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## Transcript

# China's Unfinished Revolution

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**Roderic Wye:**

Good afternoon everybody. We're under very strict time control at the moment so I would like to start as briskly as possible.

**Jonathan Fenby:**

We're already one minute late.

**Roderic Wye:**

We're already one minute late so Jonathan will be cutting his talk by one minute to allow full time for questions and answers. It's a huge honour for me to be allowed to introduce Jonathon Fenby who is a highly distinguished journalist, commentator, author [and] *savant* generally about China and the East and many other things. He will be talking to us for about 20-30 minutes on China and then the floor is open to you to put any difficult question you like to him. So please welcome Jonathon Fenby.

I should add that as a former journalist he has no worries about being quoted so this is on the record.

**Jonathan Fenby:**

Thank you. In fact not being quoted is about the worst thing that could happen to you. Well thank you very much for that Rod; I don't know how I can live up to that.

What I wanted to do today is to speak about some of the elements in China which perhaps don't always hit the headlines and aren't always immediately in the news. China is so much seen as an economic story with occasionally politics being allowed to intervene [sic], as with the Bo Xilai affair recently. But what is easy to miss is the historical nature of transition of the process that is happening in China today. The underlying equation which really buttresses and surrounds – if something can buttress and surround – the economic, amazing story of the last thirty years.

Also China is more and more a social story by which I don't mean high society, although of course there is now a certain amount of that among the *glitterati* of Beijing and Shanghai but more about the social system and how that is changing, how the whole country is changing in ways that may not always be apparent if you look simply at the economic data.

In my new book (*Tiger Head, Snake Tails: China Today, How it Got There and Where it is Heading*) that's very much what I try to focus on: I have chapters on the economy, on politics, on international relations, on history, all of which fascinate me, but I also look at the social issues of China, which I'll go into today. That's the book, that's the propaganda to begin with. The title I took as meaning and I always understood this to mean in Chinese – there is some calligraphy done by one of my Chinese colleagues on the back – to mean something or someone who is very big when you first looked at it or him or her but which when you look down on the ground there were lots and lots of smaller elements living around, complementing and contrasting with this huge head of the tiger.

I've been told subsequently by a number of Chinese friends, particularly from Taiwan, that actually it is a rather pejorative term meaning something of a braggart, meaning someone who comes on strong but doesn't deliver in the end. Now that wouldn't be my judgement of China. I think those who argue for the coming collapse of China as someone did in a book which is now 12 years old. We keep asking him is it this year or next year, the collapse? I don't think that it's going to happen and I don't think on the other hand in the title of another book that China is going to rule the world. Partly because China doesn't want to rule the world but also because of all of those small elements of China, the fragmentation of China that actually belie this all conquering appearance which China sometimes has.

The bottom line since the launch of the new economics in 1978 by Deng Xiaoping after he won the power struggle which followed Mao's death, the guiding single element of that, is to keep the Communist Party in power. China is quite often seen as an economic story but in fact what Deng did was to set out to use economics to rebuild China as a great power and to ensure that the Communist Party remained the vehicle for the greatness of China.

Remember that this came after the Cultural Revolution – ten years of chaos and decline – China was imploding and was in a horrible state in the late seventies. That of course followed the Great Leap Forward, the Great Famine, the Hundred Flowers repression after that and [also] land reform – a whole series of misadventures, to put it politely, under Mao Zedong. It wasn't as if Deng [Xiaoping] woke up one morning, read an economics textbook and thought it was a good idea – people around him probably did. But rather he saw that economic growth as the way of preserving and reasserting national greatness but also of ensuring the Communist Party, which Mao had virtually destroyed during the Cultural Revolution. It would be seen as the means by which China could reach its end target, which was for China to re-establish

itself as a great power. So this rather nice photograph of a fashion model on the Shanghai bund epitomises what that was all about.

Deng had to take China from this kind of backyard furnace area to what we see today here: assembly plants in Shenzhen, Guangdong province, which by most estimates account for 5%, that's one-twentieth of all manufactured goods made in the world. It is amazing. I spent time in Guangdong, in Shenzhen and in other places when researching the book but also you get to places like Yiwu in the Xinjiang province, which calls itself the world's small manufactures capital. And it is quite extraordinary. There are about 80 towers there that are full of just about every small thing that is made in the world: prayer beads for Mecca, sombreros for Mexico, string bikinis for Brazil, etc. and I'm sure souvenirs for the Jubilee here too. These places are enormous and quite extraordinary.

So that was Deng's achievement. This is the famous painting of him on the wall in Shenzhen. Domestically he saw that China could draw upon huge amounts of cheap labour just waiting to come into the global labour force, huge amounts of cheap capital which had been locked up under Mao but also the third element, which was essential, and that was opening up to the rest of the world. This was essential because to support that kind of manufacturing which China was aiming at, China had to look beyond it's borders for its principal market, it had to look to richer countries which would make up for the weakness of domestic demand in China. It had to establish good relations with Europe and North America hence Deng's foreign policy dictum of, 'Keep your head down while you're growing and don't frighten the foreigners.' It had to be welcomed as an exporter of deflation then particularly in the case of America as an exporter of capital.

So this is Deng on his trip to establish formal diplomatic relations, which had not been established during Nixon's visit although many thought they had. Deng went to the US, met Jimmy Carter, put on a ten gallon hat, [he] was very popular and the two countries recognised each other and exchanged quite a lot of intelligence information at that time. There was also another photograph which has just been sent to me by someone, which I did not have time to put in this slideshow, of Deng visiting the Harlem Globe Trotters. Deng is 5 ft. tall and he's looking up at the Globetrotters – it's a wonderful photograph. I'll have it on the next talk if I get there. He also, in a sign of kind of amity but also testing out Carter, in one of their meetings at the White House he asked for the entire room to be cleared except for two senior aides on each side and then he said, 'Mr President I just wanted to inform you we're going to invade Vietnam in 10 days' time.' To which Carter famously replied,

'Well, I suppose I'll have to protest.' i.e., 'You can do it, go ahead, and we're not going to do anything,' According to researchers who have been looking into Chinese foreign policy at the next meeting Carter and his team arrived to see Deng carrying all the CIA secret briefing books on Vietnam and handed them over. You can see the relationship was pretty well set.

Since then we've had the growth story with which we're all familiar. I won't go through the statistics but you can pick out some. Because China has 1.4 billion people, anything it does is going to have an effect on an enormous scale. Its communist party is the biggest political movement in the world. Then you get statistics like China smoking more than one-third of the world's cigarettes, containing more than 55% of the world's pigs, the average urban Chinese – you get to know things like this when you write a book – eats one pig a year. So you need an awful lot of pigs to keep them fed and – I won't go into it here but I can go into it later – pigs are actually one of the keys to understanding Chinese economic data, particularly inflation, which is driven by the hog breeding cycle. China also has the biggest standing army in the world, more than 2 million troops, although it is far behind the United States, of course, in terms of military technology.

This economic growth, – I said I wouldn't talk about economics but obviously we must look at it a bit – this graph looking at the quarterly rate of growth since 2007 shows a pretty volatile pattern with the big downturn at the end of 2008 when China suffered from erroneous monetary policy at home and a drop, a huge drop, in foreign demand in the United States and Europe. So this is a very volatile picture and it's going down again at the moment but as you can see it always stays above 6%. When you multiply 6% annual growth by a billion adults you've obviously got the most important developing element in global affairs. I'd say perhaps even more important than the end of the Cold War has been the sheer scale and speed of China's growth.

At the same time China contains an enormous number of small scale elements fragmented. For instance, the Chinese property developer company Vanke has only about 4% of the market. China has a multiplicity of small firms, such as those I've mentioned, supplying Yiwu. If you go to Wenzhou, the private sector manufacturing hub on the East Coast of China, there are reckoned to be around three thousand separate enterprises in the Wenzhou area. The way in which they work capitalises, if you like, on that small scale manufacturing, which China is really good at. You have a cluster of manufacturers making shirts: one family workshop makes the collars, one makes the buttons, one makes the front of the shirt and one makes the labels that go in at the back – perhaps not literally that – and the master company

puts it all together. This is a way of bringing together a multiplicity of small scale manufacturers in China into these bigger units.

Equally as much small scale China, China has no national brands, no national markets. Everything from beers to motorcycles are produced on a regional basis and sold to a loyal regional public. Equally as much, and I'm sure you're familiar with this, while China puts itself forward as a unitary state [with] a 95% Han population run by a single communist party, in fact, and we've seen this with the Bo Xilai affair, politics at the regional, provincial, municipal and local levels in China is alive and thriving whatever Beijing says. A case some years ago when I was editing the South China Morning Post in Hong Kong I met somebody from the State Council, from the government in Beijing, and we were talking about eventual privatisation of some services in China. This was at the end of the 1990s. And he said, 'Ah yes, very interesting. In Suzhou on the east coast they're putting together a proposal, which they are going to send to Beijing for approval, about privatising part of the local bus service.' So I sent a reporter to Suzhou to find out about this – the privatisation was already in place. The Party Secretary's brother-in-law was chairman of the private company and second, Beijing didn't know about it. This was quite extraordinary and you find this all the time all over China.

At the same time of course China is huge. Of course you have some of these big units, some of the biggest companies in the world, certainly some of the biggest banks in the world and you have the huge growth of urbanised China. Shanghai has more than 20 million inhabitants, Beijing probably more – you don't know exactly how many people are living there because rural migrant workers are not counted among the official urban population. Then you go back into the boondocks of China, as in Sichuan in March, and we visited a pretty run down county town and the county town and its surrounding area contained half a million people. So this is the big side of China. Urbanisation is an absolute watch word for the government in China. It comes with major problems because a lot of Chinese cities are not really cities; they are agglomerations of living areas without much of a way in urban services. At present, 32 Chinese cities are building or expanding their urban transport, their metro underground system.

A huge amount of work needs to be done on the urbanised sector in China in terms of supply of water [and] purity of water. It is recognised, I think the last figure was 190 Chinese cities take their drinking water directly from rivers into which raw sewage pours. So you can see why everybody boils the water in China. At the same time urbanisation has been eating up agricultural land. China has 20% of the world's population and around 8-9% of the world's

arable land. That land is diminishing for all kinds of regions but urbanisation is obviously a major element. The city of Hangzhou in eastern China, for instance, has lost 25% of the land previously used to grow vegetables because of urbanisation. You can see, as with the pigs, the effect that has on inflation.

At the same time while there are a lot of problems which I'm touching on in this talk, China remains a nation on speed. It wants to do just about everything bigger and faster than anyone else. And of course the high speed train was the absolute symbol of this. Lu the railway minister was known as 'Great Leap Lu' and said, 'Do everything faster and better than anybody else.' Basically China – well there was an article in the People's Daily, the communist party newspaper – boasted while France took several months to train its high speed train drivers China would do that in the week.

Then you had the high speed train crash. Things have been slowed down a bit on the railways but not hugely. They will still do the programme. Minister Lu who was sacked in February of last year, and arrested by the Communist Party disciplinary commission, which operates separately from civil law, just yesterday announced that he would be kicked out of the party and handed over to the civil authorities for trial and punishment. He has been accused of corruption, huge corruption. In fact - as I was saying China is segregated into regions – you also have power bases at the centre in China like the Railways Ministry, which operated more or less independently of the government. Lu got away with that for a long time while the high speed trains were working very well and it seemed to be a very good way of developing the country. But his fall, once he was arrested in February of last year was complete. No appeal from him, nothing. There was an interesting, rather amusing side element of that, that the state information office, the censorship office – somebody sends me some of their dictats from time to time to Chinese websites – the state information office send out a message saying, 'Do not make too much of the dismissal of Minister Lu or mention his eighteen mistresses.' It was the first we knew he had any mistresses – the censor tells you something at last.

China's consumption: to get into the various social issues, China is on a consumption binge. It needs to be because consumption and wages were always a very low part of national income and national wealth in China. Ironically enough, for the last major state ruled by a communist party, wages until still probably recently accounted for 38% of national income compared with 65-70% in the West. Capital has been the great beneficiary, particularly for the last ten years in China. But the government decided in August 2010 to

ramp up wages and thereby, they hope, ramp up consumption. Not so much by the middle class who would buy the Luis Vuitton – its' amazing they have a 'Vuitton Wall' outside their store in Shanghai – not just the middle-class who will go on getting more wealthy, and the ultra-rich who are very very rich by any standards, but this is a way to push up the minimum wage and push up consumption by blue collar and service workers. That is producing 15-16% of consumption per year but from a very very low base it must be said. So it will be some time before that rebalancing of the economy when consumption takes over from fixed-asset investment and exports as the main driver, it will take some time before that comes through.

There is undoubtedly and I don't mean this in any critical or pejorative way because we're all quite materialistic, but I'm always struck when I'm in China by the materialism particularly by younger middle-class people. As one of my colleagues at our research service trust who is Chinese and has lived outside of China for ten years and went back for us eighteen months ago, he said that after being in China for a while what counts here is not who you are or what you do but what you can afford. Things are judged in that way. There is the famous saying now by a young lady on a television dating show, the equivalent of Blind Date in Jiangsu province who asked what she was looking for in the young men on the other side. She said, 'Well let me be quite honest: I'd rather cry in the back of a BMW then laugh on the back of the bicycle.' And everyone says, 'Oh yes, ha-ha yes. This is very well known.'

And of course with materialism goes corruption which is there – Minister Lu that I spoke about – regularly. Big, big corruption cases brought to light and many many more not brought to light. Even if people half know about them and a lot of corruption in everyday life, in everyday business life which takes more and more intriguing forms. You don't give officials money in China now, partly because the biggest bank note is a hundred Yuan, which is about £10, so you have to have an awful lot of bank notes if you want to bribe a senior official. You do things like, [if] I want to get a permit from you, [I] say, 'Oh, Professor Y, you should have your portrait painted.' So I employ a young artist that paints your portrait. I give it to you. There is nothing wrong with that at all. After a decent interval you put that painting up for auction. I send along two of my associates who bid it up to a ridiculous price. There is no record. Nothing wrong has been done. *[There are]* lots of cases like that and again one of the anecdotes which people will know in China, *[the]* Southern Weekly – until recently one of the most independent investment magazines in China – interviewed primary school children about what they wanted to be when they



grow up. The famous case here was a six year old girl. The journalist said to her, 'So what do you want to be when you grow up young lady?'

The young lady said, 'An official.'

And he said, 'That's great! What kind of official?'

And she said, 'A corrupt official,' and she explained, 'Because they have all the nice things.'

I'll go past that. China's growth has produced a considerable fan club. Some of them are here: Fukuyama, Soros, Friedman, Niall Ferguson – although he's slightly changed his tune recently – bankers, all of whom see China as a far more efficient place than the West. It works like clockwork. As Tom Friedman says, 'Enlightened bureaucrats operate a one party system to get things done in a way that cannot be done in the West.' Well that is a very rosy spectacled view of China because of all the internal log jams that you find through the system.

The other side: there are others that say that China is bound to implode. Jim Chanos, the hedge fund investor, 'That China is walking forwards on a treadmill to hell.' Well you never actually walk forward on a treadmill so you're never going to get there, etc., etc. They are also pretty much wrong. There are huge faults in China but these faults by and large can be dealt with by the regime. And always remember where I started: regime preservation, the preservation of communist party power is the bottom line.

So as we saw in 2008 when they face an economic difficulty the leaders of China will throw an enormous amount of money, and they have enormous amounts of money, at the problem. They now recognise that that was not the sensible thing to do in that situation because they unleashed a huge credit bubble, inflation, infrastructure misallocation of capital and so on. But they will dig themselves out of the hole. At the moment as growth falls to a percent but it is still falling from around 12% at the height, a new series of targeted measures are being announced as I speak to try to lift the economy again. Now these don't always make great economic sense but again they are designed politically. It's just like throughout China, throughout the rulers of imperial China they want to be seen as in charge, they want to be seen to be able to deal with problems and to do it in their own way.

That said, China faces a huge array of challenges which I'll finish with. The economy is unbalanced in all kinds of ways. The Gini Coefficient, which measures wealth disparities, the Chinese have stopped publishing it about 5-6 years ago. It is reckoned to be anywhere between 4.5 to 5 as its Gini

Coefficient and anywhere above 4 is supposed to be putting the country in danger of social instability. It is also unbalanced between the eastern coast, which is pretty much a developed country, and inland areas. Driving through the Sichuan province in March, I was struck by how backward everything was once you got outside the mega places of Chongqing and Chengdu. Corruption, I have spoken about, legal issues [and] the lack of the rule of law. China has always been ruled by law, the legalist tradition, the use the law to scare people stiff so they won't make any trouble. The demographics are turning bad with fewer and fewer young people coming into the labour force and more and more people living past 70 and that in country that doesn't have a proper pension system or any old age care system. There's Tibet and Xinjiang. In Tibetan areas outside Tibet, as I said in Sichuan province mainly, people have been burning themselves to death quite regularly in protest against Chinese rule of Tibet. Just last week two monks burnt themselves in Tibet too. There is the uncertainty about China's global role which we can talk about later.

I would say that, perhaps it's a bit broad brushed, but the problem with China is that it knows a few things that it wants. It wants access to the raw materials that it needs. It doesn't want foreign powers to interfere with its internal affairs, particularly Tibet and Xinjiang. But apart from that it doesn't really have a foreign policy. It veers between different extremes. We've seen for instance over Syria: China not one thing, not the other and then in the middle. I dropped over the whole trust and safety although I think is very important, it is unquantifiable. In China people are saying, you might say this for many other places but it has a particular meaning in China, 'Only believe something when the government denies it.' We may say the same thing, who knows.

Food safety is a huge problem with China. In the book I made myself somewhat ill by writing several pages about rotten food, toxic food; the biggest processed meat manufacturer was putting rotten old pork into its sausages, etc. And I won't go on about the Chongqing pork blood curd scandal, which is pretty disgusting. Safety standards the same.

So who do you trust? On an individual basis the Chinese are far far freer than they were under Mao or under Deng Xiaoping. In 1989 the killings in Beijing, most of which were not actually in Tiananmen Square but of ordinary citizens on the boulevard going to Tiananmen Square, that has set a template of repressive one party rule towards anybody who is seen as constituting any threat, as defined by the rulers, to the system. But, in ordinary life, the Chinese are increasingly free. Social media has become an enormous element and very difficult to control for this one party state. So you have got

at the bottom the problem of one party rule over a society which is evolving in all these different ways which escape the nine men who run China. You will notice several things about them: they are all in immaculate business attire; some of them have got their hands in a rather unfortunate position, if you think back to the 1930s; but they have all got wonderful heads of luxurious black hair. As you can just tell I'm quite jealous. I'm told by a former British ambassador that there is a leadership hair dye factory somewhere in Beijing. [Laughter] He may be pulling my leg.

Those nine men, six or seven of them, they constitute the standing committee at the Politburo, which is the supreme body in China. Six or possibly seven of them will retire at the party congress later this year either because they have served two terms, which is the limit, or because they have passed the age limit. They will be succeeded by new men. Xi Jinping will become party leader at the Party Congress and then state president of China when the legislature meets next month. Li Keqiang will become prime minister. He is the leader of what are called the 'princelings faction,' that is to say the sons or daughters of first generation communist leaders. Li Keqiang is a protégé of Hu Jintao, the present leader, and belongs to what is called the Youth League Faction which is more to the left, more populist, more aware of the need to do something about disparities.

And of course Bo Xilai, who I don't need to tell you anything about, was going to join the standing committee but then got too big for his boots. He was a tall poppy waiting to be chopped down. I can say that I did foretell this in a way in the book on page 381, paragraph 2, and sentence 3 you will find a reference to him as a tall poppy. His enemies were just waiting for him to misstep so they could chop him down and of course that came with his defecting police chief and the death of Neil Heyward.

This transition will now take place quite smoothly. The wild card has been removed. The factions will get on with each other. They face an increasingly challenging future. They know that. If you read internal debates and documents among the leadership, they know the need for change. A reform debate is starting in China. Where it will end, nobody knows. It will be a very long process as China is a dictatorship without a dictator in a sense. It has a dictatorial party but no dictator running that party. There is a lot of consensus discussion within that. But the basic line remains as it was with Deng Xiaoping in 1978 to keep the red flag flying and to ensure that politics runs the world's second biggest economy. Thank you very much.