

China – "Socialist market economy" or just plain capitalism?

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Since the era of Deng Xiaoping China has been moving ever closer to capitalism. What started as an attempt to use market criteria to push forward economic growth within the context of an economy still dominated by the public sector, took on a momentum of its own. Now we have capitalist relations dominating. (by Michelle Fabbri)

There is a lot of talk nowadays of the Chinese economic miracle. But what is conveniently ignored is the fact that this huge country was plundered by the imperialist powers from the mid 19th century onwards and that after the Japanese invasion in the 1930s this would have continued had it not been for the revolution led by the Chinese Communist Party (CCP). The CCP first defeated the Japanese and then went on in 1949 to defeat the Kuomintang, the party of the Chinese bourgeoisie that after a period of 30 years had demonstrated its complete inability to solve any of the problems of this huge country where a quarter of the world population lived.

However, the Chinese revolution was not like the Russian that preceded it. The Russian revolution was followed by a period of workers' democracy, something which never emerged in China because the CCP had already fallen under the control of the Stalinists by the 1930s.

As in the USSR, Stalinism managed to develop the economy, but at enormous human and material costs. In the first few decades the annual rate of growth was above 9%, and this in spite of the damaging effects of the "Great leap forward" or the "Cultural Revolution". In 1974 during the first serious post-war crisis of capitalism, when world GDP fell by 1%, China grew by 10%. Between 1957 and 1970 India, which had the same level of development at the time of independence, grew by half that rate. Economic growth transformed Chinese society, laying the basis for a developed economy, but in the 1980s it still lagged way behind the more industrialised countries.
Opening up to foreign investment

It was then that the regime decided to open up the country to foreign investment, a necessary step considering the backwardness of the Chinese economy. Had the regime been one of genuine Socialist Democracy, with complete freedom of speech and criticism for the workers, this opening up could have been controlled and used to strengthen the socialist system. However in the context of a Stalinist regime it had the complete opposite effect.

In the Revolution Betrayed Trotsky wrote that, under capitalism, "the productive forces, upon a basis of private property and competition, have been working out their own destiny. In contrast to this, the property relations which issued from the socialist revolution are indivisibly bound up with the new state as their repository. The predominance of socialist over petty bourgeois tendencies is guaranteed, not by the automatism of the economy we are still far from that but by political measures taken by the dictatorship. The character of the economy as a whole thus depends upon the character of the state power."

This means that so long as the socialist economy has not reached a degree of development that can guarantee the whole population all its material needs and at the same time develop a new culture that supersedes the desire for property, everything will depend on maintaining economic growth within the context of workers' democracy, of genuine councils or soviets that allow the workers to exercise decision-making powers. But none of this ever existed in China where, unlike in Russia, the CP had become bureaucratised long before the taking of power.

Thus, on top of corruption and bureaucratisation that already existed within the state apparatus and the CCP in the first few decades after the revolution there came a growing attraction towards capitalism in the early 1980s. As Trotsky explained, the Stalinist bureaucracy sees its administrative privileges as an abuse of the system and would actually be disposed to transforming these into property rights.

This transition, which took place in a chaotic manner in Eastern Europe and the USSR during the 1990s, proceeded in a much more gradual process in China, in the context of strong economic growth and under the total control of the one-party system. In fact the Chinese bureaucracy drew some lessons from the experience of the USSR and it had already started introducing elements of a market economy before the collapse of the Berlin wall.

The victory of Deng Xiaoping

The debate inside the CCP on opening up the economy to foreign investment started in 1977-78 shortly after the defeat of the so-called 'gang of four' (arrested on October 6, 1976) who, after the death of Mao, were demanding a continuation of the 'Cultural revolution'...

Deng suggested the setting up of four special economic zones around Hong Kong and Macao.

A specific appeal was made to the Chinese Diaspora, a community of 60 million Chinese in Taiwan, Thailand, Malaysia, Indonesia and even the USA. It was a slow and contradictory process. The first qualitative step came in the early 1980s when collective land worked by the communes was rented out on a long-term basis to peasant families and in the mid 1980s when price controls were removed from the bulk of goods and services.

Agricultural production grew rapidly and foreign investment started pouring in. But at the same time inflation took off. Between 1980 and 1985 100 million televisions were sold. Between 1985 and 1990 50 million washing machines and 40 million fridges were also sold. It was in this period that the sons and daughters of high-ranking bureaucrats started to study abroad, mainly in US and British universities.

Tian An Men

The first Stock Exchange was opened in Shenzhen in 1988, with the second opening in Shanghai in 1990. In the meantime the massacre of Tian An Men took place where the army killed hundreds of youth and workers in Beijing on June 3-4, 1989.

That massacre put an end to a protest movement that had started a month earlier against price increases and against corruption within the CCP. It had involved millions of students and workers and it even had the sympathy of a significant layer of the state and party apparatus. The general secretary of the CCP, Zhao Ziyang, having disagreed with the repressive orders given out by Deng and having expressed a view that a certain political opening up on the part of the regime was necessary, was removed from his position and placed under house arrest right up until his death.

Deng without any hesitation crushed a movement that threatened the very essence of the Stalinist regime. After a year of debating the issue he did not accept the calls by a part of the apparatus to slow down the opening up of China to capitalism. In fact, precisely to overcome the impasse that the repression had created, he decided to open up all the coastal provinces and the capital Beijing to foreign investment. On the island of Pudong in Shanghai (500 square kilometres) plans were set up to create a new Manhattan. Today it has become the most important commercial hub of China with its 4 million square metres of skyscrapers built in a period of ten years.

Already by 1991 the unemployed in the rural areas numbered more than 100 million and these were totally dependent on their families as there is no unemployment benefit or pension scheme for the countryside. Foreign investment in the same year reached 6 billion dollars, 20% of which came from Taiwan.

In October 1992 at the XIV Congress of the CCP this turn was given the name of 'socialist market economy'. In 1993 GDP grew by 13.7%. Since then average annual growth has been 8%.

The Central Committee Plenum on November 14, 1993 approved a document, 'Decisions on some questions relating to the setting up of a system of socialist market economy'.

In it we can read the following: '...even if State property remains the main base of the national economy, all forms of property — State, collective and private — will have to be used in developing the economy.'

It went on to say that, 'it is necessary to keep to the principle of combined development of multiple economic sectors in which public property maintains the dominant role; it is necessary to further transform managerial techniques in the state owned enterprises and set up a modern entrepreneurial system that meets the needs of a market economy.'

At that time a heated debate ensued on how the government and the party would maintain ‘macro-economic control’. But in the end the line did not change. In 1996 the remaining vestiges of centralised planning were abandoned.

The CCP opens up to the capitalists

The last serious attempt at any resistance to this new course was overcome between 1998 and 1999 when an official decision was taken to drastically reduce the weight of the state sector of the economy with mass layoffs and sackings, combined with a further opening up to foreign investment, but with no loosening up on the question of democratic reforms. State-run companies were turned upside down and inside out, with either the fusing of companies into one or the breaking up of others. The purpose of this was to separate the profitable sectors from the loss-making ones. The former were privatised and the latter were left to rot. It is not by chance that throughout this period the top party officials and their families grabbed the lion’s share. As a result of this process at least 70 million workers in the public sector have lost their jobs in the last six years.

In line with all this, on July 1, 2001 the formal decision was taken to allow private capitalists into the party. In November of the same year China joined the WTO.

There are four reasons that explain this relatively easy victory on the part of the pro-capitalist wing.

- The continuing economic growth that allowed a minority of capitalists to enrich themselves while allowing at the same time an improvement in the living standards of hundreds of millions of new proletarians flowing in from the rural areas. Their wages went up from 20-25 euros in the rural areas to 80-180 euros in the cities. The highly competitive nature of Chinese goods is possible because they are produced with the most advanced technology (thanks to the huge level of investment over the last 20 years, of 600 billion dollars in 480 companies) combined with wage levels 10 or even 20 times lower than in Europe or the USA. The rapid growth in exports is matched by that of imports, with massive investment in the infrastructure (35,000 kilometres of motorways were built between 1994 and 2004 and a further 85,000 are planned over the next decade; 84 cities are presently building new underground railway systems; and more railway lines, airports, industrial complexes and so on are in the pipeline in the next period).
- The core of the new bourgeois class is made up of the wives, sons and daughters, nephews and nieces of the bureaucrats, as well as those members of the old Chinese Diaspora who have returned (in Shanghai alone there live 600,000 Chinese who have come back from Taiwan).
- The decisive role played by the Chinese Diaspora and the integration of Hong Kong into the People’s Republic of China (PRC). This former colony of Britain was like a capitalist Trojan horse. Through Hong Kong the special economic zone of Shenzhen has grown at annual rate of 31% over the last 20 years. The majority of Hong Kong capitalists had no difficulty in integrating themselves into this continental neo-capitalism. The return of Hong Kong to the PRC in 1997 played a big role in strengthening the capitalist class. The rest of the Chinese Diaspora abroad also played a decisive role in the growth of capitalism. Up until 2003 two-thirds of total foreign investment came from the Chinese living abroad, a big part coming from Taiwan.
- State control of finance and the non-convertible Chinese currency, which allowed China to overcome the 1997 South East Asian crisis and survive the effects of the build-up insolvent loans (40% of the total in 1998). This was greatly facilitated by the very high level of savings of Chinese families, which is 35% of income (about twice the level of what it is in Italy) and the balance of trade surplus, which has allowed China to accumulate 600 billion dollars in foreign reserves. In this context the national debt rose sharply but it still remains below 25% of GDP and is totally financed by internal savings.

In the autumn of 2002 the XVI Congress of the CCP replaced 40% of the members of the Central Committee electing a number of big capitalists and thus further consolidating the weight of the bourgeois within the party. Chinese statistics indicate that while only 5% of the population are members of the CCP, among the capitalists this figure rises to 30%. A good example of this new class is Larry Rong Zhijian, son of the former vice-president of China, Rong Yiren. He has declared assets to the value of 800 million euros and he controls the Citic finance company with investments that vary from the aeronautical industry, to telecommunications, the building industry and motorways.

Building the basis of capitalism…

Opening up to capitalist investment could co-exist within a socialist economy, on condition that it be used to strengthen the socialist sector of the economy. But in China today we are seeing the exact opposite. About half of GDP is produced

by private companies. But this figure taken on its own does not explain the way the system as a whole is functioning. What is more significant is to look at how the state owned enterprises are under-capitalised, they often sell at a loss to the private companies and they are often sold off at knock-down prices.

According to official statistics 20% of the population consumes 47.5% of national income. For the last two years China has been the biggest market in the world for BMWs and the massive growth in demand for cars means that Shanghai Council can even auction off new car registration plates. In August 2004 these were going for around 2600 euros each but by April the price had shot up to 4500.

It is clear to everyone how in recent years China has become the manufacturing hub of the world. Last year world trade grew by 5%, but 60% of this growth was Chinese. In spite of calls to impose protectionist measures against Chinese exports, these continue to grow because a large percentage (around 60%) are products made in China by US, European, Japanese, Taiwanese and Korean companies to be exported back to their home markets! Thus the recent attempt by the European Union to limit the import of "Chinese" textile goods provoked the protest of several governments of member states (Netherlands, Belgium, Denmark) and of a number of multinationals, such as Zara and Benetton, because their Autumn-Winter collections were blocked at the frontiers. The point is that 470 of the top 500 multinationals are operating in China.

...and the biggest working class in the world

The Chinese revolution ripped from the hands of imperialism the juiciest morsel of the colonial world. Within a decade China became self-sufficient in food production and laid the basis for an industrialised country. The Stalinist bureaucracy played a progressive role, in spite of the enormous costs, both in human and material terms. In order to maintain the growth of its own privileges it has decided to go down the road of capitalism. It has replaced its former lip service to internationalism with an ever more aggressive nationalism. It can do this on the basis of an explosive mix of an avalanche of foreign capital combined with a new working class pouring in from the rural areas. China produces goods for the whole world with an extremely high level of profit for the capitalists who have at their disposal a huge source of labour power.

The level of exploitation that Engels described in the mid-19th century in his Condition of the working class in England is reproduced here to the 20th degree. The working class in China is already the biggest in the world and it is growing by 20 million a year. These workers have no trade union traditions, nor do they have any legally recognised rights. Very often their wages are paid late. They face the combined opposition of the capitalists and the party and state bureaucrats. But once they become aware of their own condition and of the huge disparities in income they can only move in one direction, towards the struggle to defend their rights. In fact they have already begun: the government has officially recognised that in 2003 there were 58,000 protests involving three million people. Ten years earlier this figure stood at only 9,000. It is a fact that the cost of labour in the last two years has grown by 50%.

La Repubblica of May 19, 2004 published an article which explained how, of the 150 euros paid for a pair of Timberland boots sold in Europe, only 45 cents went as wages to a 14 year old boy working in Zhongshan. The youth works for 16 hours a day without any social security protection or paid holidays. As we have seen many times throughout history, the working class will find a way of rebelling against this exploitation. And to paraphrase Napoleon, we can say that when the powerful Chinese working class rises up the capitalist world will be shaken.