown children for support in old age is no longer very viable, but China has yet to develop a robust network of institutions and financial support programs to provide a substitute for families as providers of eldercare.

²⁷ Nicholas Lardy, *The State Strikes Back: The End of Economic Reform in China?* Washington, DC: Peterson Institute, 2019.

²⁸ At the time of writing the Chinese leadership is once again saying positive things about the need to push market reforms forward (see Bloomberg News, "China's Top Leaders Pledge Bigger Role for Markets," April 9, 2020), but it remains to be seen whether this announcement will lead to any important shift in the state/market balance.

²⁹ See Martin K. Whyte, Wang Feng, and Yong Cai, "Challenging Myths about China's One-Child Policy," *The China Journal*, 2015, 74: 144-59.

³⁰ Some estimates indicated that by about 2020, the average age of the Chinese population would equal and start to surpass the average age of Americans, although China remains a much poorer country.

One study calculated that demographic momentum had already increased public spending in China on education, health care, and pensions from 6.3% of GDP in 2007 to 11.6% in 2016, and that study projected that even if benefit levels did not change, demography would lead such spending to rise to 23% of GDP by 2050 (or to 32% of GDP by 2050 if benefit levels were to be raised to the current levels of the rich countries China wishes to join).³¹ Such projections indicate how difficult it will be simply financially to meet the needs of China's rapidly aging population, and it is just as clear that spending to meet those needs will lead to fewer funds available to invest in economic growth.

A rapidly aging population also means that China's goal of shifting from an export-driven to a consumption-driven economy is threatened, since in terms of most goods and services, older citizens spend and consume less than do younger people. At the other end of the age spectrum, China since about 2010 has begun to experience declines in the number of young people entering the labour force. While this decline has positive implications for young workers in terms of increased wages (migrant wages have finally begun to increase, after many years of stagnation), this trend also means problems for China, with remaining export-oriented manufacturing firms losing their competitiveness, and with fewer young workers spending on consumer goods and through their labour and taxes funding support for the elderly.

Early in the reform period the Chinese economy benefited from a "demographic dividend," with a rapidly growing labour force but relatively small numbers of dependents (children and the elderly), but since 2010 that dividend has disappeared or been reversed.³² It remains unclear

³¹ Yong Cai, Wang Feng, and Ke Shen, "Fiscal Implications of Population Aging and Social Sector Expenditure in China," *Population and Development Review*, 2018, 44: 811-31.

³² A United Nations report concluded that in 2007 there were 9.1 members of the Chinese labour force for each person over age 65 and estimated that by 2025 that would be reduced to 5, with a prediction that by 2050 there would be only 2.6 workers for every older Chinese. (See United Nations, *World Population Aging 2007*, New York: United Nations, p. 202.) It should be noted that although China remains the most populous country in the

how China will attempt to meet the multiple challenges stemming from its unique demographic history and rapid aging and how successful those attempts will be.

C. The *Hukou* System Engine of Development Becomes a Major Obstacle

In my prior discussion of sources of China's dramatic post-1978 boom, I stressed as one contributing factor the strategic decision to leave the *hukou* system and its associated discriminations intact, even as rural residents were allowed and even encouraged to migrate for work elsewhere. However, for this strategy to remain successful, it required that wage levels and benefits for migrant labour remain very low, and in pursuit of that objective policies were adopted that, whether by explicit intention or not, made it very difficult for rural youths to progress further in school than lower middle school graduation (even as it became increasingly easy for urban *hukou* youths to graduate from upper middle school and even to attend college). As noted earlier, if rural *hukou* youths lived in the city with their migrant parents, until recently they were forbidden to enrol in local public schools unless they paid special high fees. The options faced by migrant parents were either to enrol their children in suburban private, migrant-run schools of uncertain quality that might be shut down by city authorities, or to send them back to attend school in the village of origin of a parent, there to be supervised by grandparents.

Even after policy changes that enabled migrants to enroll their children in urban public schools in some cities without paying high fees (after 2006), they were often segregated from urban *hukou* fellow students and in any case only allowed to continue until lower middle school graduation, the completion of China's 9 years of compulsory education. If they wanted to take

world today (soon to be overtaken by India), within the next decade China's population is projected to start declining.

part in the *zhongkao* to enrol in upper middle school, not to mention the *gaokao* to enrol in college, they generally had to return to the village of origin of a parent to do so.³³ To progress beyond lower middle schooling in the countryside usually involved attending a boarding upper middle school, which entailed tuition and boarding fees that many rural and migrant parents could ill afford, and inconveniences and costs that parents of urban *hukou* youths don't face (increasingly in recent years rural youths attending lower middle schools and even primary schools have had to enrol in boarding schools). One study computed that in 2005, 90% of 15-17 year old urban youths had some high schooling (i.e. upper middle schooling), but only 43% of rural youths did.³⁴ When after 1998 China launched a dramatic increase in university enrolments, with 9-10 times as many college students today as prior to that year, this divergence meant that the beneficiaries of this expansion were overwhelmingly urban *hukou* youths.³⁵

With well over 50% of all Chinese youths having rural *hukou*, the predictable result of the multiple obstacles such youths have faced for decades in proceeding to upper middle school and beyond is that China currently has lower proportions of its adult labour force who have attended high school than many other middle income countries, not to mention in the richer countries whose numbers China wants to join. One recent study calculated that in 2015, only 30% of China's labour force had any high schooling (grades 10-12), compared with 31% in

³³ See Pei-chia Lan, "Segmented Incorporation: The Second Generation of Rural Migrants in Shanghai," *The China Quarterly*, 2014, 217: 243-65.

³⁴ Lei Wang, Mengjie Li, Cody Abbey, and Scott Rozelle, "Human Capital and the Middle Income Trap: How Many of China's Youth are Going to High School?" *The Developing Economies*, 2018, 56: 82-103, Table 2. It should be noted that at the end of the Mao era, there was a much smaller gap in upper middle school enrolment between urban and rural youths, but then early in the reform period large numbers of school closures and dropouts in rural areas decimated overall upper middle school enrolments, which fell from 18 million in 1977 to only 6.3 million by 1983. See Nirmal Kumar Chandra, "Education in China: From the Cultural Revolution to Four Modernizations," *Economic and Political Weekly* (India), 1987, 22: 121-36.

³⁵ Tony Tam and Jin Jiang, "Divergent Urban-Rural Trends in College Attendance: State Policy Bias and Structural Exclusion in China," *Sociology of Education*, 2015, 88: 160-80.

Indonesia, 34% in Mexico, 36% in Turkey, 42% in Argentina, and 46% in Brazil, not to mention the 76% average in OECD countries.³⁶ This is a shocking relative deficit for a civilization that has always been known for placing tremendous cultural emphasis on education.

Since early in the new millennium, China's leaders have recognized the negative implications of policies that obstructed rural youths from proceeding beyond lower middle schooling and they have launched a major drive and supplied substantial new funding and administrative effort into rectifying the urban-rural education gap. That effort has begun to pay off, with the disparity in 15-17 year olds with some high schooling shrinking from the 47% gap in 2005 cited earlier (90% for urban youths versus 43% for rural) to only 20% in 2015 (97% versus 77%). However, a substantial proportion of the increase in rural high schooling is in terminal vocational and educational training (VET) schools, rather than in academic high schools that enable graduates to apply to college, and some research suggests that VET schooling is often of poor quality.³⁷ So the situation with regard to schooling has improved, but rural-origin youths, the majority of all Chinese youths, are still being short-changed.

Why this matters is because China for some years has been attempting to shift the profile of its economic activities and the primary sources of growth. Manufacturing of inexpensive goods for export has become less important, and as migrant labour becomes increasingly scarce

³⁶ Yu Bai, Siqi Zhang, Lei Wang, Ruirui Dang, Cody Abbey, and Scott Rozelle, "Past Successes and Future Challenges of Rural China's Human Capital," *Journal of Contemporary China*, 2019, 28: 883-898. China currently claims to be about 60% urban, but as much as 1/3 of its urban population is composed of migrants with outsider *hukou* status. This means that still today perhaps 60% of the population possesses rural *hukou* (40% rural + 20% urban migrant), and in addition rural families have been allowed to have more children than urban families. So perhaps as many as 2/3 of China's young people remain categorized as of rural origin.

³⁷ On the enrolment increase by 2015, see Lei Wang, et al., "Human Capital and the Middle Income Trap," *op. cit.* On the questionable quality of VET schooling, see Prashant Loyalka, Xiaoting Huang, Linxin Zhang, Jianguo Wei, Hongmei Yi, Yingquan Song, Yaojiang Shi, and James Chu, "The Impact of Vocational Schooling on Human Capital Development in Developing Countries: Evidence from China," *World Bank Economic Review*, 2015, 30: 143-70.

and labour costs rise, China has been trying to transition to growth driven more by domestic consumption and by the service sector and toward the manufacture of higher value-added goods requiring advanced technology. Analysts often frame this as China's effort to escape the "middle income trap." The middle income trap refers to a general stage in the economic transition of formerly agrarian societies when they have moved from being a poor to a middle income country primarily by transferring rural labour to more productive urban manufacturing and other non-agricultural work. The question then becomes whether the country can move onward to join the ranks of rich countries, or whether it will remain "trapped" in the middle-income category.

In order to escape the trap, reliance on low-cost, minimally educated labour from the countryside to perform low-skill manufacturing and other non-farm jobs will no longer suffice. But to be able to compete in producing high quality and technology-based manufactured goods and services, a developing country needs an increasingly educated and well-trained labour force. Although sectors of China's population and economy already qualify, overall the decades of systematic discrimination against its rural population, a discrimination that China profited from in the early decades of its market reforms, has resulted in that country having a serious human capital deficit. Only if China can rapidly and effectively address and eliminate this discrimination, in schooling and in pretty much every other sphere, so that the talents and creativity of its entire population (and not just urban-origin youths) can be mobilized, will that nation be able to make further progress toward fulfilling Xi Jinping's China dream.³⁸

³⁸ This section draws on a brief piece I published in an online journal recently, "China's *Hukou* System: How an Engine of Development Has Become a Major Obstacle," *China-US Focus*, April 24, 2019. A recent book makes similar arguments about the obstacles to development due to China's extreme urban-rural inequality: Dexter Roberts, *The Myth of Chinese Capitalism: The Worker, the Factory, and the Future of the World*, New York: St. Martin's Press, 2020.

Conclusions

China's historical path in pursuit of economic development has been complicated. Overall, however, the story is a positive one. A great civilization that initially had considerable difficulty reforming and launching development and then after 1949 made substantial but very uneven progress toward that goal subsequently surprised the world by experiencing a four decades plus record of unmatched economic growth. Even more recently, however, the Chinese growth engine has slowed, China has confronted multiple challenges, and doubts have arisen about whether Xi Jinping's optimistic vision of the nation's future can be realized. I have argued here that China's spectacular economic growth after 1978 was not only unanticipated, but that it was the product of a serendipitous combination of factors and distinctive approaches and that the situation has now changed fundamentally, with the old approaches no longer viable. Only if China can find ways to effectively deal with the challenges it now faces, three of which have been emphasized in this essay, can it make further progress toward joining the ranks of the world's rich countries.

About the Author

Martin K. Whyte is Emeritus at Harvard, where he taught from 2000 to 2015. Previously, he taught at the University of Michigan and George Washington University. His research and teaching specialties are comparative sociology, sociology of the family, sociology of development, the sociological study of contemporary China, and the study of post-socialist transitions. Within sociology, Whyte's primary interest has been in historical and comparative questions—why particular societies are organized the way they are, how and why societies change, and how differences across societies affect the nature of people's lives. Whyte is a member of the American Sociological Association, the Association for Asian Studies, the Sociological Research Association, the Population Association of America, and the National Committee for U.S. China Relations.

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