

## FPC Briefing Paper: The PRC at 60 – A New Chapter for China?

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On 1 October 2009, the People's Republic of China (PRC) will celebrate sixty years since its establishment, an event Mao Zedong famously characterized by declaring that the "Chinese people have stood up". A sixtieth anniversary has particular significance in the Chinese context, representing a full circle of the traditional calendar. But there are more important and immediate reasons why this year's celebrations are worth noting. Domestically, this will be the biggest national celebration to take place under the leadership of Hu Jintao and the current top team. And it comes after what has been a bad couple of years for the PRC, with natural and industrial disasters, internal unrest, and economic shocks and uncertainty making the news headlines in both 2008 and 2009. Maybe of more strategic significance is the sense that we may be witnessing a shift in the global balance of power, and perhaps a new phase in both the PRC's development and in China's relations with the rest of the world. This paper examines this possibility by looking back over the last sixty years and at the signs of possible changes to come, and draws out some implications for the rest of the world.

### Three revolutions

In his speech late last year to celebrate thirty years of China's open-door "reform and opening up" policy, Hu Jintao said that there had been three revolutions in China in the twentieth century. The first was the revolution to overthrow the Qing dynasty, which led to the establishment of the Republic in 1912, the second was the Chinese Communist Party's "new democratic and socialist" revolution of 1949, and the third Deng Xiaoping's instigation of reform and opening up in December 1978, two years after the death of Mao.<sup>2</sup> There is a commonplace narrative which has developed inside and outside the PRC around reform, a picture of a wasted first three decades of Communist Party (CCP) rule, until Mao's death allowed Deng to set the economy on the "right" track of marketization and liberalization. The shift in policy direction from 1978 was indeed momentous, though from a broader perspective the picture is more complex. As well as the well-documented tragedies of the Great Leap Forward and Cultural Revolution, the economy grew an average of 8% from 1952 to 1989,<sup>3</sup> school enrollment rates shot up from the 1950s, laying the foundations of literacy and numeracy for the "industrious revolution" of subsequent decades,<sup>4</sup> and early PRC social transformations

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<sup>2</sup> Hu Jintao's speech at the meeting to commemorate the thirtieth anniversary of the Third Plenum of the Eleventh Party Congress, 18 December 2008, Xinhua News Agency. This reference occurs near the end of the speech.

<sup>3</sup> Mark Selden, *The Political Economy of Chinese Development*, Sharpe 1992, p.4; there were rapid growth rates during specific periods of the Mao era, for example 8.5% per annum between 1969 and 1978.

<sup>4</sup> See Giovanni Arrighi, *Adam Smith in Beijing*, London and New York, Verso, 2007.

in the countryside brought real benefits to many, one of the reasons that some of the older rural generation today remember the Mao years with more fondness than regret.

From the 1980s the picture has also been complicated by the lack of political reform of the sort that initially led some (especially in the US) to believe Deng was really a “westerner” at heart rather than an old committed CCP cadre, hopes which were dashed after the bloody suppression of the social movements of 1989. Nonetheless, economic reforms of a neo-liberal bent were accelerated from 1992, leading to the PRC’s accession to the World Trade Organization (WTO) in December 2001. This was a hard-fought battle within Chinese political circles, and policy developments since then have given out contradictory signals. Rather than assuming China is – or should be – on a linear path of further market reforms over the coming years,<sup>5</sup> it is worth looking at what directions China might take, and how those outside China should engage with it as a result.

Part of this involves asking what political and ideological legacies have been left by the first decades of the PRC, and how they continue to frame and constrain policy today. Socialism in its pre-1989 sense has been marginalized in China, as it has in most of the world following the fall of the Berlin Wall and the collapse of the Soviet Union. But the term remains central to official political discourse in the PRC, albeit in the vague formulation “socialism with Chinese characteristics”, which has allowed the CCP to stray far from socialist ideas and practices whilst retaining an apparent link with the socialist revolution important to the Party’s historical legitimacy. The broader concepts of social justice and equality (which were key to socialism in theory, if not always in practice) were arguably more prominent in the protests of 1989 than democracy, and retain some rhetorical and political power among critics of today’s post-reform PRC society (though as intellectuals like Wang Hui argue, they were effectively marginalized after 1992). Separately, revolutionary symbolism continues to play an important role in public discourse, whether it is the fad for “red tourism” trips to revolutionary sites, Hu Jintao’s symbolic journeys to Jinggangshan and other important revolutionary locations, or the erection of a massive new statue of Mao Zedong in Chongqing, a city of 30 million currently led by Bo Xilai, the son of one of the revolutionary founding fathers. The issues prominent in 1949 therefore retain some relevance today.

### **A reflective period of reform?**

Some of these issues have again been brought to the fore in the sixth decade of the PRC by a combination of inter-related factors. The rapid, and uneven, growth of the 1990s exacerbated tensions within society, and drew attention to the growing wealth disparities. This resulted in policies such as the Develop the West programme, designed to close the gap

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<sup>5</sup> This is a prevalent assumption, for example in “China will not save the world economy”, a *Financial Times* editorial of 21 June 2009 which argues, inter alia, that China “must move... to an economy led by private rather than public demand” and that it needs to “open more sectors to private competition”.

between the apparently prosperous coastal regions and the western hinterland. More broadly, from 2002, the leadership of President (and CCP General Secretary) Hu Jintao and Premier Wen Jiabao has steered policy towards more balanced and sustainable development, under the rubric of building a “harmonious society”, with policies designed to close the gaps between urban and rural development and address the environmental degradation which has become an increasingly-apparent consequence of economic growth. Specific examples include the increased effort in providing social insurance for vulnerable groups, or the recent announcement of an intention to build a rural pension system. Other features of contemporary PRC society, such as greater corruption and higher crime levels, also draw attention to the challenges these policy platforms seek to address.

At least one scholar has suggested that recent years can be characterized as a more “reflective” period of reform.<sup>6</sup> Inequalities in society have continued to rise in spite of the balanced growth agenda, and – even though some studies suggest that this trend may have begun to go into reverse over the last couple of years – have brought back rose-tinted memories of the Mao era in some quarters. And there seems to have been some lively debate within the Party about the future direction and scope of reform, as well as substantial opposition to it. On the one hand, in the financial sector, even during the crisis, the appetite for reform has continued to be strong. And there are persuasive arguments for reforms to stimulate domestic demand, (re)build a social security net, and reduce dependence on exports. However, what was initially touted as a major reform to rural land ownership, turned out in late 2008 to be a much more modest and experimental step towards the monetization of rural land; and only modest reforms to government structures were enacted in March 2009 after much more radical options had been trailed. The pace and direction of further reform are therefore unclear, with dramatic steps (such as that taken by Deng in 1978 or the decision in the 1990s to go for WTO membership) are unlikely for some years at least.

Furthermore, policy decisions and the practice of political economy do not necessarily coincide. Events on the ground over recent years have highlighted the limits to the leadership’s ability to shape development. While WTO accession (including the post-2001 implementation of WTO commitments) may have marked the height of openness to the global economy from a policy perspective, it also freed up market forces to spark a new phase of intensified international economic engagement and increased inter-dependency between the PRC and global economies; for example, since 2001 trade has increased rapidly as a proportion of GDP, and Chinese companies have started to be more active in the global economy. These developments did not just leave the authorities feeling over-exposed to global shocks during the recent financial and economic crisis, but also speak to the challenge of achieving an aim of the 1949 revolution, a desire for “autonomous” economic development with China as the master of its own destiny.

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<sup>6</sup> Lin Chun, *The Transformation of Chinese Socialism*, Duke University Press, 2006.

## National strengthening

The dictum of the “Chinese people standing up” reflects not just this message of autonomy, but a broader nationalism, a feature of the movement that led to the overthrow of the Qing dynasty nearly a century ago as well as of the 1949 revolution. Nationalist ideas have appealed ever since then, even though understandings of nationalism have evolved over time to reflect structurally different political and social circumstances, including the encouragement since 1949 of a broad link between nationalism and CCP rule. The current manifestation can perhaps best be understood through the concept of “national strengthening”, or, in terms more familiar in the PRC, increasing China’s “comprehensive national strength” (*zonghe guoli*).<sup>7</sup> This encompasses economic, diplomatic and military clout (see below), but also capacity in science and technology, control of territory and natural resources, and social development.

The Beijing Olympics symbolized the shift in the PRC’s international standing, though they were neither its cause nor effect. The foundation of the economic aspects of the expansion of Chinese influence (well reported elsewhere) is the strong GDP growth the PRC has enjoyed for some decades, the increasing importance of the Chinese economy to economies elsewhere in the world (including to other developing countries – see below), and the beginnings of “going out”, or internationalization, by major Chinese corporations. China’s capacity in science and technology and innovation has also improved. The effect of these developments should not be overstated, however. China’s GDP per capita remains low by international standards, its importance to the global economy is a result not just of what the PRC has done but of the incorporation by others into global supply chains of Chinese manufacturing and assembly operations (with often only low value added in the PRC itself), and outward investment by Chinese companies is but a fraction of total global investment flows. Nonetheless, the trend is clear, and it could be argued that the CCP’s post-crisis efforts to enhance the role of the state in its economy – whether this amounts to creeping renationalization or not – reflects a desire by the CCP both to drive and benefit more from this greater economic strength (while it should also be noted that the PRC is far from unique internationally in seeing an enhanced economic role for the state after the crisis, the question is whether this is seen as a short-term necessity – as it appears in the US – or part of a more strategic shift).

On the diplomatic front, there may also be a shift in approach underway. For some years Chinese foreign policy has shown signs of increasing engagement through multilateral fora and with difficult global issues, whether through somewhat more balanced positions on North Korea or Sudan, or its proactive stance on climate change which would have been surprising only a few years ago. Talking to mainland media about the sixtieth anniversary,<sup>8</sup> Foreign Minister Yang Jiechi said recently that the

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<sup>7</sup> Or, as Vice President Xi Jinping put it when opening the Central Party School’s autumn 2009 term, “bring about national prosperity and strength” (*shixian guojia fanrong fuqiang*), [www.people.com.cn/GB/1024/9968039.html](http://www.people.com.cn/GB/1024/9968039.html) (accessed 2 September 2009).

<sup>8</sup> ‘Yang Jiechi: Waijiao lichang jiangu liangge daju’, *Hong Kong Economic Journal*, 24 August 2009.

aim of PRC foreign policy was to serve national interests, that it needed to deal with both China's internal and external situations, and that the success of PRC foreign policy to date was its autonomous and peaceful nature. Yang went on to cite comments by Hu Jintao to a recent five-yearly gathering of all of China's ambassadors, to the effect that China needed to become more influential politically, more competitive economically, develop a more attractive image, and enhance morality and justice. This marks a departure from the earlier injunction of Deng Xiaoping to "lie low" internationally, which has framed PRC foreign policy for the last twenty years.

Militarily, under Hu Jintao the armed forces have also entered a new phase of development, with streamlining, professionalization and the development of hi-tech capability central to the latest modernization efforts. This has been accompanied by a gradual increase in the reach of China's navy, and growing participation of its troops in UN peacekeeping operations. While Beijing claims peaceful intent, its military developments have caused concern for a number of China's neighbours, as well as to the still-dominant US.

This national strengthening requires a certain level of social development. The CCP's "harmonious society" agenda is an important part of this, as without stability at home, national development could lose ground to fire-fighting on the domestic front, a risk which has been only too apparent to the leadership during the tumultuous events of 2008 and 2009 mentioned above. These events have also demonstrated elements of insecurity among the leadership; nationalist sentiment has been put to good use in rallying the public and – in particular when it came to unrest in Tibet and Xinjiang – blame for problems attributed to "foreign anti-China forces". However, overall resilience to both internal and external shocks has been good, and in a longer context maybe the last couple of years have not been so bad: there have been previous events which have shaken the CCP more, such as the demonstrations of 1989, and the events of 1999 which saw Falungong protests, the bombing of the Chinese Embassy in Belgrade, and the aftermath of the Asian Financial Crisis. All of this highlights that the Party has historically operated against the backdrop of a sense of vulnerability, a sense which continues to be felt today.

### **The art of the possible**

This reinforces the point made above about the limits to the leadership's ability to shape developments. As well as dealing with the forces of the global economy, Beijing has to take into account public opinion within China, as well as the vested interests which have built up within the system over the years. However, one of the advantages of the national strengthening agenda is the relative ease with which a broad coalition can be assembled behind it. This includes not just party, government, and business elites, but the wide mass of Chinese public, especially those who have been nurtured on an educational diet of China's past humiliations at the hand of western imperialism. Nonetheless, the means of achieving the goals are much more contested. This was actually true in the Mao era, when national development was also a major goal (contrary to the myth

of wasted years), even though the means (radical socialism) has since been discredited. Deng's leadership was strong enough to ensure a broad consensus behind the subsequent reform agenda, convincing opinion that it was necessary not just for internal Chinese reasons, but as a response to a significantly changed global picture from the late 1970s. But even during the Deng years, this reformist thrust was far from uncontested, as the politics of the 1980s and early 1990s showed.<sup>9</sup>

Today's political fault lines are hard to read. One major division is between advocates of further market reforms and a 'new Left' which has placed more emphasis on building up social welfare and addressing growing inequalities.<sup>10</sup> Hu and Wen's focus on people-first policies, the social security system, and harmonious society suggest a shift in policy slightly to the left. But at the same time, the strengthening of the financial sector and continued internationalization and marketization of the economy are more consistent with a neoliberal reform agenda. There are also factional aspects to politics, such as senior cadres whose careers have followed Hu Jintao in the Communist Youth League, those who are more associated with Hu's predecessor Jiang Zemin, or others who have built their reputations in the export-focused coastal provinces or as sons of an earlier generation of revolutionary leaders (such as Xi Jinping, tipped to take over from Hu in 2012). But there are no easy political maps to be drawn (factional affiliations are not publicly declared!).

Leadership matters, and Hu and Wen have had an important influence on the direction of policy. Hu has increasingly cemented his authority since taking over top posts between 2002 and 2004, and his influence is likely to continue beyond 2012, when he is expected to step down. The identity, views and track record of the next generation of Chinese leaders therefore becomes an important question. But in general, reaching consensus is now more important in the decision-making process than any individual, the result of an institutionalizing trend since the 1980s, not just the personal style of Hu Jintao.<sup>11</sup> There is a risk, too, that an over-reliance on consensus begins to stymie effective policy making, and limit the CCP's ability to respond in a timely manner to fast-changing circumstances. So, as noted above, dramatic changes in direction are unlikely, though the personalities will change. The next generation of key provincial and central government figures will have been born in the 1950s, the first to be younger than the PRC itself, and to have had less experience of the Mao era or the Cultural Revolution, a defining experience for many of the current generation. Whereas the current leadership is dominated by engineers, the next is likely to feature those with educational backgrounds in the law, finance and social science. This is likely to affect their style and approach to economic development.

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<sup>9</sup> The recent memoirs of former Party General Secretary Zhao Ziyang gives one account of these issues (*Prisoner of the State*, Simon & Schuster, 2009).

<sup>10</sup> See Mark Leonard, *What Does China Think*, London: Fourth Estate, 2008.

<sup>11</sup> Some analysis still draws misleading comparisons between today's political situation and the structures of the Mao era, or even of imperial China (eg Jonathan Fenby, "China's empire must end reliance on one man", *Financial Times*, 12 July 2009; though Fenby does also refer briefly to the increased leadership consensus).

Neither is China a centrally-controlled system. There are regional differences both economically and politically, and as China's engagement with the world increases these need to be understood and accounted for in greater detail, as do the differing ideas informing Chinese political decisions highlighted in this paper. China is no monolith.

## Conclusions and implications

This analysis underlines several important messages about the prospects for the future development of the PRC. The first is not to assume that what is "good" for China can be summed up by "reform", or that the reforms embarked on from 1978 will automatically continue: that the CCP's goal is – or should be – a market economy of the sort that might be found in Europe or north America. There is a strong "will to difference"<sup>12</sup> in the PRC, whether it is exploring participatory politics rather than elections, or seeing the state's economic role as a necessary good not a necessary evil. The constraints and the politics mean that it is far from clear that China is able to deliver a new alternative, but the desire for autonomy means – as the ongoing debate over the diversification of international reserve currencies shows – that the PRC leadership is unlikely to be happy simply following an international status quo which they see as the result of a period of US and European hegemony.

This message is an important one for those who want China to move along a smooth path to becoming like other developed market economies (though these of course differ substantially themselves), but may need to accept that the PRC's future (like its present and past) is likely to take on a different hue. And those outside the PRC who aim to promote "modernization and internal reforms" in China may miss the realities of policy and practice in the PRC, though there will still be plenty of scope for engagement (the PRC desire to build its welfare state should create opportunities for engagement by European partners in particular).

How much these differences matter economically to the rest of the world depends partly on the nature of the PRC's international economic interactions and the strength or otherwise of those economies with which it does most business. And here there may be another shift, as the PRC increasingly prioritises its relations with other developing countries alongside its recent strategic partnerships with the US and Europe, or strong trade and investment relationship with Japan. Commercial ties with Europe and North America are no longer the be all and end all of China's international strategy.

Finally, we may well be witnessing the beginnings of a new phase in the PRC's development, one characterized primarily by national strengthening and development (of which reform is but one part) rather than either socialist transformations (the Mao era) or reform and opening up (under Deng). This is not a "fourth revolution", but a gradual shift in policy approach, backed up by the realities of a stronger China on the world

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<sup>12</sup> I have taken the phrase from Arif Dirlik.

stage. Underpinning it are a series of contested agendas within China (though the CCP retains a disciplined unity publicly), and hence nationalism, openness to the outside world, increasing China's economic autonomy, market-oriented reforms, capitalist and socialist ideas may all be used by various parts of the system to pursue the goal, rather than as ends in themselves. After its sixtieth birthday, the PRC will continue to change and evolve as it forges its development path for the next decade.