

Chapter 19: Technological Advances and Economics in the Global Age: 19-4c China Rejoins the World Economy

Book Title: The Earth and Its Peoples: A Global History 7th Edition Update, AP® Edition

Printed By: James Harper (carter_mcquaid@roundrockisd.org)

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After Mao Zedong's death in 1976, the Chinese communist leadership began economic reforms that relaxed state control, allowing more initiative and permitting individuals to accumulate wealth. The results were remarkable. Under China's leader **Deng Xiaoping** ([Communist Party leader who forced Chinese economic reforms after the death of Mao Zedong. \(p. 577\)](#)) (**dung shee-yao-ping**) (1904–1997), China permitted foreign investment for the first time since the communists came to power in 1949. Between 1979 and 2014, foreign direct investment in China grew to more than \$1.5 trillion as McDonald's, General Motors, Coca-Cola, Airbus, Toyota, and many other foreign companies began doing business. In 2014 foreign direct investment was greater in China than in the United States for the first time, \$128 billion to \$86 billion. As a result of this pattern, foreign firms now account for roughly 50 percent of China's imports and exports.

By 2010 China had become a major industrial power and the world's most important exporting nation. Despite these changes, state-owned enterprises still employed more than 100 million workers, and most foreign-owned companies were limited to special economic zones. The result was a dual industrial sector—one modern, efficient, and connected to international markets, the other directed by political decisions. While the Chinese have not yet privatized land, by 1990 over 90 percent of China's agricultural land was in the hands of farmers permitted to sell what they produced, but new reforms were slowed by popular opposition to growing inequality among agriculturalists.

In 2010 China became the world's second largest economy, surpassing Japan. The scale of this achievement can be represented by the remarkable growth of China's GDP, the total value of all goods and services produced by the nation. In 1970 China, with a population of nearly 1 billion, had a GDP of \$56 billion, roughly half the GDP of Italy (\$111 billion), with a population of 55 million people. By 2010 China's GDP had increased eighty-one times, surpassing \$4.5 trillion, rising to \$11 trillion in 2015. Other

AP® Exam Tip

Explain why some governments, such as China under Deng Xiaoping, began to promote economic liberalization in the late twentieth century.

AP® Exam Tip

Explain how some groups, such as the Tiananmen Square protesters, opposed and promoted alternatives to the existing economic, political, and social orders.

developing countries grew substantially in this period as well. India's economy, for example, was larger than China's in 1970 (\$66 billion) and increased nineteen times by 2010, to \$1.2 trillion. In 2015 it was \$2.1 trillion, roughly one-fifth the size of China's.

Despite its enormous achievement, China, with a per capita GDP (GDP divided by national population) as of 2015 of \$8,027, has remained substantially poorer than mature industrial economies like the United States and Germany, which have per capita GDPs of \$56,115 and \$41,313, respectively. However, China is now richer than much of the developing world. Latin America has a per capita GDP of \$8,363, the Middle East and North Africa \$7,407, sub-Saharan Africa \$1,588, and South Asia \$1,542. While poverty levels in China have fallen swiftly during this period of rapid development, inequality, especially between rural and urban dwellers, has increased.

The combination of economic reforms, high levels of foreign investment, and technology transfers from developed industrial nations has helped make China one of the world's major industrial powers. As was true earlier with Japan and the Asian Tigers, China's expansion has depended heavily on exports, which accounted for over 40 percent of GDP in 2008, falling to roughly 30 percent by 2017. Success in foreign markets produced a large foreign trade surplus. As was the case with Japan three decades ago, these cash surpluses paid for the government's massive investments in infrastructure, but also promoted speculation in real estate and stocks and propped up a weak banking sector. While the Chinese economy continued to grow at a healthy rate during the worldwide recession that began in 2008, some economists wonder if the speculative excesses can be overcome without a deep contraction similar to that experienced by Japan in the 1990s. The near collapse of China's two major stock markets in 2015–2016, unsustainable real estate values, and rising corporate, government, and household debt levels are all suggestive of future problems.

Deng Xiaoping's strategy of balancing change and continuity avoided some of the social and political costs experienced by Russia and other socialist countries that abruptly embraced capitalism and democracy after the collapse of the Soviet Union, but he faced a major challenge in 1989. Responding to inflation and to worldwide mass movements in favor of democracy, Chinese students and intellectuals led a series of protests demanding more democracy and an end to corruption. This movement culminated in [Tiananmen \(Tee-yehn-ahn-men\) Square \(Site in Beijing where Chinese students and workers gathered to demand greater political openness in 1989. The demonstration was crushed by Chinese military with great loss of life. \(p. 578\)\)](#), in the heart of Beijing, where hundreds of thousands of protesters gathered and refused to leave. After weeks of standoff, tanks pushed into the square, killing hundreds and arresting thousands. The Communist Party has not faced another direct challenge to its power since then, but growing levels of labor unrest, protests in favor of political rights, corruption scandals, and ethnic confrontations continue to challenge this one-party dictatorship.

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