

The Realities of China Today

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INTEREST IN THE post-1978 Chinese market reform experience remains high and for an obvious reason: China is widely considered to be one of the most successful developing countries in modern times. The Chinese economy has recorded record rates of growth over an extended time period, in concert with a massive industrial transformation. Adding to the interest is the Chinese government's claim that this success demonstrates both the workability and superiority of "market socialism."

There are those on the left who share this celebratory view of the Chinese experience, believing that it stands as an effective rebuttal to the neoliberal mantra that still dominates economic thinking. Therefore, they encourage other countries to learn from China's gradual, state controlled process of marketization, privatization, and deregulation of economic activity. A small but significant number share the Chinese government's view that China has indeed pioneered a new type of socialism.

Many on the left also believe that China may soon be capable of anchoring an alternative international economic system, thereby offering other countries the opportunity to reduce their dependence on the current U.S. dominated system and pursue their own independent development strategies. [1]

Unfortunately, as argued below, there is no justification for this positive perspective on the Chinese experience. First, regardless of what Chinese leaders say, China is not pioneering a new form of market socialism - rather the reforms have led to the restoration of capitalism. As a result, Chinese internal dynamics are clearly hostile to the creation of any anti-capitalist alternative. Second, the reforms have produced an increasingly exploitative growth process, one that is generating considerable wealth for a small minority at unacceptably high cost for the great majority of Chinese working people.

Finally, China's growth process is now structurally enmeshed in, and dependent upon, the operation of a broader process of regional and international restructuring, one controlled by transnational capital. As a result, China is not only incapable of serving as an anchor for an alternative global economy, its accumulation dynamics actually contribute to the strengthening of existing international structures of power and the global imbalances and tensions they generate.

The stakes are high in this engagement over the nature and significance of the Chinese experience. For example, left support for the Chinese reform experience encourages, consciously or unconsciously, the mistaken belief that socialism can be built through the use of markets and a closer integration with global capitalist accumulation dynamics. At a minimum, this leads to confusion about the nature of socialism, and of capitalism as well.

This is more than a theoretical concern: one finds in many countries - including Cuba, Venezuela, South Africa and Brazil — advocates for socialism who argue that their respective governments should implement Chinese style market reform policies.

Chinese workers, in growing number, are beginning to challenge Chinese state policies, not just in response to the exploitation they experience but also because of their renewed interest in socialism itself. It is therefore vital that we develop an accurate understanding of the Chinese experience, both to provide support for those seeking socialist renewal in China and to ensure that efforts at social transformation in other countries are not compromised by false understandings of the dangers of markets and capitalist imperatives.

China's Structural Transformation

In 1978, two years after the death of Mao Zedong, the leadership of the Chinese Communist Party, led by Deng Xiaoping, decided to radically increase the economy's reliance on market forces. The leadership claimed that such a step was necessary to overcome the country's growing economic problems which were alleged to be caused by Mao's overly centralized system of state planning and production.

Political and economic changes were definitely desired by the majority of Chinese. Deng and his followers, however, greatly overstated the severity of existing problems and, more importantly, ignored popular calls for an exploration of other, non-market reform responses.

Once begun, the market reform process quickly became uncontrollable. [2] Each stage generated new tensions and contradictions that could only be resolved (given the leadership's opposition to worker-community centered alternatives) through a further expansion of market power. The "slippery slope" of market reforms thus led to an eventual privileging of market dynamics over planning, private ownership over public ownership, and foreign enterprises and markets over domestic ones.

Economic transactions are now overwhelmingly shaped by market prices. The share of retail sales made according to market determined prices rose from 3% in 1978 to 96.1% in 2003. For producer goods, the share rose from zero to 87.3% over the same period. [3]

The growing industrial dominance of the private sector is also clear. In 1978, state owned enterprises accounted for all value added in China's industrial sector (defined as mining, utilities, and manufacturing). By 2003, the private sector share was larger than the state sector share: 52.3% to 41.9%. [4] But even this diminished state share overstates the actual "economic weight" of state production.

Recognizing that many state enterprises are now jointly owned by private interests - either through joint venture or stock ownership - the Organization of Economic Cooperation and Development (OECD) classifies state firms as either directly or indirectly controlled, depending on whether the state share of paid-in capital is greater than 50% of the total. In 2003, directly controlled state enterprises accounted for only 22.9% of industrial value added - less than a quarter of the total.

The declining strategic importance of the state sector becomes even clearer if we narrow our focus to manufacturing. The OECD has divided China's manufacturing sector into two groups. The first includes the five industries that continue to be dominated by state production: petroleum processing and coking, smelting and pressing of ferrous metals, smelting and pressing of non-ferrous metals, tobacco processing, and transport equipment.

The second and larger group (which accounts for over 75% of manufacturing value added) is dominated by private enterprise. This group is made up of 23 different manufacturing industries, including food processing, textiles, garments, chemicals, medical and pharmaceuticals, plastics, ordinary machinery, special purpose machinery, electrical equipment, and electronic and telecom equipment. As the OECD explains:

In 1998 the private sector produced the higher share of value added in only 5 out of these 23 . . . manufacturing industries. By 2003, this was true for all 23 of these industries. Moreover, in half of them, private firms produced more than three-quarters of output. Overall in these 23 industries, the private sector employs two-thirds of the labor force, produces two-thirds of these industries' value added and accounts for over 90 percent of their exports. [5]

State-owned enterprises do remain important and the Chinese state still exercises control over critical sectors of the economy, but these areas of strength are now largely limited to finance and activities supported by state ownership of natural resources. Thus, in 2006, three state oil companies accounted for half of the earnings of the 160 largest "state owned monopolies and oligopolies." In fact, "Up to 80 percent of the year-on-year increase in profits realized in 2006 by all Chinese enterprises were attributable to . . . monopoly financial groups or monopoly firms in the areas of oil and petrochemicals, electricity, coal and metals." [6]

Foreign capital also enjoys a greatly strengthened role in the Chinese economy. The share of foreign manufacturers in China's total manufacturing sales grew from 2.3% in 1990 to 31.3% in 2000. [7] Perhaps more revealing, a 2006 government report concluded that foreign capital holds a majority of assets in 21 out of 28 of the country's leading industrial sectors. [8]

One consequence of this development is that China's economic growth has become increasingly dependent on foreign produced exports. Foreign firms dominate China's export activity: their share of China's total exports grew from two percent in 1985 to 58% in 2005 (and stands at 88% for high tech exports. [9]

Moreover, these exports are increasingly being produced by 100% foreign owned firms. A case in point: the share of computer related exports produced by 100% foreign-owned firms increased from 51 to 75% over the period 1993-2003. [10] As a result of these trends, the ratio of exports to GDP has climbed from 16% in 1990 to over 40% in 2006.

In sum, while state planners and enterprises continue to play an important role in China's economy, state power has been used to shape an accumulation process that is now dominated by private (profit-seeking) firms, led by foreign transnational corporations, whose production is largely aimed at markets in other (mostly advanced capitalist) countries.

Regardless of how one might evaluate the performance of the Chinese economy, it is hard to imagine how this development can be viewed as laying the foundation for an alternative to capitalism, at either national or international levels. Rather it points to the conclusion that capitalism itself has been restored in China.

Social Consequences of Market Reform

Many on the left are no longer interested in the debate over whether China is socialist. Rather, they are concerned with whether China's growth and transformation has led to "successful" economic development. For a majority, the answer is an unequivocal "yes." This answer appears largely based on a consideration of a limited but important set of indicators: rates of growth of foreign investment,

exports, and GDP.

If we broaden our notion of development, however, to include measures of working-class well-being, the answer tragically changes. The reality is that China's market reform policies have created a growth process underpinned by increasingly harsh working and living conditions for the great majority of Chinese.

Perhaps most surprising is the fact that the country's rapid growth has failed to generate adequate employment opportunities. According to the International Labor Organization (ILO), total urban (regular) manufacturing employment actually declined over the period 1990-2002, from 53.9 million to 37.3 million. [\[11\]](#) And while there was a small increase in total urban employment, almost all the growth was in irregular employment, meaning casual-wage or self-employment - typically in construction, cleaning and maintenance of premises, retail trade, street vending, repair services or domestic services.

More specifically, while total urban employment over this 13-year period grew by 81.7 million, 80 million of that growth was in irregular employment. As a result, irregular workers now comprise the largest single urban employment category - much as in Africa and Latin America where such an outcome is blamed on stagnant capital accumulation. In addition, the ILO reports declining labor force participation rates and double digit unemployment rates for urban residents.

The reform process has taken an especially heavy toll on state workers. According to Chinese government figures, state-owned enterprises laid off 30 million workers over the period 1998-2004. As of June 2005, 21.8 million of them were struggling to survive on the government's "minimum living allowance" - the basic welfare grant given to all poor urban residents. In June 2005, this allowance was approximately \$19 a month. [