China: From Mao to the market

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Peter Main surveys the changes going on in China which are propelling it forward both economically and politically - but where is it going?

In December 1978, the 11th Congress of the Chinese Communist Party (CCP) adopted a programme of economic reforms which brought to an end an internal factional conflict that had racked the party for more than 25 years. The reforms signalled the victory of Deng Xiaoping who had only recently returned from internal exile but was now recognised as the ?paramount leader?. Before turning to the consequences of the reform programme, we begin with a brief overview of the changing strategies of the CCP since the seizure of power in 1949 and the issues that had divided the leadership for so long.

Unlike VI Lenin, who famously proclaimed, ?We shall now proceed to construct the socialist order? when the Bolsheviks seized power in 1917, Mao Zedong came to power at the head of a party committed to ?a policy that is concerned with private and public interests, that benefits the bosses and workers, that encourages mutual aid between our country and foreign countries in order to develop production and bring prosperity to the economy?.1 Put briefly, the party had a ?popular front? programme that envisaged the capitalist development of the country under a governmental alliance between the CCP and the ?patriotic bourgeoisie?, those who had not sided with Chiang Kai-shek?s Nationalists in the latter stages of the civil war. In keeping with JV Stalin?s ?stages theory?, it was held that socialism would only be possible after capitalism had developed the productive forces to the necessary degree.

However, between 1951 and 1953, in the context of the Korean War, economic blockade and massive US aid to Chiang?s forces which had occupied Taiwan and were renewing their links with the bourgeoisie and landlords still in China, the government found it necessary, both politically and economically, to impose more and more restrictive measures upon its erstwhile allies. By 1953, through legally imposed fines that amounted to expropriation, it had effectively nationalised all modern industry and communications that had been in private hands. In the countryside, land reform eradicated the landlords as a class. In order to protect the national economy from being undermined by the importation of cheap foreign goods, and to prevent the development of any political ties via international commerce, a state monopoly over foreign trade was also established.

Economic development would now take place in accordance with centralised planning, largely based on the model of the Soviet Union. As in the USSR, a privileged bureaucratic caste excluded the working class from establishing the priorities and methods of economic development under planning. Consequently, despite the defeat of the capitalists, the road to socialist development, by which Marxists mean the development of a society based on democratic planning and the political rule of workers? councils, remained blocked. On the contrary, the new political and economic regime increased the power of the Communist Party and consolidated it as an absolute barrier to working class emancipation and, therefore, any development towards socialism in China. As in all essentially Stalinist states, the road to socialism
could only have been opened by the revolutionary overthrow of the Communist Party's dictatorship.

Thus, China was, in Trotskyist terminology, a degenerate workers' state.

The next 25 years were characterised by a permanent conflict between two wings of the party leadership. One of these favoured an economic policy that would allow a relatively free market in agricultural and light industrial goods, reminiscent of Nikolai Bukharin's programme in the mid-1920s in the Soviet Union, while the other, led by Mao Zedong, feared that this would undermine the party's dictatorship and favoured a greater emphasis on centrally planned industrialisation, supported by mass mobilisation, clearly modelled on the experience of the first five year plan in the Soviet Union.

The effects of these inner party conflicts could be seen in the violent zigzags of official policy. The initial adoption of planning was actually followed by three years of relatively benign tolerance of the market which were then followed by the political relaxation of the Hundred Flowers Campaign. That, however, encouraged anti-bureaucratic political currents and, in the aftermath of Nikita Khruschev's denunciation of Stalin, an abrupt change of line led to political repression and then the mass mobilisations of the Great Leap Forward. Within two years, that ended in economic disaster and widespread famine in the interior and was itself followed by a return to a greater reliance on market forces, especially in the countryside. Thereafter, the equally misnamed Great Proletarian Cultural Revolution of the 1960s marked Mao's attempt to mobilise the masses against his opponents in the party. When workers in Wuhan took up his call to 'bombard the headquarters'? all too literally, their rebellion was crushed by the People's Liberation Army (PLA) which, from then on, played a central role in directing industry.

By the 1970s, the resultant of these bureaucratic struggles was a planning system that was never as centralised as in the Soviet Union but in which heavy industry was seen as the priority sector and production targets were established by the plan which also regulated exchanges between producers. The prices of goods were also set by the planners. In agriculture, production was organised by the People's Communes, which were essentially local government, in accordance with centrally established targets.

Even before Deng Xiaoping initiated the market reforms which fundamentally altered the direction of development of the Chinese economy, China's leaders had recognised the need to turn away from the virtual economic autarky that had characterised the last 10 years of the rule of Mao Zedong. At that time, foreign trade was worth approximately 5 per cent of GDP and constituted less than 1 per cent of all international trade. Within months of Mao's death in September 1976, a new leadership, under Hua Guofeng, was proposing a 10-year economic development plan that was to be paid for by increased foreign currency earnings. The plan itself had a characteristically Stalinist emphasis on giant projects to develop heavy industry using the latest technology imported from the West. This was all to be paid for by increased exports, particularly of oil and petroleum, production of which had been increasing steadily by 15 per cent per year for the previous decade. This emphasis on finding a route to rapid economic growth through foreign trade led to the plan becoming known as the Great Leap Outward.

At the same time, a significant degree of political relaxation and a rationalisation of industrial projects that had been initiated, but not completed, during the Cultural Revolution also contributed to a significant increase in production. The overall effect was to increase the growth rate in Net Material Product from an average barely above 4 per cent between 1970 and 1976 to a little over 10 per cent in the period 1976-78. Encouraged by such figures, negotiations with foreign suppliers for a total of $40 billion worth of imported technology, prioritising steel mills, power plants and fertiliser plants were opened. However, as with its predecessors both in China and in the Soviet Union, over-optimistic and voluntaristic targets and projections began to proliferate while, at the same time, the prospects for foreign exchange earnings in the oil industry became steadily less optimistic; despite extensive exploration and test drilling, no major new
reserves were located.5

By mid-1978, having already committed themselves to $7 billion worth of contracts, the leadership was faced with a looming balance of payments crisis. Their dawning realisation that the plan could never be implemented and that, therefore, their own prospects of maintaining a grip on political power were bleak, was the backdrop to the decisive meeting of the leaders of the CCP, the ?Third Plenum? of the 11th Central Committee in December 1978.

This was the meeting that effectively established Deng Xiaoping as the ?paramount leader? and adopted the ?reform? programme that was aimed at stimulating the economy by a greater reliance on market incentives. The actual proponent of the plan was Chen Yun, a veteran economic policy leader who had also overseen economic salvage operations after the Great Leap Forward and the Cultural Revolution. The measures introduced were not entirely novel. In the industrial sector, plans to encourage efficiency and productivity by extending greater autonomy to plant managers had also been tried in the Soviet Union some 10 years earlier but had proved insufficient to overcome the inertia of bureaucratic planning; much the same fate awaited the Chinese version. In the agricultural sector, the decision to reduce the percentage of the crop compulsorily delivered to the state, while increasing the ?procurement prices? paid by the state and allowing a free market for all other produce, echoed both the New Economic Policy of the Soviet Union in 1921 and the measures introduced to overcome the famine that resulted from the Great Leap Forward in China in 1962.

KEY PLAYERS

Whether or not Deng Xiaoping, Li Xiannian and Chen Yun, the key players in the new leadership, were already at that time consciously committed to the restoration of capitalism cannot be known, but the policies adopted over the subsequent decade and more suggest not. What is clear, and in keeping with their character as Stalinist bureaucrats is that they had one goal from which they never, ever, wavered: to retain political power in the hands of the CCP, irrespective of the class character of property relations in China. The continuity of the party regime, however, should not be allowed to obscure a clear perception of the changing social content over which the regime ruled.

The ?reforms? introduced in the late 1970s and implemented throughout the 1980s were not intended to dismantle the planned economy but, on the contrary, to provide rapid inputs and stimuli that would strengthen and dynamise it. However, the cumulative effect of the reforms was to develop a parallel economy, not subject to the plan, which rapidly developed a life of its own principally because it was able to provide goods and services that the overemphasis on heavy industry and the bureaucratic planning of agriculture had long denied the Chinese people. As this sector grew, so it laid the basis for further experimentation, further relaxation on the controls over markets and entrepreneurs and greater preparedness to use to the resources of the planned sector to promote its growth.

Inevitably, as market forces were strengthened and began to distort and undermine the coherence of the planned sector, this stimulated political activity and an increasingly public discussion over the future direction of the country. Any such discussion constituted a direct threat to the dictatorship; indeed, it was technically illegal since the Constitution itself laid down the leading role of the party. As a result, even though the Democracy Movement was so widespread that its influence reached right into the upper echelons of the bureaucracy, its existence was intolerable for the leadership as a whole.

The breaking point came at the end of the 1980s when the student protest in Tiananmen Square began to attract active support from newly formed workers? organisations both in Beijing and further afield. The Tiananmen Square massacre, and the countrywide repression that followed it effectively wiped out any political opposition and reinforced the party?s dictatorship. Once this had been secured, however, the
leaders changed their overall strategy and decided to eliminate the remnants of the planned economy while maintaining their dictatorship, but now over a capitalist China.

THE CAPITALIST ROAD

That the reform programme initiated in 1978 would entail the development of capitalist elements within China was well enough known to those who took the decision. Deng himself had been famously denounced as a ‘capitalist roader’ by Mao Zedong because of his support for market reforms in the 1960s. His equally famous retort that it did not matter if the cat was black or white so long as it could catch mice, perhaps accurately expressed Deng’s equivocal attitude to the defence of post-capitalist property relations. Although he understood that economic growth was an imperative, his primary objective at all times was to maintain the party’s hold on power. His ‘reforms’, however, did not only involve the re-emergence of capital and capitalists within China but also encouragement for the return of the Chinese bourgeoisie and an invitation to capital based in the imperialist metropoles.

At the beginning of this ‘reform’ period, virtually all imports and exports were channelled through the state’s foreign trade companies, with oil the single biggest item for export. Between 1978 and 1985, exports of crude oil and refined petroleum trebled to 36 million tonnes, worth some $6 billion. This, however, marked the high point and exports declined in both volume and value thereafter. This was in part because the domestic economy was being restricted by the volume of exports that had taken 98 per cent of all increases in oil production since 1978.7

Other primary products, that is, non-manufactured goods such as bulk foodstuffs, tobacco, minerals and animal and vegetable oils, which were also controlled centrally, together with oil, accounted for more than 50 per cent of all exports in this period, a continuation of the pattern established in the 1960s. After 1985, this pattern changed with a steady increase in the importance of manufactured goods which, by 1991, accounted for over 77 per cent of all exports by value.8 The significance of this is that manufactured goods were increasingly produced outside of the centrally planned economy either in the Township and Village Enterprise (TVE) sector or the Special Economic Zones (SEZs). Moreover, although these goods were still marketed by state authorities, a policy change in 1984 had allowed the creation of new foreign trading companies at provincial and municipal level and, because these were essentially autonomous bodies, this effectively removed the goods under their control from the centrally administered foreign trade plan. One immediate effect of this change was to accelerate the consolidation of a pricing regime determined by competition on the world market. A second was to put growing volumes of foreign currency earnings at the disposal of agencies which were difficult to control from the centre.

The Township and Village Enterprise (TVE) sector is the name given to the initially small-scale firms that grew out of the Communes’ workshops and small factories. At the beginning of the reform period there were some 28 million of these. Most provided support to agriculture in the form of farming tools, food processing, household goods, clothing and footwear, but Mao’s policy of decentralisation meant that some operated on a larger scale such as hydroelectric power generation, metalworking and cement production. They were officially classified as state-owned and had access to state resources but were not included within the planning system.

FARMING

The effective return to family farming after 1978 had major implications for this sector. Local officials were encouraged to continue making use of resources to ‘aid agriculture’ and the steady increase in peasant income, together with the increase in marketable produce, stimulated the development of such workshops into more dynamic enterprises. The combination of rising demand for farming and household goods, food processing, construction materials and transport, together with access to cheap credit either from state
banks or from the Rural Credit Co-operatives, and wage rates less than 60 per cent of those in the industrial sector, ensured rapid growth. Some idea of the context in which this growth took place can be gained from the proliferation of rural markets from 38,000 in 1980 to 67,000 by 1993.9

Economically, the significance of the TVE sector was that, despite their officially collectively-owned character, these enterprises increasingly operated as capitalist firms which both accumulated capital and established market prices for many goods across China, including many that entered into the planned sector. By 1996, there were 135 million firms in this sector and their proportion of GDP had increased from 6 per cent in 1978 to 26 per cent of a hugely increased total by 1996. In that year, ?collectively owned? TVEs employed 60 million workers, approximately 50 per cent of the total, with the remainder self-employed or in ?household and private? firms. Since then, however, overt privatisation has reduced the ?collectively-owned? share to 10 per cent.10

This, therefore, was the sector out of which developed a new capitalist class within China. Although they undoubtedly benefited from their origins in the state sector and from privileged treatment from local state and party officials, for the last decade and more these capitalists have had to hone their business skills in order to operate not only on the wider national market but also internationally. Particularly in Guangdong they have become an important conduit for Hong Kong capital seeking to invest in the mainland.11

SPECIAL ECONOMIC ZONES

Like other elements of the reform programme, the creation of SEZs, that is, geographical areas within which foreign capital was allowed to operate and the laws governing economic activity elsewhere in China did not apply, were not a uniquely Chinese idea. In fact, what were referred to as ?concessions? to earn foreign currency, technology and know-how were part of the economic programme of the Left Opposition in the Soviet Union in the 1920s, although in that programme the need to maintain the state monopoly of foreign trade was certainly insisted upon (alongside democratic planning, and the revival and political rule of workers? councils, i.e. soviets). More immediately, what became known as Export Processing Zones had been established by a number of other Asian countries; ironically the first was in Taiwan.

The first four SEZs in China were situated on the coast close to Taiwan and Hong Kong. Apart from the obvious geographical advantage of easy import and export, the locations were strategically significant because they were consciously intended to facilitate investment from Taiwan and Hong Kong. Although the capital attracted from these sources is referred to as ?Foreign Direct Investment? (FDI) it is politically essential to recognise that this was an invitation to the Chinese bourgeoisie to return to the mainland. The development model for the SEZs was that investors would be expected to import their own raw materials and production facilities and what they produced would be exported. The SEZ authorities provided the infrastructure and energy requirements and, of course, the labour, at attractive rates. These arrangements confirmed the intention, at this time, to maintain a strict demarcation line between the SEZs and the mainland economy.

Particular mention should be made of Shenzhen in the province of Guangdong, the SEZ closest to Hong Kong. From the start, it was intended to be more than a simple manufacturing enclave, and would include housing, shopping facilities, leisure provision and tourist attractions aimed at attracting visitors from Hong Kong. It covered an area of nearly 330 square kilometres while the other three SEZs did not add up to 10 square kilometres between them. Trade between Guangdong and Hong Kong was already well-established and the provincial authorities had lobbied for the creation of such a zone even before the national turn towards market reforms. In other words, it was in this region that the Chinese bourgeoisie had managed to establish (perhaps retain would be more accurate) a foothold and were already able to influence central government policy. The longer-term significance of establishing the zone on this scale
was that, once it became established, it exerted a powerful influence over the rest of the province, pulling in labour, for example, not only to work in production but also in the construction and service sectors needed to maintain and extend the zone itself.

In their first four years of operation, the SEZs were not particularly successful. However, their potential for attracting FDI, much of which could be retained locally, was not lost on the authorities in other provinces and cities. It is perhaps significant that the ensuing policy debate over whether to extend the rights and powers of the SEZs, and to increase their number, was settled in 1984 by a visit to Shenzhen by Deng Xiaoping, who pronounced the city a success. Following this, new SEZs were established and similar rights were extended to 14 ?open cities? including, very importantly, Shanghai, historically the country?s primary trading port.

Proponents of the export led strategy had argued that the SEZs? slow development had been caused by a combination of limited size and their continued lack of credibility in the eyes of potential investors. The results of this change of policy appeared to confirm their views. Actual FDI, which had amounted to some $1.4 billion in 1984, rose to $2.2 billion the following year and by 1992, the last year of the reform phase, reached $11.2 billion.

FOREIGN DIRECT INVESTMENT

There were two main sources of this capital during the reform phase: the targeted overseas Chinese of Taiwan, Hong Kong and Macau who provided some $2-3 billion per year until 1991 after which there was a rapid increase to some $9 billion in 1992, and the three main imperialist blocs, the US, EU and Japan who, between them, were responsible for approximately $1 billion per year. In other words, the capital that was exploiting cheap Chinese labour was not, for the most part, from the major imperial powers. It was primarily from the Chinese diaspora, that is to say, those elements of the Chinese bourgeoisie based outside of the country.

This steady increase in investment had a considerable impact on production and output. Exports from Foreign Invested Enterprises (FIE?s), which had previously been negligible in China?s overall foreign trade, accounted for 1.1 per cent in 1985. By 1988 they had reached 5.2 per cent and by 1992, had risen above 20 per cent. Moreover, by that year they accounted for 60 per cent of the annual increase in manufactured exports. For a government committed to an export-led development strategy, it was by now clear that this was a sector which could, as it were, produce the goods. At the same time, it should be noted that the importance of FDI was not that it was the only source of funding (China?s domestic savings rate was high enough to cover the costs of investment) but that it was the only route to new technology, advanced management techniques and an understanding of foreign markets and their requirements. Lastly, we should again note that, despite their categorisation as ?foreign?, most of these enterprises were owned by the Chinese bourgeoisie.

By 1992, the overall impact of the expansion of the zones and the ?open cities? was clear to see. The total population within the zones was now 160 million, approximately the combined size of France and Germany. Because all the zones were still located along the coast, they were effectively an economic entity in their own right within which strict demarcation lines between different categories of enterprise, joint ventures, FIEs, TVEs and even state-owned enterprises came to be more honoured in the breach than the observance.

As a result, although there were still extremely important inputs from the planned sector of the economy, for example, materials for the construction and civil engineering industries, power and some port facilities, relations between different firms were increasingly market relationships. Necessarily, the development of what were, for all their imperfections, essentially capitalist firms, also meant the development of a class of
capitalists and a layer of increasingly skilled managers who were closely integrated into the trading systems dominated by the Chinese bourgeoisie in Taiwan and Hong Kong.

Importantly, however, the role of the party remained central. Party secretaries were the key figures in facilitating developments, easing bureaucratic obstacles, ensuring credit facilities from state banks and so on. This meant that the state had direct linkages throughout this sector that gave it the potential to insist on its priorities should developments threaten them. The emergence of mainland-based firms which illegally exported capital to Hong Kong, or tax havens such as the British Virgin Islands, in order then to reinvest in China with all the advantages allowed to foreign capital ( round tripping?) underlines the increasingly sophisticated linkages between the coastal provinces and overseas business interests, mediated by the émigré Chinese bourgeoisie certainly but undoubtedly with the connivance of senior party figures, at least at provincial level.

Because firms could retain a percentage of the foreign currencies they earned, but still had to trade internally with the national currency, the yuan, unofficial trading of foreign exchange for yuan soon developed on a large scale. In order to gain some degree of control, Beijing allowed the creation of swap centres?in 30 towns and cities to facilitate currency exchange and, because the yuan was officially worth much more than it could buy internationally, the centres created an unofficial, but more meaningful, exchange rate.

**IMPACTS OF REFORMS**

By the late 1980s, then, the reforms related to foreign trade had played a major role in weakening the three essential and interlinked features of China?s post-capitalist economy: state ownership of large scale industry, its subordination to planning and the state monopoly of foreign trade.

Where there had previously been no significant area of production that was privately owned or autonomous from the state, there was now a thriving and increasingly integrated capitalist sector alongside and, to a great extent interpenetrated with, the planned sector.14 By definition, production in the SEZs, FIE?s, TVEs and the small, but growing, private sector, took place outside of the plan but that did not mean that it was entirely separate from production in the planned sector. On the contrary, precisely because planning priorities were subordinated to the political priorities of the state and the state was committed to the export-led development programme and support for the new enterprises, production in the planned sector was increasingly skewed towards their needs. The increasing autonomy granted to the managers of the state-owned sector also encouraged them to make their own deals, especially with TVEs. Lastly, the state monopoly of foreign trade, whose maintenance was essential to allow the national economy as a whole to be developed in accordance with political priorities rather than be dominated by the international law of value, had practically ceased to exist for the most economically advanced parts of the country.

The existence of two mutually incompatible economic systems naturally led to gross distortions, not to mention opportunities for corruption and nepotism. Dual pricing systems, dual foreign exchange systems, local investment decision making alongside central planning directives, all generated conflicting interests and, therefore, conflicting views over the future direction of policy. In short, the effects of the reforms provoked a public political debate that could not be contained within the ranks of the party. This was the origin of the Democracy Movement that grew from the mid-1980s and penetrated into almost every corner of Chinese society. The suppression of that movement, initially, and most dramatically, in Tiananmen Square but more widely and systematically in the countrywide repression that followed the massacre, made clear the limits that the party would tolerate and the lack of a coherent political opposition.

For two years, China?s economic life appeared to have been thrown back as the leadership, headed by Li
Peng, used not only the repressive apparatus and the ubiquitous party machine to hunt down and suppress dissent but also the still considerable economic levers of the state sector to drive down inflation, restore price controls and dictate procurement and distribution. On the face of it, the new emphasis indicated a victory for those elements in the party and state who had been reluctant to support the whole reform programme and now saw an opportunity to restore heavy industry and the state sector in general to pride of place. However, this could no more solve the problem of increasing export earnings or accessing new technology now than it could in the 1970s. Behind the scenes, the evident ability of Beijing to restore order encouraged a resumption of investment from Taiwan and Hong Kong, although it remained low from the imperialist countries. By 1991, as the rapid increase in investment from Hong Kong, Taiwan and Macau already referred to shows, a new surge in economic growth was gathering pace, inevitably in Guangdong.

Once again, it was a visit by Deng Xiaoping during his ?Southern Tour?, in which he praised the successes of Shenzhen and declared that getting rich was glorious, that signalled the top leadership?s decision not only to maintain the reform programme but to use their strength and monopoly of state power to dismantle the planned economy and consciously restore capitalist property relations.

The formal change of policy came at the 14th Congress of the party in October 1992 when the proponents of the new policy succeeded in removing their conservative opponents from the leadership, purging fully one third of the membership of the central committee in the process. This Congress marked the qualitative change in the character of the state in that, from this point on, the dismantling of the planned economy and its replacement by capitalism was a conscious goal. Although the fulfilment of that policy required several years of preparation, since the state is defined by the class whose property interests it defends and promotes, from then on, the Chinese state can only be understood as a bourgeois state.

Although Deng Xiaoping remained in the background as the ?paramount leader?, political leadership now passed to the party General Secretary, Jiang Zemin, and his head of economic policy, Zhu Rongji, who later became President and Premier respectively. Clearly, the new programme of the CCP could not openly be declared as the restoration of capitalism. Instead, it was presented as a new road to socialism, the ?Socialist Market Economy? also sometimes referred to as the ?socialist commodity economy?. In a Central Committee resolution the following year, Jiang himself defined the objective as ?enabling the market to play the fundamental role in resource allocation under macro economic control by the state?. If we try to make sense of this self-contradictory formulation, in which, although resources are allocated by the market, nonetheless there is macro-economic control by the state, we are reminded of Leon Trotsky?s observation that the Stalinists of the Soviet Union made the mistake of identifying themselves with the revolution. In the case of China, Mao?s successors have identified ?socialism? with the continuation of their own rule. The real content of the formula, therefore, is ?capitalism under one-party dictatorship?.

WORLD TRADE ORGANISATION

If the reform period from 1978 to 1992 was one in which increasing openness to the world market led to the internal transformation of China, the decision to restore capitalism opened a period in which China?s development began to transform the world economy. Although the consequences of economic reforms within China were obviously a major factor in the decision of the 1992 party congress, so also was the international context. The years after the Tiananmen massacre also saw the collapse of Stalinist rule in the Soviet Union and Eastern and Central Europe. To varying degrees, popular democratic movements, reminiscent of the Democracy Movement in China, challenged the one-party dictatorships and, once it was clear that there would be no intervention from Moscow to prop up unpopular regimes, those Stalinist dictatorships were doomed. In their place, pro-capitalist forces, backed up by the Western powers and institutions such as the IMF and World Bank, set about the immediate dismantling of planning and the
privatisation of state assets. This "Big Bang" policy led to an immediate collapse of production as supply lines were disrupted, factory managers sold off stock for whatever price they could get and then laid off workers as funds ran out. The conclusion drawn in Beijing was that the maintenance of political power required a controlled restructuring of the economy in which the large-scale industrial economy of the state sector would be turned into a range of autonomous industrial trusts, and these would, eventually, function as capitalist corporations.

Internationally, the collapse of the Soviet bloc left the USA as an unchallenged superpower. US imperialism responded by taking every advantage the new situation offered. American capital forced country after country to relax protectionist barriers such as import quotas or tariffs and "globalisation" entered the international political vocabulary. Given that the 1990s were also the decade in which the Chinese export trade, particularly to the USA, became an important factor in the global economy, it would be tempting to assume that these were just two sides of the same coin, a classic example of the Leninist model of imperialism in which US imperialist finance capital earned its super profits from the exploitation of the semi-colony, China. However, the proposition that global capital simply profited from the sudden availability of cheap labour obscures as much as it reveals.

Although at a very high level of abstraction it is possible to think in terms of "global capital" and "global labour," any degree of concretisation necessarily has to recognise that this global capital has to be disaggregated into actually existing capital which turns out to be based within the territories of particular states and those states are either imperialist or, generally speaking, semi-colonial. As we shall see, in the case of capitalist investment in China in the 1990s, the great bulk of it did not originate in the imperialist states and, therefore, China as a new source of superprofits did not play a prominent role in the fortunes of the imperialist states at that time.

Despite the obscure terminology, Beijing's declaration that its goal was now the creation of a "socialist market economy" was immediately understood by capitalists, both in China and abroad, as a signal that the opponents of further market reforms had been defeated and that, in time, even the industrial heart of the economy would be "marketised." This strengthened the flow of FDI which, as we have seen, had already begun to pick up in 1991. In that year, China received some $4.3 billion, representing just over 37 per cent of all capital inflows. (The bulk of the remainder, some $6.8 billion, was accounted for by low-interest loans from international institutions such as the World Bank.) In 1992, this rose to $11 billion (57.3 per cent) as investors responded to the carefully controlled flow of leaks indicating what the party Congress in November would decide. In 1993, the figure leapt to $27.5 billion (70.62 per cent, note the declining significance of loans). Although the lion's share continued to go to Guangdong, the CCP now began to relax controls on investment so that by 1995 all parts of the country were "open" and, for the first time, foreign investment was encouraged into new sectors such as real estate, power generation and retailing.

Although direct investment from the main imperialist powers did increase during the 1990s, the major sources remained the overseas Chinese of Hong Kong and Taiwan as well as in Singapore and Malaysia. Again, "round-tripping" accounts for much of this "imported" capital, especially the remarkably high level of investment in China from, for example, the British Virgin Islands.

While the big multinational corporations were attracted to China as a potential market, Chinese investors from Taiwan or Hong Kong were more concerned to transfer their own production facilities into mainland China to take advantage of cheap labour, a very relaxed regulatory regime and attractive tax breaks. For Hong Kong, which was by far the biggest source of investment, transferring production over the border was not only simple but essential because its own success as a low-wage economy had outgrown itself.
By investing in joint ventures in the TVE sector or the SEZs, Hong Kong businessmen could use their existing international trade links and develop their own capacity for more skilled specialisms, such as design, marketing and financial services, while greatly lowering production costs.

Within China, these developments ensured continued expansion of the TVE sector for some years at least. This was important because the sector continued to soak up surplus labour from agriculture where productivity had stagnated since the mid-1980s. By 1995, TVEs are thought to have employed 128 million people. However, this proved to be the high point because, as more capital flowed in, the sector inevitably became less labour-intensive. Competition between firms and between municipal and provincial authorities kept costs low so that to prosper firms had to increase the scale of production. As in any capitalist cycle of development, machinery began to replace labour. It is also significant that the 1990s saw a steady growth in the number of officially registered wholly private firms, from 90,000 in 1990 to 1.76 million by the end of the decade. These firms did not have any of the institutional advantages of the TVE sector. For example, credit was difficult to obtain from the state banks so the wholly private firms necessarily had to source investment from retained profits or through informal channels; their growth shows that this was increasingly possible.

By 1997, this ‘natural’ cycle of capitalist development began to lead to bankruptcies in the TVE sector. This coincided with major changes in the state-owned sector which, over the next four years, shed some 27 million jobs. This marked an important stage in the ‘capitalisation’ of this sector as the number of enterprises was slashed from 262,000 to 159,000. Although the commitment to breaking up the planned sector, covering, for example, heavy industry, power generation, mining and the oil industry, had been made in 1992, Beijing had been careful to avoid the kind of collapse experienced in the Soviet Union. Perhaps paradoxically, the announcement that the sector was to be broken up into autonomous corporations led to a rapid increase in investment and output. The explanation for this was that at every level managers and officials wanted to build up ‘their’ plants in anticipation of future ‘privatisation’.

Because of the close links between state-owned industry and state-owned banks, mediated, as ever, by the party officials, they found little difficulty in securing credit to expand their facilities. In keeping with the norms of Stalinist economic planning, the only way they knew to increase production was to build new capacity and take on new labour. As a result, the state sector expanded throughout the mid-1990s, with an increase in employment from 73 million in 1990 to 76.4 million by 1995. The other side of this particular coin was that the state banks were saddled with an ever-increasing volume of ‘non-performing loans’.

The combination of closures in both the TVE and the state-owned sectors led to serious social unrest. In 1994 labour disputes had involved 77,794 workers; in 1997 this almost trebled to 221,000 workers; the following year it jumped again to 359,000.
An even more severe shock was looming on the horizon. The South-East Asia crisis was triggered by the collapse of the Thai currency but rapidly spread to other economies as speculative investments were withdrawn. The crisis highlighted the inherent weaknesses of the IMF-imposed structural adjustment programmes and reliance on ‘hot money’ attracted by favourable interest rates. Such funds could be far more easily withdrawn than the FDI invested in China’s new industries. Almost overnight, companies went bankrupt, currencies plunged in value and output shrunk. This had immediate consequences for China because the supply of components and raw materials was hit, the flow of orders for assembly plants shrank and potential foreign investors decided to withhold their funds until economic prospects improved.

**YUAN VALUE**

China’s response to this crisis was instructive. Although there were widespread fears, especially in the USA, that the yuan would be devalued as a short-term measure to maintain Chinese exports, a move which would have exacerbated the international effects of the Asia crisis, in fact Beijing reassured Washington that the official value of the yuan would be maintained in the interest of preserving stability. Formally, the currency was pegged to the value of the Hong Kong dollar but, since that itself was pegged to the US dollar, in effect, so was the yuan.

At the same time, a huge programme of public investment aimed at providing China with a modern infrastructure was launched. This reliance on state funding emphasised the continued importance of state ownership of the heart of the industrial economy. Even though it was no longer a planned economy, state ownership of the banks and of the major industries gave the Chinese leadership economic levers that other semi-colonial countries had been required to relinquish under the terms of IMF ‘restructuring programmes’ and the so-called ‘Washington Consensus’.

At the same time, the crisis reemphasised China’s reliance not just on maintaining her exports but continually increasing them. Now, with the extra economic burden of the infrastructure programme, it became absolutely essential that a new boost be given to exports. Since 1986, China had been involved in negotiations to join the General Agreement on Tariffs and Trade, but these had been stymied by Western demands for the removal of restrictions on foreign imports. This reflected the changing balance of forces internationally. During the cold war, Poland and Hungary had been accepted into GATT as soon as they introduced piecemeal market reforms in the 1960s and 1970s, because that gave the imperialist powers a lever into the Soviet bloc. Now, much more far reaching commitments were demanded from China. These included opening all domestic markets to foreign trade, which, in the 1980s had been seen as a concession too far. Now, in the Uruguay Round that implemented the Washington Consensus, the stakes were raised even higher for countries that wished to enter GATT’s successor, the World Trade Organisation. Now, China would not only have to dismantle all controls on imports but also allow foreign access throughout the economy so that multinational corporations could establish themselves on her territory, could buy out Chinese firms and even establish themselves in the financial services industry. Moreover, Beijing would have to relinquish controls over banking, and the banks themselves would have to sign up to international standards both for their accounting and for the ratios between deposits and lending.

The list of demands was certainly daunting but had to be measured against the export opportunities that membership of the WTO would also bring. At the time, there were still important restrictions on how much China could export, for example, to the USA and the European Union. Equally, both the USA and the EU recognised that further ‘globalisation’ required the involvement of China, not least as a political counterweight to India and Pakistan, both of which demonstrated their nuclear capabilities in May 1998. In the aftermath of the Asian crisis, negotiations accelerated and China finally became a member of the WTO in December 2001.

**SINCE THE WTO**
It would be difficult to overestimate the significance of China’s accession to the World Trade Organisation and of the timing of that accession. Up to this point, Beijing had undertaken the controlled restoration of capitalism behind a protective barrier of import controls, restricted trading rights and tariffs, and had continued to use state ownership and control of both industry and banking to achieve its political priorities. This meant that, while, in the coastal provinces, what was produced, where it was produced and how it was produced was largely determined by the world market, that is to say, in Marxist terms, by the law of value operating internationally, for the whole of the rest of China, resource allocation was determined by a combination of the domestic law of value and government diktat. By agreeing to the conditions of membership established in the Uruguay Round, Beijing was not only agreeing to allow relatively free access to domestic markets for foreign goods, with tariffs to be reduced from an average of 42 per cent to 15 per cent and goods no longer to be traded solely through state-owned companies, but was also, after a relatively short transition period up to 2007, allowing foreign penetration of the whole range of commercial and financial services. In other words, accession potentially opened the entire Chinese economy to the international law of value.

In theory, that would mean that firms producing for the domestic market would now have to compete with the products of the most advanced economies, opening the prospect that such firms could either be forced out of business or be taken over by multinational corporations. On top of this, the fledgling service industries, banking, insurance, communications, property management, health services and education, for example, would rapidly become dominated by foreign capital. In other words, accepting the Washington Consensus threatened to reduce China to the status of a semi-colony, formally independent but actually dominated by the imperialist powers.

Looking at the global context in December 2001, however, brings into focus other factors which, together, constituted huge advantages for China that would reinforce those aspects of development which pointed in an altogether different direction, towards the possibility that China might herself become an imperialist power. Within the Asian region, the so-called ?tiger economies? had not yet recovered from the crisis of 1997 to 1998 and were groping towards new strategies for rebuilding their export-oriented industries. Internationally, the global economy was still mired in the aftermath of the stock market collapse of the previous year when the ?dotcom? bubble burst. The strategy adopted by the Federal Reserve, the US central bank, was to boost consumer consumption by lowering interest rates and granting big tax cuts to the middle class. This strategy had just been reinforced in an effort to counteract the slump in business confidence after the attack on the Twin Towers.

The Chinese economy benefited directly from WTO accession. As US protectionists never tire of pointing out, Chinese exports to the US, already high before 2001, have grown even faster since. Total exports rose from approximately 20 per cent of GDP to 35 per cent in the five years after accession.25 In terms of the official GDP figures, growth rose from a little over 8 per cent in 2001 to 9 per cent in 2002 and 10 per cent in 2003. The figures for the first two quarters of 2007 have gone above 11 per cent. Foreign direct investment showed the same pattern, rising from a total of $40.7 billion in 2000 to $46.9 billion in 2001, $52.7 billion in 2002 and $53.5 billion US dollars in 2003. Contrary to what might be expected, investment from the USA actually declined over those three years from $4.4 billion to $4.2 billion. In the same period, investment from Hong Kong, Taiwan, Singapore, Korea and the British Virgin Islands rose from $25.9 billion to $34.4 billion. 26

Indirectly, China’s growth also benefited not only other Asian economies but many further afield. For the Asian economies, recovery from the crisis of the late 1990s was achieved by supplying China either with raw materials or semi-finished goods which were then completed and exported as Chinese goods. In this
way they retained most of their capital intensive and highly skilled work, and outsourced unskilled and semiskilled assembly operations to China, essentially following the route of Taiwan and Hong Kong before them. As a result, investment into the 10 ASEAN countries was a record $37 billion in 2005. At the same time, China’s need for raw materials and energy has boosted economies as far apart as Australia, Latin America and Africa.

These new and growing trade patterns have given rise to the characterisation of China as the “motor of the world economy” but this is misleading. Certainly, foreign trade, expressed as a percentage of GDP, is extremely high at 64 per cent compared to, say, the USA where the ratio is 20 per cent. In value terms, China is now the third largest trading country in the world and is projected to overtake Germany in the number two slot this year. However, these figures, which total up the value of imports and exports, tend to obscure the fact that China’s trade surplus with the rest of the world has generally been quite small. Although China has run a positive trade balance for many years, this declined from 4 per cent of GDP in 1998 to a little over 2 per cent between 2001 and 2004. Since then, however, there has been a significant increase to some 8 per cent of GDP.

A recent study suggests that this is the result of the decline in imports of relatively unsophisticated products, whether destined for re-export or domestic consumption, which can now be made within China. Nonetheless, it remains true that the overall total for all foreign trade is high because of the value of China’s imports. Demand has pushed up raw material and energy prices and, although China is now able to produce more of the components for export goods, the value of imported semi-finished goods makes up most of the value of the most sophisticated export goods that have been merely assembled in China.

EXPORTS
This pattern has remained true despite major changes in the composition of China’s exports. Although China remains a major source of cheap textiles and shoes, in terms of value, more sophisticated goods such as electrical consumer durables and computers made up 43 per cent of China’s exports in 2005. Of particular importance is the increase in exports of steel products and machinery which are one result of the huge boom in productive capacity that has taken place since WTO accession. Recent figures show that capital goods now account for more than 40 per cent of total exports. In other words, China is moving up the product chain and the domestically produced content of exports is increasing except in the most highly sophisticated products, for example, in the electronics sector. It should be remembered, however, that these are the sectors in which wholly-owned foreign companies or foreign-invested joint ventures, dominate production.

In the light of this, it becomes clear that the really major change has been the integration of China into the international trading system. She has become, as it were, a conduit through which passes an increasing share of world trade, but that trade is ultimately destined for the markets of the imperialist nations, above all the USA which alone takes 21 per cent of China’s total exports, up from 17 per cent of a very much smaller total 10 years ago. This illustrates the importance to China of buoyant consumer demand in the USA and the trade itself has contributed to this. Because of the scale of China’s exports to the US, Beijing’s foreign exchange reserves, the greater part of which are in US dollars, have grown steadily since accession. Today they stand at over $1.3 trillion and a sizeable proportion has been used to buy US Treasury bonds, thereby contributing significantly to the low interest rates that have underpinned the US economy in the current cycle.

China’s development as a major capitalist economy was never simply a matter of allowing “global capital” access to cheap Chinese labour. As we have seen, throughout the three decades since the first “reforms” were introduced, the capital that flowed in ever greater volumes into China came predominantly from the
Chinese bourgeoisie in neighbouring, semi-colonial states, sometimes referred to now as the ?China Circle? or, rather more ominously, ?Greater China?. This has remained true since WTO accession. In 1999 the USA invested $37 million into the chemicals industry and this increased to $520 million in 2005. However, over the same period, FDI flows from Taiwan increased from $538 million to $2.4 billion in the electronics sector and from $28 million to $373 million in the precision instruments sector.33 By exploiting cheap Chinese wages in labour-intensive factories and then selling in the markets of countries whose own production costs were far higher, above all, in the USA, Europe and Japan, Chinese capitalists were able to reap an extra profit by selling above their own prices of production.

Naturally, a portion of that profit could be creamed off by commercial capital based in the importing countries, the most famous example of this being Wal-Mart, which reputedly imported $14 billion worth of goods from China last year, but this was not the principal benefit to the capitalist classes of the imperialist countries. For them, and they own the lion?s share of ?global capital?, the great advantage was the lowering of the cost of consumer goods and their consequent ability to hold down or even reduce the cost of labour power in their own factories. This had the effect of reducing the proportion of ?necessary labour? in the working day and allowed, therefore, an absolute increase in surplus value. It would be difficult, perhaps impossible, to quantify this effect but one estimate, from the Institute for International Economics in Washington, suggested that the ?China price? represented a reduction of between 10 and 20 per cent on costs, a saving of up to $30 billion in one year, 2003. Added to this, was the impact of the ?China price? on other producers? prices including on the $500 billion worth of goods from other low-wage economies as well as the $450 billion worth of goods from American and Japanese companies in competition with China.34

CONSTANT CAPITAL

As production in China expanded to include more sophisticated goods that could enter into the formation of constant capital, reduce turnover time and raise the speed of communications, their lower prices would also have lowered the cost of constant capital to some degree, thereby offsetting the tendency of the rate of profit to fall. However, important as these effects are, they are essentially a one-off benefit, once they have become established across the economy. Thereafter, other things being equal, these offsetting effects could be expected to decline. In this context, it is worth noting that the imperialists? economic strategists are also aware that the impact of cheap exports may not last forever ? on 16 May 2007, the Governor of the Bank of England warned that the deflationary impact of Chinese imports is ?diminishing?.

Without exploring the possibility that the ?credit crunch? resulting from the collapse of the sub-prime mortgage market in the US might dramatically reduce the demand even for Chinese goods, which lies outside the bounds of this article, the sheer success of China?s exporters sets limits to the process. Once China has become the main world producer of a particular category of goods, the ?China price? becomes the only price and Chinese producers can no longer reap those extra profits; now they must compete with each other, re-running the classic business cycle. In the globalised economy, however, the effects of that business cycle, its booms and its crises, will not only be felt locally, in China, but throughout the world.

THE WTO BOOM

The huge boost to production provided by entry into the WTO created boom conditions within China. In addition to the flood of FDI already noted, lending by state banks also rose dramatically. According to Joe Studwell, by December 2004, total bank lending had risen by 58 per cent, equivalent to $785 billion.35 The most important result was to encourage investment in new productive capacity as firms responded to the prospect of ever greater exports particularly in anticipation of the removal of import quotas on Chinese textiles in 2004. Gross fixed capital formation, as a percentage of GDP, rose from 34 per cent in 2001 to 40 per cent in 2004 and hit 50 per cent in 2005.36
Since 2004, it has been official government policy to reduce these figures and thereby reduce overall GDP growth to some 8 per cent. The complete failure to achieve these goals underlines the fact that what we are seeing is a fairly typical capitalist boom in which capacity is expanded as fast as possible in order to capture market share, irrespective of the fact that the total capacity thereby created may be far greater than the market can absorb. In such conditions, the drive to increase production pushes up the market prices of raw materials, energy and, whatever the global availability of labour might be, the local costs of wages. All of these can be seen with regard to the current boom in China.

Of particular importance is the evidence of rising wages to which both Goldman Sachs and The Economist have drawn attention. According to The Economist, wages in the all-important coastal provinces are now 2.5-3 times higher than in the Philippines and Indonesia, not to mention Vietnam. The same report suggests that, despite this, China’s exports largely remained competitive because of increases in productivity. However, Goldman Sachs has calculated that the unit labour cost in mining, manufacturing and utilities was rising at close to 10 per cent per year by 2005 and, since this takes into account any productivity increase, this means that workers have been able to drive wages up and secure a real increase in the proportion of the added value that they receive.

The scale of China’s reserves of foreign exchange, together with the importance of consolidating both markets for exports and secure sources of raw materials, has created the material base and the economic need for China to begin to export capital herself. This is clearly the most overt sign, economically, of the potential for development towards an imperialist power so it should be recognised that such exports are, as yet, on a small scale in comparison both to the totality of the Chinese economy and to the volume of capital inflows. Nonetheless, from practically nothing at the beginning of the 1990s, China’s own FDI overseas grew rapidly to a peak of $4 billion in 1994 and subsequently reached new peaks of $6 billion in 2001 and nearly $12 billion in 2005.

More recently, in January 2007, a meeting of the Central Council on Financial Affairs was told by Premier Wen Jiabao, that it had been decided that China, “will strengthen the management of foreign exchange reserves and actively explore and broaden channels and manners for making use of reserves” by the creation of a new government agency. Commentators anticipate that a reserve of $700 billion will be retained, freeing some $500 billion for strategic investment. As well as strengthening China’s investments overseas, this would also limit the potential losses involved in holding such large reserves of dollars when they are likely to decrease in value. The first fruits of this policy were Chinese investments in Blackstone, a private equity investment operation, and in Barclays, to support its bid for the Dutch bank ABN Amro. However, since both of these firms are likely to have sustained substantial losses recently in the financial markets, it would seem that there is a steep learning curve ahead for China’s investment agency.

FOREIGN CAPITAL
What then of the other side of the coin? To what extent has WTO accession allowed foreign, that is, imperialist, capital, to penetrate China beyond the export processing industries? One feature is immediately clear; FDI is now directed overwhelmingly into wholly foreign-owned firms. Previously, the emphasis was on different forms of joint ventures with Chinese owned enterprises; in the mid-1990s, these accounted for approximately 70 per cent of actually realised investment. By 2005, this had shrunk to little over 30 per cent.

In its 2005 report, the OECD noted that foreign-controlled companies accounted for 13 per cent of the domestic market. Once again, the first point to make is that there is foreign controlled? and foreign controlled?. Holdings by Hong Kong and Taiwan capital are included in this category. Secondly, though, by comparison with the export market, where foreign firms account for 55 per cent of the total and as much as
80 per cent in some sectors such as electronics, the 13 per cent figure appears small. But the figure has to be understood in context.

First of all, of course, 13 per cent of the market in a country with a population of 1.35 billion is still a very large market and, a decade earlier, the figure would have been negligible. Moreover, that share of the market is concentrated in the urban population, which has the most scope for further expansion. Secondly, under the terms of WTO accession, there are stages in the opening of China’s domestic markets, as there are for dismantling other countries’ barriers to her exports. In other words, the 13 per cent figure does not take account of the fact that those sectors, above all the service sector, where foreign competition was not yet permitted, the percentage was 0 per cent, and conversely in the sectors open to FDI it was higher than 13 per cent.

Finally, most of these restrictions were formally removed by 2007 but the impact of foreign competition will not be felt immediately because of the time it will take to establish offices, distribution networks, skilled labour and everything else necessary for a physical presence on a national scale in, for example, insurance, banking, health and education.

At present, then, the extent to which acceptance of the WTO regulations will allow China to become dominated by multinational corporations based in the imperialist countries is yet to be seen. Since those regulations were expressly designed to create an “open door” for those corporations by outlawing not only overtly protectionist measures such as tariffs and quotas but also less obvious forms of subsidy and preferential treatment, the threat of domination and subordination to semi-colonial status is very real. US capital, in particular, has continued to see China primarily as a market and under the new conditions this has begun to pay off. According to the American Chamber of Commerce, rates of return on investments in China are now averaging some 14 per cent. However, the sheer opacity of Chinese business practices and the practical obstacles to achieving dominance in such a vast country should also not be underestimated? and neither should the ability of the government and party to mobilise nationalist, indeed chauvinist, sentiment to discourage aggressive expansion within China.

CLASS FORMATION
As we approach the 30th anniversary of Deng’s first reform programme, China presents a unique example of combined and uneven development, unique both in its composition and its scale. The initial reforms allowed the development of capital within China, but strict regulation by the party ensured that the capitalist class that developed within the interior was tightly regulated and supervised. At the same time, the creation of the coastal enclaves provided a source of cheap labour for exploitation by the émigré Chinese bourgeoisie. Although this certainly enriched them, these bourgeois remained divided in their emigration and dependent on Beijing and the Communist Party for the maintenance of the conditions in which they could prosper.

The tightly controlled restoration of capitalism, while it dismantled the planned economy, allowed the retention not only of many aspects of the state control of the economy but of the political structure inherited from the degenerate workers’ state, above all the party and the security apparatus. Virtually all the most important Chinese corporations on a world scale, those intended to become “national champions” such as Sinopec, Huawei, Lenovo, Baoshan Steel, Shanghai Auto and Nanjing Auto, owe both their size and their capital base to their origins in the state-owned sector and all have retained very close links to the state and the party. Only Haier, which produces consumer white goods, appears to have been built as an independent company from its origins in a bankrupt TVE factory.

Precisely because of the party’s continuing dictatorship it is impossible to know, particularly from a distance, the extent to which the different components of a new Chinese capitalist class, which
undoubtedly exists ?in itself?, have begun to gel into a class which is conscious of its own interests and capable of formulating these into a political programme that expresses the needs of this class ?for itself?.

One recent report, however, suggests that this process is at least underway. In August, an official investigation into illicit financing uncovered the existence of an illegal banking operation based in Shenzhen. It had, reportedly, been in existence for eight years and operated in every province in the country. Just in the last year and a half, in the Shenzhen area alone, it had handled $544 million worth of transactions and its clients included state-owned enterprises and foreign multinationals. The Economist reported that a study by the Central University of Finance and Economics had shown that such banks were lending ?as much as 800 billion yuan (in the region of $100 billion) per year.?43 Undertakings on such a scale not only help to explain why Beijing has been unable to control the economy and hold down speculative investment, but suggest that China?s new bourgeoisie has already developed a significant degree of social and economic cohesion.

In other countries, where ?combined and uneven development? pitched a new bourgeoisie against a political regime based on, for example, a landowning class, it was generally true that, whatever the bourgeoisie?s ideologues? support for democratic rights or even revolution, the class itself was so weak that it generally drew back from an open confrontation with the ancien régime. Moreover, when confronted by the prospect that its own property would be threatened by the class struggles of the working class and poor peasantry, it would eventually side with even the most repressive regimes.

However, in the case of China the factors involved are different. All capitalists derive some benefit from the dictatorial power of the party but the party is, ultimately, the agent of a bureaucratic caste, not a socially-rooted class. Already, 20 per cent of the party membership register themselves as ?businessmen? and it is no secret that, at every level, party officials and leaders have made damn sure it is their sons and daughters who are the leading figures in the former state-owned enterprises which are now bidding to become major capitalist corporations. However, as we have seen, private capital has grown rapidly in China in recent years and could be expected to be antagonistic to the continued rule of a party that systematically diverts resources to its cronies and chosen corporations. Similarly, the Chinese bourgeoisie in Hong Kong or Taiwan is never likely to regard the ?Communist Party? as its party. Those in Taiwan, of course, have their own party and also the experience of wielding state power. Lastly, the imperialist powers would have every reason to dress up the destruction of potential competitors and the complete opening of the Chinese market as a crusade against Communists and dictatorship. For these reasons, any serious social convulsion in China could be expected to threaten the survival of the party in its present form and, therefore, open up the most fundamental questions over who should rule.

THE WORKING CLASS

Any development of capitalism is, necessarily, also the development of the working class and in China this has now grown to some 350 million. Although far from a homogenous class, this is a social force that has already been bloodied in class battle and, as the steady stream of reports of protests and strikes shows, has taken the first steps towards organising itself. In 2006, the Ministry of Labour and Social Security recognised 317,000 labour disputes involving some 680,000 workers, and recorded a further 130,000 disagreements into which it had intervened to prevent a dispute developing.44 A continual increase in the number of disputes, and their scale, has resulted in the proposal for a new Labour Law currently before the National People?s Congress.45

Under the party dictatorship, however, there can be no question of the peaceful development of independent working class organisations, either political or trade union. While the state sanctioned unions of the ACFTU have, on occasion, taken up workers? grievances and are still seen as possible channels for
protest and advancing workers? interests, particularly in the foreign-owned sector, their total subordination to party and state means that they cannot pursue an independent course or lead any action that might challenge the state?s priorities.

Lastly, China?s still huge peasantry, numbering perhaps 800 million, is caught up in what must be the greatest upheaval in all its long history. The initial dramatic rise in farm incomes only lasted until the mid-1980s and since then a process of class differentiation and migration has transformed life. Official figures, quoted by Harvey, suggest 114 million have moved from the countryside in the biggest mass migration in human history. The rate of urbanisation and industrialisation has also had a direct impact on peasants as provincial and city officials took their land, often without compensation. Reportedly, the majority of the 87,000 officially recognised public protests in 2006 were in response to such land seizures. Such developments also underline the close proximity of the countryside to the cities in much of China. There are, of course, still distant and isolated areas but the overwhelming bulk of the population is concentrated in the great river valleys and these are far more open to urban influence than in the past. Just the scale of internal migration ensures, in the age of the mobile phone, that much greater contact is maintained between the urban and rural populace.

The pace of change in the countryside will, if anything, accelerate under the impact of WTO accession because opening China to foreign produce is forcing a dramatic shift in what is produced and how. Prior to accession, Chinese agriculture earned some $5 billion from exports; in 2005 the OECD reported a net cost of imports of $11 billion. Already, 30 per cent of pork, and 70 per cent of poultry, production is carried out by ?specialist? commercial operations, rather than traditional farms. Further capitalist development will promote the consolidation of land; at present the average farm is just 0.65 hectares and even that is spread over several plots.

Villages and towns

Politically, the village always follows the town and the peasantry in China provided the social foundation of the Communist Party?s regime, as well as the great bulk of its military forces. Now, however, the peasantry?s internal differentiation and dislocation, and its constant clashes with party and state officials acting on behalf of vested interests, must place in question its continuing automatic loyalty.

The restoration of capitalism, then, has unleashed forces which are reshaping the structure of Chinese society; creating new classes, relocating millions and building new cities on a scale and at a speed that is unprecedented? but within a political regime, the one-party dictatorship, inherited from a degenerate workers? state in which migration was forbidden and, as far as possible, the entire economy was controlled by agencies of the central government. The dictatorship makes it impossible to observe the dynamics of class formation, since classes really form themselves in the process of struggle. As long as the present boom conditions obtain, Chinese society will remain opaque. However, all past experience suggests that, as soon as those conditions are put in question, all of the most dynamic forces in Chinese society will turn against the party and demand the democratic rights with which to defend and advance their separate interests.

We should not be in any doubt that, within any mass movement for democratic rights, there will lurk the agents not only of the Chinese bourgeoisie, intent on using mass mobilisations to advance their own class interests, but also those of the imperialist states, determined to manipulate democratic illusions to reduce China to a semi-colony, just as they have reduced the countries of Central and Eastern Europe. We can even anticipate some of the issues around which they will try to organise: ?human rights? for reactionary movements such as Falun Gong; support for ?struggling businesses? against state subsidised corporations; freedom of the press to report on political scandals; and, perhaps, as in Poland, support for
free trade unions. The involvement of bourgeois agents within such movements should not prevent the working class from supporting legitimate democratic demands, but will put a premium on independent political organisation.

Within the organisations that will be thrown up in the course of the struggle, revolutionary communists will argue for the building of industrial unions on a national scale, distinguished from the official unions by being controlled by their members through directly elected and recallable delegates at every level. In the towns and cities, they will call for the creation of delegate-based workers' councils to take control of public order, distribution of rations and maintenance of production under the protection of a workers' militia. At the same time, they will urge all those committed to the overthrow of both the party dictatorship and the rule of capital, whether Chinese or foreign, to forge a new revolutionary working class party committed to the programme of permanent revolution.

A GREAT POWER
China today is a society in transition. As we have seen, elements of the old degenerate workers' state exist alongside some of the features both of a semi-colony and of an imperialist power. Thus there is a growing penetration by imperialist capital and the super-exploitation of large parts of the working class, but also the developing export of capital. To this can be added the military dimension, the creation of the Shanghai Cooperation Council, and the recent demonstration of the ability to shoot down satellites at will. This is an unstable combination and, ultimately, an explosive one.

There cannot be any doubt that Beijing's plans are aimed at restoring China as one of the ?Great Powers? but a country the size of China cannot be peacefully integrated into a world already divided between the great imperialist powers. To achieve continued economic growth on the basis of the capitalist property relations that have now been restored, China would need to continue to expand her exports and also to develop domestic consumption and the interior provinces. This would require not only securing markets but also sources of energy and raw materials on a huge scale and, inevitably, therefore denying them to others. In other words, China would have to become an imperialist power herself. However, as was pointed out by Lenin, in the imperialist epoch, a new imperialist power can only emerge as a result of the redivision of the world. Any significant step in this direction would, of course, be recognised immediately as a threat by one or other, or all, of the existing imperialist powers who would take steps to curtail China's advance or to manipulate it to their own ends.

Just as certainly, if China is not able to advance her independent, capitalist interests, then the existing semicolonial features will be strengthened until she becomes a fully subordinated semi-colony. Although the tempo may be faster or slower, at some point this would challenge the Communist Party's dictatorship, which depends on economic prosperity, growth and, perhaps above all, the maintenance of sovereignty for its legitimacy.

In addition to these destabilising dynamics there is also the prospect of rising social tensions as a result of a cyclical downturn in the Chinese economy. Any attempt to identify when exactly a downturn is to be expected would be pointless speculation. The present Chinese cycle began just before the turn of the century, seven years ago now, and the feverishness of the economy at present, with its almost unprecedented high levels of investment, rising raw material costs, rising labour costs and increasingly frenetic activity on the stock exchanges all suggest that it is moving towards its peak. However, China is still very far from a ?classical? capitalist economy; the state still plays a huge role in production and has enormous resources that could, for example, be used to increase domestic consumption, subsidise failing firms and encourage relocation of production. Equally, the provision of consumer credit is still in its infancy in China and the degree of capitalist development varies between different industrial sectors and this could
affect the speed of transmission of a downturn across the economy.

At the same time, there is no reason to assume that a political crisis has to begin with an overtly economic issue. Repression of protests at the time of the Beijing Olympics, environmental disasters such as dam collapses or poisoned water supplies, peasant protests against land seizures or workers’ mobilisations against non-payment of wages, dangerous working conditions or victimisation of militants, all could be the trigger to mobilisations, protests and strikes that could threaten the future of the regime on a far larger scale than at the time of the Democracy Movement and the Tiananmen demonstrations.

CONCLUSION

Perspectivally, what is important is that Chinese capitalism cannot escape the consequences of its own success. Its most advanced sectors even need a crisis, in order to purge the economy of the least efficient capitals, and to allow a round of concentration and centralisation, and to restore the conditions for more effective valorisation and higher profit rates, but that cannot be achieved without the social convulsion of a cyclical crisis. In the context of falling production, closures and layoffs, bankruptcies and mass unemployment, with scant provision of social security even for the well-established sections of the working class and none at all for over 100 million illegal migrants from the countryside, the working class and poor peasantry can be counted on to fight but to win they must generate a new political leadership based in their own independent organisations.

The strategy of developing China by restoring capitalism and bringing back the bourgeoisie has actually brought China to the brink of a colossal internal conflict and the prospect of renewed foreign domination. On the basis of capitalism, China’s future could either be as an imperialist power or a semi-colony, either of which outcomes would represent a major defeat for the working class and oppressed, nationally and internationally. However, in the approaching class struggles lies the potential for a third alternative, the defeat of the Stalinists who have restored capitalism, the Chinese bourgeoisie who have not yet consolidated themselves as a class and the imperialists who have not yet established a secure foothold within the country. Victory over this trinity of enemies could only be achieved by the creation of a workers’ state based not only on the expropriation of capital but, crucially, on the rule of the working class and its allies in the poor peasantry through their own, democratically-controlled councils.

Just as capitalist development has created the conditions for economic, social and political crisis in China, so globalisation ensures that the effects of that crisis will be transmitted around the world more quickly than any other crisis in history. Precisely because China has played a key role in stabilising the global capitalist system, any destabilisation in China will immediately both reveal and magnify the weaknesses that have developed in the imperialist economies. How the different classes in countries around the world respond to a potentially globally synchronised crisis cannot be predicted but there can be little doubt that the outcome of their inevitable conflicts will be the major factor in shaping the subsequent history of the 21st century.

Endnotes

3 Nolan and Ash, op cit, p982
4 Naughton, op cit, p.78
5 ibid
6 In 1981, 91 per cent of exports and 87 per cent of imports were controlled by foreign trade companies directly subordinate to the Ministry of Foreign Economic Relations and Trade; by 1984 their shares were
79 per cent and 65 per cent respectively, Sun Wenxiu, quoted by Nicholas Lardy, in Chinese Foreign Trade in The Chinese Economy Under Deng Xiaoping, Oxford 1996, Page 227

7 ibid, 222
8 ibid, p.224

9 Figures Cited by T. Sicular, Redefining State, Plan and Market in China Quarterly op cit p.1026
10 Naughton, op cit, P. 286
11 For a more detailed discussion of the development and impact of TVEs See Trotskyist International 22, July 1997. At the time of that survey, it was particularly important to stress the fundamentally capitalist character of the TVE sector, despite its nominal characterisation as ?collectively-owned?, in order to understand the dynamics behind the restoration process. However, the key role of party and state officials in the overwhelming majority of enterprises remained an extremely important political factor, allowing control and supervision as the sector grew in importance. Today, when some enterprises that originated in this sector have become major corporations, the importance of the continued close integration of many enterprises into the party-state apparatus remains.
12 Naughton, op cit p. 403
13 Lardy, op cit p.1074
14 For a fuller discussion of these developments see Trotskyist International, op cit,
15 Quoted by Jonathan Story in China, the Race to the Market, London 2003 page 100
16 A detailed account of Globalisation can be found in Anti-Capitalism, London, 2004
17 Figures from David Harvey, A Brief History of Neoliberalism, Oxford 2005, page 124
18 According to official figures, Hong Kong was the source of 42 per cent of the cumulative FDI total for the whole of the period 1985 ? 2005, cited by Naughton, op cit, p.412
19 Story, op cit, p192
20 Harvey, op cit, p.144
21 Naughton, op cit, p.144
22 Harvey, op cit, p.128
23 ibid
24 Figures from National People?s Congress, quoted by Green Left Weekly, September 5th 2007
25 Figures from Global Economics Paper 147, Goldman Sachs, October, 2006
26 Figures from OECD Economic Surveys, China, 2005, p.36
27 Figures from The Economist, March 31, 2007, page 10
28 Naughton, op cit, p.377
30 ibid, passim
31 Figures from The Economist, March 31, 2007, p.11
32 ibid. p.7
33 Li and Syed, op cit, p.6
34 Figures cited by Fishman in China Inc. London 2005, p.254
36 Naughton, op cit, p.145
37 op cit, p.12
38 Goldman Sachs, op cit
39 Figures from The Economist op cit, p 6
40 Reported by Asian Times On Line, January 27th, 2007
41 Cited by Naughton, op cit, p. 412
42 However, given the relatively small scale of US investments, even this rate of return is quite insufficient
to have had a qualitative impact on the US economy as a whole which, in GDP terms, amounts to some $13 trillion.

43 The Economist August 9, 2007
44 Figures quoted by Green Left Weekly, op cit
45 The content of this proposal has been the subject of sustained lobbying by multinational corporations intent on watering down any improvement in workers’ rights. For more details see

www.fifthinternational.org/ [1]
index.php?id=210,0,0,1,0,0

46 Harvey, op cit p.127
47 OECD Survey, op cit,

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