

WASHINGTON UNIVERSITY

University College

International Affairs

**The First Development Phase in China:
Consequences of Economic Growth and Threats to the Legitimacy of the CCP**

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A Directed Research Project presented to
The University College of
Washington University
in partial fulfillment of the
Master of Arts degree

April 2013

Saint Louis, Missouri

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Introduction

When the frustrating era of Mao Zedong's erroneous politics was over, Deng Xiaoping started a number of reforms designed to form a new socialist market economic system with "Chinese characteristics." Deng's leadership succession marked the beginning of the first big economic and political development in China. As Chinese paramount leader, he saw a greater future for his country and its people. Under Deng's direction, the CCP began a number of economic reforms that changed China dramatically. His legacy continued throughout the next two decades of CCP leadership. Deng's main development strategy proved itself effective: As long as the CCP was successful in boosting the economy and providing financial prosperity, the Chinese people did not question or challenge the political system of an authoritarian one-party state.

Today China, under the new leadership of Xi Jinping and Li Keqiang, is entering a new phase in its development (see appendix 2, 3). Social demands have been increasing in the past several years. Due to the global economic recession, the CCP is now facing the challenge of keeping its economy growing at a rapid pace. Yet, it also faces a new dilemma. A number of critical problems created during the first development phase challenge the legitimacy of the CCP and social stability in the country. In this paper I will argue that the growing social inequality gap, rampant corruption, and environmental degradation are the main problems the new Standing Committee of the CCP is facing in the next decade. I will examine the main political and economic reforms made throughout the three decades of the first development phase. I will then analyze those problems in greater detail and look at how the scope and scale of those problems have contributed to the social unrest. My main argument is that at the beginning of the first development phase, to sustain its power the CCP had to enact a number of economic reforms to

put its country on the path of development. Today for the one-party state system to survive in the next decade of the leadership, the CCP must take the growing social discontent into great consideration and create a long-term sustainable strategy that would contribute to dealing with the issues of social inequality, widespread corruption and economic degradation.

The first part of the paper focuses on the first phase of the Chinese development. In the first chapter, I will look at Deng's path to leadership. I will argue that after supporting Mao throughout the years of revolutionary struggle and civil war, Deng had finally realized that Mao's economic and political strategies were damaging for the country. After Mao's death, Deng spent years changing the existing system and adapting to the rapidly developing international environment. After a number of challenges such as inner Party disparities and the Tiananmen student demonstration in 1989, Deng managed to steer China onto the path of development. The second chapter begins with examining the students' uprisings at Tiananmen Square. It goes on to show Deng's legacy and his successor Jiang Zemin's accession to power. The decade under Jiang was an important time in Chinese modern history with a number of critical reforms enacted. I will look at Jiang and Zhu Rongji's strategy during the Asian economic crisis and how it helped to boost Chinese development in the 20th century. Finally, I will look at the era of Hu Jintao and the successes and failures of his leadership. I will then summarize the main achievements of development throughout the first phase and then focus on the problems of social inequality, corruption and environment.

The second part of the paper will examine those problems, showing recent examples of their scale and scope and the effects they have on social discontent. First I will look at the growing social gap and income inequality. If thirty years ago China had one of the most equal distributions of income, today it has one of the most unequal. Throughout the development

phase, millions of Chinese created a new middle class that did not exist before. Millions of people still live in poverty with limited access to basic essentials. At the same time, China today is a home to the largest number of billionaires in the world. Unfair social advantages combined with a slowing economy create increasing discontent among the populace. Second, the one party-state structure has created greater opportunities for widespread corruption. Lack of transparency and proper independent institutions in the country contribute to rampant corruption in the system. That fact challenges the image of the CCP and creates another great threat to its legitimacy. Finally, the rapid economic development over the past thirty years has cost China its environmental health. Mass production and use of coal, together with a number of other factors, have contributed to dramatic environmental degradation. The ecological situation in the country has become so harmful and dangerous for both China and the world that it is now creating another threat for the CCP and its power in the next decade.

Chapter I.

The first phase of development: Deng's journey to paramount power.

"To be rich is glorious"
Deng Xiaoping

The first development phase in China lasted over three decades (1978-2012), during which the country was transformed from an agricultural society devastated by the Great Leap Forward and Cultural Revolution to the second largest economy in the world. Examining the main leaders during that period, their key accomplishments and reforms and the main challenges they faced is an essential part of evaluating that period in Chinese history. China is and always has been one of the most mysterious and fascinating cultures on earth. To understand the

mentality and nature of both Chinese leaders and ordinary people is as challenging as knowing all of the unique details of its nearly 5,000 years of history. To focus on its development throughout the 20th century, however, it is important to at least remember the great role the Communist Party of China played in building China and establishing its modern society. For over three decades Mao ruled China with a strong hold on power using socialist-Leninist ideology as his main tool. Mao stands in history as an authoritative leader who started two of the most destructive movements in China's history: the Great Leap Forward (1958-1961) and the Cultural Revolution (1966-1976), which cost millions of lives and endless devastation. At first glance, Mao is easy to blame for the damage and evil his policies brought to China. It is important to realize, however, that the extremely disturbing consequences of his leadership caused a number of his followers to understand that his way was a ruinous option. Reforms were essential to finally find the way for development of the country.

A key figure here is Deng Xiaoping. During Mao's leadership, Deng held a number of important political positions. He was mayor of Chongqing, the Deputy Premier and Vice President of the Committee on Finance, Minister of Finance and Director of the Office of Communications, the General Secretary of the CPC Central Committee, Director of the Organization Department and Vice Chairman of the Central Military Commission. In 1957, Deng became the General Secretary of the Secretariat, which allowed him to be in charge of the country's main affairs along with then-President Liu Shaoqi. Deng managed to achieve that post after supporting Mao in his Anti-Rightist Movement throughout 1950s. Deng stood by Mao, promoting his ideology in a fight against the bourgeoisie and capitalists.

As a result of their campaigns, several hundred thousand intellectuals were labeled as rightists and either killed or prosecuted and sent to prisons. As one of the main consequences to

the Anti- Rightist movement, many of China's brightest minds were destroyed, leaving Mao with a limited number of talented advisors with a potential to restrain him from launching the Great Leap forward and further the Cultural Revolution. As a result, the disastrous conclusion of the Great Leap Forward made Deng doubt Mao's ability to manage the economy. He began to express criticism towards Mao's policies and started to show more ambition to control the economic strategies of the country. Consequently, during the Cultural Revolution, Mao purged Deng, stripped him off his positions, and sent Red Guards to persecute him and his family.

The years of the Cultural Revolution were devastating for Deng and his family. His son Deng Pufang was arrested and tortured. He was thrown out of the fourth floor and remained paralyzed from the waist down for the rest of his life. Deng and his family were sent to the Xinjian County Tractor Factory in Jiangxi province as workers. Besides daily labor, Deng's days were full of long, intense deliberations with himself about how to get back into Mao's good graces. Deng knew that being far away from Beijing during the dangerous times of political turmoil could play out to his favor. Besides, Deng realized that Mao was an old man of seventy-five, so it would have not been too long until the Party top position would be vacant. Deng commented before leaving for Xinjian: "I'll be coming back eventually. I can still work for the party for another ten years."¹ Deng didn't know that he would serve his country for almost twice as long as he intended. The years working in Xinjian helped Deng to reach a greater understanding of the future path for Chinese development and long-term goals that had to be achieved. It was in Xinjian where Deng had a chance to reflect on the past and think of the best options for the future. In his book *Deng Xiaoping and the Transformation of China*, Ezra Vogel argues that "it is hard to imagine that after 1977 Deng could have moved so deftly and forcefully

¹ Vogel, Ezra. *Deng Xiaoping and Transformation of China*. Cambridge: The Belknap Press of Harvard University, 2011: 49.

had he not had a considerable length of time to ponder the nature of the reforms that China needed and how to achieve them.”²

A number of major factors influenced Deng’s fervent intention to enact reforms. First, he observed the relationships that neighboring Asian countries had with the West. While at Xinjian, Deng listened to foreign radio broadcasts and received newspapers. He had a chance to evaluate the economic benefits Japan, South Korea, Taiwan and Singapore gained from encouraging foreign investments and technological know-how. He also learned about a number of important diplomatic events initiated while he was in exile. For example, President Nixon and his Secretary of State Henry Kissinger were invited to visit China in 1972; Beijing officially became a representative of China to the United Nations. China has normalized its relationship with Canada, and Japan had finally recognized China. Second, Deng was deeply influenced by personal observations of rural lives in China. Unlike most Beijing officials whose knowledge about the nation’s economic situation was shaped by propaganda, Deng had a chance to evaluate the real consequences of Mao’s erroneous politics on the Chinese people. He was saddened by the fact that most of his neighbors could not afford to support basic daily needs and had to live in poverty. Third, Deng was influenced by the personal experiences of his family. His children, who were sent to rural areas to perform manual labor, complained that villagers lived in terrible conditions, sometimes starving for days on end and not having enough to wear. Deng was disappointed that the socialist system he had been working hard to create his whole life was not working the intended way. On the contrary, it seemed to be damaging the lives of the Chinese people. He knew that the problems China faced were serious and something had to be done to fix

² Vogel, 52

them. Deng realized, however, that to make any changes he had to come back to Beijing and continue working with Mao.

It is hard to imagine the feelings that Deng Xiaoping had for Mao after the tragic events in his family due to the Cultural Revolution. His past and his future depended on that powerful man whose irrational policies and strategies had ruined millions of Chinese lives, including his own. Before the Cultural Revolution, Deng remained committed to Mao and his ideas to promote socialist ideology. After the Cultural Revolution, Deng intended to do the same but with different goals. Deng realized that to set the path for Chinese development in the direction of reform, he had to become close to Mao again. The personal resentment towards Mao due to the suffering Deng's family had to endure during the Cultural Revolution could not affect the potential for the successful development of China. After Deng was re-established in the Party in 1974 as the First Vice-Premier, emotional drama was not the only dilemma he had to face. He also had to figure out the way to balance anger and fear towards Mao that had evolved within the "profoundly alienated and lethargic populace numbed from three decades of unrelenting Maoist political campaigns, persecutions, and catastrophes that had cost tens of millions of lives."³ Deng faced a critical challenge to presume the legitimacy of the Party along with changing economic and socio-political policies.

After Mao's death in 1976, Chinese "paramount leader" Deng Xiaoping called for promoting development in "Four Modernizations"— agriculture, industry, national defense, science and technology. This course had been introduced a decade earlier by Zhou Enlai, first Premier of the People's Republic of China, and then interrupted by the Cultural Revolution. Deng embraced the "Four Modernization" policy because he believed successful development in

³ Schell, Orville and David Shambaugh, ed. *The China Reader*. New York: Vintage Books, 1999: 5.

those four areas would speed Chinese economic success. He noted: “It does not matter if a cat is black or white so long as it catches the mouse.”⁴ Deng believed it didn’t matter if the new economic strategy was socialist or capitalist as long as the final result was economic growth. Therefore, Deng set a new strategy for achieving economic progress by replacing the old collective farming system with a new contract responsibility institution; encouraging private entrepreneurship in both rural and urban areas; enacting price reform, transferring greater autonomy to local authorities, and initiating an open-door policy.⁵ (See appendix 5) In his attempts to inspire the CCP and the rest of Chinese people to follow the new path of development, Deng proclaimed: “We must not act like women with bound feet. Once we are sure that something should be done, we should dare to experiment and break a new path...[W]ho dares claim that he is 100 percent sure of success and that he is taking no risks?”⁶

In 1978 Chairman of the CCP Hua Guofeng announced a new ten-year plan and put Deng in charge of implementing new reforms based on the strategy of the “Four Modernizations.” As the first changes in agriculture, Deng dismantled Maoist- style communes and set up the new Household Responsibility System where private farm families would sign land lease contracts with the government and produce as much crop at the set price as negotiated in those agreements, with “each getting the additional reward for additional labor after delivering a fixed amount of output to the team for delivery to the government procurement agencies.”⁷ Once the conditions of the contract were fulfilled, farmers were free to sell the rest of their crops at market for the best price. As a result, since the financial well-being of farmers was improving, they

⁴ Keyser, Catherine. “Three Chinese Leaders: Mao Zedong, Zhou Enlai and Deng Xiaoping.” In *Asia for Educators*.

⁵ *ibid*

⁶ Kissinger, Henry. *On China*. New York: The Penguin Press, 2011: 442.

⁷ Chow, Gregory. “Economic Reform and Growth in China.” In *Annals of Economics and Finance*, 2004 <<http://aefweb.net/AefArticles/aef050107.pdf> (accessed February 12, 2013).>

planted more crops and agricultural production in the country rose significantly. The success in the agricultural sphere led the CCP to realize that a similar strategy could be used in other areas as well. The ideological thinking of the Party started to shift towards more market-based approach.⁸

Furthermore, the Industrial Responsibility System was introduced to boost manufacturing output. Supervisors of state owned enterprises (SOE's) were given more flexibility and freedom to make management decisions: One of the main goals of the new system was to free enterprises from government control. By doing so, the Party would ensure that decisions regarding investment, production, and prices were made based on economic principles rather than political ideology. Another important aspect of this system was to release the government from the duties of being a financial safeguard in the event that an enterprise went bankrupt. The government was no longer responsible for "propping up uneconomic state enterprises with soft loans and other forms of financial support."⁹ An important aspect of the reform was also to encourage diversity in enterprises throughout the country. As a result, the new strategy proved to be effective in encouraging higher production and increasing quality of products among the SOE's.

Finally, when it came to the national defense, science, and technology, Deng's chief goals were to overcome the devastating impact of the Cultural Revolution and start to develop a new generation of scientists, artists, and scholars. He put heavy emphasis on promoting the study of political science, law, sociology, and international affairs. Deng believed it was crucial for Chinese students to study foreign languages and cultures. He insisted that it would increase

⁸ Chow, Gregory. "Economic Reform and Growth in China." In *Annals of Economics and Finance*, 2004 <<http://aefweb.net/AefArticles/aef050107.pdf> (accessed February 12, 2013).>

⁹ Tisdell, Clem. "Economic Reform and Openness in China." In *Economic Analysis and Policy*, 2009. <http://www.eap-journal.com/archive/v39_i2_05-tisdell.pdf (accessed March 9, 2013).>

China's chances of becoming a globally competitive and strong nation. Deng considered access to Western education as one of the main tools for his society to use to accomplish the complex objectives of modernization. Therefore, Deng encouraged thousands of Chinese students to travel to the West to study and bring new knowledge and expertise back to China. Increasing scientific and technological capabilities was believed to improve the strength of the army. For example, great emphasis was placed upon nuclear research.

Overall, Deng would describe his approach to the new reforms as “groping the stones as he crossed the river.”¹⁰ He knew the path to modernization was complex and full of unexpected obstacles. Deng had outstanding leadership skills due to his intelligence and ability to make tough decisions in the face of strong opposition. He managed to remain loyal to his mission of enacting reforms and opening up China even during the difficult years when his ideas were considered radical and ineffective. He was patient yet eager for success: “He was wise in the sense that he could foresee the advantages to China of the reforms and opening up but was also aware that the reforms would have to be phased in at a gradual pace and systematically.”¹¹ In other words, Deng was determined to chart a new direction for China step by step. The new path of reforms, however, proved to be very challenging and brought a number of tough problems and obstacles.

The so-called structure where everyone was “eating from the same pot” remained a great obstacle for the new leadership. Some of the main issues: highly bureaucratic economic organization, strict hierarchical control, and a model that did not reward talent and innovation. When it came to losing a grip on SOEs, the CCP faced a number of problems such as inefficient

¹⁰ Vogel, 56

¹¹ Tisdell, Clem. "Economic Reform and Openness in China." In *Economic Analysis and Policy*, 2009. <http://www.eap-journal.com/archive/v39_i2_05-tisdell.pdf (accessed March 9, 2013).>

management, corruption, and issues with fair compensation. One of the main challenges when it came to reforming the role and structure of the SOEs was creating more efficient and productive management. Many of the remaining supervisors were neither qualified nor professionally trained to handle the new, modern enterprises. Moreover, the bureaucratic system that had been developing for decades left a number of old traditions such as using personal connections to rise in companies. This tendency led to more inefficiency and the promotion of unworthy, incompetent managers. Finally, the problem of corruption remained unsolved due to the fact that high salaries for managers were ideologically unacceptable. Therefore, examples of personal gain and embezzlement continued to increase within the system.¹²

Besides the remaining problems in the new system, by the end of the 1980s, Deng's new strategy was challenged by conservative hardliners who gained significant influence in economic decision making and called for "strengthening central planning and slowing down the pace of economic growth."¹³ As a result, the CCP faced a power struggle between Deng and his followers calling for further economic reforms and openness, and leftist hardliners calling for the revival of Maoist radical ideology and the slowing down of economic growth. Officials from the Left wing felt personally threatened by Deng's ambitious reforms of expansion, decentralization, and a new orientation towards capitalist markets. The Leftists built their professional lives within the old bureaucratic system that encouraged centralized planning, strict government control, and conservative ideology.¹⁴ In addition, the 1989 Tiananmen student uprisings put the future of the CCP and its legitimacy at greater risk. Further examination of the lessons of Tiananmen and the

¹² Chow, Gregory. "Economic Reform and Openness in China." *In Economic Analysis and Policy*. 2009

¹³ Chu, Yun-Han, Chih-Cheng Lo, and Ramon Myers. "The 16th Party Congress: New Leaders, New China." *In Cambridge Press*, 2008.

¹⁴ Kuhn, Robert. *The Man Who Changed China: The Life and Legacy of Jiang Zemin*. New York: Crown Publishers, 2004: 212.

ways in which the CCP dealt with challenges after the crisis will contribute to our understanding of the risks that the CCP faces today.

Chapter II

The second phase of development: Tiananmen crisis and the Jiang era

*"The people are the foundation of the state; the state will be stable if the foundation is firm."
Ancient Chinese proverb*

To examine the main challenges the CCP's Standing Committee is facing in the new development phase, it is important to look back at the Tiananmen crisis and the lessons learned from that experience. The social unrest in the country at the end of the 1980s was triggered by at least two factors. First, the youth was demanding more personal freedom and flexibility in choosing their careers. They were less concerned about the political struggles and more about their ability to escape from so-called "political guides" or assigned jobs after graduation. This system was outmoded and highly corrupt. For most Chinese students, "freedom meant eliminating these political guides and being able to choose their jobs and careers on their own. The students actually spent little time discussing election systems."¹⁵ Second, economic issues such as inflation and rising prices triggered a great social disturbance. The main discontent in this sphere was caused by both corruption and loopholes in the system. The public, with fixed salaries, was angered over "township and village enterprise workers enriching themselves by siphoning off needed materials and funds from state and public enterprises...while 'profiteering

¹⁵ Vogel, 599

officials' [were] finding ways to use society's goods to line their own pockets as the income of law-abiding officials stagnated."¹⁶

Overall, the legitimacy of the Party and people's trust in the system were jeopardized. The Chinese people started to question the ability of the CCP to rule the country in ways that would benefit the whole society and not just certain individuals. The CCP was in danger of losing the "mandate of heaven" that had been historically earned by Chinese leaders as the supreme right to govern. People didn't want to remain loyal to leaders that weren't benevolent. Moreover, after a decade of reforms, the social demands in the country rose to new levels. People started to believe they were entitled to greater freedoms and better lives. Harding, in his article "Crises in Communist Reform: Lessons from Tiananmen," claimed that "the mass demonstrations that swept Peking between mid-April and early June of 1989 dramatically illustrated the extent of popular demands for even greater economic and political change."¹⁷ Furthermore, from a political stand point there are two main lessons to learn from Tiananmen. First, a political split at the top makes the CCP fragile and has the potential to inspire social unrest. Second, media is an essential channel of social awareness and can play a major role in future protests. The main lesson of the Tiananmen for the current leadership of the CCP is not to underestimate the will and power of the Chinese people. If the Party loses its "mandate of heaven" it risks losing its power.

After the Tiananmen crisis the Communist Party of China faced three years of a complicated transition period. On one hand, Deng's orders to crush the dissent during the protests caused a bitter disagreement within the Party. On the other hand, the collapse of the

¹⁶ Ibid, 600

¹⁷ Harding, Harry. "Crises in Communist Reform: Lessons from Tiananmen ," In *The Brookings Review*, 1990: 47-51

USSR in 1991 made the Chinese leadership fear the future of Chinese communism. According to Jonathan Fenby, “the decisions of the 1980s, culminating in the use of troops to put down the students and people in the capital on 3-4 June 1989, ensured that China would be trapped in a political cocoon, going through ideological gyrations to try to reconcile extreme economic mobility with the preservation of the statist system that had died in Europe with the end of the Soviet Union.”¹⁸ Deng Xiaoping knew that morale within the society and the Party was low. The need for fast and effective reforms in the country that would help the Party regain social support was apparent.

The problem, however, lay within inner party conservative hardliners who opposed rapid economic growth. As a result, Deng turned his focus to gaining more support from the West and opening up his country to international markets. He hoped to establish more stable power and enact a number of political and economic reforms that, by that point, had become inevitable. In his book, Ezra Vogel quotes Deng: “We should open to the outside world instead of closing our doors— open wider than before. To regain the trust of the people, [we] must achieve concrete results, investigate quickly, punish prominent cases of corruption...and continue the policy of reform and opening.”¹⁹ Deng also embarked on his famous Southern Tour (see appendix 4), during which he traveled through the commercially important Chinese cities of Wuhan, Shenzhen, Zhuhai and Shanghai and openly announced that from then on CCP members should “[do] more and talk less...and whoever [was] against reform must leave office.”²⁰

¹⁸ Fenby, Jonathan. *Modern China: The Fall and Rise of a Great Power, 1850 to the Present*. New York: HarperCollins Publishers, 2008: 640.

¹⁹ Vogel, 641

²⁰ Ibid, 670

The Southern trip is recognized as an important step towards Chinese development and openness in the new era of economic reforms. Deng strove to inspire the people to follow his vision for a new China. He believed economic changes would lead to a brighter future for the Chinese people. Symbolically, Deng's southern tour marked the end of his political journey. Deng loosened up his political power grip and let Jiang Zemin take full control over the nation's domestic and international affairs. Kissinger writes in his book *On China*: "the Southern Tour was Deng's last public service."²¹ Carrying out of Deng's ideas for further reforms fell on the shoulders of Jiang and his administration. Deng died in 1997. By that time, Jiang managed to consolidate his power by using Deng's legacy as his main vision for the future of China.

Jiang's path to power, however, was not an easy one. Even though Jiang Zemin was first appointed as Party Secretary in 1989, only after his second reappointment at the 14th Party Congress in 1992 did he finally establish his role as the new Chinese leader. To achieve that status, Jiang had to implement a number of strategic moves and overcome an internal struggle within the CCP between his associates and conservatives. To begin with, he ordered the Department of Propaganda to publicize Deng's speeches, especially the ones that criticized Leftists. Then he started a number of moves to increase his influence within the People's Liberation Army (PLA), People's Armed Police (PAP) and Ministry of State Security. First, he brought General Ba Zhongtan, former Shanghai commander, to lead the PAP and, furthermore, significantly improved the force by increasing its materiel and personnel. Second, Jiang strengthened the Ministry of State by increasing its authority to maintain public order and investigate espionage and corruption. Third, Jiang granted the highest rank promotions— senior general— to six army officials who confirmed their loyalty to the new leader.

²¹ Kissinger, 446

Jiang's attempts to consolidate power by increasing influences within the PLA, the PAP and the Ministry of State Security triggered a number of criticisms from the Left wing of the CCP. He was accused in starting a "Shanghai Faction" since most of his newly recruited officials were from Shanghai. He was also criticized for potentially starting a split within the Party by creating factions at the top. For example, Chen Xitong, the Beijing Party boss, openly expressed his dissatisfaction with Ba Zhongtan's promotion to the PAP, fearing that it would change the balance of power in the capital by benefiting Jiang and his administration. Chen's fears, in fact, turned out to be reasonable. At the Eighth National People's Congress, Jiang was elected President of China, gaining 2849 votes out of 2909.²² He continued to consolidate his power by taking charge of the Party's Leading Group of Finance and Economics, appointing his new Premier, Zhu Rongji, as a governor of the People's Bank of China and promoting Zeng Qinghong to be director of the General Office of the CPC Central Committee. Finally, by 1993 Jiang became the most powerful political figure in the country since Mao by concurrently holding the positions of General Secretary, State President, and Chairman of the Central Military Commission (CMC).

Between 1993 and 1997 President Jiang focused on further consolidating his power. As a result, during that period he did not enact any substantial reforms. By 1997, Jiang gained full control over Chinese economic and political lives and was ready to embark on a path of party transition. In the second half of 1997, Jiang and Zhu faced a new economic challenge in the form of the Asian financial crisis that was affecting the region. At first, Chinese leaders didn't see a big threat in the "Asian flu" or an economic crisis in Japan, South Korea, and Southeast Asia. They played out the "strong fundamentals" of the economy: foreign exchange reserves at \$140

²² Kuhn, 233

billion, trade surplus at \$40 billion, and foreign debt at only 10 percent at 8.8 percent annual growth rate in 1997.²³ Nevertheless, by mid-1998, because about 40 percent of Chinese exports and 80 percent of direct foreign investments were to and from the neighboring Asian countries, China began to feel the symptoms of the “Asian flu,” with exports decreasing more than 50 percent, and direct foreign investments moving from \$45 billion in 1997 to \$30 billion in 1998.²⁴

To avoid catching the “Asian flu,” Jiang and Zhu started a number of reforms. One of the first focused on separating business from the government. This reform was based on the idea of “small government, large society.” In 1997 about thirty people were supporting one official cadre, which was incredibly inefficient. Zhu offered to trim the Chinese bureaucracy and lay off about four million civil servants in the next four years. He believed the existing system was wasting important funds that could be used for technology and education. As a result the State Economic and Trade Commission (SETC) was created. This reform helped to balance state control with market demand and the creation of fiscally self-sufficient units. Other important reforms enacted by Zhu were based on downgrading money-losing SOEs, reforming their management systems, and increasing the role of the private sector. Zhu saw financial opportunities in supporting the private sector. As a result, banks were required to provide fiscal support to the medium and small non-state sectors.²⁵

As far as bank reform goes, Zhu saw benefits in adopting the Western model of the U.S. Federal Reserve. He recommended eliminating the authority of regional governments over the allocation of credit and increasing the power of the People’s Bank of China (PBoC) and its regional branches. State commercial banks were to be turned into self-sufficient businesses and

²³ Lam, Willy. *The Era of Jiang Zemin*. Singapore: Simon & Schuster (Asia) Pte Ltd, 1999: 374.

²⁴ *ibid*

²⁵ *ibid*, 382

be transformed into public shareholding units. This strategy was challenged by the limited transparency in the system with the CCP never disclosing the real numbers of its bad debt. Overall, however, the reforms enacted by Jiang and Zhu at the end of the 1990s created a great boost for future Chinese economic growth.²⁶

By 2000, to satisfy demands for the rapidly developing economy, Jiang came up with the “Three Represents”— a new concept for transforming the Party. This new strategy was a result of Jiang’s realization that “the Maoist political campaign had become ineffective, even counter-productive in an age of capitalist development and globalization.”²⁷ The “Three Represents” theory was based on an idea that the Party represented the most progressive mode of productive forces, advanced culture, and fundamental interests of the majority of Chinese society. By the 16th Party Congress in 2002, the “Three Represents” became the basis of a new party ideology and Jiang’s legacy for the next generation of leaders.

The decade of Jiang Zeming’s leadership played an important role in Chinese history. A number of significant events that occurred under his watch influenced Chinese development and helped create the China the world knows today. Among the crucial events that occurred during his era included the opening of the first Chinese stock market exchange, building the Three Gorges Dam, reversion of Hong Kong and Macao to Chinese sovereignty, and Chinese accession into the World Trade Organization (WTO). Inspired by Deng’s endeavors for reforms, Jiang followed the path of further economic development with simultaneous tightening of the political power of the CCP. He remained committed to the idea that new reforms must fit with domestic demand and Chinese national characteristics. He was open to cooperation with the Western

²⁶ Lam, 384

²⁷ Wang , Gungwu and Zheng Yongnian. *Damage Control: The Chinese Communist Party in the Jiang Zemin Era*. Singapore: Eastern Universities Press, 2003: 6.

countries. However, he did not believe there was any room for foreign involvement in the internal politics of China. True to the core of the third generation of the Party leadership, Jiang stayed loyal to the idea that “the social system of each country must be chosen by that country.”²⁸ Lastly, Jiang’s theory of the “Three Represents” marked the CCP’s transition to the party of the people.

Chapter III

The third phase of development

China under Hu Jintao: Golden era or stagnant decade?

Hu Jintao took over the Party Secretary position during the 16th Party Congress in 2002. Wen Jiabao became his Premier. The decade of the political leadership of Hu and Wen marked China’s entry into the 21st century as one of the strongest, albeit most complicated players. The fourth generation of leaders faced a number of important problems in the area of economics, power politics, and the social sphere. Some of the main objectives faced by the new leadership were revitalizing the Party, continuing along the path of modernization, improving the nation’s economic and social conditions, and promoting China’s peaceful development in the world. From the start, one of the first obstacles to asserting power that Hu Jintao faced was the fact that Jiang Zemin managed to hold on to his post as chairman of the Central Military Commission for an additional two years. This meant that one of the most powerful positions in the country still belonged to Jiang and not the newly appointed Party Chief. Nevertheless, the leadership succession at the 16th Party Congress is considered to have been “more orderly and peaceful than

²⁸ Saich, Tony. "The Fourteenth Party Congress: A Programme for Authoritarian Rule." *The China Quarterly*, 1992: 1136-1160, < <http://www.jstor.org.libproxy.wustl.edu/stable/654197> (accessed March 9, 2013).>

in any previous Party Congress.”²⁹ Overall, the Hu-Wen administration faced the daunting task of continuing to improve the image of the CCP in the eyes of Chinese people and the world.

Along the lines of Jiang’s and Deng’s philosophy, Hu and his cabinet believed that any reforms enacted must be based on the unique features of Chinese culture, ideology and institutions. Simultaneously, however, it was essential for him to create his own legacy in establishing political legitimacy. To do so, Hu proudly announced his plans to continue the legacy of the “Three Represents” and further socialist development of the country: “We will live up to the great trust of the entire Party and the expectations of people across the country, hold high the great banner of Deng Xiaoping Theory, fully implement the important thought of Three Represents, and earnestly fulfill various tasks put forth by the 16th Party Congress.”³⁰ Hu also emphasized the importance of continuing to open China to the world and further establishing an important and stable role for China, stating that the CCP supports peaceful and cooperative global development.

As with the two previous generations of Jiang’s and Deng’s leadership, Hu’s era was characterized by both positive and negative economic and socio-political events. On one hand, strong economic growth, high employment, and stable CCP rule are three main features of Hu’s years in power. When Hu took power in 2002, the Chinese economy was rated sixth largest in the world. In 2010 China officially became the world’s second largest economy (averaging more than 10 percent annual growth)³¹, overtaking Japan and claiming a spot only behind the United States. Hu began his term only a year after China was admitted to the WTO, which led to a rapid

²⁹ Yun-han, Chu, Chih-cheng, Lo, and Ramon Myers. "The 16th Party Congress: New Leaders, New China." In *Cambridge Catalogue*, 2004 <<http://www.scu.edu.tw/politics/member/lowww/abstract/16.pdf> (accessed March 2, 2013)>

³⁰ *Hu Jintao's Speech at the Press*. People Daily: 2005.

³¹ Orlik, Tom. *Charting China's Economy: 10 Years Under Hu*. The Wall Street Journal: 2012.

growth in exports. By 2010, China became the world's largest exporter. Rapid economic development has triggered an increasing amount of foreign investments. That has meant a higher standard of living for the people: Per capita GDP measured in purchasing power terms more than tripled from \$2,800 in 2002 to a forecast \$9,100 in 2012.³² As a result, China had taken a step from poor nation status toward the middle-class range. (see appendix 7)

Hu's accomplishments are also seen in other areas. During the decade of his administration, Beijing hosted the 2008 Summer Olympics. Chinese leaders invested over \$40 billion in organizing the Olympics, which were meant to play a symbolic role in China's rejuvenation as a strong global player.³³ Also, during Hu's era, China's space program saw significant improvements. For the first time, China sent a man into space. China has become the world's largest automaker. In addition, the Chinese army has grown and now the Chinese have their first aircraft carrier. But some of the most impressive of Hu's achievements are based on his diplomatic cooperation with the rest of the world. By promoting his strategy of China's peaceful development, Hu has established strong business relationships with African and Middle Eastern countries. He has also created ties with partners in Latin America and improved China's cooperation with the United States. But more importantly, Hu has managed to make progress on the issue of reunification with Taiwan.

On the other hand, Hu has been widely criticized by economists and political scientists all over the world for making a number of critical mistakes and being a failure in some important aspects. First, many believe that the economic achievements of Jiang and Zhu during the 1990s actually laid the foundation for the country's growth and development during Hu's era.

³² Orlik, Tom. Charting China's Economy: 10 Years Under Hu. The Wall Street Journal: 2012.

³³ Bristow, Michael. *Big Olympic spend, but little debate*. BBC News: 2008.

Transformations made by the previous generation of leaders, including strengthening the banking system and increasing domestic consumption, spurred economic growth during the 2000s. As a result, many blame Hu for free-riding on the reforms and efforts made before him. Second, despite some successes on the international arena, Hu has been widely criticized for his foreign policy. He is blamed for creating an image of China as a newly-emerging world hegemon. For example, his ambitions in the South China Sea have created a number of concerns among his neighbors Japan, South Korea, Vietnam, and the Philippines, causing them to seek stronger ties with the United States. While China was seen as a desired business partner, during Hu's era it appeared more antagonistic toward the region and the world.

In fact, Hu inherited a number of serious problems from his predecessors. The most severe are growing social inequality, rampant corruption, and a worsening environmental situation. He was unable and unwilling to deal with these problems when he first came to power. As a result, they only got worse in scale and scope. Therefore, Hu is most criticized for being a weak-willed and ineffective political leader. His inability to deal with those complex problems due to his political inertia is considered one of his main failures. Ironically, while Hu was promoting the Chinese path towards a harmonious society, social unrest in the country increased due to increasingly divisive issues and Hu's failure to resolve them. Not surprisingly, during his administration, the internal security budget became larger than the budget for national defense.³⁴ During Hu's leadership, China saw a number of mass violent social protests such as the crisis between the Uighurs and Han Chinese in Urumqi, rioting by Tibetans in Lhasa, mass environmental protests involving thousands in villages in Fujian and Sichuan provinces, and nearly a million people marching in Hong Kong over human rights violations.

³⁴ Pilling, David. *China's rapid change and missed chances. The task that awaits Hu Jintao's successor will be formidable*. Financial Times: 2012.

The legacy of the three decades of leadership under Deng Xiaoping, Jiang Zemin, and Hu Jintao is an essential part of the new phase of China's development. Reforms enacted during the past thirty years have shaped the way the world knows China today. Along with reforms and changes in Chinese economics and politics, social demands and expectations have increased dramatically. With new leaders taking over the CCP office in 2012, it is essential to look at the next decade as a new development phase in China. The new Party Chief Xi Jinping and his Premier Li Keqiang have inherited a number of critical problems from their predecessors, with growing social inequality, rampant corruption, and the polluted environment being among the most urgent. With increasing social awareness and growing social demands and expectations, the new leadership of the CCP must find ways to support the legitimacy of the Party and sustain its power for the next ten years.

Chapter IV

Consequences of reforms: Social inequality

The development of China since 1978 is one of the most dramatic examples of economic and social transformation in history. Besides the fact that the changes made were extraordinary in speed, scale, and scope, one of the unique features of that transformation period was the context of “the simultaneous transition from a state-socialist economic system and a quasi-totalitarian political system.”³⁵ Three decades of reform have produced a number of both positive and negative consequences for the Chinese people. China has become the world's second largest economy, with economic growth averaging ten percent annually over the past thirty years. Real

³⁵ Minxin, Pei. *China's Trapped Transition. The Limits and Developmental Autocracy*. Cambridge: Harvard University Press, 2008: 1

GDP at the end of the 2000s was 13 times the level of 1987 when Deng started his reforms.³⁶ Within that period, per capita income increased sixty-fold, from \$151 in 1978 to \$9,100 in 2012.³⁷ The rate of urbanization has doubled from 18 percent in 1978 to 51.3 percent by the end of 2011.³⁸ In 2010 China became the world's largest exporter. Access to information and technology has improved dramatically. If in 1987 only about 2,000 Chinese had access to a phone, by 2011 that number had reached 986 million. Another indicator of increased social access to information— internet users— reached 389 million by 2009.³⁹ Improvements on the domestic level were also evident through the expansion of physical mobility on the part of Chinese. Moreover, Chinese citizens have finally gained freedom to travel abroad. In 1978, going overseas was not an option for an ordinary Chinese. In 2011, more than 11 million Chinese traveled outside the country. Furthermore, Chinese have spent about \$102 billion on international tourism in 2012.⁴⁰

Chinese society has benefited greatly from the economic reforms enacted over the past three decades. Hundreds of millions of Chinese were lifted out of the poverty and into the middle class. Market— oriented reforms helped to decentralize the Chinese economy, which has embraced a spirit of entrepreneurship and capitalism. The Party control of economics has changed significantly. In 1978 the share of the state-owned enterprises was about 78 percent; by 2002 state ownership had fallen to 41 percent. At the same time the role of the private sector rose a commensurate amount. The new social system became more complex, pluralistic, and

³⁶ Bergsten, Fred, Freeman, Charles, Lardy, Nicholas and Derek Mitchell. *China's Rise: Challenges and Opportunities*. Washington DC: Peterson Institute for International Economics, 2008.

³⁷ CIA, "The World Fact Book." March 29, 2013. Accessed April 10, 2013. <<http://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>>.

³⁸ *China urbanization rate exceeds 50%*. China Daily: 2012.

³⁹ CIA, "The World Fact Book." March 29, 2013. Accessed April 10, 2013. <<http://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>>.

⁴⁰ Sanburn, Josh. *How the U.S. Travel Industry Is Adapting to a Growing Wave of Chinese Tourists*. Time Magazine: 2013.

autonomous. This fact helped boost China's business and trade image in the world arena, making the nation one of the world's leaders in trade and foreign direct investment (FDI). While in 1978 China was still a closed nation with little interest in foreign affairs, by 2012 its trade numbers had reached \$2.05 trillion in exports and \$1.817 trillion in imports.⁴¹ FDI has increased from \$1 billion in 1982 to \$59 billion in 2012.⁴² (see appendix 6) The number of foreign visitors traveling to China has also increased dramatically, from half of million in 1980, to 27.11 million in 2011.⁴³ Moreover, China has become more integrated into global economy and institutions. For example, it gained membership in the International Monetary Fund (IMF), the International Chamber of Commerce, and the World Trade Organization (WTO).

Along with benefits, the rapid economic development of China over the past thirty years has created a number of problems. The majority has benefitted from the reforms, yet a large number of people have not. Out of its population of 1.3 billion, about 100 million have greatly profited from the reforms. Around 200 million have seen their financial status improve. Yet there remains a vast number of Chinese, from both urban and rural areas, who live in abject poverty. According to the UN, those in the most dire poverty must survive on a dollar a day. In 1995, about 65 million people in the country were considered "absolutely poor".⁴⁴ Therefore, social inequality in China has become an important problem and one of the main threats to the legitimacy of the Party.

⁴¹ CIA, "The World Fact Book." March 29, 2013. Accessed April 10, 2013.

<<http://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>>

⁴² Perkowski, Jack. *China Leads in Foreign Direct Investment*. Forbes Magazine: 2012.

⁴³ Xu, Lin. *Top 10 countries with most visitors to China in 2011*. In China.org: 2012. Accessed April 10, 2013.

<http://www.china.org.cn/top10/2012-02/28/content_24712751.htm>

⁴⁴ CIA, "The World Fact Book." March 29, 2013. Accessed April 10, 2013.

<<http://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>>

To understand this issue more completely, it is important to consider China's geopolitical situation. The coastal provinces in the East, such as Fujian, Shandong, and Zhejiang and in the South, such as Guangdong, have developed rapidly and become prosperous during the past thirty years. People in these provinces live in the most industrially and culturally advanced cities, such as Shanghai and Guangzhou. Then there are inland provinces such as Hunan, Anhui, and Henan, which, despite being less developed, have witnessed considerable economic benefits over the past three decades. And finally, there are the troubled Western areas such as Tibet, Shaanxi and Gansu, which remain economically undeveloped and whose residents still live in extreme poverty. As a result, social inequality in China is largely based on the disparity between wealthy urban areas in the East and the poor rural West.

On account of the under-development of rural areas in China, millions of workers travel to the Eastern coastal provinces in search of jobs and better opportunities. In 2010 there were about 155 million rural migrant workers in China.⁴⁵ Since the mid-1990s, migrants moving to work in urban areas have been the main driving force behind the growth in Chinese manufacturing. These are people who typically leave their families in the home villages and move to large cities to make money they otherwise would not have an opportunity to earn. Millions of Chinese return home once a year, during the Chinese New Year celebration—the largest human migration on earth. Besides living away from their families and working long hours, these people face a number of difficulties and discrimination. First, they receive low wages for their work, which means cheaper products. This factor increases Chinese competitiveness in global markets. Second, they suffer from the lack of a social safety net and health benefits. There is no social protection plan that would guarantee them any sort of

⁴⁵ Wing -Chan, Kam. "China's Internal Migration" In *The Encyclopedia for Global Migration*: Blackwell Publishing: 1999.

reimbursement or job safety. As a result, the saving rate in China is extremely high. This means that while the CCP is looking into increasing domestic consumption to boost the economy over the next decade, it might be more difficult to accomplish since millions of Chinese refuse to spend and, instead, save their money for retirement.

While millions of Chinese spend their lives away from home, working long hours for low wages, some enjoy the fruits of the past thirty years of development by living extravagantly. The number of billionaires in China has increased dramatically in the past decade, from none in 2002 to 271 in 2011. China is now second only to the United States in the number of billionaires.⁴⁶ China's newly appointed anti-corruption chief, Vice Premier Wang Qishan, had called upon CCP officials to read Alexis de Tocqueville's "*The Old Regime and French Revolution*" to draw their attention to the risk of social unrest in the country due to the growing income inequality. In fact, China's so-called "red aristocracy" is a popular reason for growing social discontent. According to the Gini coefficient (where 0 represents absolute equality and 1 means absolute inequality), China stands at 0.61— an increase from 0.4 in 2000.⁴⁷ This means that China has one of the world's largest disparities between the wealthy and the poor. (see appendix 8) Moreover, according to the UN Development Programme (UNDP) report, the gap between urban and rural China is one the fastest-growing in the world.⁴⁸ As a result, the CCP budget numbers this year for domestic security is \$124 billion, which exceeds its military budget of \$114 billion. This

⁴⁶ Moore, Michael. "China's billionaires double in number." *The Telegraph*, 2011.

⁴⁷ Chan, John. "China's red aristocracy." In International Committee of the Fourth International (ICFI), 2012.

⁴⁸ "UNDP: Report on Social Inequality in China." In Unrepresented Nations and Peoples Organization, 2005. <<http://www.unpo.org/article/3398>.>

suggests that the Party's greatest fears are not international threats but popular uprisings at home.⁴⁹

The Chinese term “red aristocracy” refers to somewhat over a hundred individuals whose families are extremely well connected and rich. Many are children, grandchildren and great grandchildren of the so-called “eight immortals” or the founding fathers of the People's Republic of China. The “eight immortals” are Deng Xiaoping, Bo Yibo (first finance minister of the PRC), Chen Yun (in charge of economic policy in the 1980s), Song Renqiong (one of the oldest rulers of the CCP), Peng Zhen (National People's Congress chairman in the 1980s), Wang Zhen (Vice President in 1988), Li Xiannian (President of PRC from 1983 to 1988), and Yang Shangkun (First vice chairman of the Central Military Commission). These individuals, now dead, fought the revolutionary war, survived Mao's repressions, and supported Deng in his striving for a more productive China. As a result, they greatly benefitted from the economic growth China witnessed in the 80s and 90s. Consequently, their descendents have had greater opportunities and connections and have enjoyed incredible wealth over the past twenty years. The world knows them as princelings, or children of wealthy and powerful parents who control China from within. All princelings are members of the CCP.

Many Chinese are increasingly restive over the problem of unequal opportunity. They are well aware of the princelings and their advantages over the rest of the populace. This situation has led to a growing discontent among people who are appalled by the selfishness and greed of the rich and the despair of the poor. According to the Pew Global Attitudes survey conducted in 2012, 81percent of those polled agreed that “the rich just get richer while the poor get poorer,”

⁴⁹ Chan John. “China's Looming Economic Crisis: Poverty and Rising Social Inequalities.” Centre for Research on globalization, 2013.

while 48 percent mentioned social disparity as a major problem today.⁵⁰ One of China's most controversial best-selling writers, Yu Hua, has spoken of the growing social divide by claiming that "China today is a land of huge disparities. It's like walking down a street where on one side are gaudy pleasure palaces and on the other side, desolate ruins."⁵¹ As a result, it is important for the CCP to understand the scale of this issue today. The social demands in the country have increased along with economic development. After the stagnant years of the Maoist regime, Chinese people were happy to finally have food on their tables and a roof over their heads. Years of economic development have increased social expectations. Today Chinese people demand more quality and better rights. They want safer foods and drugs, clean air and water, and better political and judicial systems. In contemporary China, however, the combination of a lack of transparency and rampant corruption has created a number of problems.

Chapter V

Consequences of reform: Rampant corruption

"Eat quietly, take gently, and play secretly."

New catch phrase popular among Chinese officials today

Xinhua

In his book *The China Reader: The Reform Era*, Orville Schell emphasizes the issue of growing corruption in China throughout the past three decades of development by saying that "crime and corruption have spread across the country like cancers."⁵² It is not surprising that corruption has become a big issue in China throughout its transitional stage. Political science

⁵⁰ Wike, Richard. *China inequality causes unease - Pew survey*. BBC News: 2012.

⁵¹ Hua, Yu. Interview by Helen Finken, "EAA Interview with Yu Hua." In *Education about Asia*: 2003, <<http://www.asian-studies.org/eaa/hua.pdf>.>

⁵² Schell and Shambaugh, xix

identifies corruption as a problem that all developing states have to face. China has not been an exception. Corruption in the country has been rampant and has become a severe threat to the legitimacy of the Party. All three previous generations of leaders have identified corruption as one of the central issues and threats to their administrations and the future of the country. Yet none was able to create valid solutions to this problem. Deng openly announced that “you cannot open the door without letting in a few flies,” implying that there would always be people trying to take advantage of the new system.⁵³ Jiang Zemin has expressed his attitude toward corruption by admitting that the problem has come from within the Party, yet it is the Party that has the tools to fix it. He has also stressed the importance of understanding the threat of corruption for the legitimacy of the Party: “If we do not resolutely crack down on corruption, the flesh and blood ties between the Party and the people will suffer a great deal, the Party will be in danger of losing its ruling position, and it is possible that the Party could be headed for self-destruction.”⁵⁴

Within the Party, however, opposing factions looked at the problem of corruption differently. Reformists pushed for more change in the economic and political systems, arguing that would increase the level of responsibility for officials. They would feel the pressure of being held accountable for immoral and illegal actions and become less corrupt. Conservatives, on the other hand, believed corruption is caused by a lack of discipline due to reforms and the opening up to Western influences. They have insisted that strict ideological and political control had to be imposed to deal with corruption.⁵⁵ One would argue that both sides have had a share of wrong and correct premises. On one hand, the new market reforms have boosted the economic growth and brought new financial opportunities for both officials and ordinary people. However,

⁵³ Vogel, 55

⁵⁴ Kuhn, 235

⁵⁵ Saich, Tony. *Governance and Politics of China*. New York: Palgrave, 2001: 300.

economic development has been created within a strict hierarchical political structure in which officials have greater freedom to use their positions for personal gain and bribes. Yet, decentralization of the system has led to less control over officials at local levels, leaving them with better opportunities for embezzlement and extortion. Therefore, during the Maoist era corruption took a less severe form and was based on officials using public funds to throw parties for Party members. Today, corruption in China has taken a much more extreme form with billions of dollars stolen and shared among immoral officials.

Before identifying the worst cases of corruption and looking at threats to the legitimacy of Party rule, it is first necessary to define corruption with Chinese characteristics. Robert Klitgaard, one of the world's leading authorities on corruption, has defined it formulaically: monopoly plus discretion minus accountability equals corruption.⁵⁶ To apply this formula to Chinese-style corruption, it is necessary to combine its broad definition with a number of unique cultural features, or "highlight the peculiar circumstances of culture and system transition that create ample ambiguities in conceiving corruption."⁵⁷ In other words, the definition of corruption in China carries a complex, multifaceted and in some cases ambiguous nature. This paper uses two sources that define corruption in China as "the notion of the use of public authority and public resources for private interests"⁵⁸ and "a combination of economic wrongdoings, political irregularities, and 'serious bureaucratism'— or the dissolute life led by public officials."⁵⁹

⁵⁶ Klitgaard, Robert. "International Cooperation Against Corruption." In *Finance and Development*: 1998.

⁵⁷ Sun, Yan. "The politics of conceptualizing corruption in reform China." In *Crime, Law and Social Change*: 245-270, 2001.

⁵⁸ He, Zengke. "Corruption and anti-corruption in reform China" In *Communist and Post-Communist Studies*: 243-270, 2000 .

⁵⁹ Wang, Ting. *The Politics of Corruption in Contemporary China. An Analysis of Policy Outcomes*. Westport: Praeger Publishers, 1994.

Zenghe He commented on corruption in contemporary China by saying: “Corruption in today’s China is often linked with negative phenomena and unhealthy tendencies within the party and government officials.”⁶⁰ Therefore, it is important to find a consensus between the way common people and Party officials define corruption. One way to do so is by using Heidenheimer’s three-category system that identifies “black”, “grey” and “white” types of corruption. “Black” corruption is based on a number of “economic crimes” such as bribery, fraud, embezzlement, extortion, smuggling, tax evasion, and others. These activities are usually viewed as illegal and corrupt by both public and Party officials.

“Grey” corruption occurs when officials in high-ranking positions increase profits for their institutions through illegal or semi-illegal means. This type of corruption often leads to vast financial losses among the public and significant financial gains among officials performing it. As a result, “grey” corruption is one of the leading reasons for “significant public outcry.” Therefore, it is one of the greatest threats to the legitimacy of the CCP. Finally, “white” corruption is a type of favoritism and nepotism in which personal networks play an essential role. In China, these types of practices are considered the norm and are accepted by most people. The problem, however, is that while favoritism isn’t actually illegal, it typically requires “bending the law in favor of relatives and friends.”⁶¹ Overall, a combination of these three types is what makes Chinese corruption unique.

Demonstration of the scale and variety of corruption in China over the past few decades requires evaluation of some of the most scandalous cases. One such case during Jiang’s era was

⁶⁰ He, Zengke. "Corruption and anti-corruption in reform China" In *Communist and Post-Communist Studies*: 243–270, 2000.

⁶¹ He, Zengke. "Corruption and anti-corruption in reform China" In *Communist and Post-Communist Studies*: 243–270, 2000.

the corruption trial of the mayor of Beijing, Chen Xitong. (see appendix 9) Chen was mayor from 1983 to 1993. He was also a member of the CCP Politburo, one of the highest political posts in the country. After China was chosen to host the 2008 Summer Olympics, Chen and his administration began a number of new projects to modernize the city. He and his staff were accused of taking bribes in connection with construction projects. After an internal investigation that lasted over two years, Chen was arrested and sentenced to prison for sixteen years on charges of corruption and dereliction of duty. Chen's official charge was that he had "accepted and embezzled a large number of valuable items, and had squandered a large amount of public funds to support a corrupt and decadent life."⁶² His son, Chen Xiaotong, received a twelve-year prison sentence.

This case is important for two reasons. First, Chen was the first Politburo member charged with corruption and sentenced to a prison term. Second, because Chen used to belong to the so-called Beijing clique while Jiang was a part of Shanghai clique, questions arose about political favoritism and a power struggle between the two cliques at the highest levels of the Party.

During Hu's decade in power, another major Politburo figure, Chen Liangyu, (see appendix 10), was accused of corruption crimes and sentenced to prison. In this case, the suspect was a mayor of Shanghai and consequently belonged to the Shanghai clique. Chen was involved in the so-called Shanghai pension scandal. He was accused of illicitly investing billions of public social security funds in a number of real estate and road projects and using his official post to help illegal businesses. Chen was suspended and sent to trial. In 2008 he was sentenced to eighteen years in prison on charges of financial fraud, bribery, and abuse of power. This case is

⁶² "World: Asia-Pacific." In BBC News: 1998.

another great example of the aforementioned power struggle within the Party. Chen Liangyu belonged to the Jiang patronage line and, therefore, as a mayor of Shanghai, created an imbalance of power for Hu in one of the most prosperous regions in the country. By prosecuting Chen Liangyu, Hu did what Jiang had done a decade earlier to Chen Xiaotong. He secured his authority within the highest echelons of the CCP and showcased the anti-corruption machine to the rest of the unethical officials in the country.

These two cases illustrate the pursuit of corruption as a tool used by the CCP to eliminate rival officials and their allies. Prosecuting high officials on the charge of corruption is one of the Party's tools to show that it deals with the problem of corruption and that nobody is immune to punishment, not even Politburo members. Another well-known example is the case of Yang Dacai, (see appendix 11), head of the Shaanxi Provincial Bureau of Work Safety. Yang earned the nickname "watch brother" after the Chinese Internet went viral with a picture of Yang wearing a luxury watch and smiling at the scene of a traffic accident that left thirty six dead in Yan'an, Shaanxi province, in August 2012. After the incident, a number of other pictures were posted online of Yang wearing expensive watches such as an Omega Constellation and Constantin— each worth thousands of dollars.⁶³ Yang was suspended from his government post and expelled from the Party. Today he is facing criminal charges. This case illustrates the growing role the Internet is playing in identifying and punishing corrupt officials in China. Yang's pictures were controversial for at least two reasons: He smiled at the scene of a bloody bus crash that left dozens of people dead, and he was wearing a deluxe watch that no official of his rank should be able to afford. Nevertheless, thanks to the Internet, the Chinese had a chance

⁶³ Phillips, Tom. "Chinese civil servant sacked over luxury wardrobe." *The Telegraph*, 2012.

to evaluate the situation for themselves. They would not have had the same chance a decade or two earlier.

Therefore, the growing role of the Internet and social media in particular has meant increased social awareness of the scale of the corruption problem and, therefore, it has pushed the CCP to fight official corruption. This statement is especially true when it comes to sexually related scandals and “caught-on-tape” authorities. This type of corruption is very relevant to Chinese officials. According to Forbes magazine, “Corruption in the form of sexual misconduct isn’t new in China, where relationships have always driven business dealings.”⁶⁴ In a recent case, a party chief in Chongqing, Lei Zhengfu, 56, was secretly taped having intercourse with his 18 year-old mistress. The tape was later used by local developers to extort construction deals from Lei. As a result, he was disgraced, fired from his post, and expelled from the Party. As indecent and immoral as this case might already seem, the most interesting thing about the Lei case is its connection to the Bo Xilai scandal. According to the Oriental Morning Post, the Chongqing police were aware of this scheme. Wang Lijun, a former police chief and one of Bo’s closest apprentices, had access to a number of similar tapes that could be used against other officials.⁶⁵ The Lei case came out in the open only after Wang was sent to prison for fifteen years. Bo lost his official status and was also sent behind bars. Therefore, the fall of Bo and Wang helped to expose Lei and related corruption schemes.

Most prosecuted cases of corrupt Chinese officials result in long prison sentences, disgrace, and banishment from the Party. The case of Cheng Kejie (see appendix 12), a former vice-chairman of the Standing Committee of the National People’s Congress, was somewhat

⁶⁴ Li, Junheng. "Does China's Anti-Corruption Campaign Spell the End of the Mistress Economy?" *Forbes Magazine*, 2012

⁶⁵ Branigan, Tania. "Ten Chinese officials fired over sex scandal in former Bo Xilai fiefdom." *The Guardian*, 2013.

different. After corruption charges he was sentenced to death and executed in September 2000. Cheng, with his mistress Li Ping, was allegedly accepting bribes while holding the position of deputy secretary of the Party Committee of Guangxi Zhuang Autonomous Region and chairman of the people's government of Guangxi. According to the official investigation, the couple had accepted over 41 million yuan in bribes from local real estate and development companies. The seriousness of the outcome of Cheng's trial shows another effort of the CCP to make an example of a corrupt official and send a message to people about the gravity of their anti-corruption campaign. An official verdict declared that Cheng's crimes had "tarnished the clean and honest image of government functionaries, [and] discredited the fine reputation of government officials, and thus should be harshly dealt with in accordance with the law."⁶⁶ Therefore, it is clear that by prosecuting corrupt officials the CCP attempts to maintain its legitimacy and principled image in the eyes of the Chinese people and the world.

Moreover, these cases demonstrate at least two important features of the problem of corruption in China today. First, the scope and scale of corrupt officials are widespread and harmful. Second, while both high- and low-ranking officials may be corrupt, the CCP tends to pick certain "scapegoats" in critical cases and punish them in order to create the illusion of fighting corruption. It is evident that political patronage and personal interests, not a sincere legal strategy to end official corruption in the country, play the main role in the CCP's anti-corruption campaigns. In one of his first speeches as new Party Secretary, Xi Jinping announced that the CCP will be targeting both "tigers and flies at the same time," meaning that both high- and low-level officials will be prosecuted for corruption. In recent attempts to do so, Xi has decreed that officials will discontinue lavish red carpet treatment of CCP officials with expensive and

⁶⁶ "Cheng Kejie Sentenced to Death for Bribery." *People's Daily*, 2010.

extravagant banquets and gatherings. He banned the use of private jets and the disruption of traffic in the cities for officials during their travels.

Although these are important steps, Xi will need to create a better, more effective anti-corruption system in the country. Creating greater transparency is one of the main steps. To prevent and stop corruption, the CCP must establish effective institutions independent of politics and guarantee them a safe work environment. Such institutions would perform objective investigations at all levels of government and keep dishonest officials in check. For anti-corruption institutions to be effective, they would have to exist separate from the Party and have freedom to operate within the system. Unfortunately, the police and judiciary are currently the only anti-corruption institutions in China, and both operate under strict Party control. Wang Yukai, a professor at the Chinese Academy of Governance, commented on this issue by saying that “the current campaign-style fight against corruption is not sustainable... [P]robes get stuck in this thicket.”⁶⁷

The New Standing Committee of the CCP is facing a number of tough policy-making decisions in the next developing phase. Due to the widespread corruption in the country, the legitimacy of the Party is compromised. Throughout the first development phase, the CCP managed to sustain its authoritarian power by creating rapid economic growth and providing people with financial benefits. Today, Chinese people have become less tolerant of rampant corruption and unfair advantages in the country. Stability in China is dependent upon the CCP's ability to fight official corruption. The paradox, however, is that Party members have no incentives for targeting corruption. The assumption is that corruption in China is so widespread

*The so-called "Kill the chicken to scare the monkey" technique.

⁶⁷ Hill, Catherine and Simone Rabinovitch. "China's rulers struggle with corruption culture." *Financial Times*, 2013.

that a majority of its leaders and officials are involved in corrupt deeds and are guilty on some level. Therefore, the CCP is not interested in following the rule of law and eliminating corruption at its core. Instead, the Party uses a strategy of scapegoating and punishes officials* whose immoral actions have leaked out to the general public (for example, the Yang Dacai case), or whose presence in the political arena is detrimental to the current leadership (the cases of Chen Xitong and Chen Liangyu). Nevertheless, the new administration must find ways to manage corruption within the system. Otherwise, it faces a risk of further ruining its image.

Chapter VI

Consequences of reform: Environmental problems

*“If we Chinese die of cancer caused by pollution,
What’s the meaning of economic growth for us?”*
Jin Zengmin
Entrepreneur and environmental activist

Rapid economic development in China over the past thirty years has exacted a dramatic environmental cost. According to the Chinese Academy of Environmental Planning, the estimated cost of environmental pollution in China in 2010 was \$230 billion, 3.5 percent of the total GDP.⁶⁸ The main factors contributing to that number are the cost of air, water, and soil pollution, damage to the ecosystem and the consequences of rapid industrial development. Therefore, the CCP is facing the difficult challenge of ensuring sustainable future economic growth while simultaneously improving the rapidly eroding environment. The main consensus between the CCP and Chinese people has been the Party’s preservation of its authoritarian

⁶⁸ Wong, Edward. “Cost of Environmental Damage in China Growing Rapidly Amid Industrialization.” *The New York Times*, 2013.

regime in exchange for the improving economic situation in the country. As long as the Chinese people were enjoying the financial benefits of market reforms over the past several decades, they did not question the CCP's methods. Therefore, one of the main priorities for the CCP remains maintaining the economic growth in the country. In 2012, China's GDP was \$8.3 trillion with an annual 7.5 percent growth rate. The projections for the next five years are an average of 7 percent growth.⁶⁹ Today, however, the environmental cost of such rapid economic development has led to major problems and growing social unrest in the country. As a result, a disastrous environmental situation in China has created a new challenge to Party legitimacy. China faces a number of critically important environmental problems, among them polluted air, deteriorating water quality, increased water scarcity, soil degradation, and acid rain. The quality of life for the Chinese people and their leaders depends of how fast and efficiently the new Standing Committee will be able to cope with these problems. The dilemma is that dealing with ecological problems that would help to improve the health of the nation can threaten its economic development. The reason is that the main sources of pollution in China are tied to the country's energy use, specifically its reliance on coal. China's electricity generation has increased 200 percent since 2000. Therefore, China today is the world's largest consumer and producer of coal. (see appendix 13,14) In fact, according to the United States Energy Information Administration, China accounts for the 47 percent of the world's coal consumption, and its demand for coal has grown on average 9 percent from 2000 to 2010.⁷⁰ This is problematic insofar as coal is a source of about 70 percent of soot, 90 percent of sulfur dioxide (SO₂), 67 percent of nitrogen oxides

⁶⁹ *ibid*

⁷⁰ Wong, Edward. "Beijing Takes Steps to Fight Pollution as Problem Worsens." *The New York Times*, January 30, 2013. <http://www.nytimes.com/2013/01/31/world/asia/beijing-takes-emergency-steps-to-fight-smog.html?_r=0> (accessed April 2, 2013).

(NO_x), and 70 percent of carbon dioxide (CO₂), which makes it one of the main eco-pollutants.⁷¹ China's dependence on coal is massive. Coal supplies over two thirds of its energy needs, 80 percent of which is electricity. Moreover, in line with China's future economic development, its reliance on coal is projected to grow.⁷² Therefore, regulating coal usage and considering an alternative, renewable energy source should be one of the main priorities for the CCP in the next decade.

Air

Air pollution is one of the greatest environmental problems facing China today. According to the World Bank, twenty of the thirty most polluted cities in the world are located in China.⁷³ The situation is most severe in the northern provinces of Qinghai, Ningxia, Shaanxi and Shanxi, along with the cities of Beijing and Tianjin. The number of annual premature deaths due to air pollution in 1999 was about 180,000. It was estimated then that the toll would increase to 600,000 by 2020. Shockingly, by 2012 it reached an astonishing number of 750,000.^{74*}

According to research done for the Global Burden of Disease Study, air pollution is the fourth leading cause of death in China today.⁷⁵ In fact, air pollution in the country has reached catastrophic levels. In January 2013, the American Embassy in Beijing recorded a reading of 755 on the Air Quality Index (AQI) scale. (see appendix 16) This scale identifies the amount of particulate matter of 2.5 micrometers in diameter or smaller, known as PM_{2.5}. It shows the level

⁷¹ Joseph Fewsmith, *China Today, China Tomorrow*, Maryland: Rowman and Littlefield Publishers, 2010: 259.

⁷² *ibid*

⁷³ "China Quick Facts," In *World Bank: 2009*. <go.worldbank.org/4Q7SC8DU50>

*It is difficult to determine the exact amount of premature deaths due mostly to the variety of different sources. According to a research done for the 2010 Global Burden of Disease Study, in 2010 air pollution in China caused 1.2 million premature deaths.

⁷⁴ Schell and Shambaugh, xix

⁷⁵ Wong, Edward. "Two Major Air Pollutants Increase in Beijing." *New York Times*, 2013.

of pollution in the air caused by PM2.5 and determines health risks to the local population due to that amount. The scale is set to cover PM2.5 numbers from 1 to 500, where 1 to 50 is considered good and 401 to 500 is hazardous.⁷⁶ The index of 755 in Beijing this January points to a horrific level of air pollution in Beijing. According to the *New York Times*, Chinese Internet users have described this situation as “postapocalyptic,” “terrifying,” and “beyond belief.”⁷⁷

Chen Tian, head of the Beijing Municipal Environmental Protection Bureau (BMEPB), says levels of major air pollutants in Beijing air during the first three months of 2013 have increased since this time last year. The level of nitrous dioxide went up about 30 percent and the amount of PM10, or particulate matter between 2.5 and 10 micrometers in diameter, grew 47 percent. The amount of sulfur dioxide, however, has decreased. At least three major factors have contributed to the increase in pollution levels: emissions from burning coal and fuel, high humidity, and the topography of Beijing. Large factories located around Beijing spew poisonous smoke from burning coal and fuel, thus increasing levels of PM2.5 by at least 60 percent this year. Moreover, humidity and calm winds have played a major factor in trapping pollutants in the lower layers of the atmosphere. PM2.5 is considered more dangerous than PM10 due to its smaller size and ability to penetrate lung tissue more easily, which causes greater damage.

The main sources of PM2.5 in China are auto fuel and coal emissions. According to Hong Feng, former vice mayor of Beijing, 22 percent of PM2.5 comes from vehicles, 17 percent from coal, and 16 percent from construction site dust. In fact, China today is the world’s largest car maker by the number of vehicles sold, with a total of over 13 million in 2012.⁷⁸ (see appendix

⁷⁶ "The National Ambient Air Quality Standards for Particle Pollution." In Revised Air Quality Standards for Particle Pollution and Updates to the Air Quality Index (AQI): 2013.

⁷⁷ Wong, Edward. "On Scale of 0 to 500, Beijing's Air Quality Tops 'Crazy Bad' at 755." *New York Times*, 2013.

*It is unclear how many pigs were found in the river. Some sources claim nearly 3,000 and some sources claim up to 16,000.

15) Rapid economic development over the past three decades has brought prosperity to millions of Chinese, enabling them to afford cars. Moreover, for years authorities have been encouraging Chinese to buy cars by promoting them as an important tool for economic development. As a result, in Beijing alone, the number of motor vehicles has increased from 3.13 in 2008 to 5.18 in 2012.⁷⁹ The ecological damage from fuel emissions is extremely dangerous and particularly evident. Levels of sulfur from diesel trucks alone, for example, are 23 times higher than in the United States.⁸⁰ Yet most people refuse to reduce their time behind the wheel, for a number of reasons. First, lack of effective public transportation is a big problem. Using busses and subways is inconvenient and time-consuming. Second, many people believe that giving up their own cars would do little good insofar as millions of others would keep theirs.

Water

Another increasingly urgent environmental problem is the quality and scarcity of water. According to Zhao Feihong, a veteran water researcher from the Beijing Healthcare Association, the quality of water in Beijing is “getting worse at an alarming rate.”⁸¹ Zhao reported that her daily observation of water reservoirs and rivers near Beijing has revealed both heavy metal contaminants and new volatile compounds such as pesticides, residue, human waste, and landfill leaching. The combination of both heavy and organic pollutants in the water means that cleaning procedures used in the past would have to be replaced by more sophisticated and expensive chemical treatments. As a result, while the water situation in the capital is getting worse, people are advised to rely upon water bottles and water filters for their daily needs: “To ensure the

⁷⁸ Watt, Louise. "China Pollution: Cars Cause Major Air Problems In Chinese Cities." *Huffington Post*, 2013.

⁷⁹ *ibid*

⁸⁰ Thompson, Thomas. "Choking on China: The Superpower that is Poisoning the World." *Foreign Affairs*, 2013.

⁸¹ Xin. Zheng. "Beijing tap water getting worse: expert." *China Daily*, 2013.

physical health of myself and my family, we can do nothing but resort to bottled water,”⁸² said Zhao. Water pollution outside Beijing is also widespread. According to China’s own Ministry of Environmental Protection, 70 percent of the country’s waterways are severely contaminated. This makes the majority of drinking wells in the country unsafe for human use. In fact, 90 percent of Chinese cities today rely on polluted groundwater supplies.⁸³

A recent example that illustrates the disastrous water quality situation is a so-called “hog wash” scandal. In March this year, more than 3,000 dead pigs were found flowing down the Huangpu River near Shanghai.* This river is one of the main suppliers of drinking water for Shanghai’s nearly 23 million residents. It is unclear so far where the pigs came from. Some sources blame negligent farmers from nearby Zhejiang province. Authorities and sanitation workers immediately began the cleanup and inspection of possible causes. As a result, thousands of dead pigs were hauled out of the river and burned. Some were used to determine any signs of disease and potential threat to human health. Thus far, authorities claim that no evidence of swine fever, blue-ear disease or other threatening infections was found in the water or pigs. They did find a porcine circovirus, but it is believed to be safe for humans. The pig scandal caused great concern among residents of Shanghai and triggered even more talk about the disastrous environmental situation in the country. Residents from local towns complained that tides of rotten pigs in the river are not rare. Some admitted it has been an annual occurrence: “We had dead pigs here last year too,” said Dong Aifang, who lives along the river. “We seem to have dead pigs all the time. It is non-stop.”⁸⁴

⁸² *ibid*

⁸³ Thompson, Thomas. “Choking on China: The Superpower that is Poisoning the World.” *Foreign Affairs*, 2013.

⁸⁴ Phillips, Tom. “Nearly 3,000 Dead Pigs Found in Shanghai River.” *Wunderground*, 2013.

Another example of terrible water pollution in China is the chemical spill in Shanxi province in December 2012. An industrial accident at the Tianji Fangyuan Company caused a leakage of 38.7 tons of toxic aniline. This component is used to make industrial chemicals and is considered highly damaging for humans. It took five days for local officials to inform the citizens of Shanxi, Hubei, and Henan provinces about the spill in the Zhuozhang River, which serves as the source for drinking water for all three provinces. Company officials tried to cover up the extent of the spill and only after it has reached downstream provinces did they admit the seriousness of the problem. In his apology, the general manager of Tianji Group blamed inaccurate calculations. Yet local environmentalists promise to investigate this matter and punish those responsible. According to regulations passed in 2007, any chemical accident must be reported to provincial and higher government authorities within the first two hours.⁸⁵ In this case, it took almost a week.

Disastrous environmental situations and cases of official negligence and ignorance are one of the main causes of social unrest in the country. Often, in order to gain higher tax revenues, local governments agree to build polluting plants and factories in their cities. As a result, people lose their crops and livestock. But in most cases, contaminated water, air, and soil cost people their health. For example, there are about 450 “cancer villages” in China today. Those are villages with an unusually large population of cancer patients. The deadly disease, in the majority of cases, was caused by polluted local drinking water.⁸⁶ This kind of environmental

⁸⁵ Gong , Jing and Linlin He. "Shanxi Chemical Leak Not Reported 'Because Amount Was Underestimated'." *Caixin*, 2013.

⁸⁶Gobel, Christian, and Lynette Ong. "Social Unrest in China." In Europe China Research and Advice Network. . <http://www.euecran.eu/Long Papers/ECRAN Social Unrest in China_ Christian Gobel and Lynette H. Ong.pdf> (accessed April 6, 2013).

situation has provoked some members of the middle class to speak up on behalf of many suffering people.

Although the avenues for expressing social unrest vary, the goals remain the same: to raise awareness of the terrible ecological problems in China and get the Party to create effective solutions. In some cases people use social media to achieve these goals. For example, Jin Zengmin, an entrepreneur from Zhejiang province, offered \$32,000 to the chief of the local environmental protection agency to swim in the local river. Jin's sister had died earlier that year from cancer which, he believed, was caused by the polluted water. He posted his bid online, which went viral. The official never did take a swim: "I made my bet because I'm confident the water in the river is poisonous," Jin says.⁸⁷ Other people rely on the work of local or international non-government organizations (NGOs) in their environmental battles. For example, the involvement of an NGO called Green Anhui helped create the Oscar-nominated documentary "Qiugang." The documentary tells of a "cancer village" of about 2,000 people in the Huai River basin and their struggle with local chemical plants. More often, however, people demonstrate their concerns about the nation's ecological crisis by taking to the streets.

Most large demonstrations in China take place in big cities. People from the middle class, together with local students, workers, and farmers, are the usual participants. There have been a number of mass demonstrations over ecological problems in the past decades. In 2012, thousands of people went out on the streets of Ningbo (population 3.4 million) in Zhejiang province to protest the opening of a new chemical plant. The local government agreed to an \$8.8 billion refinery for the large state-owned enterprise Sinopec as its plan to create a large industrial zone outside the city. The plant would have focused on the production of paraxylene (PX), a toxic

⁸⁷ Gu, Yongqiang. "In China, Water You Wouldn't Dare Swim in, Let Alone Drink." *Time World*, 2013.

petrochemical used in manufacturing polyester, paints, and plastic. The protest in Ningbo is one of many examples of growing social unrest over the nation's ecological problems. In fact, according to *Bloomberg News*, the ecological situation in China has become a leading cause of mass social discontent, with some 30,000 to 50,000 occurrences every year. This fact shows people's willingness to "openly challeng[e] the country's authoritarian government" in their struggle for transparency and a cleaner environment.⁸⁸

Indeed, the issue of transparency and social awareness is critical for Chinese people today. The growing influence of the Internet and social media allows Chinese people access to greater information and more free expression. Today, transparency is one of the main demands and aspirations of the Chinese middle class. The CCP has evidently gotten the message. In the past several months all major media channels, from *China Daily* and *China Youth Daily* to Chinese Central Television, have released data about the serious environmental pollution in the country. Tracking the growing social awareness of the problem, the CCP has been promoting greater transparency over this issue. For example, the recent issue of *People's Daily* released an article titled "Beautiful China Starts With Healthy Breathing," which addressed the issue of air pollution by saying that "the seemingly never-ending haze and fog may blur our vision, but [it] makes us see with perfect clarity the urgency of pollution control and the urgency of the theory of building a socialist ecological civilization, revealed at the 18th Party Congress."⁸⁹

During his speech at the 18th Party Congress in November, Hu Jintao emphasized the importance of the CCP's future commitment to greater transparency and accountability when it comes to the environment. In his address, Hu suggested an open dialogue on "ecological

⁸⁸ "Chinese Anger Over Pollution Becomes Main Cause of Social Unrest." *Bloomberg News*, 2013.

⁸⁹ Wong, Edward. "China Lets Media Report on Air Pollution Crisis." *The New York Times*, 2013.

progress” as one of the main tools for Xi’s administration. Meanwhile, the Ministry of Environmental Protection has requested that 74 of China’s cities release data regarding their PM2.5 emission.⁹⁰ The problem, however, lies within the Party’s willingness and ability to solve this problem in a speedy and effective matter. Greater transparency is a step forward, yet it is not a solution. The new administration is facing greater obstacles, such as government bureaucracy represented by corrupt officials who put their own financial well-being ahead of moral principles and concern for human welfare. These are the people who run the state-owned enterprises that largely account for the growing pollution problem in the country. They are allowed too much freedom over policy making and determining environmental standards for their own companies. For example, fuel emission standards are set by the Chinese Standardization Administration, whose committees are represented by scientists and management of the largest oil and coal companies. Consequently, it is reasonable to assume that these people would protect and support the best interests of their own companies.

Xi’s administration must enact stricter policies and standards for all companies throughout China and put together an independent committee to take charge of the environmental problems in the country. If companies are resistant to new rules, they must charge higher taxes and additional fees. A new type of environmental taxation can be enacted to raise more money for cleaning procedures and pushing companies for newer, healthier technology. The new Standing Committee has an opportunity to prove to the Chinese people and the rest of the world that it cares about its country and its residents. It is important not just to improve the Party’s legitimacy at home, but also to establish its status as a well-intentioned and willing global player. The fact of the matter is that China is the world’s largest emitter of greenhouse gasses.

⁹⁰ ibid

The acid rain caused by emissions damages both one third of Chinese cropland and large territories of the Korean peninsula and Japan. It is also the worst polluter of the Pacific Ocean, since most coastal Chinese cities dump their wastes directly into the East China Sea. As a result, 80 percent of this body of water is unsuitable for fishing or other use.

China's environmental degradation has a significant— and alarming— global 'outreach.' For example, researchers at the University of California have determined that the majority of dangerous particles in Lake Tahoe originated in China. Overall, China is one of the world's leading polluters. As China's only ruling body, the new Standing Committee of the CCP must be held responsible for enacting measures to limit its country's deadly disease for the sake of themselves, their people, and the rest of the world.

VII. Conclusion

By examining the past thirty years of China's development, this paper has sought to analyze the main problems that the New Standing Committee of the CCP faces in the coming decade. In power since 1949, the Communist Party of China drastically changed its economic strategy at the end of 1970s, following the death of Mao Zedong. In line with Deng's ambitions to boost economic growth and open the country to the rest of the world, the Party eventually welcomed capitalist-based reforms. As a result, millions of Chinese were lifted out of poverty into the middle class. China has become the world's largest exporter and its second-ranking economic powerhouse. The Party has proven to the world its ability to sustain power and create a prosperous society while maintaining a one-party state based on a Leninist political infrastructure.

Meanwhile, 2013 has marked the beginning of a new developmental phase in China. The new Standing Committee under the leadership of Xi Jinping and Li Keqiang is facing a number of critical issues that have been created as a result of the rapid economic growth over the past three decades. Among these are the large social inequality gap, rampant corruption, and ecological degradation. These serious problems have triggered a growing social unrest among the Chinese population. From a rapidly increasing income gap between the rich and the poor to the widespread corruption among officials and the nation's shocking ecological situation, the Chinese people are increasingly frustrated by the unwillingness of the CCP to act. This fact creates a greater threat to the legitimacy of the Party and its ability to sustain its power in the new development phase. While the CCP is looking for new ways to boost the country's economy during periods of global recession, it must also focus on creating sustainable, effective solutions to those problems.

The main question the CCP must answer for itself, its people, and the world is whether it will be able to adapt in the next era of development. Having monopolized political power for over sixty years, the CCP has managed to survive by making critical changes in its strategies and ideology and providing financial prosperity for the majority of its people. Therefore, the future of the one-party state depends on how flexible the new leadership is willing to be in the next decade. Are Xi and Li willing to look at the existing problems critically? Are they willing to give up some of their control over affairs of state in order to create better, more effective institutions? Do they understand the importance of satisfying popular demands? Does the CCP today see the long term benefits of creating a more adaptable political system? One could argue that if the New Standing Committee ignores social demands for better human rights, a cleaner and safer

environment, less corruption in the system, and other pending problems, it will be unable to sustain its power for much longer.

Societal demands in China are increasing, and they create greater concerns about the future leadership structure of the country. The Chinese people expect much more from their leaders. In exchange for their loyalty to the existing one-party system, they demand fair access to public goods, greater transparency, lesser income inequality, reduced corruption, and more environmental responsibility. Increased access to the media and the ability to travel worldwide have enabled the Chinese to learn, share, and compare their experiences with each other and others. Many believe that Chinese development is trapped and democracy is the only way out. In other words, for the CCP to maintain its power in the next era of development, it must be able to hear its people and discover ways to unite them under a common goal for a greater China.

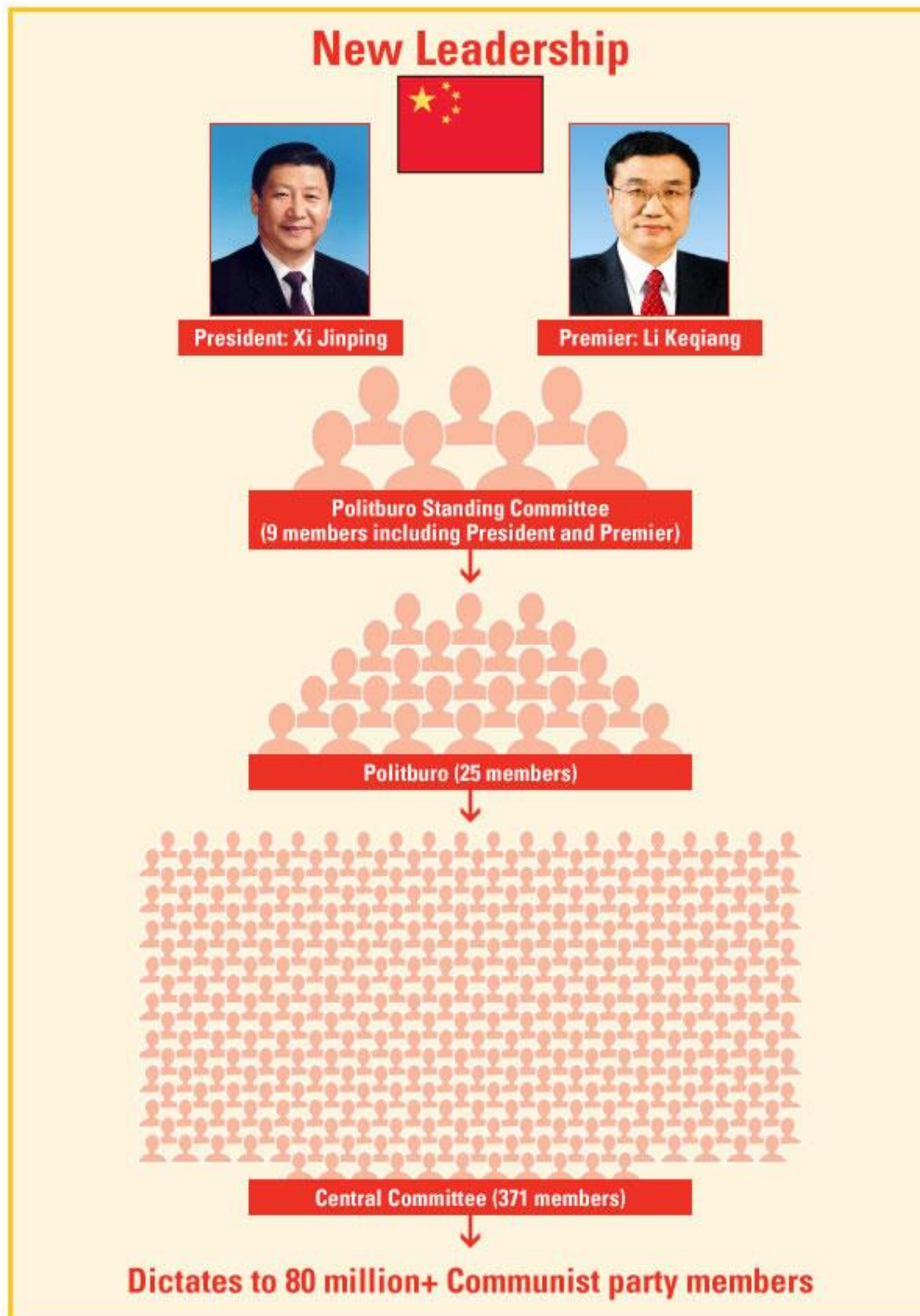
Appendices:

Appendix 1: Map of China: provinces, municipalities, and administrative districts.





Source: www.nationsonline.org

Appendix 2: Present structure of the Chinese Communist Party (the CCP)



Source: www.marketoracle.co.uk

Appendix 3: The new Standing Committee of the CCP

LEADER	Xi Jinping	Li Keqiang	Zhang Dejiang	Yu Zhengsheng	Liu Yunshan	Wang Qishan	Zhang Gaoli
							
	Communist Party General Secretary	Expected prime minister	The job titles of other incoming leaders have not yet been announced.				
Previously	Vice President	Executive Vice Prime Minister	Vice Prime Minister and Chongqing Party Secretary	Shanghai Party Secretary	Director of the Communist Party Propaganda Department	Vice Prime Minister	Tianjin Party Secretary
Political connections	Son of a senior party official, close to former President Jiang Zemin.	A protégé of departing President Hu Jintao.	Considered close to Jiang Zemin.	A protégé of Deng Xiaoping, who transformed China, and Jiang Zemin.	A protégé of Hu Jintao. Promoted to central government by Jiang Zemin.	A protégé of former Prime Minister Zhu Rongji.	A protégé of Jiang Zemin and former Vice President Zeng Qinghong
Outlook	Mr. Xi is considered a consensus builder, with ties to the military, business and other "princelings" descended from earlier leaders.	Has urged more equitable economic growth, and focused on welfare issues such as food safety, health care and affordable housing.	Trusted by top party figures, in contrast to Bo Xilai, the disgraced populist he replaced in Chongqing.	Pushed for reforms in urban development and the private sector during his time in Qingdao and Hubei.	A hard-line ideologue. Played a major role by strengthening government control and censorship over the media and the Internet.	Liked by reform-minded Chinese and foreign financiers for his straight talk and openness to liberalizing China's financial system.	Low profile, but has demonstrated a pro-market orientation based on his experience in developed coastal regions.
Factoid	Enjoys Hollywood films, including "The Godfather."	As a student, was close to democracy advocates.	Obtained a degree in economics from Kim Il Sung University in North Korea.	His brother defected to the United States in 1985.	Leading an overseas expansion of China's state-owned media.	A "wicked sense of humor," says Henry Paulson, former treasury secretary.	Spent his early career working in the oil industry.

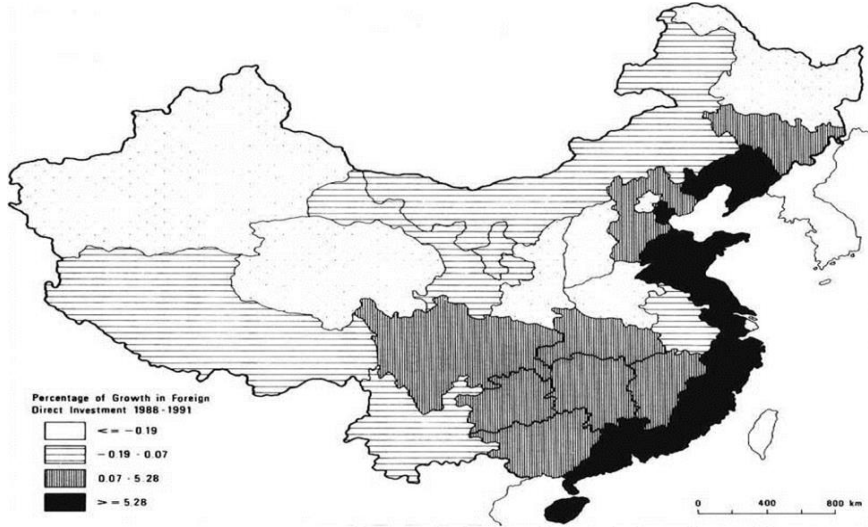
Source: www.nytimes.com

Appendix 4: Map of Deng's Southern Tour



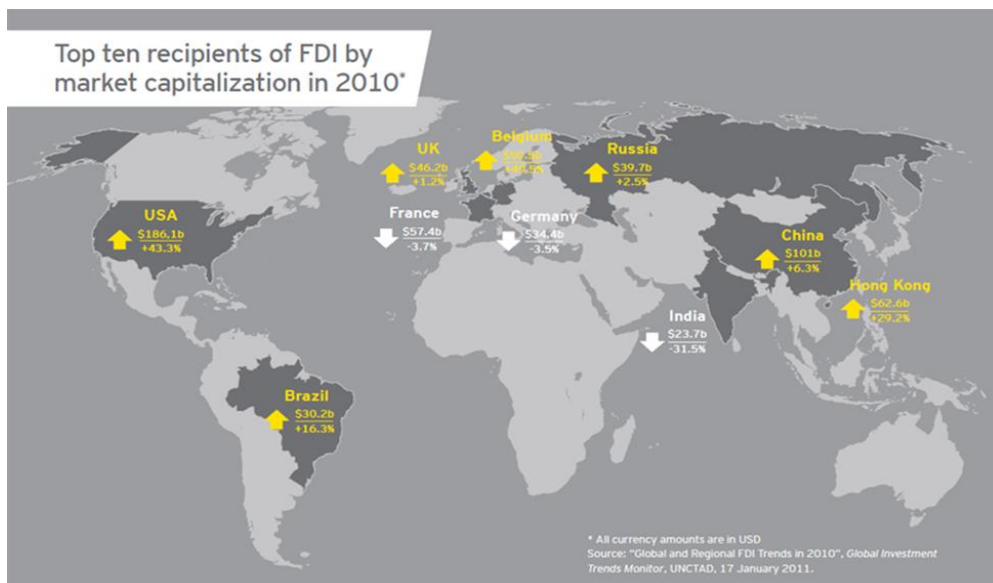
Source: www.globaltimes.cn

Appendix 5: Foreign Direct Investments critically increased after new market reforms and opening-up strategy; especially high in coastal provinces



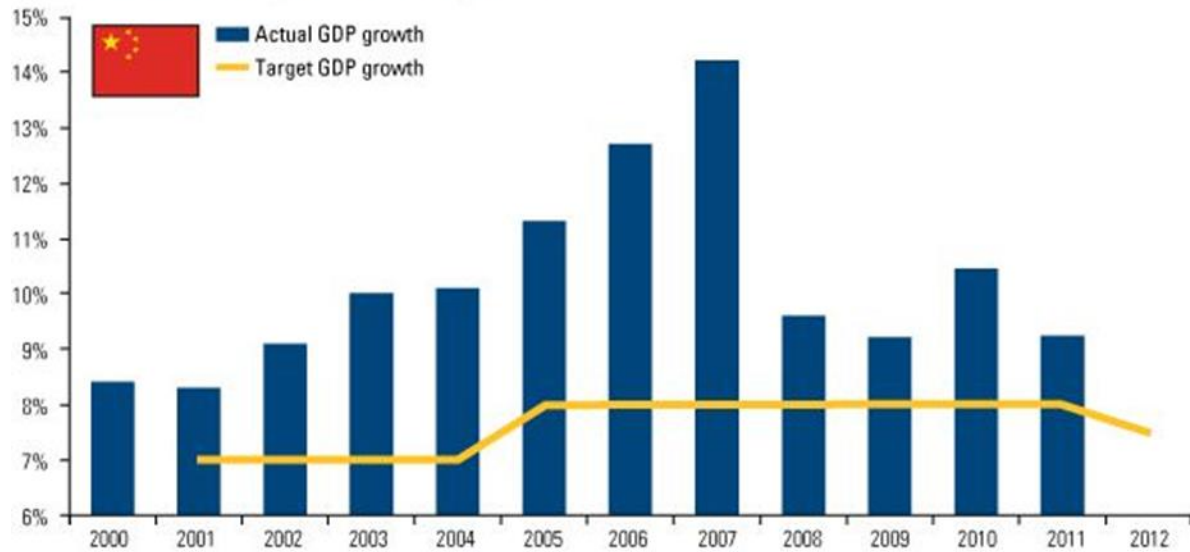
Source: unu.edu

Appendix 6: FDI in China in comparison to other countries



Appendix 7: GDP growth during Hu Jintao era

Actual GDP Historically Exceeded Target GDP Growth



Source: CEIC, Central Government's website, CLSA Asia-Pacific Markets

Appendix 8 : Chinese Gini coefficient vs. GDP growth



Appendix 9: Chen Xitong



Source: www.salon.com

Appendix 10: Chen Liangyu



Source: www.nytimes.com

Appendix 11: Yang Dacai (“Watch brother”)

re out of reach for a regular wage earner in China.

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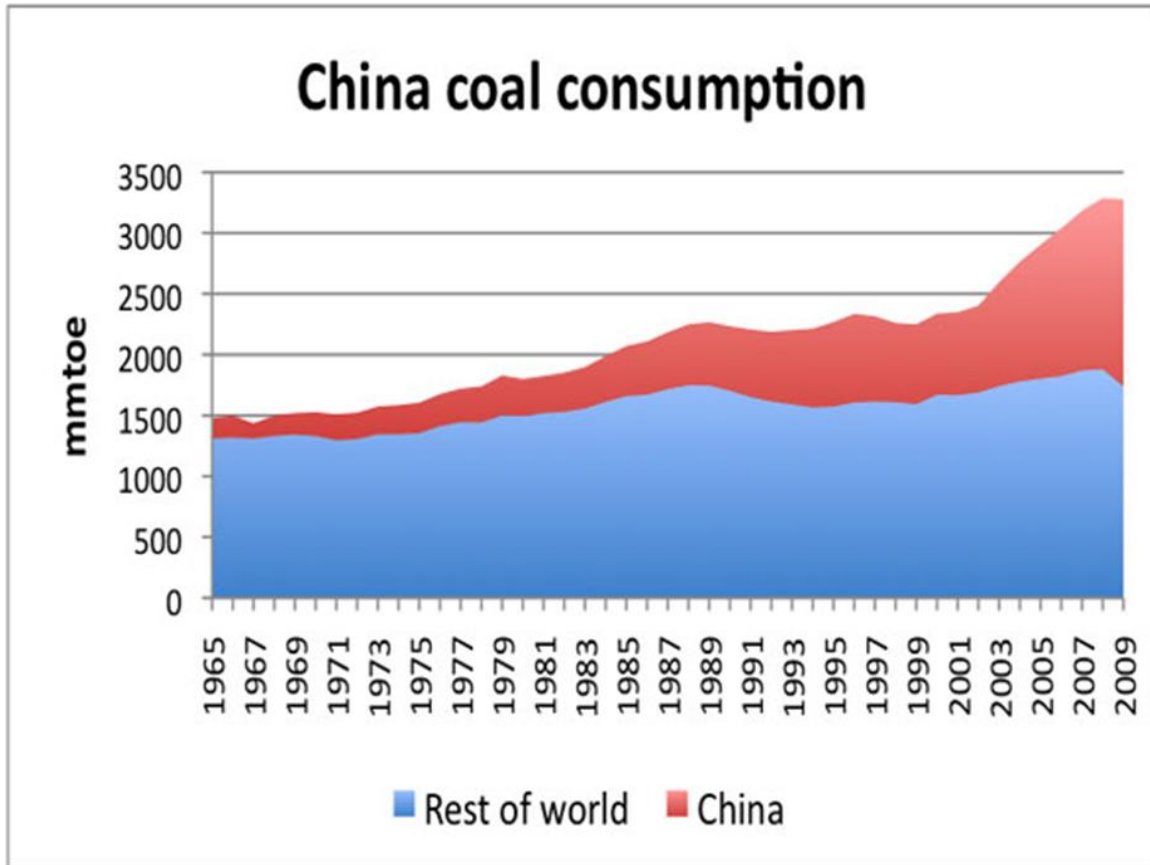
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Source: blogs.wsj.com

Appendix 12: Cheng Keijie

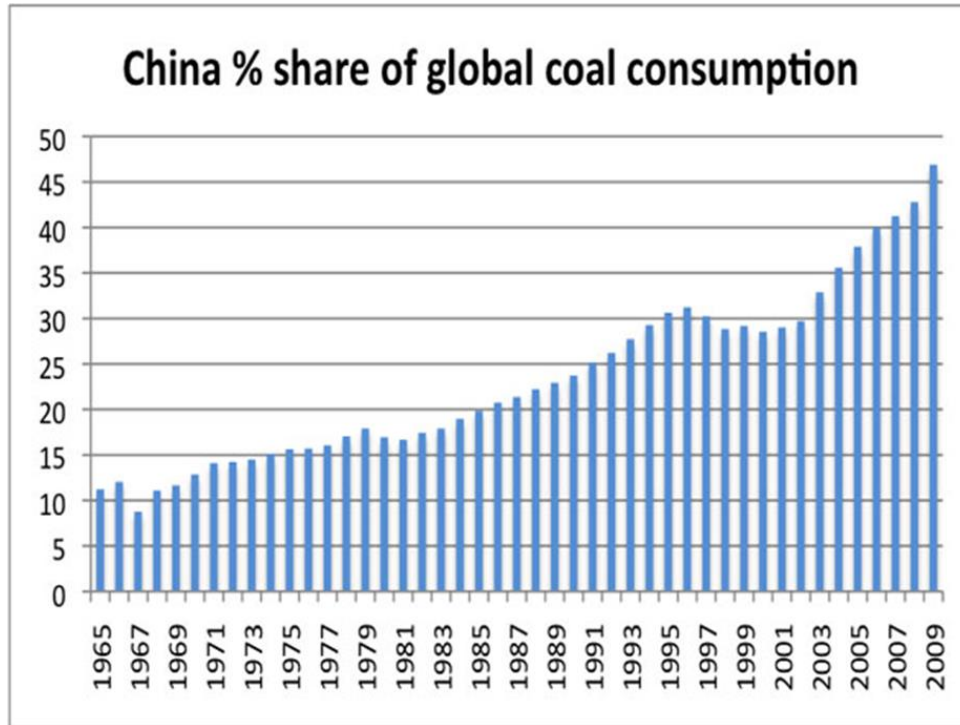


Appendix 13: China's Coal Consumption



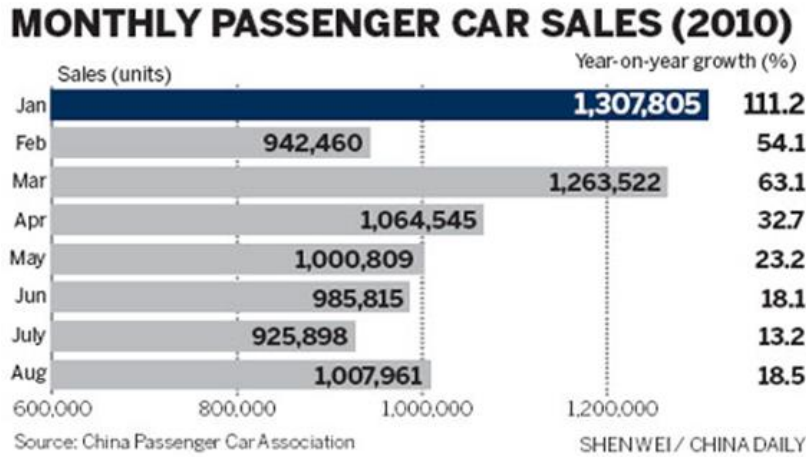
Source: wastedenergy.net

Appendix 14: China's share of global coal consumption



Source: www.businessinsider.com

Appendix 15: Car sales in China



Appendix 16: Air Quality Index

Air Quality Index Levels of Health Concern	Numerical Value	Meaning
Good	0 to 50	Air quality is considered satisfactory, and air pollution poses little or no risk
Moderate	51 to 100	Air quality is acceptable; however, for some pollutants there may be a moderate health concern for a very small number of people who are unusually sensitive to air pollution.
Unhealthy for Sensitive Groups	101 to 150	Members of sensitive groups may experience health effects. The general public is not likely to be affected.
Unhealthy	151 to 200	Everyone may begin to experience health effects; members of sensitive groups may experience more serious health effects.
Very Unhealthy	201 to 300	Health alert: everyone may experience more serious health effects
Hazardous	301 to 500	Health warnings of emergency conditions. The entire population is more likely to be affected.
Crazy Bad	500+	Um, are you still convinced that the benefits of living in Beijing outweigh the risks?

Source: airquality.weather.gov

Appendix 17: Four generations of Chinese leaders.

From left to right: Mao Zedong, Deng Xiaoping, Jiang Zemin, Hu Jintao



Source: www.chinalati.com

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