

CHINA TRANSFORMED AND AWAKENED: OPPORTUNITIES AND CHALLENGES IN THE NEW CENTURY

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Introduction

Over more than three decades that have elapsed, the world has witnessed a period of epoch-making changes that have seeped into almost every dimension of economic and political developments, ways of life of people around the world, and the speed and velocity of change at national, institutional and personal levels. Wherever we are looking at the world no longer appears as what we used to know. We have entered a new era.

The year 1979 can be viewed as a watershed year. That year marked, for China, the beginning of reform and opening up after it was essentially closed to the world as a self-isolated new nation born in 1949. The bold decision to change from the previous Communist dogmas to tentative reforms was made in 1978 at the Third Plenum of the 11th Party Congress. In 1979 Ayatollah Ruhollah Khomeini returned from Paris to Tehran after 15 years of exile, ushering in a period of rapid change and reform accompanied by religious fervour in Iran and other parts of the Middle East. In 1979, the Soviet Union invaded Afghanistan resulting in the beginning a decade of its military involvement in that country and the presence of other Western powers in the region. In 1979, Pope John Paul II arrived in his native Poland, as the first Pope to visit a Communist country having the effect of solidifying the Polish peoples against Communism. Finally, also in 1979 Margaret Thatcher was elected the first female British Prime Minister who left a strong imprint on the British economy with her wide-ranging and effective economic reforms. A lot of these changes across many countries heralded a new world of globalization, economic openness, digitization and reform. Of the important events noted, what was to unfold in China changed not only that country to a path of breathtaking reform and economic success, but also the world in which China is increasingly being viewed to play a larger role.

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China Transformed

In 1979 China was a poor and devastated country, deeply shaken by more than a decade of societal chaos and economic stagnation that almost brought down the country to a standstill. Almost anything would be welcome if it brought a ray of hope for change. Deng Xiaoping was the leader who rallied the country to a tentative beginning for new development the year earlier at the landmark political meeting mentioned earlier. What happened since China has fundamentally undergone transformation. It has grown so fast economically and so widespread across the sprawling land that many within and outside China can hardly recognize it. Its record of speedy economic transformation is an unprecedented phenomenon in human history.

China's economic reform began in 1980 in a small way by setting up four Special Economic Zones (SEZs) in Shenzhen, Zhuhai, Shantou and Xiamen in Guangdong and Fujian. The choice of Shenzhen and Zuhai was predicated on their proximity to Hong Kong and Macau, respectively, and hence their benign influence on the two SEZs on a path of rapid economic growth. Indeed, they grew rapidly and had the effect of demonstrating to other parts of China how development could begin and be accelerated (Yeung et al., 2009). The story of how China became a world factory in the Pearl River Delta began modestly with vital inputs from Hong Kong (Yeung et al., 2008). The next stage was to select 14 coastal cities in 1984 to launch economic development in the extensive coastal region (Yeung and Hu, 1992). In 1992, Deng Xiaoping embarked on a crucial tour of southern China to ascertain the continued, indeed expanded, open policy after the Tiananmen crackdown in 1989. It succeeded in calming nerves nationwide and favourable policies for development that began with the SEZs were extended to most parts of the country. Policies for greater openness and accelerated development were adopted when China was admitted into the World Trade Organization (WTO) in 2001. Development in China has since proceeded by leaps and bounds, and its impact on the world attracted greater attention.*

The Hong Kong factor mattered a great deal when China began its reforms. In 1980 Hong Kong's GDP was one-quarter the size of China's. As much as 80%

* After almost two decades pursuing my graduate studies and career in the United States, Canada and Singapore, I returned to Hong Kong in 1984. I was therefore in a position to have witnessed and conducted research on the rapid and sweeping changes in China across a wide socio-economic front and have this documented personally (Yeung, 2012).

of China's foreign trade and 90% of its foreign exchange went through Hong Kong. However, the Chinese economy began to grow very rapidly in the reform period. By 2010, Hong Kong's GDP had dwindled to 3.1% of China's and China had more than enough foreign exchange on its own. In 2001 China joined the WTO to play by the rules of international trade, but by 2012 China was the world's leading trading nation and could change world rules (Sung, 2013). Indeed, China has grown spectacularly over the past decade. It had progressively overtaken the United Kingdom, Germany and Japan to become the world's second largest economy after the United States. China's economy is now five times as large as it was 12 years ago. China's GDP in 2012 was slightly over half the size of the United States (\$8 trillion vs \$15.8 trillion).¹

China's record of economic growth is characterized by double-digit increase in its GDP in the three decades from 1980 onwards. To be specific, in the period 1978-2011, China's GDP grew by 120 times, import and export trade expanded by 637 times and enrolment of university students increased by 27 times. Sustained and rapid economic growth over a long period has enabled China to alleviate poverty on a massive scale. According to the UN estimates, China has been able to lift 650 million people out of poverty in three decades, a most impressive social engineering feat that has not been seen anywhere or at any time in the world.

China's unparalleled rise as a merchandise exporter in recent decades has been due to a combination of internal and external factors, with the availability of cheap labour/land and favourable policies on the one hand, and the slant towards globalization in many countries on the other. In 2012 China outstripped the United States as the largest exporter and importer of merchandise at \$3.97 trillion versus \$3.82 trillion. In 2011 China sold over 18 million automobiles (more than the USA), 86 million fridges, 300 million PCs, with its tourists making 70 million overseas trips and 2.6 billion domestic trips. In 2012 83 million foreign trips were made compared with only 10 million in 2000. With these patterns of spending, 2012 witnessed for the first time in China consumption overtaking investment as a more important source of growth. Consequently, according to the World Tourism Organization, China rose from the 7th place in 2005 to become the first country in the world in 2012 in tourism expenditure, reaching a total of \$102 billion.

¹ Reference to dollar in this paper applies to the US dollar

The fantastic growth machine in China, however, has entailed heavy costs to its environment and natural resources. UN sources have revealed that of the top 20 most polluted cities in the world, 17 are located in China. Serious problems of air and water pollution, land degradation and other environmental ills have posed real threats to the Chinese people and their health and the environment. It has dawned on decision-makers that China's rapid and impressive growth has been achieved at considerable costs. Not surprisingly, former Premier Wen Jiabao has declared China's growth to be "unbalanced, unsustainable and uncoordinated." The fifth-generation China leaders elected in March 2012 have taken note of this and have formulated new policies notably in favour of slower growth and sustainable development.*

Since 1980 the most important factor that has driven change and development has been China's cities and urban population. From less than 20 percent urban in 1980, the level of urbanization in 2012 reached about 52%, with urban population increasing almost one percent a year. Indeed, deliberate urbanization is still pursued as a policy until the urban population will reach 70 to 80 percent by the middle of this century. In 2012 China had an urban population of 712 million out of a total population of 1,353 million. If the non-hukou (those with rural hukou registration but living in cities as almost second-class citizens) population in the coastal cities is deducted, the real level of urbanization, statistically, is about 35%. Whatever the real numbers, absorption of non-hukou population, estimated at about 230 million, into the mainstream of urban population will constitute a policy of high priority in the years to come.

Chinese cities have totally transformed the country by their new construction, modern infrastructure, high rises for residential and commercial needs, signature buildings, industrial parks, and so on. In Premier Wen Jiabao's final report before stepping down in 2013, he reported that just over the past five years, newly completed railways totaled 19,700 km, new highways 609,000 km, 31 new airports and 602 new berths in 10,000-ton ports. In 2005 China had a total of 1.930 million km of highways, second in the world after the United

* As a third-generation Hongkonger, I have been following development and change in Hong Kong and mainland China over the years. My first comprehensive visits to China dated fortuitously to 1978 and 1979 when I was still working and living in Singapore. They formed important baselines with which I have compared and marveled at how China has vastly improved and transformed itself. Since my return to Hong Kong to pursue my career in 1984, I have visited all provinces, special administrative regions and large cities in that country.

States. Many of these infrastructural additions were designed to link 160 cities with a population of over one million inhabitants each, anticipated to increase in number to 220 in two decades. Some 70 million inhabitants are concentrated in the top mega-cities of Shanghai, Beijing, Shenzhen and Guangzhou. In slightly over three decades, Shenzhen has grown to be a mega-city of some 12 million people from a fishing village of 30,000 in 1978. High-speed railways have similarly seen rapid expansion since their inauguration in 2007 to the foremost country of 9,300 km in 2012, anticipated to grow to 16,000 km by 2020. They cover an increasingly large part of the country, connecting key and other cities which have seen new opportunities of growth and development. Within large cities themselves, the subway or metro system would more than double in length from 2,064 km in 17 cities in 2012 to 5,300 km in 35 cities by 2020. Wen Jiabao called in October 2012 for more integration of land use with public transport within cities concerned to enable the sustainable development of China's metro railways. The level of urban development in China can to a degree be reflected and appreciated by the Beijing Olympics in 2008 and the Shanghai Expo in 2010. Chinese have taken great pride in hosting these global events and managed to impress many people around the world by their being unprecedentedly grandiose. Yet urban expansion has taken land from the countryside, leading to endless conflicts between developers and officials on the one hand, and landless farmers on the other. The list of urban ills must also include urban socio-economic inequality, the growing urban-rural income gap, rampant corruption, among others. A balance between the positive and negative dimensions of urbanization has to be struck when so much of Chinese urbanization and its cities are at stake in the future.

China in the New Century

Fully two centuries ago the famous French ruler Napoleon Bonaparte who has been well known more as a military genius than a political observer, said something about China that has been often quoted. When the Qing Dynasty was clearly manifesting decline, Napoleon perspicaciously predicted, "Let China sleep, for when she wakes, she will shake the world." It is a statement that appears to apply fittingly well to China's being transformed and awakened after two centuries of economic and military decline and suffered painfully from colonial aggression and subjugation. With China's astonishing growth record over the past three decades, it is ready to take a more heightened regional and global role in the new century.

While the past three decades have been exceptional for China to have shaken off poverty in a massive way, it remains a developing country by some yardsticks, such as GDP per capita and its huge and uneven population. China continues to look positively forward with the installation of fifth-generation leadership in March 2012 being viewed as the beginning of another three decades of growth and development. President Xi Jinping has spoken of his "China dream" with a clear emphasis on reform and attack on bureaucratic corruption. Premier Li Keqiang has fashioned a style of economic development with an emphasis on slower but sustainable growth, inflation at single digits, acceptable unemployment, and relaxed currency control, known in relation to a wide body of economic tools as Likonomics associated with the leader. The new government is facing a credibility gap with the Chinese public, as it was in the late 1980s. With worsening social and economic inequality, sharpened food safety, serious corruption, and rising middle-class expectations, Chinese governance is being tested in unprecedented ways. Reforms advocated by the present government are being seen as a means to address social cleavage and environmental degradation. Premier Li emphatically envisions the cities and increasing urbanization as new drivers of change. They will generate domestic demand-led economic growth. In a sense, the "China dream" is the "urban dream", because "the city of dreams" affects more than 200 million of non-hukou urban dwellers who form a huge underclass of urban dwellers (Chan, 2013).

China's success in its super-growth in recent decades has synchronized with increasing globalization across the world since the 1980s. Trade patterns have veered sharply towards the emerging markets, especially in the Asia Pacific region. In the 1990s, global trade was dominated by advanced economies which accounted for about 80% of the total. By 2010, this percentage sharply declined to approximately 60%. By contrast, the East Asian region is characterized by an efficient production-sharing network. Components produced by its neighbours are shipped to China for assembly before their final shipment to the United States and Europe. China has grown rich in this global division of labour. The new rich in China have emerged with a fast growing middle class. The country has become integrated with the global economy, and at the same time has acted as the focus of every other country's globalization in the region (Goodman, 2008). As a consequence, in the Asia Pacific region as a whole, the middle class has emerged as a new and growing phenomenon. According to OECD reports, the Asia-Pacific middle class will likely triple to 1.75 billion by 2020,

accounting for 54% of the world total. Looking ahead, trade between Asia-Pacific economies would expand over the next ten years by as much as \$5 trillion. China has the ability to evolve from the "world factory" to become the "world market". China is forecast to become the world's largest consumer market by 2015, with enough purchasing power to buy 14% of the world's products.

In the pursuit of rapid economic growth in the recent past, China has encountered problems of natural resource supply, especially energy and oil, to maintain its growth momentum. To add more impetus to its development spree, China has made efforts to reach out to countries in Africa, Latin America and Australia for their mutual benefit. As the qualitative importance of FDI to the Chinese economy has been falling, China has embarked on the route to tap expertise abroad through direct investment in foreign countries mainly in the form of mergers and acquisitions. While the former broadens China's search for new energy sources and natural resources, the latter further integrates China's economy with the world. With its involvement in Tanzania's railway construction, China had been active in assisting African countries to develop as early as the 1960s. China has adopted a novel approach to international development in Africa, posing itself as a powerful alternative market and collaborator, an equal partner, as distinct from the "colonial West" approach that has prevailed for at least the past two centuries. Consequently, China has invested heavily in its way of developing African resources, education, medical health, highways and railways, etc. in the most favourable terms to local governments. By the end of 2008, according to the former Premier Wen Jiabao, China had cancelled a total of 24.7 billion yuan of debt for 49 heavily indebted poor countries in various forms of aid. China had trained 15,000 African professionals, sent medical teams and provided free anti-malaria medicine to Africa. By 2010 figures, China-African oil ties have continued to strengthen. Of the yearly 4.8 million barrels per day China imported, 47% originated from the Middle East and 30% from Africa. The major oil suppliers of African countries are Angola, Sudan, the Republic of Congo, Equatorial Guinea, and Nigeria. In President Xi's 2013 trip to Africa, he signed a total of \$20 billion of contracts in favourable terms to finance development in Tanzania, South Africa and Congo. Many of the projects centre on infrastructure projects and revenue creation.

With China being the second largest importer of oil in the world after the United States, China has to plan for increasing the security of its energy resources. With at least 83% of its imported oil supply coming from the Middle East and

Africa through the Strait of Malacca, it is imperative for China to avoid potential energy insecurity by overly relying on this route. Towards this end, China had been collaborating with Myanmar for years to build a pipeline from Ruili in Yunnan in China to the port of Kyaukpyu along the Bay of Bengal in Myanmar over a distance of 1,100 km. It was opened in May 2013 capable of transporting 22 million tons of oil and 12 million cu m of natural gas a year. This new route for oil and gas has great strategic importance to China and has changed the strategic calculus of major actors. This is substantiation of Beijing's "two-ocean strategy", greatly strengthening its security of energy imports. In addition, China imports oil from Central Asia, with the first Kazakhstan-China oil pipeline completed in 2009, marking a new source of supply from Central Asia. The pipeline from Kazakhstan's Caspian shore to Xinjiang in China, over a distance of 2,238 km, will reach nominal capacity of 20,000 tons per year in 2014. Beyond the China-Myanmar pipeline, China also builds ports, mostly in collaborative ventures, in Pakistan and Sri Lanka and has a presence in Seychelles along the eastern coast of Africa. This has raised some wary concern by India which herself has been exploring oil with Vietnam in the South China Sea, a locus of territorial disputes between China versus Vietnam, the Philippines and Malaysia. Likewise, China and Japan are locked in another territorial dispute in the East China Sea focused on Diaoyu/Senkaku.

These territorial disputes must be viewed not simply as bones of contention in bilateral diplomacy between China and neighbouring Asian nations. The role of the United States looms large in the regional picture. The China-US relationship can best be described as one of strategic distrust (Leiberthal and Wang, 2012). Since 2009 the United States has emphatically pronounced its "pivot to Asia" policy based on military and diplomatic rebalancing towards the Asia Pacific. This involves building a "containment wall" against China by warming up with other Asian countries along the western Pacific Rim. This "rebalancing" policy towards Asia is highlighted by the Trans-Pacific Partnership (TPP), with the involvement of almost all Asia Pacific countries with the exception of China. For the past two decades under Jiang Zemin and Hu Jintao, the preferred style of diplomacy was "keeping a low profile". It is argued that this is no longer adequate as China's newfound economic and military power necessitate a change of the state of play. China faces an unsustainable status quo. Shrewd observers have argued that the world needs a more active China in dealing with regional and global affairs (Huang, 2013). Its under-powered agencies for international diplomacy and negotiation lag well behind its impressive

economic achievements. China's active participation in G20 and BRICS (with South Africa joining in 2010) can be viewed, from China's standpoint, as constraining American unilateralism. In addition, in the 2013 Human Development Report, a tectonic North-South shift in global economic and political affairs has been highlighted. The report recommended, among others, the enhancement of South-South learning and integration and greater representation for civil society and the South in the international system. For example, China has but a 3.3% share in the World Bank, versus 4.3% for France. This is a blatant anachronism not reflective of their current global economic and political standing.

Conclusion

With China's accession to be a member of the WTO in 2001, it has accelerated its pace and range of economic growth. Dazzling patterns of growth have truly awakened China, and the oft-asked question is, when China will return to its former greatness as the foremost country in the world. Indeed, two centuries ago China produced some 30% of global economic output which was reduced to a shadow of less than 5% in 1950. After three decades of double-digit growth, China's share of global production was recently estimated to reach about 15%, or about half of what it once was.

As the second largest economy in the world, when China will be able to catch up with the United States is another question often posed. The relative growth of these two countries can be appreciated by comparing recent historical figures. In 2003, when the United States launched the Iraq War, its GDP was eight times as large as China's. In 2012 China vastly narrowed the gap as its GDP was 53.5% of America's. According to IMF estimates, China's total GDP may overtake the US by 2017. By mid-century, China and India will be the biggest economies in the world. Together these two Asian powers now have a GDP of more than \$10 trillion and are expected to make up around 30% of the world's GDP by 2015. Before the onset of Industrial Revolution these two ancient Asian powers accounted for at least 40% of the world's economic output.

Notwithstanding the favourable prognosis for China in the years ahead, there is a downside to China's march to become a country that is balanced between economic growth and sustainable development, between technological/scientific strengths and soft power, between rapid growth and increasing inequality, and between an ageing population and a middle income trap. The reform agenda as

part of the "China dream" is long and arduous, but China's top leaders must have the courage to take the bull by the horns to move the country forward. The impressive fruits of progress over the past three decades must be the foundation on which to take China and the world to prosperity, peace and happiness to mankind. Chinese new leaders appear to sense an inflection point ahead of them to rejuvenate the country with a legitimacy that transcends pure economic growth to general human progress and development and that will find resonance within the country and the world.

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