

# **What is the nature of capitalism in China? - On the rise of China and its inherent contradictions**

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The rise of China is undoubtedly one of the most important issues and the biggest mysteries at the beginning of the 21<sup>st</sup> century. For the American elite, the biggest unknowns are the answers to the questions; 'is the rise of China a threat to US hegemony or is China a partner?' and 'will the so-called 'Beijing Consensus' replace the 'Washington Consensus' in the future?' [1] For those Chinese who are concerned to develop a vision of a democratic China, the biggest riddles for them are the questions; 'does the rise of China mean that the dictatorship by the Chinese Communist Party (CCP) can continue uninterrupted for many years to come?' and 'does this mean that China's democratic future is very bleak?' To answer these questions, one cannot avoid returning to a fundamental question: 'what is the nature of capitalism in China?'

## **China as bureaucratic capitalism**

It is very common for today's writers to describe China as authoritarian capitalism. If the term means a society which combines economic freedom to accumulate capital and a despotic state, then China undoubtedly falls into this category. The problem is that the term is so broad that it does not have much analytical value to help an investigation on China. For instance, in his widely read book *The Beijing Consensus*, Stefan Halper characterizes China as a kind of 'authoritarian capitalism',

alongside Russia, Iran, Venezuela and other countries, in contrast to liberal democracy. [2] This blurs the distinction between those countries which lived through socialist revolution, then experienced capitalist restoration (the former Soviet Union and China) and those countries which, while they have experienced social upheaval did not go through socialist revolution as such. Iran has not experienced the kind of high-speed economic development that China has. Although both countries are undoubtedly capitalist, putting Venezuela in the same bag as China and claiming they have the same type of authoritarian capitalism ignores the basic fact that Venezuela does have representative democracy, while China has none. This kind of arbitrary classification does not help to understand the rise of China.

This classification also blurs the difference between China and the former Soviet Union and disregards China's special features. Recognizing the differences, however, is the key to making sense of the rise of China and its impact on the world.

Another name tag applied to China is 'state capitalism'. *The Economist* published a special report on "state capitalism" and included China in this category. It explained the rise of state capitalism as follows:

*"The crisis of liberal capitalism has been rendered more serious by the rise of a potent alternative: state capitalism, which tries to meld the powers of the state with the powers of capitalism."* [3]

The term state capitalism is used to mean very different things by different people. In one left-wing interpretation [4], it is defined as a state where private capital and market competition have largely been eliminated, and the state machinery acts as the sole representative of the bourgeois class in fulfilling the role of capital accumulation. The Soviet Union these theorists claim fitted this definition. The use of the term here does not refer to this form of state capitalism; I use the term state capitalism to mean the public sector and state intervention within a mixed capitalist economy, without any reference to what kind of political system is involved. In a narrower sense, I also refer to a kind of capitalism where the state sector has become dominant in relation to the private sector. In Western Europe, the weight of the state sector has varied throughout the decades but, even in its heyday, it had not dominated the economy, although it might have dominated certain sectors in the commanding heights. [5] In contrast, in some developing countries like China the state sector can be very dominant.

It is tempting to describe China as a combination of authoritarian capitalism and state capitalism, given that it combines a despotic political system and a strong state sector with a capitalist economy. However, I prefer to characterize China's present system as a kind of bureaucratic capitalism, because apart from common features it shares with authoritarian state capitalism, it also carries its own particularity which has a bearing on the concrete relationship between classes and the state in China.

Maurice Meisner's book *The Deng Xiaoping Era - An Inquiry into the Fate of Chinese Socialism 1978-1994* has a chapter exclusively devoted to an analysis of Chinese bureaucratic capitalism. He argues that

*"Perhaps it is logical that the marriage of "the market" to an entrenched bureaucratic apparatus would yield not a "socialist market economy," as official ideology labels the result, but rather a form of bureaucratic capitalism.*

Bureaucratic capitalism," a term that refers to the use of political power and official influence for private pecuniary gain through capitalistic or quasi-capitalist methods of economic activity, is hardly a novelty in world history. But nowhere has it been more prominent than in the history of China, in

both traditional and modern times." [6]

Like all Communist Parties when they were/are in power, the CCP's exclusive right to 'lead' the country was written into the constitution. The Communist Party is nothing but the party of the bureaucracy, whose elite has been firmly in control of state power and all State-Owned Enterprises (SOEs) for more than six decades without any pretence of making the state neutral. The CCP controls all levels of administrative, legislative and judicial power as well as the armed forces. It also extends its control to include all media and publishing houses, and although now in a weaker sense, thought control continues to be imposed by the party. Within the economy, since the 1980s the party has allowed the resurrection of private capital and the planned economy has been dismantled. While in Soviet Union, the restoration of capitalism also meant the demise of the Communist Party, China is one of the few countries whose process of restoration was led by a Communist Party. A pluralistic economy has not, as the liberals expected, brought with it a 'civil society'. Civil liberties are continuously suppressed. All NGOs are compulsorily linked to respective government departments or public institutions. Even the 400 different national industry associations were founded by government officials. [7]

Party officials are not even content with their absolute control of the state. Its leaders are trying to make their control hereditary, hence the phenomenon of princelings being appointed to high posts and the appearance of the term *guanerdai*, which means children of mandarins recruited en masse to comfortable state posts. In both cases they achieve this not because of their merits but because of their parents. In other authoritarian countries, this phenomenon does exist but it is more likely to be limited to the upper ruling group. In China, however, this goes through all levels of the administration, except the rank of office workers.

A second feature of the current Chinese bureaucracy is that all levels of its leading officials are also a type of capitalist who have used their coercive power to own capital, directly or indirectly, and to profit from it. Minor officials are often able to have a share of the bonus as well. In most capitalist countries, the exercise of state power and capital accumulation are taken up by two distinctive social groups, namely the bureaucrats and the capitalists. Chinese bureaucrats combine these two functions and are simultaneously entitled to a salary (plus benefits) and a share of the surplus value. This transcends the general phenomenon of collusion between government officials and the capitalists. Bureaucratic capitalists monopolize the most profitable sectors of the national economy and become the core group of the new bourgeoisie. Those private capitalists who are not the cronies of bureaucratic capitalists must accept a marginalized position.

To portray the present Chinese state as autonomous from or even suspicious of the bourgeoisie, to contend that it has not subordinated itself to their class interests, and hence that China remains non-capitalist or even 'socialist,' is completely wrong. This however is the position Giovanni Arrighi takes in his book *Adam Smith in Beijing* [8]. His analysis treats the bureaucracy and the capitalist class as necessarily two entirely different or even opposing social groups. This is contradicted by what has happened in China since 1989, where the bureaucracy is the capitalist class. This metamorphosis was the conscious choice of the bureaucracy, not an unexpected result of having embarked on the 'slippery slope' of market reform. Deng Xiaoping was already feeling his way in this direction in 1984 when China promised Britain that Hong Kong's 'laissez faire' capitalism was to be maintained for fifty years after Hong Kong was handed back to China. Later, he was reported to say that capitalism in Hong Kong should be allowed to continue beyond that deadline. In 1987 he told an African delegation 'do not follow socialism. Do whatever you can to make the economy grow.' [9]

The Chinese state serves, above all else, the interests of the bureaucracy, both their collective and their individual interests - political and commercial. So do the SOEs, State Holding Enterprises (SHEs) and other public economic institutions. One may even say that the bureaucracy has

privatized the state. Marx once remarked that the bureaucracy, far from being the universal class as claimed by Hegel, is just another 'particular' class. He also said that 'the aims of the state are transformed into aims of bureaus, or the aims of bureaus into the aims of the state...The bureaucracy has the essence of the state... in its possession; it is its private property'. [10] Where Marx considered this as an entrenched tendency within the bureaucracy, it is only in present day China that it has fully completed this evolution on such a scale.

The CCP monopolizes all political power now just as it did in Mao's era. Yet in Mao's era even if the state served the interests of the bureaucracy in the first instance, both the legacy of the revolution and the kind of anti-capitalist regime following it put limits on the privileges of the bureaucracy; the bureaucrats could only appropriate social surplus in the form of use value, not exchange value, and this barred them from effectively accumulating capital. Moreover, they could not pass their privileges to their children. Their privileges were further limited as the state had the responsibility of guaranteeing job security to workers and basic survival to peasants. Hence Mao's state, while not socialist, was not capitalist, nor was it a state whose sole purpose was to serve the interests of the bureaucracy.

In contrast, in the Deng/post Deng period, the Chinese state and its SOEs/SHEs only serve the general interests of all capitalists, for example when police arrest strikers, or when the state sector invests in infrastructure. In this sense bureaucratic capitalism is still a type of state capitalism in the service of the bourgeoisie. However, considering the degree of the party's privatization of the state, the extent of the bourgeoisification of the bureaucracy, and the fact that it is this bureaucracy which constitutes the core of the bourgeoisie, Chinese authoritarian or state capitalism deserves a special name for itself. Even if bureaucratic capitalism, in terms of the law of capital accumulation, does not differ substantially from common authoritarian capitalism, it suggests a different kind of relation between the bureaucracy and all other social classes, which has a bearing on efforts to work for an alternative.

In a capitalist country where liberal democracy exists, the legislative and the executive power rests with the political parties which win elections, and which are supposed to embody the general will of the people. In reality these political parties, rather than serving the people, move in an orbit which is determined by the gravitational force of the propertied class. The politicians govern but do not rule. Within this separation of political and economic power there is a well-defined task for the bureaucracy, namely the task of implementing policies made by elected political leaders. Even if the top bureaucrats are more powerful than they appear to be, their power is checked by a combination of liberal democracy, political parties and the bourgeoisie, so much so that, in the end, the objectives of the bureaucracy correspond, broadly, with those of the bourgeoisie. This influence of the bourgeoisie over the bureaucracy extends to the state owned sector as well. The former makes sure that the latter does not compete with the private sector by assigning them the mission of running those branches of the economy which are essential to the accumulation of capital but whose profit rates are too low to attract private capital. The bourgeoisie, through its political leverage, is able to bend both the bureaucracy and the state sector to its will. Since 1980, with the new agenda of neo-liberalism, the bourgeoisie in the West was able to downsize the state sector by unleashing waves of privatization, so much so that today the state sector accounts for a very small share of the economy. [11]

In Western Europe, it is only in rare situations that the state bureaucracy subjects all classes under its domination. As Engels describes: 'Periods occur in which the warring classes balance each other so nearly that the state power, as ostensible mediator, acquires for the moment a certain degree of independence of both. Such was the absolute monarchy of the 17<sup>th</sup> and 18<sup>th</sup> centuries, and also Bonapartism.' In the same article he added one more element which is reinforcing the autonomy of the state, namely the competition between nation states. 'The state power grows stronger... as

adjacent states become larger and more populous.’ [12]

In backward capitalist countries, where ‘periods occur in which the warring classes balance each other so nearly’, and where the need to strengthen and modernize one’s country in order to resist imperialism or to compete with other states appears so urgent, it may give rise to a situation where the state bureaucracy is able to subject all classes to its domination for decades, as was the case of South Korea during the 1950s-1980s. This kind of authoritarian capitalism is also more likely to nurture a large state sector. The lack of democratic control implies that both the state and its enterprises are plagued with corruption. Although in a broad sense state capitalism serves the whole bourgeoisie, it first and foremost benefits the ruling clique and its cronies.

China had undergone both a socialist revolution and its eventual degeneration which shaped a very different set of relationships between the state, the bureaucracy and social classes which has allowed bureaucracy to “entrench” itself to the extent that it essentially privatized the state. Without understanding the revolution and its later development one will not be able to understand the dynamics of bureaucratic politics in China.

In the past 60 years, the CCP has treated classes as if they were its toys. Under Mao, it eliminated the landlord class and the bourgeoisie and created a new working class in the state-owned enterprises. Then in the subsequent thirty years, it resurrected the bourgeoisie, banished the state workers to the ranks of the unemployed and created a whole new working class from rural migrants. Throughout this process, only one thing has remained constant, which is the party’s dictatorship and its goal of modernization, with itself as the main beneficiary.

Pyotr Struve’s statement ‘the farther east one goes in Europe, the more cowardly does the bourgeoisie appear’ [13] is well known to Marxists. But what about the reborn bourgeoisie in China today? Surely Struve was referring to the original meaning of the bourgeoisie, and in China today this means the private capitalists. During the 1980s and 1990s, the liberals expected that with the growth of private capitalists they would eventually become the vanguard of Chinese democratic struggles. They were completely wrong. They forgot the basic fact that private capitalists owe their very existence to the party. Furthermore, they rely on the party to keep the workers and peasants in bondage; without this support it would be impossible for them to exploit the toiling masses so unscrupulously. Hence they dare not raise a single finger against the one-party dictatorship. The more ambitious among them are content to seek membership of the party or the title of representative to the People’s Congress, or most importantly, a cosy relationship with leading mandarins. This is also the difference between a country which once underwent a social revolution and those authoritarian capitalist countries which did not.

## **Forms of Bureaucratic Capital**

Since the mid-1990s, the CCP has promoted two waves of privatization. The first was aimed at privatizing small and medium-sized SOEs, while reforming larger ones into joint stock companies. The second wave was the privatization of urban and suburban land. These two waves of privatization established the dominant role of bureaucratic capital, although private capitalists did also benefit.

The term bureaucratic capital describes the kind of capital owned or controlled by bureaucrats through their monopoly and exercise of state power, from which they profit. The first type is capital individually owned by the bureaucrats. It is formed when officials, in their personal capacity or through family members, begin to set up private companies and are able to garner profit from them through the abuse of their power. Since the mid-1990s, the CCP privatized small and medium-sized SOEs, which opened up a second channel for the bureaucracy to enrich itself when many of these

enterprises fell into the hands of local bureaucrats, former plant managers or their cronies. A third channel for bureaucrats to become part of the bourgeoisie has been through the receipt of shares from private capitalists as a bribe.

The second type of bureaucratic capital is the collective capital of the bureaucracy. Nominally, the SOEs/SHEs or assets controlled by government departments are all owned by the state. However since the Communist Party has a statutory right to rule the country, in practice this gives party officials the right to use the state-owned economy in any way they see fit. [14] The reform of large SOEs into joint-stock companies since the 1990s is a typical example. After the completion of this reform, these SOEs/SHEs no longer saw their mission as delivering public goods but rather as making money. The reform also allows parent companies to have their subsidiaries listed domestically or overseas, thus becoming mixed ownership companies. By learning financial skills and by controlling these parent companies, high ranking party officials along with all their business relations are able to control the appointment of the top personnel in these subsidiaries. Thanks to this arrangement, party officials make a fortune from these state properties without nominally owning them. It is the control over SOEs/SHEs, among others, which allows the top party officials and the so called “Princlings” to pocket huge amounts of public money. They constitute the hard core of bureaucratic capital. Their control over bank credit is especially important. According to Li Guoping, in 2000, 67 percent of bank credit went to SOEs. In 2003 this dropped to 53 percent. Since then no such figure has been given in the Yearly Statistics [15].

This kind of corruption may not be unique to China, but the scale involved probably is. The Nationalists and some of the New Leftists who argue that a state owned economy is necessarily more progressive than private capital ignore the fact that the former is no different from the latter in terms of their ultimate purpose; namely to make money for mandarins and private shareholders, although their critique of privatization is more grounded [16].

Another type of bureaucratic collective capital involves companies created by government departments, mostly in relation to businesses or sectors which fall under their particular jurisdiction. For example, the labour department might set up a labour dispatch company, the fire department might set up companies selling fire-fighting supplies, the police might set up security companies, etc. The sole purpose of these companies is to make a profit. A recent example is the Chongqing Security Group, founded by the Chongqing police force - which was headed by Wang Lijun until his arrest after he defected to US embassy to escape from a plot by former head of Chongqing, Bo Xilai [17] - and run by its leading officials. This company recently applied for listing in China, disregarding the legal ban on police departments running security companies. [18] It is also common for government departments to make use of the assets they control to make money. For instance, in the 1980s this was more likely to involve holiday resorts owned by departments - even during Mao's era many of these resorts were built for the exclusive use of the state and party officials. Since the mid-1990s it has been more likely that municipal government officials made use of the land they have occupied and in collusion with developers to redevelop them with new residential or commercial buildings. The profits garnered flow back to the *xiaojinku* - literally 'little treasuries' - of the departments, and are in general not accounted for in their budgets. Bonuses are paid to the officials by the department head through this *xiaojinku*. These departments' companies can also serve as a platform for receiving or paying bribes. In the recent widely reported downfall of Bo Xilai, his one-time crony and head of police, Wang Lijun, created a 'Research Institute of the Public Security Bureau' to make money and receive bribes. [19] Just how many of these kind of companies exist nationwide is a mystery. [20]

In addition, it is also quite common for local capitalists to give shares of their corporations to government departments in exchange for favours.

Another source of 'grey income' for officials comes from their role as executors of the coercive power of the state machine. It is an open and permitted practice for all levels of government officials to receive a commission when they impose levies or fines on people or companies. [21] With an internal security budget surpassing the defence budget in 2011, and reaching US\$ 95 billion, one wonders how much of this goes into the pockets of government officials as extra income. [22] On top of this there is also extra income from general bribery. This income does not directly constitute bureaucratic capital but definitely becomes one of its sources. Since the bureaucracy directly profits from the coercive power of the state, no wonder it continues to pursue its own expansion, especially among those departments directly responsible for security. In one county alone there are 12,093 informants which is equivalent to 3 per cent of the population. A scholar commented that if this level of surveillance is extended to the whole country, it will far exceed the East Germany figure of 1.5 per cent. [23] Maurice Meisner pointed out that in the late Qing dynasty about 40,000 imperial officials managed the world's largest empire. The KMT (Guomindang) regime had 2 million officials. In 1958, the new republic had 8 million state cadres and it grew to 21 million in 1978. [24] Today the number has grown further to between 50 to 70 million, and if you take the latter figure then the proportion of civil servants to civilians reaches 1:18, much higher than the US figure of 1:94. [25] In this aspect, China is the best example of the so-called Parkinson's Law concerning the inherent tendency of the bureaucracy to expand its ranks. This inevitably diverts resources from the population in favour of government consumption. According to Ding Xueliang, Chinese government expenditure as a share of GDP increased from 16.48 per cent in 1952 to 26.76 per cent in 2004 and for decades has been higher than the world average and that of the entire former 'socialist bloc'. [26]

Bureaucratic capital cannot develop freely without the leverage of crony capital. The collusion between these two different kinds of capital is so intense that each intersects with the other, and they thrive or fall together. No one knows for sure the actual scale of bureaucratic and crony capital and the boundary between the two because these are carefully guarded secrets. Marx once talked about the universal spirit of the bureaucracy being secrecy. [27] This is especially the case among the Chinese bureaucracy which has thoroughly bourgeoisified itself.

The process of the bourgeoisification of the bureaucracy, although it may be supported by particular policies, more often than not is against other official policies or laws. For example government departments running their own companies and making money from these is explicitly banned by a 1984 directive. [28] Although the CCP repeatedly reminds leading cadres of this ban, the latter simply do not give a damn especially when such directives often do not carry any penalties for anyone who breaches them. Leading cadres are fully aware that it is just a formality and no one bothers about its implementation. While ordinary people must obey all laws, the party always stands above the law. Within the party another set of rules prevail; you can do whatever you want, as long as you have *houtai*, or the backing of a patron. This open contempt for the rule of law greatly facilitates the enrichment of the bureaucracy. But this will run into its limits and eventually even turn against the bureaucracy.

### **The economic incentives of bureaucratic capitalism**

The bourgeoisification of the bureaucracy resulted in a tremendous level of corruption but at the same time ironically, also injected new incentives into the fast growing economy.

In Mao's period, China's average annual GDP growth was 6 per cent, [29] which is not at all low. The party's incentive in rapid industrialization did not come from profit-seeking. It flew from the need to *chaoyingganmei*, or to overtake the UK and US in the Cold War. This political task was embodied in the targets of the five-year plans, and the promotion or demotion of officials was linked to whether

the targets were met. This mechanism proved to be effective in the pursuit of the quantitative expansion of the economy.

In the period of bureaucratic capitalism, the Communist Party, although no longer hostile to capitalism or imperialism, still sees the need to overtake the West and Japan as its duty. This time it is motivated less by the imperative of a defensive situation against the background of the Cold War, but more by the new ambition of pursuing the rise of China. Hence the party still links the promotion or demotion of officials to how successful they make GDP grow.

In addition to this old incentive, there is now a new incentive of pursuing state-led growth, namely the profit-making impulse from bureaucratic capital. Whether it is the development of SOEs/SHEs, or investment in infrastructure mega-projects, or government procurement, or the sale of state resources, party officials at all levels can always profit, directly or indirectly, through their companies or their cronies. No wonder officials are so vigorously pursuing economic growth.

On the surface, there seems to be a contradiction in the facts. Isn't it true that since the 1990s the two waves of privatization resulted in a great shrinkage of the state sector, from 80 per cent in 1979 it now drops to one third of the industrial output? [30] And is there not also a fall of state revenue in relation to Gross National Product (GNP)? [31] Therefore is it not correct to say that instead of an expanding state power there is a shrinking state? This is what the nationalists argue but it is a one-sided view. What matters is not just the falling share of the state-owned economy in relation to GDP, but also the fact that, despite this fall, gross state industrial production has continued to grow in absolute terms, except briefly between 1997-99, against the background of rapid economic growth. [32] On top of this, the state consciously remains in control of the commanding heights of the economy [33] and most of the listed companies are SOEs/SHEs which, with government help, can always expand their market share through coercion. [34] In 2012, 130 SOEs accounted for nearly 60 percent of the total market value of the Stock A market, whereas private companies only accounted for a bit more than 30 percent. [35] In 2010 the four biggest state banks held 58 percent of household savings and 50 percent of companies saving. [36] To sum up, the monopoly of the state over key industries still enables it, despite privatization, to exercise strategic control over the national economy as a whole.

Moreover, when the two waves of privatization drew to a close, the share of state-owned economy had been stabilized, and fiscal revenue returned to its previous level. [37] This is also the case in privatized enterprises since they are more likely to be owned and run by former officials and their cronies and maintain good connections to local government, they are therefore still indirectly under the latter's influence.

This contradicts what the neo-liberals predicted, who claimed that without a complete dismantling of the state owned sector in favour of private capital, there would not be real market reform or the free development of the private sector. The truth is that the growth of the state sector in absolute term and its monopoly over the commanding height of the economy has not squeezed out market relations, but rather the opposite has occurred. When the party manages SOEs/SHEs just like any other commercial company, so that today they rely more on the stock market to raise money than private capital does, it presumes that there will be the further expansion of market relations. In fact, the party goes even further down the road of neo-liberalism when it extends commercialization and profit maximization to public utilities or social welfare, from the water supply to medical care, from education to public mass media. [38] This led David Harvey to remark that 'the outcome in China has been the construction of a particular kind of market economy that increasingly incorporates neoliberal elements interdigitated with authoritarian centralized control.' [39]

If the state sector has not squeezed the market as a whole, it has also not squeezed the private

sector. Spokespeople for private capital have claimed, and have often been echoed by Western media, that there has been a phenomenon of *guojinmintui*, or the advancement of the state sector at the expense of the private sector. Given that for the past twenty years the private sector has advanced from being close to nothing to today accounting for two thirds of industrial production, this is an exaggeration. It is in the interests of the bureaucracy to allow the development of the private sector. The situation with the state sector is not as clear cut as the neo-liberals argue because the so-called SHEs have a minority of private shares and also because much of foreign capital is in joint ventures with SOEs/SHEs, for instance in the automobile industry. The private sector also provides the state with tax revenue, bribes and market opportunities. It goes without saying that the private sector is also a necessary prerequisite for the development of capital owned by the bureaucrats individually.

In short, there are sectors from which the state has withdrawn partially or totally, but there are also sectors like banking and insurance, communication, energy, transport etc which the state has always kept under its control or in which it has expanded its share in recent years, for instance in the high-tech sector and new industries like new energy, high-tech machinery, new materials etc.. During this process competition between the state and the private sector remains but the former has not squeezed the private sector. Mainstream views tend to believe that the state-owned economy and state intervention do more harm than good for economic development, hence in a 1997 World Bank report on China - repeated again in another report in 2012 - it argued that China should allow its state sector to shrink in favour of the private sector. [40] But the actual process has proved them wrong; China has continued to grow rapidly since 1997 precisely because of simultaneous growth in both sectors. Without the state sector this would have been impossible. And as long as the cake continues to grow bigger and bigger, there is enough room for both sectors. What the warning of *guojinmintui* reflects is less about the truth but more about the permanent fight between bureaucratic capital and private capital over bank loans and market share. Spokespeople of private capital became angry when it did not benefit from the 2008 government bailout, amounting to four trillion RMB. This added fuel to the continuous debate within the bureaucracy on the issue of the appropriate proportion between these two sectors. How far this debate may develop into a more crystallized political division remains to be seen, however, in the event of economic slowdown this is more likely.

For two decades, the liberals have been arguing for more market and the nationalists for more state control; with each seeing the other as reactionary. The truth is that under the party-state regime, both the state and the market are just tools for exploiting the labouring masses; neither carries any progressive element. The debate reflects the fight between these two sectors of capital.

### **The advantages of bureaucratic capitalism**

The 1997 World Bank report *China 2020: China Development Challenges in the New Century* listed four main factors which supported China's extraordinary growth: a high saving rate, structural change (by which it means both the productivity leap which took place as workers moved from low-productivity agriculture to more productive employment in industry and services and the changes in ownership), pragmatic (market) reform, and:

*"Economic conditions in 1978, which were especially receptive to reform; China's economy could be described as a dry prairie, parched by years of planning, awaiting the first sprinklings of market reform."* [41]

The subsequent argument in the report shows that it sees market reform as the most important

factor. The 2012 World Bank report *China 2030* basically follows the same line of argument. [42] The problem with this view is that it plays down the paramount role of the bureaucratic state as the “capitalist roader”, in the course of which it also ignores the whole historical context of how this state was born through the 1949 revolution and how the latter’s legacy helped the party state to achieve its mission. An investigation along this direction necessarily leads us to study the relation between classes and the party state and how this enables the latter to rise above the former, although the success of Chinese bureaucratic capitalism also relies on the interaction between the party-state and a series of other factors, including the particularities of China, the advantages of its backwardness, and the neo-liberal world order.

The state has always been the key player in making China into one of the most business friendly environments in the world, which explains why it can attract so much foreign investment in the first place. The most important aspect of this is the huge public investment in infrastructure, especially in coastal region and in export processing zones, which in general private capital was reluctant to take on. However, the government does more than this. It also actively supports and invests in so-called ‘pillar industries’, chosen by the government. Under the encouragement of this fiercely pro-business government private capital, domestic and foreign, invested ambitiously to take advantage of the growing market. In just two decades, three major manufacturing bases emerged, each with its own specialized area of development.

The first of these is the Pearl River delta, initially based on labour-intensive export processing industries which has, in recent years, with support from the provincial government, gradually upgraded to more capital-intensive industries such as the car industry. The second base is the Yangtze River Delta which has mainly capital-intensive industries such as automobiles, semiconductors, mobile phones and computers. The third base is Beijing’s *Zhongguancun*, the so-called Chinese Silicon Valley, which, with close cooperation between the government, business and academia has been able to take the lead in high tech development in China. [43] The rapid upgrading of Chinese manufacturing can be illustrated by one fact: in the four years between 2004 and 2007, the amount of value added produced by Chinese employee per capita nearly doubled, rising from US\$ 9, 726 to 17,913. [44] Meanwhile, with encouragement from the government, Chinese tertiary education has exploded to a point where every year it turns out a gigantic number of science and technology graduates, the scale of which other developing countries with a similar level of development would find hard to attain. In the ten years between 2000 and 2009, Chinese University graduates increased 4.6 fold. [45] In 2007 there were 360,780 college graduates majoring in science and technology, [46] whereas, according to a Japanese scholar, Thailand has around 14,000 graduates every year, although he added that in terms of quality of technicians China was rated behind ASEAN countries. [47] Although China still has to rely on imported high-tech products, its strong industrial base and technically skilled professionals make it more ready to assimilate foreign technology, and hence more likely to achieve their localization.

Another element of the favourable business environment, which the CCP has helped to create, is the repression of working people. This is not something unique to China, but in terms of degree not many countries can rival her. Not only do workers have no freedom to establish independent trade unions, but even NGOs have been suppressed. For the few NGOs which manage to survive, they continue to operate only in the shadow of spies. [48] Only when civil liberties have been suppressed to such a degree can capital succeed in suppressing wages to such a low level for so long. According to a World Bank report, wages in China as a share of GDP declined from 53 per cent in 1998 to 41.4% in 2005, as opposed to 57 per cent in the US. [49] But the benefits which the party-state has brought to capital are not confined to holding down wages - in fact the Chinese wages are not the lowest among Asian countries. The attractiveness of Chinese labour also lies in the fact that the party-state with its barracks-like factory regime, has helped to train a docile work force. This

enables capital to extract the maximum labour from workers and achieve staggering labour productivity. Even if the number of young workers has started to dry up in recent years, the fiercely pro-business state is always ready to help capitalists by providing an adequate supply of labour. Although the planned economy was dismantled long ago, local governments still consider looking for an adequate supply of labour for capital as one of their main tasks, to the extent that they often set a target to make sure enough workers are sent into factories, this prompts local authorities to fulfil the target by making students at vocational middle schools work as interns [50].

This ultra-favourable investment environment was possible only thanks to the 1989 crack down on the democratic movement in Tiananmen Square. Only by smashing the students and workers' struggle for democracy could the party make a final turn in its long metamorphosis from anti-capitalist to pro-capitalist. The fiercely pro-business societal structure, complete with privatization and the bourgeoisification of the bureaucracy could only be born out of the ruins of the 'iron bowl'.

However, it required much more than the crackdown of the workers to guarantee the safe leap forward to capitalism. Privatization prompted the management of SOEs and their government bosses to run down the enterprises and deliberately plunder their assets. This resulted in huge losses for these enterprises which then had a knock-on effect on the banks, which ended up with a huge number of non-performing loans. A big crisis, which was just seen as another price to be paid for the leap to capitalism, began to unfold in 1998. Then the 'benevolent' state came to the rescue by socializing the debt and laying off 40 million state workers in order to make the SOEs competitive again. The state has proved itself to be absolutely useful, not only in keeping its house in order but also by acting as the lender of the last resort when the economy is threatened by crisis or business cycles. The state did the same thing in 2008 when the global financial crisis spread to China. They pumped four trillion yuan of rescue money plus ten trillion yuan in loans borrowed by local governments into the economy so as to fill the hole left by a sharp decline in investment. The EU and the US took similar measures, but China stood out for its rapid response. A scenario such as in the US when Congress, for a while at least, resisted the Bush administration's bailout plan could never happen in the Chinese People's Congress.

China's powerful state intervention would not be so effective without the interaction of other factors. One of these is China's unique situation as the most populous country in the world. Even with a per capita income of US\$4,382 in 2010 China is able to rank second in the world in terms of GDP, which implies a huge domestic market. This also explains why bureaucratic capital and private capital can thrive together. Similarly, even if the party has allowed the influx of FDI, with so many branches of industries opened up for them, foreign investors have not been able to control these industries. Here again the depth of the domestic market provides enough room for domestic capital to grow and compete with foreign capital. Surely in this respect, the visible hand of the state supporting domestic firms in crucial industries helps a great deal.

China's huge rural population feeds the rapid industrialization with a 250 million strong, cheap and educated supply of labour. On top of the existing urban labour force, this is another important factor which must be taken into account. The scale and pace of the proletarianization of peasants is not to be found in any other developing country today or in history. The aforementioned World Bank report regards China's abundant supply of poor rural migrants as an advantage of its backwardness. This concept may be useful in explaining the rise of China but I would like to place it in the context of the 1949 revolution and how this shapes the relations between classes and the party.

When the CCP peasant army took power in 1949, the peasantry was largely the same as had existed for two thousand years, but the CCP an exclusively peasant-based organisation in the traditional sense of the word. It was, and still is, a weird combination of despotic traditions and of a modernization programme (the question of under the label of which kind of 'ism' the CCP chose to

achieve modernization was obviously an entirely secondary matter). Hence, it used the peasants as a steady supply of soldiers for its standing army and expropriated their agricultural surplus, as many exploitative classes and absolutist states have done in the past. Yet its exploitation of the peasants served a somewhat different purpose; it was not just for its own consumption, nor just for national defence, but first and foremost to provide funds for 'socialist industrialization'. Although not really 'socialist', China's industry did achieve the first stage of modernization when Mao's era drew to an end.

In the next period when the Great Leap Forward to Capitalism was kick-started, the state turned to the peasants again, this time to use them for cheap labour to serve the burgeoning industries. The CCP's success in this effort rests on the fact that it took advantage of the backwardness of the peasants and of all the traditional tools in order to tame them. One of these tools was the *hukou* system, or household registration system, which has been in place for two millennia. The party not only fully revived the tradition in 1958, went further by making it even more stringent so as to prevent the farmers entering the city. The party, in combining the household registration system with capitalism, transforms it into a form of social apartheid with Chinese characteristics. Whereas in white-dominated South Africa, apartheid targeted black people, Chinese social apartheid targets a particular class, namely the peasants. Under this social apartheid, peasants are dismissed as second-class citizens and this identity is hereditary. Although since the 1990s the system has been relaxed so as to allow rural migrant workers to work in cities, institutionalized discrimination against peasants is still largely intact; to the extent that it legitimizes the deprivation of peasants' rights to basic education and welfare in the city by the state as well as the capitalists' excuse for driving down their wages. On top of these benefits for the bourgeoisie, this institutionalized discrimination also has a spill-over effect: since migrant workers cannot take root in the city, their identity as workers is temporary while their identity as peasants is permanent. Hence they are never able to plan for the long term while they are working in the cities. This explains why even if they are willing to strike for wages, it is difficult for them to commit to long term organization. And without any commitment to organizing collectively, there cannot be any step forward in developing class consciousness [51].

To sum up, the household registration system has proved to be a powerful tool to develop a flourishing capitalism in China. This is China's advantage in being backward because this tool is based on tradition.

Again, it is the Leviathan state which is paramount in making all these elements work in favour of the modernization project. Thanks to the legacy of decades of wars and revolution, the CCP was able to rebuild a super-strong state in 1949 and was able to first do away with the landlords and the bourgeoisie, and then to implement the planned economy and radical industrialization by imposing military-style discipline. Although with terrible and often unnecessary social and economic costs, the state was always able to over-fulfil the targets in the plan. In contrast, although many other developing countries, such as India, launched five-year plans in the post-war period, they were unable to achieve their targets because the bourgeoisie intensively resisted these plans and the relevant states lacked the institutional muscle to force these through [52].

In the period of 1950-1980, when China grew 6 per cent annually, India was only 3.5 per cent. [53] In 1980, China was just 21 per cent higher than India in GNP per capita, but at that time China already enjoyed a bigger advantage, namely a more powerful manufacturing sector and a more educated work force under a super strong state. The Mao era of industrialization also brought a substantial increase in the size of the working class, from eight million in 1949 to 100 million in 1979, an increase of more than tenfold. [54] By contrast, in the thirty years between 1919 and 1949 the number of workers had only a little more than doubled. [55] The state, although draining too many resources away from the rural regions, nevertheless also promoted education and health, raising the cultural level of the new generation of farmers to a new historical level, so much so that

in the 1980s, in terms of literacy rates, enrolment rates at primary and secondary schools and average life expectancy, China significantly surpassed India. [56] These achievements provided a more educated work force for the industrialization in the next period. It is not surprising that in the ensuing decades China grew faster than India so much so that in 1998 in terms of GNP per capita China was 74 per cent higher than India. [57] The Indian economist Pranab Bardhan remarked that “compared to India, Chinese were better ‘socialists’ during the planning era and better ‘capitalists’ during the reform era” [58] Once again, this confirms that China’s rise is very much related to developments which come from the revolution and its elimination of the unproductive nature of the semi-feudal land ownership, although most mainstream opinions are more likely to disagree or simply ignore this fact.

Ironically, the unfulfilled mission of this revolution also eventually proved to be beneficial to the rise of capitalist China. The 1949 revolution failed to liberate Hong Kong, Macau and Taiwan from capitalism. Thirty years later, when China badly needed capital, technology and management professionals for the burgeoning industries, it was these three places which provided the party-state with enough resources. From the early 1980s until 1989, capital from Hong Kong was the first batch of foreign investment pouring into China. It was, however, not just about money. It was the success story of Hong Kong (and the other three ‘dragons’) which gave confidence to the top party leaders that, judging from Hong Kong’s experience, capitalism could really work. [59] In the second stage, from Deng Xiaoping’s southern tour in 1992 onwards, Taiwan’s capitalists rushed to China and invested even more heavily in capital and technologically intensive industries, such as petrochemicals, information technology and precision instruments. (In recent years the South Korean media described the combination of mainland China and Taiwan in terms of capital and technology in electronics and related industries as ‘Chiwan’, and were deeply worried about being out-competed.) During the same period, Hong Kong evolved into the financial centre for the listing of mainland SOEs/SHEs and private firms. Without Hong Kong, the Chinese companies would not be so rich in capital. Macau satisfies a very different kind of need for the bureaucratic capitalists: it serves not only as a casino city, but it is first and foremost a perfect platform for money-laundering and a springboard for capital flight. [60] Without Hong Kong, Macau and Taiwan, the story of the rise of China would be very different.

However, without the major change in the world situation which happened from the 1980s, China’s story would also be very different. It was the neo-liberal turn in the advanced countries which made possible the removal of capital controls and the hollowing out of industries in the West and then Japan. It is this change on the world stage which eventually made China into one of the highest recipients of foreign investment for many years. [61] The global shift of manufacturing from the rest of the world to China has been one of the factors which enabled Chinese manufacturing grows tremendously, so much so that in 2010 China overtake the US to become the top manufacturing country in terms of its share of world output, standing at 19.8 per cent, up from 3 per cent in 1990 [62].

China’s ability to attract great amount of foreign investment cannot be explained by China’s superior investment environment alone. There was a fundamental change in class policy in China, which quickly brought about changes in foreign policy. Deng’s decision to attack Vietnam in 1979 after his return from visiting the USA, revoking the material support it had given to those Asian Communist Parties which involved in armed struggle against their capitalist state, was in practice sending a message to the USA: we are no longer interested in fighting capitalism and we are rather more interested in a joint venture for making a fortune together!

But China’s growing dependence on foreign investment throughout the 1990s aroused fear among leftists and nationalists that China might sink back to semi-colonial status dominated by Western and Japanese imperialism. Indeed, until 2003 when a change of leadership occurred, China’s economic

development increasingly exhibited characteristics of dependent capital accumulation. Foreign investment became more dominant in some industries, with half of the output value of exports coming from foreign companies. Chinese companies, being at the bottom tier of the global chain of value added, gained very little from playing the role of the sweatshop of the world. The terms of China's accession to the WTO were a huge concession to foreign capital if one compares this to the terms on which India was admitted. [63] This economic trend of an overly-accommodating attitude towards foreign capital was also increasingly manifested in the political arena. Among economists, those who were considered close to certain sections of party officials called for more accommodating policies for foreign investment and more privatization. These people were attacked as representatives of the new comprador class by Chinese New Leftists. [64] However, the fear that China might sink into semi-colonial status has not been realized. Although foreign investment has developed by leaps and bounds, so has domestic investment, hence in 2009 the share of foreign investment in manufacturing was 28 per cent, not much higher than the 2002 figure of 27.7 per cent, [65] albeit in certain areas such as electronics and information technology it enjoys a more dominant position. [66] Foreign capital is also dominant in the export sector. In the domestic market the picture is even more different. A study shows that among the 39 main branches of industry, foreign capital is able to enjoy more than a 30 per cent market share in only one of them. The study also shows that in sectors in which economic sovereignty or 'national security' may be a concern, from scarce minerals, natural monopolistic sectors, equipment industry to defence industry, banking and insurance, mass media and publishing industry etc., domestic firms, especially SOEs/SHEs, remain dominant. [67] Foreign banks account for less than 2 percent of all Chinese financial assets for instance [68].

There are two main reasons for China's resistance to domination by foreign investment. One reason is political: the CCP has very strong nationalist sentiments. Its very mission has been to secure China's independence through a revolution and it has been truthful to its programme first by resisting the Japanese occupation and then by making a revolutionary war against the Guomindang, which the CCP considered represented the comprador class. At the height of the Cold War, Mao dared to confront the Soviet Union and the United States simultaneously. This is a party which has so much national pride that it would not tolerate China sliding back to semi-colonial status. This also explains why, against the expectations of some, Deng told Thatcher in 1982 that China would take back Hong Kong in 1997 when the unequal treaty of 1842 expired. With the US bombing of the Chinese Embassy in Yugoslavia in 1999, against a background where foreign investment occupied a growing share of the Chinese market, the call for protecting China's sovereignty and its market became stronger. As far as foreign investment is concerned, the party-state imposed controls over the sectors in which FDI can invest from the very beginning. In 1995 the State Council issued the *Catalogue for the Guidance of Foreign Investment Industries*, which laid out the sectors in which FDI is encouraged, permitted, restricted, or banned altogether. It has been repeatedly revised to put forward what is considered to be the best of China's 'national interest'. Since the change of leadership in 2003, the party has put greater emphasis on autonomous development and innovation. In 2007 the *Catalogue* was again revised, and while it relaxed some of the previously restricted sectors it also imposed new restrictions on FDI in sectors in which China could already produce or where there were scarce resources. [69] To sum up, the party-state is always in the position to dictate the space in which FDI can operate freely in order to meet its own interests. Meanwhile the government has spent a huge amount of state funds to achieve the goal of more autonomous development. Indeed, with the rise of China, the party has begun to put the restoration of past glory of being a major empire back on the agenda.

The other reason for China's resistance to domination by foreign investment is an economic drive to support more autonomous development, described as economic nationalism by the western media. As previously said, the bureaucracy's interest is tied directly to the expansion of state machinery and

state capitalism; hence it is highly motivated to see an expansion of domestic firms. Moreover, the bureaucracy increasingly finds being at the lowest end in the global chain of value added humiliating or even unbearable and is determined to move upwards to satisfy its ever-growing appetite for a larger share. With a super-strong state and a huge market at its disposal, the party-state, once determined to fight for its fair share, has much more bargaining power than many developing countries in dealing with Western powers and Japan. For instance even though the Chinese government made too many concessions to Western powers in its accession to the WTO in 2001, in agreeing that technological transfers to Chinese companies should rest entirely with foreign investors and that they will make no attempt to intervene, this does not stop the Chinese government from successfully making TNCs transfer technology in exchange for market accession to China. One example is the so-called war over standards. The Chinese government was successful in making TNCs transfer technology so that it could establish its own standard for Video CDs, mobile phones and WLAN (Wireless Local Area Networks). The state wanted a national standard for all these new fields of technology because it wanted state companies to be assured of a market share, while the state was assured of 'national security'. On each occasion, the TNCs initially resisted the Chinese government but eventually they were forced to agree to the deal in exchange for market access. [70] Again, the huge Chinese market gives enough room for both Western standards and Chinese standards to exist side by side, as is illustrated in the Chinese mobile phone market where three standards (European, US and Chinese) co-exist.

To sum up, China's economic development is characterized by its inherent contradictions. Features of dependent accumulation and of relatively autonomous development co-exist, although the latter, with the help of the party-state, has been gathering more momentum in recent years. The advantages of the so-called Chinese model is shaped by a combination of various factors such as the general law of capital accumulation and China's specificities and in particular the legacy of its specific social upheavals and revolutions which cannot be simply copied in other parts of the world.

### **Bureaucratic capitalism and its potential opponents**

Isaac Deutscher once said that Stalin 'drives barbarism out of Russia by barbarous means'. [71] Mao and Deng have done pretty much the same thing to China and while they have accomplished this, they have also nurtured their own potential opponents. In Mao's era the working class reached 100 million. In 2008, urban employment increased to 302 million, while rural employment was reduced to 472 million. [72] In today's China, half of the population live in urban areas. There is also more to this than just numbers. Most of those who have stayed in rural areas are women, children or the elderly. The most productive population lives and works in the cities and towns, hence the average urban population carries more social and economic weight than the average rural one. The changes in the class structure and the economy will, from a historical perspective, fundamentally change the power base of the Chinese Communist Party.

Although the modern working class has rapidly grown in size, its structure has been transformed fundamentally following the great wave of privatization and even more rapid industrialization. The state and collective sector has nearly halved from 110 million to 61 million workers [73], meaning that the majority of the present day working class is composed of rural migrant workers who have no collective memory as a class prior to coming to the cities. Each for their own reasons, neither section of the working class has been able to develop a movement to defend themselves from the barbaric capitalist assault since the mid-1990s.

In a recent article Mingqi Li argued that the older generation of SOE workers are a class which developed a 'relatively complete class consciousness' [74]. This is disputable as one cannot say

workers have developed 'complete class consciousness', even if 'relatively', until they have some idea of socialist democracy and are aware that the one party dictatorship goes against the very principle of socialism. Yet throughout Mao's period, the appeal of socialist democracy remained very weak among workers. Not only did very few of them question the party's social apartheid against the peasants, many of them felt privileged to the extent that they might not treat their workmates who came from rural areas or those from collectively owned enterprises on an equal footing. Therefore one may say that the consciousness of the SOE workers during Mao's period was more that of social layer with a privileged status than that of a modern working class with a mission of breaking down all the barriers between workers and forging a lasting union among them. If the SOE workers in that period did display some traits of a modern working class consciousness, these were mixed up with the exclusiveness associated with their privileged status and also their servility towards the party, which continued to act as a brake on the development of a full working class consciousness.

In Mao's China there was not a total absence of resistance by workers, however. In 1967 during the period of the Cultural Revolution, as well as during the 1976 Tiananmen Incident [75] and the Beijing Spring of 1979, the most independent section of the workers did, to varying degrees, rise up against this despotism, often with a distinctive socialist element. But these struggles were not on a national scale. It was another ten years until 1989 before there was a nationwide revolt, first initiated by students but then joined by tens of thousands of workers, sprung up in defiance of the party's martial law to protect the students who were occupying the Tiananmen Square. The CCP reacted by brutally suppressing the movement. During the next twenty years, the working class was completely restructured. More than 40 million state workers were laid off in the wave of privatization and those who kept their jobs experienced downward mobility. SOE workers experienced the most depressing period in contemporary China. Meanwhile, even for laid-off SOE workers, most of them were not pauperized to a point where they became homeless - the legacy of the 'socialist' past still entitled them to buy, at a price lower than market price, the apartment which they had been staying for years.

Meanwhile, since the mid-1990s, a new working class, composed of 250 million rural migrants was formed. At the beginning, this was a large army of migrant workers with no knowledge of their rights. Local government officials deliberately kept them in the dark and shamelessly sided with the capitalists in denying their rights. Coming from rural areas, they could only passively adapt to the barracks-like factory regime, and since they did not have a high self-esteem or high expectations, the absolute majority of them adapted well to the system. Only when the management occasionally went too far, for instance by beating up workers, would some respond with spontaneous strikes though these were confined to a single plant. This was not just because of government repression but also because the rural migrant workers had not developed any idea of long-term organization. An additional factor was that although their wages are very low, their income is high relative to that of peasants. Those migrant workers who have had the opportunity to upgrade to skilled workers have moved up the social ladder. In recent years, the regular increase in the minimum wage further improved their livelihood compared to the first generation of migrant workers. Therefore, despite widespread spontaneous strikes, the discontent of these rural migrant workers not reached boiling point. This has been one of the reasons why the party-state has experienced more than twenty years of stability.

However, the working class continues to grow in number, along with its cultural and educational level which irresistibly raises workers' self-esteem and expectations, injecting into them new strength of resolve.

State sector workers on the other hand have not yet overcome the demoralization inflicted by the defeat of 1989 and of the massive privatization. However, the 2009 struggle by workers at Tonghua Steel which successfully resisted privatization is noteworthy. Violent actions against managers by

workers are not uncommon since the onset of the enterprise reform but they have usually been individual actions. When workers have conducted collective protests they have tended to be moderate for fear of reprisals. The Tonghua Steel workers' struggle was both collective and violent; the workers collectively killed a manager, something that has never happened before. [76] Whether this signifies the end of their demoralization is still hard to say. Yet, it is also obvious that the demoralization effect of the June 4 1989 Tiananmen Square massacre will draw to an end sooner or later, along with the old illusion that the party-state is benevolent.

Not only have the number of workers in the state sector significantly reduced, but the composition of this section of the working class has dramatically changed as well. In the labour intensive industries such as manufacturing, even rural migrant workers form a part of the workforce of the SOEs. It is no longer the case that SOE workers are necessarily urban residents with a higher income than workers from other sectors. This implies downward mobility for SOE workers, but at the same time, with the continuous increase in wages among rural migrant workers, it also means that the gap between workers from the two different kinds of household registration is narrowing. This, in the long term will facilitate the mutual understanding between the two sections of the working class. Meanwhile, the new generation of SOE workers are not burdened by the 1989 defeat; in fact most of them do not even know about it.

Rural migrant workers today are more aware of their legal rights, especially in the coastal areas, and are more likely to strike when they feel that they have suffered an injustice. For decades the CCP's policy was to prohibit strikes. [77] However for the past ten years there have been so many wildcat strikes that today local governments have in practice acknowledged that they have to tolerate these strikes, as long as strikers do not try to block roads or the employers concerned have no connection with government officials. It is very common for these spontaneous strikes to win partial victories, which has also prompted the party's decision to raise the minimum wage in recent years. This proves that rural migrant workers, even if they have not yet developed any class consciousness or any organization, are still able to fight to increase their share of income in relation to profit. Although there are no sustainable labour organizations, a network of labour activists and 'barefoot lawyers' has been formed. Even if some of them only work to earn money, their overall effect helps to promote workers' awareness of their rights.

Today most of the young rural residents hardly plough the land and an increasing number of them are either born or raised in urban areas and are much less attached to their home villages than their parents. They also have higher education than them. All this contributes to the development of a higher self-esteem and expectations among these young rural migrants. The struggle in 2010 by the Honda Foshan workers was a new sign of hope. The young migrant workers not only demanded a pay rise, but they were also bold enough to break the taboo and demanded the re-election of the workplace trade union representatives. Their struggle reflected their democratic aspirations and also their ability to carry these through. Their partial success also shows that, at least in the Pearl River delta, local governments have understood that repression alone is no longer effective [78].

Migrant workers, with their hard earned money, are also improving the lives of their families left behind in their home villages and are raising their children's educational level by paying their school fees. Rural migrant workers actually act as a bridge between urban and rural areas. They bring back to the village knowledge gained in the city, including their experiences of economic struggles. Today's rural population, especially the new generation, are no longer the peasants of thirty years ago who lacked modern culture. Some of them have thrown off their mentality of subordination and the fatalistic outlook which had endured in these communities for centuries. These people are likely to have an awareness of themselves as citizens and a view that things can change for the better if they try, although for most of them it is still confined to individual endeavour like learning more skills and/or frequently changing jobs. The changes in outlook and expectations among the peasant

population are also slowly forcing the officials to adjust their decades long policies of harsh repression.

The struggle in Wukan village against land grabbing at the end of 2011 [79] was a new sign of hope for farmers. The villagers were able to break taboos and establish their own organization to coordinate the fight. What was even more significant was that the Guangdong provincial government recognized this organization, negotiated with it, and concluded the talks by allowing the organization to subsequently hold formal and democratic elections of the village committee. This broke with the past policy of the party-state to never permit the autonomous organizations of people or allowing free elections.

The party-state has remained very stable in the past two decades. An important reason is the fact that high growth rates contribute to the emergence of a growing 'middle-class', composed of relatively high paid white-collar workers, professionals, and small capitalists. Most of them have fared much better than their parents. It is not surprising that over the past decades they have focused on climbing up the social ladder. However, with the growth of the monopoly of bureaucratic capital, the horrifying scale of corruption and environmental pollution, this middle class is increasingly concerned about its further opportunities for upward mobility, or about its own interests being infringed upon by corrupt officials. In recent years there have been quite many local protests against environmental pollution, where both working people and middle class residents joined in together [80].

To summarise, the three decades of accelerated industrialization has dramatically modernized China's class structure as well as changed people's thinking on a more gradual basis. Amongst workers and peasants and the middle class, more and more people have developed a civic awareness and an aspiration for democracy. Though rising mass struggle is still not evident, fear is receding. In the previous period, workers or farmers were only seen as 'vulnerable groups' by the media and intellectuals who saw them as people who should be pitied but not really respected, let alone feared. In recent years however, one hears more complaints by bureaucrats who say that 'now it is more difficult for the government to control the masses'. The deputy secretary of the Guangdong Province, Zhu Mingguo, warned party cadres following the events at Wukan that 'when the masses get angry, you will know what the meaning of power is.' [81] This is why in recent years some local governments have become more tolerant of mass protests and sometimes prefer to make concessions. The power of the masses is actually slowly expanding the space for further struggles.

However, a numerical growth of the working class does not automatically lead to a growth of class consciousness. The current authoritarian social and cultural context, and the legacy of China's two millennia of absolutism and the corporatism which the Communist Party revived, continues to hamper working people from developing a democratic practice. It is common that when workers take collective action they spontaneously make decisions democratically, as the Honda case and others show. Yet long term organization require more sophisticated procedures and here both the Chinese tradition and the party's practices have very little to offer.

It was not accidental that when Sun Yat Sen, founder of the Republic of China, first agitated for democratic revolution during the late Qing dynasty he found it necessary to first introduce procedures for running meetings. He was not successful in promoting these kinds of democratic practices, however, as all subsequent Chinese governments had hardly any interest in functioning democratically. Hence democratic conduct, such as basic procedures for meetings, has to be learned afresh. (Even in Taiwan and Hong Kong today, many trade unionists do not like voting as they consider it 'divisive'.) The positive side is that it is always possible to learn these things, especially when independent-minded activists find out that democracy really does enable the working class to realize its collective power and is therefore inherently beneficial to its cause. In the final analysis,

even if the cultural legacy must be taken into account, one must also bear in mind that in a broader sense this legacy also allows humans to learn to change through conscious actions especially when the material conditions of their lives have greatly improved their ability to act.

Ironically, although Hong Kong has played a huge role in helping the party-state to promote capitalism, it has also contributed partially to the development of a democratic awareness on the mainland, or in recent years at least in South China. NGOs of Hong Kong origin which work on the mainland, or Hong Kong solidarity movements with mainland dissidents and labour activists, and last but not least, its own political liberalization are all indirectly influencing people on the mainland. Retired and dissident high ranking party officials often publish their memoirs in Hong Kong and every year some mainland Chinese will come to Hong Kong to join the 4 June 1989 Tiananmen Square memorial events. More and more mainland expectant mothers come to Hong Kong to give birth to so that their children will obtain the right of abode and be raised in a freer environment. Neither is it one-way traffic between Hong Kong and China as far as democratic aspirations are concerned. One must not forget that it was the great 1989 democratic movement in mainland which gave the first great impetus to Hong Kong's democratic movement.

All these forces are slowly working to make the party-state tone down its habitual contempt for the legitimate rights of the people. Today, to try to force the authorities to respect the political rights of its citizens is still a futile or even risky undertaking. But in matters concerning economic rights, it is now less risky and it is not rare to see people successfully fighting for these rights. The CCP is reacting by improving labour legislation so as to channel struggles into a long judicial process. Some argue that the CCP is now beginning to evolve into a more law-abiding regime. [82] If this becomes the case it will only be because the workers are beginning to take matters into their own hands. More workers are now fully aware of the fact that since government officials rarely prosecute unscrupulous employers, it is better to take direct action – which more often than not is illegal – rather than just relying on the legal process. For a long time, the arbitrary rule of the party-state worked in its favour as it was free to do whatever it wanted. Yet now it is increasingly undermining itself by pushing bigger and bigger groups of people to rebel.

However, an alternative is still lacking. The sharp turn to the right in both the political and economic arena over the last twenty years is also reflected in a similar turn in social thinking. Marxism and socialism are both deeply discredited. The experiences of the intellectuals have led to most of them abandoning any faith they had in left-wing ideas. Under Mao's version of socialism, intellectuals were discriminated against as *choulaojiu* (literally 'Stinking Number Nine', because they were the group given the lowest social status) [83]. Under Deng and his successors, for the first time since the 1949 revolution, not only has the discrimination stopped but the intellectuals are also now able to quickly move up the social and political ladder because of fast economic growth. Hence most of them draw the conclusion that socialism is bad and capitalism is a comparatively better choice. For the minority of intellectuals who still aspire to some kind of socialism, their references are likely to be more Stalinist in essence than genuinely socialist, as they still defend the one party dictatorship. Both Liberals and certain New Leftists, on the other hand, share the same hostility towards a democratic labour movement organised from below. Although a turn to the left has not yet occurred, a new generation of intellectuals is now beginning to occupy the social scene which does not have the ideological burden of the past and is beginning to think differently. Their sensitivity to human rights and civil liberties helps raise the awareness of these rights among the public, although this is still more likely to be wedded to liberal discourses. For the first time in many years, there are university students who are beginning to develop sympathy with workers and peasants and to try to improve their lives, although the scale of this remains very small. In contrast, the students in 1989 were very suspicious of the Beijing Autonomous Workers' Association. [84] If Chinese socialists want to revive the credibility of socialism they need to show active support for any extension of civil

liberties and political freedom without, at the same time, succumbing to the liberal discourses about the free market.

### **China's rise reaches bottleneck**

The Great Leap Forward to Capitalism, although successful, resulted in the Chinese people paying a terrible social, economic and environmental price. At the same time, it has created new contradictions which may begin to create a ceiling continual high economic growth.

With poor energy efficiency, fast economic growth has drained so many resources that today half of China's oil consumption comes from imports, whereas in 1992 China was still self-sufficient. [85] The growth of industry also overuses and pollutes water resources to the extent that today 400 out of 660 cities in China do not have sufficient fresh water, and among these cities, 136 of them are experiencing severe water shortages. [86] China's rise has taken such a toll on the environment that most well informed scholars know that the current growth rate is unsustainable.

'Human resources' are beginning to dry up as well. Ten years ago, the business sector was still celebrating the unlimited supply of labour. China has been so successful in attracting FDI from all over the world that today the supply of labour is beginning to fall. Strictly speaking, Chinese labour resource is still abundant. But the numbers of those who are young or strong enough, have basic education and are willing to work very hard in very bad conditions in exchange for very low wages is getting smaller. This sector of the labour force is precisely what sustains the so-called 'China's price'. The drying up of this kind of labour means that China's low wage advantage is diminishing, which will again affect China's ability to attract foreign direct investment and to export.

Another bottleneck that China is running into is exports. Firstly, China is unlikely to maintain a 23 per cent average annual growth rate for its exports indefinitely as it did in the past ten years, without creating trade wars with other countries. Secondly, shrinking European and American markets, due to the financial crisis of 2008 and its aftermath, is beginning to impact on China's economy. This could be particularly serious for China as it is heavily dependent on foreign investment and exports. In 2004 China's imports and exports account for 70 per cent of GDP, an unusually high proportion for a large country like China. [87] This means that China's integration into global capitalism goes so deep that the latter's great downturn will mean that China's exports will soon lose momentum. Rising wages and the appreciation of the yuan have already led to many export factories are closing down or are losing money.

China's second engine of growth comes from its high investment rate, which is increasingly led by the government. For decades it has stood at more than 40 per cent, [88] which is even higher than that of South Korea during its high growth period. This has been achieved by suppressing wages and the prices of agricultural produce, however, and this results in a lack of consumer demand. Central government has been advocating a redistribution of income in favour of workers and peasants to stimulate domestic demand, but this has not been very successful. Between 1978 and 2009, private consumption went down from 49 per cent to 37 per cent. In contrast, in 2008-9 the figures for South Korea, Malaysia, Indonesia and India are 55 per cent, 50 per cent, 61 per cent and 59 per cent respectively. [89] One result is persistent overproduction, with the first round of severe overproduction occurring in the period 1997-2000. In 1998, official statistics showed that China had nearly 500 kinds of products with a capacity utilization rate of below 60 per cent. This problem was solved only by plant closures, massive layoffs, and enormous bailouts. Once the trouble was over, another round of crazily rushed investment kick-started again which paved the way for the next round of overproduction, this time in the real estate market.

The second wave of privatization, where bureaucratic capital has colluded with private capital to grab urban land and develop it into new projects, underpinned the recent housing boom. Prices are now so high that they are entirely beyond the means of the lower middle class. With the support of public credit, the market is creating a huge bubble. The crisis in 2008 actually made it worse. In that year real estate loans stood at 600 billion yuan, which then surged to 2.46 trillion yuan in 2009 and rose again in 2010 to 2.9 trillion yuan, a fourfold increase in two years. [90] When such investments failed to create enough returns, they turn into unperforming loans for the bank. The state may again soon have to play the role of lender of last resort, as it did at the turn of the century, only this time the bailout will have to be even larger.

The great recession in the US and EU in 2008 prompted the Chinese government to launch the great rescue package of 4 trillion yuan, on top of a 10 trillion investment plan by local governments. The result was that total local government debt rose from 1.5 trillion yuan in 2002 to 10.7 trillion yuan in 2010, which is equal to 27 per cent of the GDP, causing concern among bankers in the West. [91] This is because if one adds domestic and external debt owed by central government, which now stands at 17.4 per cent of GDP, to these local debts, then total public debt reaches 44.3 per cent of GDP [92].

Pro-government scholars have tried to comfort foreign investors by saying that this is still far from the warning level of 60 per cent. The problem is that these are only official figures. It is well known that there are hidden debts, but the amounts remain a mystery. Furthermore, even if the current debt level does not cause an immediate crisis, if local public debt can increase sevenfold in eight years, this reveals the imperative of bureaucratic capital to borrow money without ever thinking about how to repay it. This indicates that bureaucratic capital is taking central government hostage by forcing it to bail it out. Therefore, it may not take very long for total debt to increase to 60 per cent from its current level.

Local officials have been crazily borrowing money to invest in suspicious projects, despite the initial ban on local governments issuing bonds. These local governments simply get around the ban by creating companies to borrow on their behalf. In 2011, central government responded to these illegal acts not by prosecuting local officials, but instead by permitting a number of localities ie Shanghai, Zhejiang, Guangdong and Shenzhen to issue local public bonds. [93] The party-state, while it is able to stamp out all out-spoken dissidents with ease, is entirely impotent in checking the greed of its officials. This has laid the ground for a future debt crisis.

As long as the economy continues to grow, guaranteeing government revenue, then it is not difficult for the central government to play again the role of lender of last resort. The problem is that it is difficult to maintain an annual growth rate of 8-9 per cent by flooding the market with more credit, without first causing higher inflation and promoting an even bigger bubble. One may say that today, China has reached a point where it cannot guarantee stable and rapid economic growth without first rebalancing its economic structure.

Again, it is due to the self interest of the bureaucracy that the policy of substantially raising the income of the working people so as to rebalance an investment and export led growth to a more consumption and domestic oriented growth is not that easy. Despite its scale the 2008 rescue package failed to increase the share of household consumption in the following years because two thirds of it was directed to infrastructure. The decline of household consumption continues. Whereas in the 1990's, household consumption was 47 percent of GDP, in 2008 it dropped to 35.3 percent and then for three consecutive years, from 2009 to 2011, the share of household consumption hardly rose at all [94].

As mentioned previously, the central government has decided to raise the income of the poor as one

of the measures to rebalance the economy. Depicted by some as a Chinese New Deal, the current leadership has, in recent years, increased the minimum wage, rescinded the agricultural tax and levies at the village and township level, granted agricultural subsidies to peasants, embarked on a massive housing project for the poor etc. Some of these policies have been implemented. As a rule, however, the greater the amount of money involved, the more likely it is that a large portion of it will eventually end up in the pockets of the bureaucrats.

As a result the buying power of working people remains very low, while the gap between the rich and the poor grows even larger as the bureaucracy takes advantage of the financial crisis of 2008 to make a fortune. Again, this proves that the biggest obstacle for the implementation of a New Deal is the CCP itself. The only way to fight corruption is to put the bureaucracy under democratic control. Such an idea, however, is something which the CCP hates. It can deliver minor economic benefits to the people if hard pressed either by protests or by imbalances of the economy, but it can never allow itself to be placed under democratic scrutiny.

Most of the bureaucrats are only interested in solutions to solve economic imbalances that will directly benefit them. One of these solutions is to export surplus capital. This has been energetically led by the state; hence it is no surprise that it is chiefly the SOEs/SHEs which benefit. As early as 1998 when an economic crisis set in, the State Economic and Trade Commission released a policy document *Index of Over-Invested Production lines for Moving Abroad* to encourage enterprises to export surplus capacity [95].

At the 2001 National People's Congress, Premier Zhu Rongji officially announced the 'go global' policy, and included this strategy in the Fifteen Yearly Plan. Since then China's foreign direct investment has grown by leaps and bounds, from US\$ 29.9 billion in foreign investment and by stock in 2002, to US\$ 184 billion in 2008. In 2009, China's foreign direct investment ranked sixth in the world. [96] This is just the official figures, without taking into account the huge amount of capital flight and the FDI owned by Hong Kong subsidiaries of SOEs/SHEs. An increasingly large amount of foreign investment necessarily requires the Chinese government to pursue an expansion of its influence in international affairs and in the internal affairs of the host countries. Therefore, despite the Chinese government's insistence on a 'peaceful rise' and non-interference in the internal affairs of foreign countries, the global expansion of its economic power necessarily ties it to a policy of political and military expansion.

In the short to medium term, if China ever starts a war, it will most likely be a war with a small country rather than with a hegemonic power like the USA. Today China is too strong for any hegemonic power to conceive of a winning war against it, and for its part the CCP does not consider such a war as beneficial. Its economic interests are now so fully integrated with the USA and the EU that war is excluded in the medium term. Moreover, as long as Taiwan remains under the protection of the United States, the Chinese government has to maintain a prudent policy in its expansion of international influence. If war with the USA is unlikely, it does not mean that the two countries have no conflicts. China and the USA have common interests in maintaining the global production chain, but Chinese bureaucratic capital is determined to fight for a greater share, while US monopoly capital is trying to keep its portion. Therefore, the two countries will continue to compete in the economic, political and even military arena. China will do the same with other countries, if to a lesser extent. Therefore, China's rise necessarily accelerates economic competition and the arms race between all the big powers.

The past success of the party-state has been heavily reliant on imitating foreign technology. This will reach its limit when a higher level of development demands genuine innovation, in which China is still falling behind the West and Japan. According to Li Guoping, high tech domestic patents rarely belong to Chinese companies, and of the 100 most valued world brands in 2010, fifty go to the US

whereas China has none. [97] The party knows this but it does not understand that it is itself precisely the obstacle in the way of a breakthrough of indigenous innovation, because for this to happen would require a free academic environment, the rule of law and a more open culture and education; all of which are incompatible with the one party rule.

Many forces are now at work to place a limit on China's rapid economic growth. In the near future, a sharp drop in exports, an even weaker domestic demand or the bursting of the real estate bubble may trigger an economic crisis. However, Chinese bureaucratic capitalism determines that the state is always on the alert to bailout itself and the private capitalists. This implies that China, like many countries today, is going down the road of accumulating an unsustainable debt.

What characterizes today's situation is the way in which the party-state is beginning to exhaust its capacity to keep the economy going at this high speed. Some of the advantages of China's state capitalism are increasingly turning into hindrances. State-led investment is so corrupt that increasing amounts end up in failed projects and then in nonperforming loans. The bureaucracy, having devoured an ever bigger portion of the national income, makes itself the common target of all classes. Society is increasingly unable to bear the burden of the predatory bureaucrats.

When the economy is still growing, all of these contradictions remain manageable for the bureaucracy; even if the private capitalists and foreign capital are discontented with the monopoly imposed by bureaucratic capital, or if within the bureaucracy there is disagreement over pro-state versus pro-market actions. However, in a serious economic downturn these conflicts may become so serious that the risk of spinning out of control becomes higher. This time they will develop within a context different from the last crisis at the turn of the century: the borrowing ability of the state rapidly declining, a bureaucracy plagued with centrifugal forces, corruption and the growth of internal divisions, an awakening working class gradually recovering from the defeat of 1989, and a peasant population keen to defend its land. Therefore, the coming economic crisis may have more chance to develop into a political crisis than was the case at the turn of the century.

In most capitalist countries, the political and economic spheres are separate from each other; hence the economic struggle of labour tends to be sectoral and usually non-political. Hence it is possible for the development of a non-political trade union movement, although the value of this to labour has been much debated. In China the two spheres are to a great extent merged, so that the invisible hand of the market is always underpinned by the visible boot of the state, therefore even a non-political independent trade union is not tolerated. Strangely, a strategy of 'depoliticization' of the labour movement is precisely what is advocated by Han Dongfang and his China Labour Bulletin after they dropped their previous position of fighting for an independent trade union movement. It is not realistic, however, because the despotic state and the repressive factory regime stand and fall together. To argue that Chinese labour disputes 'do not represent a threat to the state and can in most cases be resolved within the enterprise without recourse to government intervention' is to forget that the very interest of bureaucratic capital determines that the latter necessarily sees labour struggles for economic betterment as a threat to its state. [98] It is improbable that a trade union movement from below can fully develop without at the same time winning basic civil liberties and eventually democratizing the state. Either economic strikes remain isolated and are heavily repressed, or when they occur in the midst of a political crisis, they have the chance to broaden out as they necessarily clash with the party-state and become politicized through raising of demands for civil rights and political freedoms.

## **The faction fight within the Chinese Communist Party**

When the Soviet bloc disintegrated in the early 1990s, many people expected that the CCP would follow suit soon. Today, many more think that the party-state will remain stable for years to come. There is increasing pessimism about the future of democracy in China. [99] This argument is often posed in the same way as other theories which see China as a 'super-stable structure' which is incapable of developing democracy on its own [100].

We are not that pessimistic about future of democracy in China. The phenomenon of a bureaucracy rising above all classes for more than sixty years is the product of specific historical conditions and a special set of class relations, not ordained by any mysterious and ahistorical 'cultural structure'. When the historical conditions and the set of class relations change, they also necessarily change the power of the bureaucracy.

In the last analysis, the fact that the bureaucracy was and still is able to promote itself as the supreme ruler in the former Soviet Union and today in China, originates from a workers and farmers' revolution which eventually degenerated because of social backwardness and its isolation in the international scene. Socialism can only be built in affluent societies, where the material conditions for workers self-management, such as the shortening of work hours and free education for all at least, are possible. In backward countries like Russia, although the working class did have the ability to establish their revolutionary government, poverty also made it difficult for them to move forward to socialism, without the revolution being extended to the advanced countries. It was inevitable that the Russian Revolution could not go forward when it was isolated, and very soon the workers' government evaporated into thin air while the bureaucracy usurped all the power. This was just the first step towards capitalist restoration. As Trotsky said, 'The Soviet bureaucracy has gone far toward preparing a bourgeoisie restoration ...Privileges have only half their worth, if they cannot be transmitted to one's children....The victory of the bureaucracy in this decisive sphere would mean its conversion into a new possessing class.' [101]

The process proved to be much longer one than Trotsky expected, however, and allowed the Soviet Union to attain such a high level of industrialization that in the 1980s it was predominantly urban. A new generation with higher education and expectations gave rise to a movement from below, in the midst of a growing economic and social crisis. Gorbachev responded with Perestroika, which only exacerbated the contradictions. The bureaucracy, under pressure from below, found it necessary to act quickly to restore capitalist property relations. Yeltsin succeeded, but there was a price to pay. He had to dismantle both the party and the Soviet Union itself before he could decisively defeat the Stalinist wing of the party. The side effect of his victory was a considerably weakened bureaucracy.

A severe economic recession hit the working class very hard and it was deeply demoralized. Yet they and other social classes, for the first time in many years, gained some basic political freedoms. Representative democracy was installed, although more in form than in substance, and this at least allowed for some political pluralism: bourgeois and workers' based opposition parties do exist. Later Putin's government was able to regain some lost ground, but he is unable to eliminate political pluralism altogether. All classes of society continue to struggle with the bureaucratic regime and make any attempt to reinstall a totalitarian regime almost impossible. Therefore, even if Russia exhibits some features of bureaucratic capitalism, it is only a weak version of it, and hence not so different from common authoritarian capitalism.

China's trajectory of capitalist restoration was basically similar to that of the Soviet Union, but in China's case it was more drawn out and consisted of two stages spanning twenty years. In 1982 the CCP had already abolished the constitutional right to strike, which signalled the first change in the

class role of the state. A transformation of the class character from anti-capitalist to pro-capitalist took place within the state in 1988 when the CCP amended the constitution, legalising private enterprises and the sale of land-use rights. If the 1988 event only revealed the party leaders' intention, then the 1989 crackdown on the democracy movement was an unmistakable sign that the party now wanted to implement its plan even if it meant a bloodbath. In 1992 the southern tour by Deng Xiaoping marked the Great Leap Forward to capitalism in the social and economic arena. Martin Hart-Landsberg argues convincingly that China's economy had become capitalist since the turn of the century [102].

If China diverged from Russia after the period of 1989-1991, with China emerging as a strong capitalist state with spectacular economic growth, the fact that the CCP was able to stay unified, while the Soviet Communist Party was split was crucial.

Deng Xiaoping could keep his party unified because the Chinese revolution was more recent than that in Soviet Union. In China in 1989, the leaders of the revolution were still alive and in command, even if Deng Xiaoping (and to a lesser extent, Chen Yun) were considered as the second generation of leaders within the party.

Although Deng was far less charismatic than Mao Zedong, he was still recognized as the unchallenged leader. His charisma (and also that of Mao to an even greater degree) could be explained by the fact that he embodied the leadership of a great revolution which had substantially improved the lives of workers and peasants, even if more recently that leadership had transformed itself into a conservative bureaucracy. But this was also a revolution which had always exhibited bureaucratic substitutionism and personal dictatorship. This explains why Deng with relative ease could place his opponent Zhao Ziyang under house arrest in 1989, thus ensuring the unity of the party and then suppress the democracy movement. Gorbachev, by contrast, was no more than a later-day bureaucrat. Even if he exhibited skills as a politician, he lacked the necessary authority as a charismatic leader to keep the party united behind him.

The moment when Deng repressed the movement signified that the CCP had completely betrayed the revolution and had transformed itself into a political party of capital and of bureaucratic capitalists. However, the combination of the exercise of coercive power with the accumulation of capital has now making the party-state too visible a target for the people who are increasingly disgruntled. In Mao's era, even though the party-state was very repressive, it nevertheless did deliver job security to the workers. Today it is very obvious that while it continues to repress and exploit the people, the party-state has very little to give to them. It has increasingly lost its legitimacy due to the tremendous number of corruption cases involving the leading circles of the party. This is also why the party has been more and more interested in promoting nationalism or even xenophobia in recent years - it is the last political resort it has to divert domestic problems into external ones.

Yet even if this is a very convenient political leverage for the party, it is limited by a situation for which the CCP itself is responsible for. Not only is the Cold War long over, but today China, through the choices of its government, is totally integrated into global capitalism as a close economic partner of the USA and the EU, something from which its capitalists have heavily benefited. This allows a relatively narrow space for the CCP to play the card of nationalism and makes a nationalist appeal not at all convincing. Ordinary working people today, are more concerned about their job security, their pension and a future for their children, than the imaginary foreign enemies who are apparently always ready to attack China.

While people should not underestimate the potential rise of nationalism, for the immediate period ahead the party-state and its bureaucratic capitalists will find themselves the main target of all

classes. This will increase the chances for a faction fight within the party.

Leading party cadres have always been divided into cliques whose main purpose was to fight for power and influence. Market reform has introduced additional centrifugal forces into the bureaucracy. There has been fierce competition between different regions to attract investment and vie for market share. Since economic benefits are proportional to the coercive power of cadres' position, this fuels even greater power struggle between the cliques. More often it is a zero sum game, and those who lose may end up in jail. Nevertheless, there has been no serious disagreement over the principle of restoring capitalism, or over the strategy of striking an economic alliance with the West. This is because the economy has been growing for the last twenty years, and therefore faction fights within the party have been kept under control and have not developed into serious political divisions. Although there may have been party cadres who are more inclined towards the liberals and others who are closer to the nationalists, there seems to be as yet no crystallized political factions within the party. [103] What can be sure is that the Chinese bureaucratic capitalism has begun to enter a bottleneck. With a possible economic crisis and protests becoming more widespread, political divisions may develop whether for example concessions should be made to private capital and/or foreign investors? Should more privatization be promoted? Should China consider maintaining good relations with the West rather than fighting with it for a bigger share of the pie? Should mass protests be heavily repressed, or not? Confronted with different choices, this fifth or sixth generation of leaders will find itself lacking the authority to settle the deep divisions among them; hence the possibility of a split will be greater than was the case in 1989.

With charismatic figures receding into history, their successors have tried to modernize the party by introducing rules within the leadership to avoid never-ending power struggles over succession, something which the People's Republic has not lacked in its history, and which in the end could be detrimental to the bureaucracy as a whole. While Deng was still alive, the party had already dropped the previous practice of allowing top leaders to remain in office until they died, and had imposed an age ceiling and a maximum of period of two terms for top office holders. Since Hu Jintao became president, the top leadership has introduced consultative voting among central committee members for the selection of successors to the political bureau.

This kind of reform may enable the party to avoid the worst kind of struggle for succession but it is still a far cry from democratic elections throughout society that can be seen as fair and legitimate. Hence the present reform to choose the top leaders will not satisfy the powerful princelings who find themselves in a minority, and will not stop those with ambition from challenging the results of this kind of 'restricted consultative democracy'. The struggle over succession will largely and continuously be settled by strength, manoeuvring and plotting. Although at the time of writing it is still far from clear, it is widely believed that the fall from power of the former head of Chongqing, Bo Xilai, might be a result of one of these power struggles over succession. This was implicitly confirmed by an article, published on the official website Guangming Wang, attacking Bo for being too ambitious in trying to build up his personal influence and linking this alleged mistake of his to the excesses of personality cult during the cultural revolution. He was however expelled from the party for criminal charges instead - corruption, abusing his power over the murder of British businessman Neil Heywood and having so-called 'improper [104]' sexual relations with several women. [105] With a background of increasing economic problems and a population increasingly more angry over widespread corruption, the inability of the party to introduce a fair way to choose successors acceptable to all increases the risk of a political crisis, at least once every ten years, when the term of politbureau standing committee members expires.

The party has been very successful in modernizing China and through this enriched its cadres, but precisely because of this it has changed the conditions which brought it to power. Today, China has been modernized to the point where the working class comprises more than two-fifths of the

working population, and it is a more and more disgruntled class.. The bureaucracy has been so successful in satisfying its greed that it has depleted natural resources and the ecological balance is at breaking point. From a Maoist revolutionary party it has evolved into an entity which is a curse for the environment and for people. By fulfilling the dual role of political repression and of capital accumulation, it will make itself the main target of popular anger.

The struggle from below will inevitably grow in the next period, and this fact pressurizes the party-state to shed the worst features of bureaucratic capitalism. The degree to which bureaucratic capitalism evolves into common authoritarian capitalism or even into liberal democracy will be decided by the revolt from below. The renaissance of a socialist labour movement may be able to reap even bigger fruit, although for the moment I have no clue as to how close this is. There is nevertheless one thing that is certain: a new period of crisis of bureaucratic capitalism has opened up, and the party-state will find itself more and more challenged by all the other classes, with the working class posing the biggest potential threat. Eventually history may prove that the vision of certain pro-government writers, who think that the CCP's absolutist regime is comparable to the great Han and Tang dynasties which lasted two or three hundred years, is too much of a fantasy.

For twenty years since the defeat of the 1989 movement and the onset of full scale restoration, the Chinese toiling masses and intellectuals have experienced deep demoralization and de-politicization rarely seen in contemporary Chinese history. This period may come to an end in a not too distant future, given all the contradictions accumulated and what the people have learned. It is time to remind ourselves of the remark made by Marx in days of the great political downturn in 1863, that 'these may be again succeeded by days into which 20 years are compressed.' [106] You should not exclude the possibility that in an economic and political crisis, the party-state may find itself split or that events spin out of its control, triggering a revolutionary situation as almost happened in 1989.

With a despotic state in its hands, the Chinese bureaucracy is more than capable of containing the economic cycle, but its largely medieval social and political thinking means that it lacks the flexibility to deal with a political crisis and a people in revolt, and this means it may exacerbate the crisis rather than contain it. But even if in the future a revolutionary situation begins to emerge it does not necessarily imply a revolution will actually take place, let alone its succeed. This requires long-term education and organizing among the masses, but in a situation such as in China where civil liberties do not exist, this is particularly hard. However, a political crisis is inevitable in the medium term, and this will give the people an opportunity to find ways to organise against the despotic state. How far they can go is still unknown, given the effect of decades of atomization. Yet the struggle now is in front of us, not behind us.

In the final analysis, the historic role of the bureaucracy acting as a substitute for a bourgeois class in modernizing the country is a contradiction in itself: it was both the result of backwardness and also its embodiment. Hence with every two steps forward it made towards modernization, it was also pulling the country back one step. It pretended to be omnipotent but in fact it was so backward in culture that it necessarily made a plethora of mistakes. The Chinese bureaucracy was particularly backward: in 1978 only 6 per cent of those who occupied positions of responsibility in the party and state organs had college-level training. [107] Today, although many leading cadres may have masters or even doctorates degree, very often these qualifications are bought with cash. The omnipotent bureaucracy has, once again, proved to be impotent in modernizing the country without making the people and the environment suffer. If it ever had any historic usefulness, it has long exhausted this. From a socialist point of view, it is time to reassert the idea of socialism as a fully developed democracy which does away with the bureaucracy by creating the conditions for the state to wither away altogether.

This date of reckoning may not be close. The new generation of workers and peasants still has much

to learn in its fight for justice. Moreover, with socialism discredited, today few intellectuals are willing to fight for it. Those that still adhere to these principles may have to be patient in preparing for a renaissance of socialist ideas and the rebirth of mass movements.

### **Au Loong Yu**

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Various chapters of his book Au Loong-Yu refers to here are available on ESSF website, even if often under earlier versions.

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[http://www.europe-solidaire.org/spip.php?page=auteur&id\\_auteur=585](http://www.europe-solidaire.org/spip.php?page=auteur&id_auteur=585)

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### **Footnotes**

[1] The Beijing Consensus, How China's Authoritarian Model will Dominate the Twenty First Century? Stefan Halper, Chapter two, Chinese translation, Basic Books, Taiwan, 2010. The original idea of the 'Beijing Consensus' was raised by Joshua Cooper Ramo, but when he wrote his book in 2004, The Beijing Consensus, he did not mean to present it as a challenge to the Washington Consensus. His idea of 'Beijing Consensus' continues to be disputed by other scholars. See, for instance, Ding Xueliang's The Chinese Model, For and Against, Chinese edition, Oxford, Hong Kong, 2011.

[2] Ibid.

[3] The Economist, January 21, 2012.

[4] Most notably by Tony Cliff of the British Socialist Workers' Party. State Capitalism in Russia was first written in 1947.

[5] In 1976 state owned enterprises accounted for 12 or 13 per cent for Britain, France and Germany respectively; Italy has a much higher proportion, reaching 24 per cent the same year. Guoyou jingji buju (State Owned Economy), by Chen Hong, China Economic Publishing House, 2012, Beijing, p. 85.

[6] The Deng Xiaoping Era - An Inquiry into the Fate of Chinese Socialism 1978-1994, Maurice Meisner, Hill and Wang, 1996, chapter eleven, p. 300.

[7] 'Most have been staffed by government officials, have had their offices in government buildings, and have been financed out of the government coffers.' Transnational Political Alliances: An Exploration With Evidence from China, Scott Kennedy, p.184,

<http://bas.sagepub.com/cgi/content/abstract/46/2/174>

[8] Adam Smith in Beijing Giovanni Arrighi Verso, 2007, p. 332 and 369.

[9] The speech was suppressed but was eventually reported in Hong Kong by the former chief of General Administration of Press and Publication, Dao Daozheng. See Ming Pao Daily, October 14, 2008.

[10] Critique of Hegel's Philosophy of Right, quoted from Hal Draper, p. 81.

[11] In 2002 the state sector as a share of GDP dropped to 2.5, 9 and 8.3 per cent in Britain, Italy and Germany respectively. France's figure stood at 12.8 percent, more or less the same as the 1970's figure. Guoyou jingji buju (State Owned Economy), by Chen Hong, China Economic Publishing House, 2012, Beijing, p. 85.

[12] Friedrich Engels Origin of the Family, Private Property and the State , quoted from Karl Marx's Theory of Revolution, Vol 1, State and Bureaucracy, by Hal Draper, Monthly Review Press, 1977, p. 410 and 468.

[13] Pytor Struve January 26, 1870, - February 22, 1944. Struve was initially a legal Marxist but after the Russian revolution became a White.

[14] In 1991, under the initiative of various princelings, a meeting was held to discuss a document called Sulian jubian zhihou zhongguo de xianshi yingdui yu zhanlue xuanze (The Aftermath of the Dramatic Changes of the Soviet Union and the Realistic Response of China and its Strategic Choice). The main idea was to call for state property to be handed over to the Communist Party to fend off challenges to the party-state. It was not accepted by Deng Xiaoping, who probably saw it as too risky. Keeping SOEs in the hands of the state in name only, while continuing to allow the party to have full control of them, is obviously a better choice for the bureaucracy. See: The Party: The Secret World of China's Communist Rulers, by Richard McGregor, Penguin, 2010, Chapter one.

[15] Zhongguo zhende nengg chengqi quanshijie? (Could China Really Support the Whole World?), Li Guoping, Grandtech, Taipei, 2012, p. 144.

[16] There is a small circle of nationalist or "new leftist" economists including Han Deqiang, Yangfan, Zuo Dapei, He Xin etc who have vigorously opposed privatization and defended both the state owned economy and the one party dictatorship. See, for instance, Buxu Zaimai (No More Privatization) by Zuo Dapei, China Financial and Economic Publishing House, Beijing, 2006.

[17] The son of Bo Yibo, one of the Eight Elders of the CCP, Bo Xilai was considered as a 'princeling' in China. Between 2007 and 2012 he served as a member of the Politburo and secretary of the Chongqing branch of the CCP. He was once considered as a possible candidate for the highest governing body of the party, the Politburo Standing Committee, in the coming CCP's 18<sup>th</sup> Congress in 2012. His political life ended when his former close ally Wang Lijun sought asylum at the American consulate when the latter felt his life threatened because of his knowledge about a homicide apparently committed by Bo's wife, Gu Kailai. Gu was convicted and sentenced to a suspended death sentence in August 2012. On 28 September 2012, Bo Xilai was expelled from party positions and handed over to the authorities for criminal investigations

[18] Meiti pinglun cheng Chongqing Baoan Jituan shi haogongsi, shangshihou jiangcheng zuiniu

gupiao (Media Comments that the Chongqing Security Group is a Good Company and will become the Most Popular Stock upon Listing),

[http://big5.xinhuanet.com/gate/big5/news.xinhuanet.com/fortune/2012-05/15/c\\_123129977.htm](http://big5.xinhuanet.com/gate/big5/news.xinhuanet.com/fortune/2012-05/15/c_123129977.htm)

[19] Ming Pao Daily, April 20<sup>th</sup>, 2012.

[20] For more details about the bureaucrats enrich themselves through setting up companies, please refer to Zhongguo de xianjing (The Pitfalls of Modernization), He Qinglian, Mirror Books, 1997.

[21] For instance, there have been concerns about the whereabouts of the 20 billion Yuan of fines levied every year on expectant mothers for so-called 'illegal' pregnancies. It is widely assumed that the monies are simply being distributed to the officials. Ming Pao Daily, June 14, 2012.

[22] China internal security spending jumps past army budget,

<http://www.reuters.com/article/2011/03/05/us-china-unrest-idUSTRE7222RA20110305>.

The recent case of Chen Guangcheng may be telling. He is a civil rights activist and made his name in April 2012 when he escaped from his heavily guarded home and fled to the US embassy in Beijing. It was reported that local government spent 60 million yuan a year to monitor him. He was under round the clock surveillance by more than one hundred guards. These guards were officially paid 100 Yuan daily, yet they actually only got 90 yuan, with the 10 yuan being pocketed by their superiors. Weiwen Chen Guangcheng, Shandong nianhua 6000 wan renbi (To Put Chen Guangcheng Under Surveillance Shandong Provincial Government Spent 60 Million Yuan Annually)

<http://news.singtao.ca/toronto/2012-05-01/headline1335861094d3839957.html>

[23] The Chinese model, for and against, by Ding Xueliang, Chinese edition, Oxford University, Hong Kong, 2011, p. 86-7.

[24] The Deng Xiaoping Era: An Inquiry into the Fate of Chinese Socialism 1978-1994, Hill and Wang, New York, 1996, p. 173-4.

[25] The real number of civil servants remains a mystery. The official figure puts it at 10 million but this is widely considered a serious under-estimate. One must also take into account those informal public employees like public order team members and who are not accounted for in official statistics of civil servants. For the source of the figure of 50 million see

[http://big5.xinhuanet.com/gate/big5/news.xinhuanet.com/employment/2006-02/21/content\\_4206038.htm](http://big5.xinhuanet.com/gate/big5/news.xinhuanet.com/employment/2006-02/21/content_4206038.htm)

For the 70 million figure and a comparison with the US please refer to the following article: Zhuanjia huyu yanking gongwuyuan enshu, lifa yazhi pengzhang (Scholar Appeal to Strictly Control the Numbers of Civil Servants and to Legislate to Stop its Ballooning),

[http://news.xinhuanet.com/employment/2005-06/14/content\\_3082359.htm](http://news.xinhuanet.com/employment/2005-06/14/content_3082359.htm)

[26] The Chinese model, for and against, by Ding Xueliang, Chinese edition, Oxford University, Hong Kong, 2011, p. 89.

[27] Marx, Critique of Hegel's Philosophy of Right,

<http://www.marxists.org/archive/marx/works/1843/critique-hpr/ch03.htm>

[28] Guanyu yanjin dangzheng jiguan he dangzheng ganbu jingshang banqiye de jue ding (The

Decision on Strictly Banning Party/ Government Apparatus and Party/ Government Cadres to Conduct Commercial Activities and Founding Companies).

[http://news.xinhuanet.com/ziliao/2003-01/18/content\\_695462.htm](http://news.xinhuanet.com/ziliao/2003-01/18/content_695462.htm)

[29] Zhongguo de qiji: fazhan zhanlue yu jingji gaige (The China Miracle: Developmental Strategy and Economic Reform), Lin Yifu, Caifang, Li Zhou, Chinese University Press, 1995, Hong Kong, P. 53.

[30] The Chinese model, for and against, by Ding Xueliang, Chinese edition, Oxford University, Hong Kong, 2011, p. 89. Since official statistics are not reliable, there has been debate about the actual share of state owned enterprises in gross industrial production. Pro-government scholars like Chen Hong put the figure as low as 26.6 per cent, (see Guoyou jingji buju, or The Distribution of State Run Economy, China Economic Press, 2010, p. 5.) On the other hand, the report by Szamosszegi and Kyle in 2011 and presented to the US - China Economic and Security Review Commission considers that the state sector may be as much as 40-50 per cent .

[31] Hu Angang, one of the Chinese economists who in mid-1990s sounded the alarm of a drastic decline in fiscal income in relation to GNP, seeing this as one of the dangers which might make China disintegrate. According to him, China's fiscal income (excluding income from loans) as a share of GNP dropped from 31.2 per cent in 1978 to 14.7 percent in 1992. Tiaozhan Zhongguo (The Challenges of China), Hu Angang, Xin xinwen Cultural Holding Limited Company, 1995, Taiwan. P. 71.

[32] This does not include the collectively owned enterprises, which witnessed drastic drop in absolute terms until it become negligible. Guoyou jingji buju (State Owned Economy), by Chen Hong, China Economic Publishing House, 2012, Beijing, p. 146.

[33] In 2006 the State Council forwarded a document by the State-owned Assets Supervision and Administration Commission, The guiding opinion on promoting the adjustment of the state owned capital and the reorganization of state owned enterprises. The document emphasized the need to maintain control over important branches of industries.

[http://www.gov.cn/gongbao/content/2007/content\\_503385.htm](http://www.gov.cn/gongbao/content/2007/content_503385.htm)

[34] A recent example was the agreement between Wuyi University in Guangdong and China Unicom, which stipulated that the latter enjoys the exclusive right to provide internet services, and that students are required to pay 100 yuan of installation fee. This resulted in students' protests in May 2012. Ming Pao, May 8, 2012.

[35] Da guoqi longduan he minqi chuangxin buzhi A gu xiongba tianxia (Large SOEs' Monopoly and Private Enterprises Lacking Innovation Result in Stock A Being Hegemonic),

<http://finance.ifeng.com/stock/zqyw/20121227/7488611.shtml>

[36] Red Capitalism: The Fragile Financial Foundation of China's Extraordinary Rise, Walter & Howie, Chinese edition, Cite Publishing Ltd, Taipei, 2013, p. 63.

[37] 'The national fiscal revenue, including central and local government, has now reached 23 per cent of GDP. If one includes all other revenues outside of the budget or the system, China's macro government's tax revenue can reach 35 per cent, which is close to that of developed countries while much higher than many developing countries.' Liao Qun, Hong Kong Economic Journal, 4 April, 2012.

[38] A WHO report says that 25.7 per cent of all deliveries worldwide were done by caesarean section, ranging from 2.3 per cent in Angolan facilities and 46.2 per cent in Chinese facilities. Caesarean section without medical indication increases risk of short term adverse outcomes for mothers,  
[http://whqlibdoc.who.int/hq/2010/WHO\\_RHR\\_HRP\\_10.20\\_eng.pdf](http://whqlibdoc.who.int/hq/2010/WHO_RHR_HRP_10.20_eng.pdf).

China's unusually high caesarean section rate is chiefly because it is profitable for hospitals, hence doctors are more inclined to pursue patients to deliver their children by caesarean section. See Wucheng yunfu poufuchan guan jue quan qiu (Half of all Pregnant Women Deliver Their Children by Caesarean Section Which Rank Top Globally) Ming Pao Daily, May 19, 2012.

[39] A Brief History of Neoliberalism, David Harvey, Oxford University Press, 2007 chapter five, p. 120.

[40] In 1996 the World Bank released two reports, Bureaucrats in Business and From Plan to Market, which argues that the Chinese economy depends on the private sector rather than the state sector as the latter is low in efficiency. Quoted from Transforming China, Globalization, Transformation and Development, Peter Nolan, Anthem Press, London, 2004, P. 132.

[41] China 2020: China Development Challenges in the New Century, [World Bank, Washington, 1997](#).

[42] China 2030: Building a Modern, Harmonious, and Creative High-Income Society, [World Bank, Washington, 2012](#).

[43] Made in China, by Kuroda Atsuo, Toyo Keizai Inc, Tokyo, 2001. Chinese edition, chapter three to six, 2002, Taiwan.

[44] Zhongguo zhizaoye fazhan yanjiu baogao 2011 (Research Report on the Development of China's Manufacturing Industry 2011), edited by Li Lianshui, Science Press, p. 210.

[45] China Statistical Yearbook 2010, China Statistical Press, Beijing, 2010, p. 757.

[46] China Statistical Yearbook 2008, China Statistical Press, Beijing, 2008, p. 783.

[47] Higashi Asia Kokusai Bungyo To Chugoku (The Competition and Cooperation between Chinese Manufacturing and its Asian Counterparts), edited by Kimura Fukunari, Maruya Toyojiro and Ishhikawa Koichi, 2002, Tokyo. Chinese edition, 2004, Taipei, p.121.

[48] In 2010 Oxfam in Hong Kong was attacked by the Ministry of Education as 'an organisation that has been trying hard to infiltrate mainland China', Oxfam Hong Kong Halts Mainland Training after 'Warning' from Authority, South China Morning Post, 24 Feb , 2010. Ten years ago Western companies investigating their suppliers in China was seen by the authorities as potentially dangerous and had to be put under close surveillance. Personal interviews.

[49] China Economy Quarterly Update, Feb 2007, World Bank Beijing Office, p.6.

[50] According to a report on internships in the electronics industry by the Research Group on the New Generation of Rural Migrant Workers, these vocational schools collude with local governments to force the students to work in factories like Foxconn. For the full report ( in Chinese) see:

<http://www.donews.com/it/201205/1216232.html>

See also the news report concerning the Chengdu municipal government which promised to guarantee Foxconn a supply of 10,000 workers if the latter agreed to invest there. The government then forced low ranking civil servants work in Foxconn factories whenever it was short of hands. See Ming Pao Daily, 29 April , 2012.

[51] For more about the household registration system, please refer to chapter eleven of this book Disposable Labour under Social Apartheid–Rural Migrant Workers as the New Working Class.

[52] Reviving the developmental state? The myth of the ‘national bourgeoisie’, Vivek Chibber, Socialist Register 2005, Merlin Press.

[53] The Dragon and the Elephant, David Smith, Chinese edition, Contemporary China Press, Beijing, 2007, p. 59.

[54] China Statistical Yearbook 1981, Economic and Information Agency, Hong Kong, p. 89. Despite the spectacular growth of industrialization, this has only resulted in a small decline in the rural population: from 89.4 per cent of the population it dropped to 87.5 per cent, a mere 2 per cent decline in 30 years. This is because China’s starting point in its modernization was far too low in the first place.

[55] In 1919 there were around 3 million industrial workers . Zhongguo jindaishi (Modern History of China), Lin Zengping, Hunan People’s Press, Hunan, 1979, p. 813.

[56] For a comparison of social achievement in Mao’s era with other countries, see Mingqi Li’s book The rise of China and the demise of the capitalist world economy, Chapter two, Pluto Press, 2008.

[57] In 1980, the GNP per capita was US\$290 and 240 for China and India respectively; in 1998 it was 750 and 430 respectively. Zhongguo xiandaihua baogao 2001(Report on the Modernization of China 2001), Beijing University Press, 2001, p. 99.

[58] Quoted from Industrial Growth in China and India, A Preliminary Comparison, by R Nagaraj, Economic and Political Weekly, May 21, 2005, Mumbai, India.

[59] In addition to this is the fact that during the 1980s many Hong Kong Chinese businessmen, especially those who were either from the pro-Beijing camp or were opportunists, or both, enthusiastically acted as ‘teachers’ in helping Chinese government officials to learn commercial skills. Among the ranks there was the 2012 newly elected Chief Executive of Hong Kong, Leung Chun Ying, who taught party cadres all the tricks of the property market.

[60] A well known capital flight case recently was Gu Kailai, wife of Chongqing former chief Bo Xilai, who was reported to have moved 6 billion US dollars out of China. Ming Pao Daily, June 23, 2012.

[61] This makes the Chinese model very different from South Korea; because during its take off period South Korea hardly relied on FDI.

[62] China became world’s top manufacturing nation, ending 110-year US leadership:

<http://en.mercopress.com/2011/03/15/china-became-world-s-top-manufacturing-nation-ending-110-year-us-leadership>

[63] See, for instance, The The Post MFA era and the rise of China, Au Loong Yu, 2005:  
<http://www.asienhaus.de/public/archiv/post-mfa-era-china.pdf>

[64] see footnote 16.

[65] For 2002 figure, see Waishang zhijie touzi yu zhongguo waimao xiaoyi yanjiu (Research on Foreign Direct Investment and the Efficiency of China's Foreign Trade), edited by Zhou Zehong, Shanghai Jiaotong University Press, 2008, p. 137. 2009 figure is calculated from China Statistical Yearbook 2010, China Statistical Press, Beijing, 2010, p. 507.

[66] Guoyou jingji buju (State Owned Economy), Chen Hong, China Economic Publishing House, 2012, p. 7.

[67] Dui waizi zai zhongguo gongye hangye fenbu xianzhuang de chubu kaocha (A Preliminary Study on the Situation of Foreign Capital among Chinese Industries), Xu Zhaoyuan and Chen Xiaohong, Development Study, Issue 2, 2010. This paper can be [download from:  
<http://wenku.baidu.com/view/a9424a573c1ec5da50e2704c.html?rl=regok>

[68] Red Capitalism: The Fragile Financial Foundation of China's Extraordinary Rise, Walter & Howie, Chinese edition, Cite Publishing Ltd, Taipei, 2013, p.57.

[69] [http://www.fdi.gov.cn/pub/FDI\\_EN/Laws/law\\_en\\_info.jsp?docid=87372](http://www.fdi.gov.cn/pub/FDI_EN/Laws/law_en_info.jsp?docid=87372).

[70] Complicity, Campaigns, Collaboration, and Corruption: Strategies and Responses to European Corporations and Lobbyists in China, Globalization Monitor, Section IV, 2010, Hong Kong.

[71] He then added that "because of the nature of the means he employed, much of the barbarism thrown out of Russian life has crept back into it.", Stalin, Isaac Deutscher, Second Edition, Oxford, 1966, p.568.

[72] China Labour Statistical Yearbook 2009, China Statistics Press, Beijing, 2009, p. 2.

[73] Chinese Statistical Yearbook, China Statistics Press, Beijing, 1998 and 2009.

[74] The Rise of the Working Class and the Future of the Chinese Revolution, Mingqi Li, Monthly Review, June 2011, p.42.

[75] The Tiananmen Incident took place on April 5, 1976 at Tiananmen Square in Beijing, China. The incident occurred on the traditional day of mourning, and was triggered by the death of Premier Zhou Enlai earlier that year. Some people strongly disapproved of the removal of the displays of mourning, and began gathering in the Square to protest against the central authorities, then largely under the auspices of the Gang of Four, who ordered the Square to be cleared.

The event was labeled as counterrevolutionary immediately after its occurrence by the Communist Party's Central Committee and served as a gateway to the dismissal and house arrest of then-Vice Premier Deng Xiaoping, who was accused of planning the event. The Central

Committee's decision on the event was reversed after Deng came to power in 1978, as it would later be officially hailed as a display of patriotism.

[76] For more about the Tonghua Steel workers' struggle, see chapter nine, *New Signs of Hope: Resistance in China Today*.

[77] There is no law in China which prohibits strikes, although the government can always prosecute strikers using other laws.

[78] For more about the Honda Foshan workers' struggle, see chapter nine, *New Signs of Hope: Resistance in China Today*.

[79] *Ibid.*

[80] *Ibid.*, the section on environmental struggles.

[81] Zhu Mingguo tan Wukan (Zhu Mingguo Spoke about Wukan Case):  
<http://china.huanqiu.com/roll/2011-12/2302922.html>

[82] 'The communist regime, for its own legitimacy and survival, may be compelled to crack down on corruption and impose serious judicial and legal reform. We cannot underestimate the determination and effectiveness of the Chinese regime's self-reform to establish a law based government'. *Against the Law - Labor Protests in China's Rustbelt and Sunbelt*, Ching Kwan Lee, University of California Press, 2007, p. 242.

[83] In contrast, under Mao the working class was complimented as laodage, or the Eldest Brother, implying their so called 'leading class' status.

[84] For more please refer to chapter nine of this book.

[85] 'Today China needs US\$5.40 of extra investment to produce an extra \$1 of output, a proportion vastly higher than that in developed economies.' *The Writing on the Wall*, Will Hutton, Free Press, P. 153.

[86] China Institute of Water Resources and Hydropower Research (IWHR), 2004. *Research on the Coordinated Development of Hydropower and National Economy*. Quoted from *China's Water Crisis and the Privatization of Urban Water in Kunming*, *Globalization Monitor*, 2011, p. 7.

[87] *Waishang zhijie touzi yu zhongguo waimao xiaoyi yanjiu* (Research on Foreign Direct Investment and the Efficiency of China's Foreign Trade), edited by Zhou Zehong, Shanghai Jiaotong University Press, 2008, p. 48

[88] *The Rise of China and the Demise of the Capitalist World Economy*, Mingqi Li, Pluto Press, p. 87-8.

[89] *The Chinese model, for and against*, by Ding Xueliang, Chinese edition, Oxford University, Hong Kong, 2011, p. 197.

[90] Editorial of *Hong Kong Economic Journal*, 16 June, 2011.

[91] *Lenders face NPL spike*, E J Insight, *Hong Kong Economic Journal*, 29 June, 2011.

[92] Neidi defang zhengfu zhaiwu sigе banben nage kekao? (Four Different Statistics for Mainland's Local Governments' Debt, Which One is More Reliable?), Liao Qun, Hong Kong Economic Journal, 21 July, 2011.

[93] In 2011 when the first draft of an amendment bill to the Law on Budget was first tabled it contained a clause which allowed all local governments to issue their own bonds. In the second draft tabled in June 2012, the clause was deleted. This has no bearing on the previous decision allowing the four provinces/cities to issue bonds however. Zhongyang jinzhi difangzhengfu zixing juzhai (Central Government Ban Local Governments Issuing Their Own Bonds), Hong Kong Economic Journal, 27 June, 2012.

[94] 2012 China Statistics Yearbook.

[95] <http://www.chinavista.com/business/ciec/ch/chciec19981013.html#cn00006>

[96] For the source of these figures please refer to chapter two of this book: "China Going Global".

[97] Zhongguo zhende nengg chengqi quanshijie? (Could China Really Support the Whole World?), Li Guoping, Grandtech, Taipei, 2012, p. 66 and chapter three.

[98] Protecting Workers' Rights or Serving the Party: The way forward for China's trade unions, China Labour Bulletin,  
[http://www.clb.org.hk/en/files/share/File/research\\_reports/acftu\\_report.pdf](http://www.clb.org.hk/en/files/share/File/research_reports/acftu_report.pdf)

[99] A well-known Hong Kong commentator and a former supporter of the Chinese democracy movement, Chen Yun, recently published a book Chengbang lun (On City State, Enrich Publishing Ltd, Hong Kong. 2011) claiming that mainland people necessarily 'believe in totalitarian government', and concluded that Hong Kong people should forget about Chinese democracy altogether.

[100] This is argued by Sun Long Gang in his well known book Zhongguo wenhua de shenceng jieou (The Inner Structure of Chinese Culture), Tangshan Press, Taipei, new edition, 1993.

[101] Revolution Betrayed Pathfinder Press, 1974, Chapter 9, pp. 253-4.

[102] China and Socialism, Market Reforms and Class Struggle. Monthly Review, July - August, 2004.

[103] It was said that the 'Chongqing model' under Bo Xilai and the 'Guangdong model' under Wang Yang represented, respectively, a nationalist / 'leftist' wing and the liberal wing of the party. For the moment it is very hard to judge whether the Chongqing model was invented only for the sake of advancing Bo's personal ambition, or that the division between the two "models" has been fully developed to the extent that they have real bases among the party.

[104] Any sexual relationships outside marriage are deemed 'improper' in Chinese law.

[105] Bo Xilai xiachang zaizheng wenge moshi shi yitiao silu (The Downfall of Bo Xilai once again Proves that the Model of Cultural Revolution is a Dead End),  
[http://view.gmw.cn/2012-09/29/content\\_5243033.htm](http://view.gmw.cn/2012-09/29/content_5243033.htm)

[106] Marx's letter to Engels April 9, 1863.

[http://www.marxists.org/archive/marx/works/1863/letters/63\\_04\\_09.htm](http://www.marxists.org/archive/marx/works/1863/letters/63_04_09.htm)

[107] Meisner, p. 177.