

# Show me the money!

Twenty-five years after Deng Xiaoping threw open the economy to capitalism, China today offers striking parallels with the US in 1904. Can China learn from the US and evolve a similar capitalist model? Or will local conditions lead to a new Chinese capitalist paradigm? And what will this mean for the world at large? By *Steven Irvine*

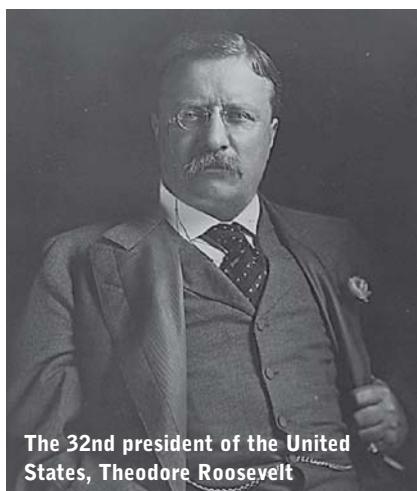
**T**here were thousands of sooty shacks on stilts, with pigs tied below; gutters buzzing with garbage; hock deep in fine grey dust. Beneath that dust, men were scrabbling in wet, gassy gloom. Boys began their careers at eight or nine years old. They ate coal dust in their bread and drank it in their milk."

This could be a description of many parts of China today. In fact, it is a description of the Pennsylvania coalfields of America 100 years ago.

The description – which comes from Edmund Morris's *Theodore Rex*, a biography of President Roosevelt – simply puts in perspective a simple fact. The raw, primitive capitalism that China is experiencing today is strikingly similar to what the US experienced at the turn of the 20th century when – like China today – it was emerging as the world's dominant manufacturing economy.

Given the parallels between America in 1904 and China today, what can the latter learn from the former?

Indeed, it is easy to forget what the US looked like just 100 years ago. In



The 26th president of the United States, Theodore Roosevelt

1904 about three quarters of the farmers in the Midwest lived below subsistence levels. And as with China today, a pioneering exposé-style of journalism uncovered society's many ills. The most prominent was *McClure's* magazine which in one issue examined the extensive local government corruption in Minneapolis. The article was plentifully illustrated with bribery lists and described the slide to corruption of a once-honest mayor.

How similar to contemporary China, with its rapid embrace of capitalism.

A further uncanny parallel is also one of the most shocking. When Roosevelt came to power the average US consumer was being subjected to large quantities of food that was damaging to their health, thanks to the unscrupulous methods of food canners, and slaughterhouses. Articles in the media uncovered



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malpractices that were rife throughout the industry.

Roosevelt commissioned his own investigation of the industry. As Morris writes in his biography: "The President's secret investigation of Packington practices – was a probe that provided details so disgusting that Roosevelt could not bring himself to release them... such as, an account of a hog carcass falling from a hook and sliding halfway into the packinghouse's mens room, whence it was removed and sent onto its destination, unwashed."

Resulting from the probe was a key piece of US legislation, the Pure Foods Act, which recommended: "Traffic in foodstuffs which have been debased or adulterated so as to injure health or deceive purchasers should be forbidden."

This also led to the creation of the Food and Drugs Administration – the FDA.

Which brings us back to contemporary China. In 1979 Deng Xiaoping famously created the maxim 'to get rich is glorious' and unleashed capitalism. Just as in the US, this has led to serious concerns about abuses in the food industry, where opportunities to make a quick buck by cutting corners have been taken to extremes that would have amazed even Roosevelt.

*Caijing*, an influential Chinese magazine, recently published an article that detailed how "beautiful dishes on the dining table look very inviting, however, the truth beneath the beautiful appearance often makes people lose their appetite."

It continued: "We Chinese especially cherish our rice bowls, not only because China is one of the oldest agricultural nations, but because the Chinese have experienced numerous famines and starvations over the past thousand years and always remember the ancient teaching 'People take food as heaven'."

It continued: "China has basically solved the starvation problem. People have never had such full rice bowls before. However, the common people still cannot relax because the 'heaven' above us contains hidden perils. Bad food is creating crisis after crisis for our digestive systems."

The examples of abuse are numerous. Last year Jinhua Ham lost its 1200 year old reputation for quality when it

was discovered its product contained dichlorvos, a poisonous toxin used to repel insects. Zhejiang's famous 'Country Bumpkin' snack was also exposed when it was found that its unscrupulous manufacturers added harmful acids normally associated with paint emulsions.

In Haicheng, some 3,000 schoolchildren were made ill by toxin-infested soya milk produced by Anshan Baorun Milk. The effects varied in their seriousness, but some of the children were blinded.

In Nanjing last September a snack shop-owner was caught using Dushuqiang, a rat poison, so as to contaminate a rival's foods. He killed 38 people in the process, with a further 300 becoming ill.

The article in *Caijing* lists further abuses that range from formaldehyde being used to bleach seafood, hair growth products being sold as soy sauce, mercury pumped into sausages, and talcum powder mixed with wheat flower to make it whiter.

Government-owned media has even estimated that 20% of the food sold in China last year did not meet safety standards. That's a useful statistic to remember next time you order food in your hotel in Beijing.

Indeed, the government television channel, CCTV uncovered an unprincipled distributor of pistachio nuts who was using an industrial bleach to whiten the shells, since whiter shells would fetch a better price. Asked on camera why he didn't use a safe product to achieve the whitening effect, he simply replied that the industrial bleach was cheaper than the safe product.

Other investigative reports have recounted how farmers are feeding their livestock steroids to make the animals grow quicker and thus sell quicker. These steroids make the meat dangerous for human consumption.

In all these cases companies, farmers and counterfeiters are knowingly selling dangerous foodstuffs to their fellow Chinese – showing more interest in their own profits than the welfare and health of consumers.

**I**t's a long way from the communist ideal and it need hardly be said that such widespread and premeditated contamination of food (for profit) raises questions about moral standards in China today. Deng Xiaoping's embrace of capitalism has lifted 170 million Chinese out of absolute poverty (according to the World Bank), but that same 'money worship' is also having corrosive side effects.

The Chinese leadership has recognised this, much in the same way that Roosevelt did. This month at the National People's Congress, the director of the newly created (and US-modelled) State Food and Drug Administration, Zheng Xiaoyu said new laws were needed to tackle China's food safety problem. "We should merge the regulations and promulgate a food safety law to cover agriculture, poultry, processing, sales and consumption," he said.

It is interesting that both the US in 1904 and China in 2004 share the same problem of unscrupulous food industries. Equally it is interesting that China is attacking the problem in a near identical way, via an FDA and by proposing a similar law to that which Roosevelt created 100 years ago.

But if it is agreed that the parallels between China today and the US of yesteryear are too great to ignore, the bigger question becomes will China successfully emulate the US's evolution from a primitive robber-baron style of capitalism to the highly developed capitalism it embodies today?

Whether it can make this transition is one of the key questions facing China in the next 40 years.

It is also an issue that thoughtful Chinese readily acknowledge. Zhang Xin is a perfect example of just such a person. An entrepreneur who is behind the property developer, Soho China, she (along with her husband) has created a successful company that has brought high quality construction and architectural flair to Beijing. Moreover, she is a poster-child for the sort of success Deng Xiaoping's opening-up was designed to create. She left China in the early 1980s to work in Hong Kong, earned a schol-

**"I often wonder if the early stage of capitalism in China today is similar to the US a century ago"**



arship to Cambridge University, and later worked at Goldman Sachs. Lucid in English, she can see most situations from both a Western and Chinese perspective. That includes the current issue.

"I often wonder if the early stage of capitalism in China today is similar to the US a century ago," she says, "and wonder at how the US moved forward to become such a conformist society with a strong sense of morality which serves the self disciplinary functioning of an industrial economy, and how China slipped from a country largely built on the belief in being selfless, being righteous to a stage of rampant self interest and profit-seeking at any cost."

She does qualify the remark: "It's certainly true that the poorer the place you visit in China, the lower moral standards people hold, and the more corruption and more selfishness you witness. This probably confirms the role of education, the role of openness of the society, and the role of transparency. Can we conclude that education brings out the better part of the human being, and the wealthier the society is the more constrained human darkness?"

The prevalence of damaging food-stuffs is also more serious in the less

developed parts of the country, she observes.

**T**alking from experience, she notes: "I have a country house in Hairou [north of Beijing], where I would go for weekends. There the villagers all look wonderfully kind and peaceful, but the reality is that every year they would block the water supply in order to get a 'repair order' from us, and when the bill eventually came they always charged us more than the materials actually used. By now, I am so experienced dealing with the villagers, that I no longer get angry by discovering their ever-creative cheating methods. When you think about it, it is actually the natural human instinct for survival, because there are so little job opportunities in the village, they have to think about a way to make money, and what could be easier than cheating your wealthier neighbours? It is a classic Darwinian approach. But once they are better off, and there are more things that matter in life beyond basic survival, they may become more respectful of others."

She adds: "What is obvious to me about contemporary Chinese society is the desperate searching for spiritual

guidance. Philosophy and religious books are among the bestsellers for most publishers. This country is at a crossroads. There has to be another faith to replace communism. Materialism and spirituality are the two faculties that human evolution develops hand in hand. If capitalism has brought to China a higher material satisfaction, then what will cultivate the spirituality of modern China?"

Her views on spirituality were shared by many people spoken to for this article. It was frequently commented that the US was a very religious society in 1904. The US made the shift to its current form of capitalism in an atmosphere where a strong value-system was in place. This derived from a central Judeo-Christian ideology (with a strong sense of right and wrong as epitomised by novels like *To Kill a Mockingbird*), as well as ancient Greek concepts of justice, Roman concepts of law and a constitution that emphasised the rights of the individual.

None of the above exists in contemporary China, which tends to suggest Chinese capitalism will evolve differently. As Zhang indicates, the country lacks a core ideology today, beyond money. China's ancient ideology

(Confucianism) was deliberately torn asunder after the founding of the Republic in 1911, and the Cultural Revolution – true to its name – was a period of cultural and social destruction which even led to family members informing on one another. By 1979 the ancient value system that China had built over three thousand years was largely gone.

"One of the most interesting aspects of China's current development," says Jonathan Anderson, the mandarin-speaking chief economist of UBS, "is that the Chinese are effectively creating their ethical culture even as they create a modern economy. Traditional values nearly disappeared in the maelstrom of rapid change between 1900 and 1979, and since 1949 were replaced by a 'new socialist morality' – which in turn has been waning in the 'go-go' growth years of the last two decades."

In China today capitalism is being grafted onto a society where ethics and morality are in a fluid state. This is an 'experiment in progress' but the evidence thus far gives pause for thought.

A snapshot of contemporary China can be gleaned from newspapers. In the past month alone it has been reported in provincial newspapers and the *South China Morning Post* that:

- A party chief in Guangxi took Rmb3.21 million of bribes to cover up a tin mining disaster that killed 81 people.
- In corruption cases tried in Guangdong courts, 30 involved corrupt officials embezzling more than Rmb10 million.
- Shenzhen has reported a 75% jump in kidnappings year-on-year, a 38% jump in assaults, and a 35% rise in murders.
- In a shopping mall fire in Jilin, 54 are killed. Investigators say that blocked fire escapes, barred windows and an illegally built boiler room contributed to the number of people killed.

A central theme runs through all of the above, and it seems to be the pursuit of money above all else.

Even Asia's richest Chinese, KS Li has concerns about the direction things are taking. In a speech last September at Guangdong's Shantou University – an institution which his charitable funds helped construct – he told the student

body that his hope was that they would gain from their education an "inspiration to shoulder up the social burdens and contribute to the society" of China.

Li, displaying a Confucian outlook that has all but died in the Middle Kingdom itself, seemed to indicate in the speech that a proper education is as much about moral training as it is about academic excellence.

Another interesting perspective comes from Andy Lee, a successful entrepreneur from Sichuan who made his fortune in the tech sector in the US – where he gained financial security when he sold his company for \$40 million – and returned to China in the hope of doing some good for his country, by investing in local ventures. His experiences have taught him some valuable lessons that have made him worry about the future. First, is the issue of trust.

"What you need in your managers is honesty – that's far more important than a fancy university background," he says.

When he first came back to China and invested in four projects, he was perhaps subconsciously still in US mode, and tracked the development of the companies remotely. The result was disaster.

"It's been said that in China you need to find the right people before you find the right project. That's very true....as I found out when the people I had provided with funds simply took off with the cash," he says ruefully.

His view was recently reflected in a debate on CCTV's popular *Dialogue* show. Here the President of Microsoft China and the Vice-chancellor of Peking University talked about training people



for top tier jobs and debated the most important qualities young Chinese should have. The Vice-chancellor emphasized intelligence and creativity. The Microsoft China president – an American Chinese – emphasized instead honesty and integrity.

Part of the problem the economy faces, Lee believes, is that the private sector is often just an adjunct of corrupt government patronage. "You don't have to be good," he says. "You just have to have the right relationship," he concludes.

Lee's believes that there is serious cause for concern.

"It means that the whole market is perverted. It's not working like a market should, and if that goes on much longer the whole country will eventually go into a state of crisis," he says.

Lee can't hide a certain gloom about the future: "I came back because I'm financially independent and because I want to help my country. But I believe China is entering a very critical phase over the next few years."

**U**BS economist Anderson, who is an American, agrees that a future problem may loom: "It could be argued that the ultimate sustainability of the system will come under question: if it is indeed true that the successes of developed market economies depends on a backdrop of strong traditional moral or religious cohesion, then can China keep up its rapid growth without running into social problems down the road? So far it has been a famous success, but I think the real test will come over the next two decades, as annual per capital income moves from \$1,000 towards \$5,000 and private economic interest groups with strong ties to the state become increasingly influential."

In *China Wakes* Sheryl WuDunn was one of the earliest to identify some of these issues, including the parallels with the US a hundred years ago. "China is something of a cross between Dodge City and Dickensian England," she writes. "We sometimes forget that nineteenth-century America was a pretty heartless and brutal place: women and children working at piece rates in sweatshops for 12 hours a day, wealthy tycoons manipulating the political process to the extent that the 1876 election was probably stolen."



**Robbed, beaten and ignored  
in the streets of Kunming**

EPA

"But there is one difference. The United States had the basis of a civil society and a far more flexible political system, one that could respond to popular pressure – however belatedly – without exploding. A free press always flourished and elections were always held, even if some were rigged. However, inadequate the US political and legal system was in the nineteenth century, it was far more responsive than China's today. That responsiveness enabled it to evolve into the system we have now; in China the question remains: will the emperors allow their system to evolve in similar ways?"

Hu Shuli, the influential Editor of *Caijing* magazine says: "There are some lessons we can learn from the early development period of the US, but of course the situations are not entirely the same and thus not perfectly comparable."

Clearly, China and the US are not, as Hu says, "perfectly comparable". Chinese society has evolved in different ways, and is in some respects the diametric opposite of the US. Peter Hessler, an American who spent two years living in Fuling, a small town in Sichuan, wrote a book, *Rivertown* whose recurrent theme is just that. A student of the

language, and China in general, his observations often contrast the country with his native America.

Take his observation on group behaviour: "Crowds often formed in Fuling, but I rarely saw them act as a group motivated by any sort of moral sense. I had witnessed that far more often in individualistic America, where people wanted a community that served the individual, and as a result they sometimes looked at a victim and thought: I can imagine what that feels like, and so I will help. Certainly there

perfectly corroborates Hessler's analysis. This was printed in a newspaper on March 5. The man lying on the ground had been robbed and assaulted in broad daylight in front of a crowd in the city of Kunming. As can be seen from the photograph, even after the man has been left helpless on the ground – blood on his shirt – no one tries to help. Some even appearing to be laughing.

One might ask: How socially cohesive is a society that produces incidents like this?

Hessler says the masses tend to

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is rubbernecking in America as well, but it was nothing compared to Fuling, where the average citizen seemed to react to a person in trouble by thinking: this is not my brother or my friend or anybody I know and it is interesting to watch him suffer. When there were serious car accidents, people would rush over, shouting eagerly as they ran, 'Sile meiyou? Sile meiyou?' – Is anybody dead? Is anybody dead?"

The photograph on this page per-

absolve themselves of individual moral responsibility in any given situation, in what amounts to a sort of fatalism: "A woman in her forties told me she didn't understand the issue, because she was simply Old Hundred Names [a term to describe being a common person]. That was the best part of being Old Hundred Names – they were never responsible for anything. It was the same in any country where the citizens spoke for themselves as the 'common people', but in China

there was a much higher percentage of Old Hundred Names than in most places. Virtually everybody you met described himself as such, and none of them claimed to have anything to do with the way things worked."

China is also remarkable in another respect. A legal system is normally a capitalist prerequisite. Yet the laws don't always exist in China today. As Zhu Baoguo, the entrepreneur boss behind Shenzhen TaiTai points out: "When an economy is growing as fast as ours, much of the legislation still doesn't exist."

But where law does exist, the attitude to it is profoundly different too. Adam Williams – who was born in China and has worked there for his entire career – recently wrote a novel about the Boxer Rebellion. He says that what makes China so fascinating to him as a writer is that it lacks the sense of absolute right or wrong that has long prevailed in the West. The ramifications of this are felt in the law. "A big difference is that the grey areas of the law are seen by Westerners as a nightmare, but as an opportunity by the Chinese," he observes. Indeed, he makes this comment with the benefit of experience – having had to work on many contracts and joint ventures in China as chief representative of Jardine Matheson.

It is just this attitude – where business agreements are frequently not what they seem – that causes foreign companies trouble in China. A classic case is an Asian company that thought an investment in LPG plants on China's coastline would be a sound proposition. "We were given assurances no competing plants would be built by state authorities," an executive at the company recalls. "But while we were building ours, we discovered there were three to four other plants being built at the same time. We complained. We had the best and brightest people from a top international oil company running this plant, and were producing very good LPG. The other plants started to play a different ball game. They underfilled gas cylinders, which we could not do for reputational reasons. They produced very low grade gas and called it high grade, and when we told the authorities, it turned out the local government guys were being paid off by our competitors. We were then harassed for minor infringements. So we have been looking

to sell and hopefully get back half of what we invested."

**O**r at a more micro-level take the example of a Hong Kong-based couple who bought a Beijing apartment in 1995, and are still caught in the no mans land of China's legal system. That's because the developer of the property went bankrupt and thus couldn't pay taxes. The tax authorities then thought if the developer couldn't pay it would go after the buyers of the apartments via the courts. That may not sound very logical but the couple says the case is still in court. The apartment is currently a dead asset. The couple cannot rent it, nor can they sell it since they haven't been given an ownership permit.



"It is robber baron days in China for sure" says the husband, who works at a bank. "The question is will it ever end? Without a functioning legal system, my verdict is no."

**I**n a society where attitudes to law and morality are unstable – and then you add a 'law of the jungle' market economy – it is no accident that corruption has become such a major problem today. It is so prevalent that when this month the central government in Beijing announced at the National People's Congress that it would rebate Rmb10 billion to farmers, the Finance Minister, Jin Renqing conceded that he feared the money would simply end up in the hands of corrupt rural officials.

Corruption has knock-on effects. If farmers are indeed feeding their livestock dangerous steroids, it should be stressed

that rural corruption is partly to blame. Local governments are constantly imposing arbitrary levies on farmers. "For example," said one Shanghai-based journalist "farmers who raise cows are often forced by the local government to receive 'guidance' or 'training' from certain government agencies. The agencies then collect a fee."

Farmers might then be told a barn is an "illegal structure" and fined Rmb1000. Where to recoup the money? Cutting corners on the quality of their agricultural produce is the most obvious course. And if they do harm to someone's health through their excessive use of steroids, how can they be blamed? They are only one of the Old Hundred Names after all, and the system is not of their creation.

The short-termism gets worse for the farmer because local government's have become adept at selling their land for a profit and thus terminating their livelihood.

In a recent article in the *South China Morning Post*, it cited the example of Fu Xiurong, a 56 year old woman from Nanyu village in Hebei province who used to have 0.53 hectares of arable land, and has lost 0.47 hectares due forced sales made by local officials. Roads, a vegetable market and a residential building now stand where her wheat and corn used to grow. She was given minimal compensation while the local government made handsome profits from the land sales.

In circumstances in which your land could be taken any day, why plan for the future? Better just make as much money as possible and save for the day when your land will possibly be taken.

More positively, the central government has woken up to the plight of the farmers in recent months. The Ministry of Land and Resources has ordered local authorities to grant hearings to collective farmers whose land is taken without their consent. The latest National People's Congress also enshrined the rights of private property in the constitution.

As if the situation in China was not complicated enough, there is an added layer of complexity that makes Roosevelt's America appear a staggeringly simple society in comparison. This revolves around the consequences of the one child policy – one of mankind's most ambitious pieces of social engi-

neering. The first generation of brotherless and sisterless children are just going through the university system and are about to enter the workforce.

*FinanceAsia* has written a previous cover story on the consequences of the one child policy ('A nation without brothers', March 2000) and it is still a speculative subject. However, anecdotal evidence suggests that this new generation of 'little emperors' is more selfish than previous generations, with parents more likely to spoil their single child. On the more positive side, these children are likely to be better educated since parents have been able to invest more in the education of the one child, instead of spreading resources among many.

But if you do believe – as many Chinese sociologists do – that the one child policy has produced a more selfish generation, one must surmise that it will aggravate China's already weak social fabric.

Much about the one child policy involves speculation. But it is factually possible to state that the one child policy has dramatically altered nature's intended ratio of boys and girls. According to Francis Fukuyama the ratio of boys to girls is 117 to 100. "By the second decade of the 21st century," he writes in his book *Our posthuman future, consequences of the biotech revolution* "China will face a situation in which up to one fifth of its marriage age male population will be unable to find brides. It is hard to imagine a better formula for trouble, given the propensity of unattached young males to be involved in activities like risk-taking, rebellion and crime."

A part from this particular – and serious consequence – Fukuyama is also worried about how scientific advances will allow humans to create 'designer babies' – a situation where parents are able to choose to genetically enhance their child's intelligence, height and so forth. In the West, there are ethical concerns about going down this path, but in Asia, and China in particular, Fukuyama sees fewer ethical obstacles: "Asia for historical and cultural reasons have not been nearly as concerned with the ethical dimension of biotechnology... The Chinese government has permitted practices abhorrent in the West, such as the harvesting of organs from

executed prisoners, and passed a eugenics law as recently as 1995."

In fact, if the science comes of age, there can be little doubt that China is the natural place for 'designer babies' to flourish. With a fluid ethical-morality system, rampant competition among children for school places as well as for good jobs, and (in most cases) only one chance for parents to have a child, why – logically – wouldn't those parents try and ensure that child is as perfect as possible?

It is easy to generalise, but in discussing attitudes to the human body consider the case of Li Nianfei, 30, who

quickly, and eventually the people will be able to have their own cars just like you do in America."

Hessler's reaction? "I had a brief but terrifying vision of Fuling's traffic in 20 years."

Traffic in Beijing is already appalling. In Shenzhen there are around 700 new cars sold every day. And China is already the world's largest producer of carbon emissions.

The all-out push for GDP growth is poisoning rivers, and leading to cities covered in smog, and populations with breathing disorders. Health is an issue. SARS and Avian flu both originated in

## The one child policy has dramatically altered nature's intended ratio of boys and girls

last month won a competition held by Wuhan Zhongnao Plastic Surgery Clinic to become the China's first "man-made handsome man". According to reports, he has an ugly face, but will be made to look like Shanghai television star, Lu Yi by April when his course of plastic surgery is complete.

Of course, China's potential embrace of 'designer babies' goes beyond China's own borders in its importance and impact. Can other countries afford not to follow China if it starts producing children of superior intelligence? Could other countries allow China to monopolise this competitive edge or would they legalise it too?

Of course, this is more of a medium term dilemma for the rest of the world and assumes the technology will advance sufficiently. But based on the 'capitalism with Chinese characteristics' that is evolving it is a plausible prediction. And in the short term China's new capitalist model will also be felt in its impact on the environment.

Zhang Xin earlier pointed out that China might evolve from its current primitive capitalism to a more US-style capitalism through a rising standard of living. This is plausible.

However, what is more difficult to come to terms with is the environmental degradation that may have to take place to elevate China to that higher living standard. Hessler recalls a remark by a local inhabitant of Fuling in his book, *Rivertown* where she says: "Here in China the living standard is rising so

China. In the case of avian flu, Premier Wen Jiabao was recently quoted as saying the conditions birds were kept in were "backward" and admitted that primitive farming methods will make it difficult to prevent further outbreaks of bird flu and other diseases.

Indeed, short of some scientific breakthrough in nanotechnology or the like – which would enable us to deal more effectively with environmental issues – China's environmental problems are likely to get worse.

There are, of course, some in China who are aware of the problem. "China needs a thorough re-examination of its path of economic development and a new environmental culture," says Pan Yue, deputy director at the State Environmental Protection Administration. "We have to foot the bill for damage to the environment for the past 20 years in pursuit of fast economic growth. The longer we delay tackling the problem, the costlier the remedy."

China's leaders may acknowledge among themselves that a catch-22 situation exists. They know the amoral, law of the jungle-style capitalism that China exhibits today is not desirable. They know that to evolve into a US-style capitalism, China will have to get richer and raise living standards. But equally they probably concur with Pan Yue that the environment may not be able cope with such breakneck growth for a further 20 years.

In the meantime, be careful what you eat next time you are in Beijing. FA