

China: changing the rules of the game

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Lin Chun discusses the prospects of the third phase of reform in China.

China began to reform its state socialist political economy after the death of Mao Zedong in 1976. Deng Xiaoping's pragmatic programme of market reforms was formally legitimised at the Communist Party's landmark plenary session of 1978, to replace Maoist utopian social engineering. Thirty years later, China is the world's second largest economy, third largest trading nation and, with oversized foreign exchange reserves (\$1.4 trillion or 40 per cent of GDP in 2007) and gross oversupply of capital, third largest capital exporter. Meanwhile, China is also the world's second largest consumer of oil, and is responsible for about 20 per cent of consumption of the earth's mineral resources, producing 15 per cent of global emissions along the way.

China's reform trajectory has so far been through two distinct stages, and it is now entering a third, the nature of which has yet to be determined. The first, beginning in 1977, was inspired by the party-initiated breakthroughs in national thinking expressed in such slogans as 'reform and opening', 'socialist market economy' and 'building a highly civilized, highly democratic socialism'. The guiding idea then was for China to 'make use' of market mechanisms and advanced managerial and technological skills from the capitalist world for its own socialist purposes. The first reform decade indeed saw some magnificent achievements: including 'liberating the mind' (a self-critical movement within the Communist Party); political and economic decentralisation, including efforts to limit the terms of leading cadres, and to separate party and government, administration and

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entrepreneurial management; and efforts to alleviate poverty, and the promotion of collective township and village enterprises (TVEs), so as to provide employment, income and prosperity to local communities. A marked improvement in the overall living standards for the vast majority of the Chinese population was an undisputable achievement of this period - 400 million people were lifted out of poverty, and business dynamism spread across China's urban and rural areas. A committed anti-poverty programme, financed by the central state, and with extensive participation from below, was exemplary of this earlier Chinese approach.

After the interruption of the 1989 Tiananmen protest - against the erosion of public services and social security, and the rise of official corruption - and its violent aftermath, China's next move was unmistakably clarified in 1992, when international sanctions receded and Deng toured the south to boost special economic zones, announcing that 'development is the iron rule'. It was a tragic historical irony: instead of curbing the early problems that had given rise to the student and citizen movements in 1989, it turned out that these movements had paved the way for the more radical changes of the 1990s, under the combined forces of market 'trade off' and state violence. It was not until 2002, when the 'fourth generation' leadership took over from Jiang Zemin (who as the general party secretary had pushed the Dengist line very hard), that certain serious developmental errors began to be addressed at the policy level, though still only timidly and ineffectively. Any reorientation - to bring China back to its reformist track of selective global integration while pursuing a democratic and market socialist political economy - is now dependent on a corresponding political determination, and on organised popular pressure. And it is entirely possible that what has been an essentially capitalist transformation will turn out to be irreversible, insofar as it has entangled and institutionalised too many powerful vested interests, including the elite alliance (official big business and academic/media) that was formed in the reckless second phase of Chinese development, in compliance with a 'bureaucratic capitalism'. This is made all the more likely by China's WTO accession in 2001, which imposed on the country an artificial 'path dependency' that is resistant to change.

The radical 'reforms' of the second developmental phase actually amounted to a revolutionary transformation in China's state character, economic structure and social relations. Sweeping privatisation, in particular, was mostly an embodiment

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of corruption, though it was euphemistically called 'restructuring'; and it was pursued vigorously by local governments, with an explicit green light from the top. This process involved managers and other insiders, as well as foreign mergers and acquisitions, and it often transferred ownership without adequate evaluation/monitoring, or inputs from affected workers. The original strategy was to 'hold on to the big and let go the small', but this soon turned into a hasty and flawed process that also included the privatisation of medium to large-sized and profitable firms. Rules and regulations, such as those mandating consultation of employees, were ignored. Not only did privatisation by and large fail to achieve its claimed objectives of efficiency, productivity and technological upgrading; it also resulted in vast public asset-stripping and gross macroeconomic imbalance.

The state's share of China's industrial GDP had shrunk to less than 20 per cent by June 2007; more than 80 per cent of Chinese companies listed domestically were private or quasi-private, in a variety of shareholding systems, in which for the most part ordinary shareholders had no say in dividend and investment decisions. The urban collective sector had also diminished by more than two-thirds. Rural cooperative industries too had been restructured by private takeovers. The remaining heavily capitalised and centrally controlled state sector is now largely confined to strategic firms in monopoly industries (petroleum and refining, metallurgy, electricity, telecommunications and military), with lowered barriers to entry.

Meanwhile privatisation led to drastic downsizing, with about 50 million workers laid off between 1997 and 2002. And many jobs created in the private sector allowed appalling conditions, as sweatshops operated cheaply by neglecting labour and environmental laws. At least 20 million people in Chinese cities now live under the poverty line, more than half a century after the communist revolution first removed urban poverty. At the same time millions of farmers have been driven off the land in the post-TVE conditions of rural decline, and there have been growing incidents of land seizure by private developers, usually backed by local officials. There has emerged the largest 'floating population' (anywhere between 150 to 200 million) that the world has ever seen. Migrant labour is even less protected, and people are frequently trapped in forms of social exclusion and in personal hardship. Industrial accidents, occupational diseases, and pollution of air, land and waters, have all worsened. The death toll rate in China's private and

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privatised mines has come to be the world's highest. The new Labour Law is far from adequate, but even basic, moderate provisions have been fiercely resisted, by both foreign and domestic capital. During public consultation in 2006, the draft law was rejected by the corporate lobby, which threatened to withdraw investment and move elsewhere for cheaper and less demanding workers. The People's Congress consequently made notable concessions in the final version of the law, before adopting it to take effect from January 2008.

In addition to labour laws, there are gender specific legal provisions for women, including an active All China Women's Federation. However, in a profit-driven, poorly regulated marketplace, a large fraction of the female workforce suffer triple discrimination and disadvantage - for being at once poor, female, and rural in origin. Urban bias remains strong, both in its material culture, and in the institutional basis of a registration or internal passport system. Although a degree of 'state feminism', and accompanying pro-women regulations and policies, remain in place, for employers as market players it becomes only 'rational' to have women last hired and first fired, except in those trades (e.g. textile and garment) where young women in particular can be more efficient yet are paid less (in violation of the law). Moreover, migrant women workers regularly separate themselves from their husbands and families, leaving children behind to be, in the best cases, looked after by grandparents. They are seldom organised even in the official trade unions, and by and large neglected by women's federations. Elsewhere women are also losing ground - to returning patriarchal relations in some rural households and communities after the dissolution of communes, to the commercialisation of femininity in cultural or physical forms including prostitution, and to an official retirement age differentiation between male (60) and female (55) for public office workers and civil servants. This all contrasts sharply with China's once penetrating social commitment to achieving gender equality along with workers' pride and rights. In terms of formal political participation, female deputies to the national, provincial and county people's congresses has also decreased, to bring China's global ranking from twelfth in 1994 to forty-eighth in 2006.

As well as workers, the boom has bypassed millions of small business owners. The biggest beneficiaries have been transnational profit seekers and those domestic power holders who abuse public positions for private gains. (These two groups are connected with one another, breeding a peculiar class of go-betweens, historically

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known in Chinese as *maiban* or compradors.) Manufacturing for export has encouraged brutal competition, especially among petty producers, who have ruthlessly depressed costs, wages and consumption. And pro-foreign capital policies have reinforced an unfavourable environment in which small business finds itself squeezed between unsupportive state banks and grossly more resourced foreign competitors.

At the same time, some of the major achievements of the earlier reforms have been offset by the retreat of a public good regime - which had managed to meet basic needs during an earlier period when China was many times poorer. As social welfare policies lost their priority in the national agenda, considerable numbers of people who had been previously lifted from poverty fell back into destitution. It was this alarming degree of polarisation and inequality that eventually forced the government to seek remedies - at around 0.45, China's Gini coefficient (a measure of inequality) has for a few years been much higher than that of most other countries, including poorer countries such as India, where it is 0.33.

The balance sheet of post-Mao reforms is a tangle of contradictions. On the one hand there is the generally improved material conditions of Chinese existence, and a growing urban middle class; and on the other the problems and predicaments indicated above. There have emerged two Chinas. So far China's growth pattern has not overcome its low-wage, low-tech and low-productivity features. And the Chinese economy is now becoming ever more vulnerable to potential shocks, from internal social discontent or financial meltdown to natural disasters and ecological crisis. In the immediate future the recession looming large in the US is already hurting China's exports; and depreciated dollars have led to a sharp devaluation in China's foreign reserve holding.

The rise of commodity fetishism has been accompanied by a deep and pervasive sense of alienation in a society trapped in naked greed, harsh competition, hysterical consumerism and a broad commodification of human values. Senseless developmentalism, combined with chauvinistic misconceptions in the minority regions, have led to ethnic tensions and conflicts. The unsustainability of the Chinese path since the 1990s is commonly recognised inside China, leading to pressure on the government to seek redress in a third reform phase, to be clearly distinguishable from the second.

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Explaining growth and development

The Chinese economy is now about eight times larger than it was in 1978, after a continuous annual growth rate of around 8-10 per cent since the 1980s. This is largely attributable to quantitative increases in labour, raw materials and capital inputs, without any significant gains in organisational and technological innovation or in productivity. Still, this vast and fast accumulation of wealth in real terms (discounting huge bubbles in real estate and the stock markets) is unprecedented, not only in Chinese modern history but also in the world, given China's size and relative scarcity of natural resources. However, the so-called 'China miracle' has yet to be accurately explained, for different explanations entail different policy implications.

Suffice it here to identify a dividing line in the debate, between the dominant 'globalist' accounts, which embrace neoliberal doctrines, and their 'localist' critics, who focus on domestic factors. For the former, foreign investment and trade, privatisation, and other elements of the 'Washington consensus', are the factors that explain China's economic success, with cheap labour highlighted as its foremost competitive advantage. There is certainly some truth in this argument. China's WTO membership, for instance, has accelerated the country's foreign trade volumes. But it is also true that foreign trade dependency depresses domestic markets and purchasing power, and endangers national economic security, in a game that is played under rich nations' rules - from their agricultural subsidies to anti-dumping laws and tariffs. It should also be noted that so-called 'foreign trade' includes as a significant element multinationals that operate in China proper, which seize the largest portion of profits through typically unequal trading terms. As to the myth of a market economy requiring wholesale privatisation, this has been amply shown, in the Chinese debates and experiences as in Russia, and quite a few other places, to be false in theory and disastrous in reality.

Rejecting these globalist explanations, for the 'localist' opposition it is not 'cheap labour' but a set of other key factors which explain the country's economic development (and they argue that any advantage accruing from cheap labour is in any case coming to an end since the labour market had soured even before recent pro-labour legal moves and macroeconomic shifts in inflation). These other factors include the investment in physical infrastructure and human capital

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made during the Mao years, which accounts for a generally educated, healthy and disciplined workforce. Quality labour in abundance is an outstanding advantage that China has over most other developing countries. Despite the setbacks outlined in this article, China remains ahead in nearly every index of the UNDP's human development reports. Furthermore, there are crucial continuities between pre- and post-reform achievements. These include such fundamentals as public land ownership; public control over strategic industries; the strong organisational and policy capacities of the state; organised social participation; ideologies of social and redistributive justice and of gender and ethnic equality; and a public good regime of universal education and medical care, with an emphasis on mass immunisation and preventive medicine. Together, these factors amount to a super model of a socialist developmental state, which best explains the main successes of reform. By the same token, the weakening or removal of these factors explains failures in the second reform phase, which was part of a distinctive neoliberal wave of globalisation.

The globalists do not even recognise as problems and social wrongs the class polarisation, developmental unevenness and corruption that taint economic growth. For them these are seen either as the price that has to be paid for the market transition, or as the - tolerable - result of that transition being incomplete. Superstition about a 'complete' free market is all pervasive in Chinese economic thinking. But 'cheap labour' is not an innocent concept. Rather it signifies the subordination of labour to capital, and the sheer disadvantage of labour's position.

Lessons from the Chinese reform trajectory

The 'localist' argument, if basically sound and more convincing, still raises a number of issues in our search for lessons from China's two-phased reform: how did a popularly supported project of reforming statist socialism degenerate into a revolutionary capitalist transformation, or indeed a counterrevolution? - the Chinese replication of a 'colour revolution' has been accomplished without any electoral fuss. The intended and unintended consequences of this transformation, at such a speed and scale, are astounding. Lessons to be drawn here might be instructive for the more reflective reformers in China in directing, or redirecting, a still-open third phase of the reform course, and may also have wider implications for other countries.

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First of all, we might argue that any societal undertaking of such a magnitude must constantly examine its guiding principles and evaluate its progress against the goals it has set up for itself. Deng's 'no argument' policy of dismissing ideology might have served the purpose of gaining temporary and superficial consensus, thus reducing transactional costs, but in the long run the ideology of no ideology eroded the reform itself, by allowing it to derail. Any aim or policy needs constant public evaluation and debate - in the legislature, in central and local governments, among researchers and advisers, and in society at large. Ideological and political struggle is a necessity, and there will always be a need for political and deliberative democracy. Indeed a lack of proper deliberation has led to many mistakes in Chinese policies. One example of this was the 'Marxist' reading of a linear history: that capitalism is an inescapable stage, and that China must pursue the capitalist development that the communist revolution cut short. This became an intellectual dogma in China without being critically scrutinised by institutionally influential theorists. Conversely, China's first property law shows the benefits of public debate. Due to prolonged and extensive discussions, in 2007 it stated the need for equal protection of public and private properties. The opposition to radical privatisation at least made its voice heard: that public control should be preserved over investment priorities and dividends of state firms, and that major decision-making must be deliberated in the national and local people's congresses, involving expert and public consultation. Legal reforms elsewhere have also drawn broad participation, which has had a good effect on outcomes.

Among the many negative examples of the need for better deliberation and review is the market transition of China's medical system, which became unaffordable for the majority of the population, and was duly declared a 'complete failure' by the state council's development research commission. New efforts are now underway to repair the damage and re-establish universal coverage of basic care. But if the earlier reforms had been properly examined with popular inputs, the failure that sacrificed a generation could have been avoided. The lesson, in other words, is that governments and policies must be made accountable to the people by democratically empowered institutions, and that political power with sufficient policy capacities can be legitimised only through such institutions.

The second lesson is that earlier achievements of the Chinese revolution must be defended. That revolution changed the old social structure and class,

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ethnic and gender relations by seeking social justice, ethnic equality and women's liberation. For example, land reform (which was more restricted in the minority areas) was decisive for China's subsequent economic construction. The thriving TVEs of the 1980s would not have been possible without this fundamental condition of public land. Conversely, the abandonment of collective farming, and later of well-designed double level (collectives and individual) households as well, was a root cause of the rural crises in the 1990s. Another example is the post-revolutionary state's commitment to meeting basic needs, which sustained a relatively high level of investment in China's physical and human infrastructure, such as free schooling and free to low-cost, rudimentary yet inclusive, medical services. This constituted a welfare maintenance system of public provision which distinguished China from less successful developing countries. Even today, privatisation still cannot be discursively legitimate, because of ideological constraints - however waning - and popular resistance. That resistance - armed, ironically, by the officially sanctioned language of socialism - is what keeps pressures on government growing, and the search for alternatives alive. Precisely because of China's experience with an epic revolution, social commitment to equality and justice remains deep-rooted, thereby delegitimising neoliberal ideas and practices. The post-2003 'pro-people' shift in policies and policy objectives included: removing agricultural taxes; revitalizing the countryside; reviving the nine-year compulsory education programme; rebuilding social security for both urban and rural residents; and bringing in more protection of labour, better regulations in conservation, more efficiency in energy consumption, and so on. These moves, long overdue, are responses to a deepened regime legitimacy crisis.

The point is by no means to return to Maoism; the acknowledgement of its flaws - from sectoral inequalities and bureaucratic privilege to limitations on personal liberties - is uncontroversial. What is at stake, rather, is the nature of a state that was historically determined by one of the greatest social revolutions in the modern world. For example, even if independent unionisation is apparently needed in China, a more fundamental issue would still be where the state stands. Similarly - taking on the Weberian notion of the modern state as a national public authority - the necessity of state guidance and organisation in late development is common sense in the mainstream literature, from modernisation to development economics. Categorically different from a predatory state model, the developmental state has the capability to 'govern the market' and invest in human

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capital, creating a kind of 'embedded autonomy' that insulates state functions from special interests, domestic as well as foreign. The second lesson, then, is about defending the revolution's commitments and promises - in the first place, power to a liberated people and the public good.

The third lesson points to the undesirability of developmentalism or 'GDPism' - maximising numerical GDP as the top national priority. To be sure development has been central in the Chinese conception of political economy ever since 1949, if not earlier (though terminology has frequently changed - construction, modernisation, promoting productive forces, etc - as have policy priorities - self-reliance versus opening up). Even in the Maoist heyday of 'politics in command', the political class was profoundly convinced that survival of the new China depended on its economic success. But it was not until growth was declared the 'only hard truth', to be pursued at all costs, that single-minded developmentalism came to prevail, with devastating social and environmental consequences. (The Tibetan protests in March and April 2008 represent only one front of opposition to all this, albeit a globally more visible one. Mindless commercialisation, coupled with inflows of Han businesses in conflict with the constitutional principles of regional autonomy and ethnic/cultural sensitivity, is at least partially responsible for the violent local resentment there.)

There is no argument about whether or not economic development in poorer countries and regions is justifiable; but there is an argument about what kind of development is sought - whether it benefits the many or the few; whether it enhances freedom or alienation; and whether or not its progress sacrifices the fabric of society and the natural environment. Global inequalities and the effects of lack of economic power are obvious, but one wrong cannot be corrected by another. Human development cannot be equated with economic expansion, measured solely by growth rate and market values. And in any case GDP is not even a reliable economic indicator, given the reality of bubbles, speculative transactions and repetitive counting in its calculation.

Furthermore, China's intended macroeconomic equilibrium has been seriously disturbed by the influx of short-run, speculative capital into its money, equity, future, estate and insurance markets, partly because of its institutional weaknesses in regulatory infrastructure, in a world where all national economies are vulnerable to a highly volatile global financial market. Instead of making

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highly risky investments overseas - which in a couple of cases has already failed, with huge losses - a compelling alternative, as argued by a group of economists critical of developmentalism, would be to use excess capital domestically, to control inflation, recapitalise banks, revitalise state enterprises, augment welfare spending, and enhance government capacity for crisis management. This would in turn raise gross household income, and create stronger demand, thereby curbing the productive overcapacity and export dependency which, in a vicious circle, depresses the value of both Chinese labour and goods.

Only by rejecting conventional versions of developmentalism - capitalist and socialist alike - can we chart a new developmental course, one that prizes direct producers and local needs and knowledge, and promotes empowerment and capacity building from below. The development norms of the modernisation paradigm, focused as they are on industrialisation and urbanisation, are becoming socially and environmentally unaffordable; and there are in China - as elsewhere - alternative practices already in existence that could help stimulate small businesses, alongside traditional forms of production, consumption and cooperative welfare. A ray of hope here is China's green GDP package (currently on the table), which would discount environmental cost from growth rate, and set new benchmarks for evaluating official performance.

There is a need to maintain national autonomy, or subjectivity, in interacting with global forces (this is sometimes known as 'shallow' or selective globalisation); the aim here is to benefit from economic integration and cultural exchanges while containing financial and other market risks. The recent wide openness to foreign investment in China, combined with state advocacy and subsidies for foreign capital, has impoverished the domestic market and native entrepreneurship. Moreover, international capital has aggressively participated in privatisation in China - between 2003 and 2006 foreign spending to acquire Chinese firms grew 12 times faster than total foreign direct investment. FDI was thus mainly allocated to channelling foreign mergers and acquiring state firms, which frequently involved the acquisition of shares in state banks. This kind of departure from the original reform design is in line with the hegemonisation of neoliberal ideology, which is in danger of completing a paradigmatic shift in China, from self-reliance to foreign dependency.

In particular, China finds itself suffering from intrusive WTO terms, partly

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through the excessive concessions its negotiators eagerly made for accession, including a bold liberalisation plan to steadily open its capital account and banking system to the ‘standardization’ of the global market in the next few years. The terms of trade under WTO have also bankrupted a large number of Chinese cotton and soybean producers and textile exporters. At the cost of relentlessly exploiting its labour and resources, and worsening its already depleting and polluted natural resources and environment, China has been producing massive amounts of hugely under-priced commodities for foreign consumption. The largest chunk of profits from Chinese manufacturing for export is then taken away, leaving workers at home on meagre wages, and entrepreneurs in brutal competition against one another. The old issues highlighted in dependency and unequal exchange theories, concerning neo-colonialism and surplus retention, have returned with full force in a most unlikely place.

It should also be noted that globalisation as we know it does not automatically imply technological transfers. In the first decades of the PRC, China attained some remarkably advanced technologies, through the state’s high-tech effort strategy, which concentrated financial and intellectual resources in elite research institutions. But after the years of opening up, the technological gap between China and the world became broader; even though the developed economies outsource their R&D to China, the practice has not helped Chinese acquisition and control over advanced technologies. China is consequently losing its limited high-tech, high-return sectors, even though the economy seems to be slowly moving up the value chain. This is not to dismiss any possibility of benefits from international markets and trading. The open-up policy was a vital breakthrough in PRC history - and socialism, if it still makes sense, cannot after all be confined to one country. The real lesson here is how not to replace autarky with defencelessness, or self-reliance with dependency. Globalisation must be made to serve national development, not the other way round.

Reorientation and innovation

What was depicted in the Communist Manifesto remains resonant today: capitalism subordinates the country to the city, and east to west; it constantly revolutionises industries and polarises the globe. If there is to be any possibility of

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breaking free from this law it must start from local alternatives. But though there have been talks about the 'Beijing consensus' (and the 'New Delhi consensus' and so on), any such model is yet to be defined and clarified. A basic point to stress is that it is time for the concept of economic 'competitiveness' to be recast. Only by grasping and constructing genuine advantages can China and other developing countries change the rules of the game in their common cause of development as freedom - as they have tried, in alliance with one another, since Bandung and lately in Cancun and Doha. International solidarity rather than a global race to the bottom is the only answer.

Given the necessary political determination and institutional support, and drawing on its revolutionary and socialist traditions, China might eventually be able to forge an alternative vision, of a domestically based, need-driven, energy-efficient, low-carbon and eco-social friendly economy, superior to the private systems of overproduction and over consumption (though the irony is that socialism is a protest language in Chinese society today, employed far more meaningfully by the opposition than the government). To end with an optimistic note, however: there are emerging social forces in China - labour, women, social critics and independent intellectuals, idealistic young people - who are currently pushing for a third phase of reform. And by learning from the past, this third phase may indeed take China onto a path that begins to reconcile socialism and the market.

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