Past, present and future of China: From semi-colony to world power?

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Introduction

The general consensus is that China is emerging as the next great economic superpower. Despite growing awareness of severe ecological problems and occasional recognition of the growing social inequalities, many writers foresee China (and lately India) as the next world powers, challenging and surpassing Japan, Europe and the United States.

This essay raises serious methodological, conceptual, historical and empirical questions concerning the notion of China as the next world superpower. Without denying the tremendous increase in exports, investments and growth, this paper focuses on a more basic question: what is the character of the principal units of analysis responsible for this expansion, and how do they project into the future? This is not a semantic issue but one of method and conceptual clarity, without which we cannot comprehend exactly who are the ‘agents’ of growth and transformation. This requires that we go beyond simplistic national labels to identifying the socio-political character of the economic units acting within China and in particular the most dynamic of these units in terms of their future power.

The second section of the paper will provide a schematic historical analysis of the ‘stages’ of Chinese development, focusing on the continuities, ruptures, transitions and projections over the past half-century. The purpose is to identify the rise, fall and revival of social classes and the political economic project in which they are embedded.

The third section will focus on the performance of the Chinese political economy, both its growth and explicit and inherent contradictions.

The fourth section will focus on the impact of deepening liberalization on the economic and class structure, particularly the role of foreign capital. Specifically this section will discuss the long-term implications of the takeovers of Chinese enterprises by multi-national corporations and banks.

The fifth section will discuss the external political, economic and military threats and challenges, which China faces, as well as the internal conflicts, which are cause and consequence of China’s insertion in the world capitalist system.

The final section provides an overview of the future trajectory of China’s development. This section will be directed at the political and economic consequences of the cumulative purchases by foreign capital of the most dynamic sectors of the economy. It will examine whether the state is harnessing foreign capital to the Chinese growth engine or whether the Chinese state will become increasingly carved up into sectoral and regional fiefdoms by competing imperial capitals. This in turn will lead us to address the question of whether China’s national and international capitalist classes will become protagonists of an emerging competing empire, partners and competitors of existing imperial powers or whether they will succumb and become satraps of old imperialists of the US, Japan and Europe.

The viability of Chinese capitalism ultimately rests not only on its growth rates and job generating capacity, but also on the social relations of production, circulation and reproduction. The ferocious exploitation of labor, the massive displacement of peasants, the firing of millions of skilled/semi-skilled industrial workers from state and bankrupt firms and their increasing propensity to engage in direct action foretells the emergence of large-scale class warfare pitting the new billionaire class of foreign and domestic capitalists and their ‘protector state’ against the hundreds of millions of dispossessed and alienated workers and peasants. The class struggle, its extent, intensity and political course will test the sustainability of the Chinese growth model of ‘maximum exploitation’ under autocratic control.

We will conclude by looking at the twin forces of growing foreign capital takeovers and intensifying class struggle as they intersect, to modify or transform Chinese society and economy.

Methodological and Conceptual Clarification

In any attempt to evaluate and analyze the Chinese economy it is essential to determine what it means to write of "China". The most obvious discussion focuses on the geographical border, which demarcate the country from other countries and the nature of the political regime. But a discussion of "China" requires us to go beyond this elemental designation, to a discussion of the principle economic activities and the ownership of the dynamic sectors of the economy. "Made in China" does not necessarily mean owned by Chinese. Insofar as the political-legal-territorial framework contains non-Chinese economic units engaged in large-scale, long-term trade, production, distribution, finance, and research and development, it is incumbent on the analyst to draw a distinction between the performance of "Chinese" and "non-Chinese" economic units and actors. To lump them altogether as simply "China" obscures differential performances and divergent middle and long-term consequences. Moreover it is important to delineate, the dynamic tendencies between Chinese and non-Chinese economic units to determine which will ultimately predominate.

Beyond the important quantitative differences in ownership between Chinese and non-Chinese units, is the question of whether non-Chinese units are 'harnessed' to a Chinese-directed growth strategy or vice versa? Almost all academics, journalists, consultants and officials from the international financial institutions (IFI) lump together the Chinese and non-Chinese economic institutions and actors in calculating exports, investments, production, financing, imports and so on. Moreover they generally overlook the fact that non-Chinese units are growing faster, increasing their share of exports (and imports), profits, royalty payments and control over new growth sectors of the economy.

This is particularly true since China joined the World Trade Organization, and deepened and extended its liberalization strategy. The growth of foreign owned enterprises means that investments, trade, exports, financing, location, and decisions are made according to the global needs of the MNCs and backed by their imperial states – outside of the framework of the legal entity called "China". As the presence of non-Chinese MNCs increases, so does their influence over the dynamic growth sectors of the economy, conversely the range of influence over the economy by the Chinese state declines. Even more important, given the close relation between strategic growth sectors and the state, the increasing presence of the MNCs is likely to change the nature of the state, making it less "Chinese" and more attuned and responsive to the policies of the foreign-owned MNCs.

Needless to day this is a middle to long-term process which depends on several factors beyond the dynamics of capital expansion. For example, intensified internal class and national conflict or external military economic threats and confrontations could weaken or even undermine the dynamic expansion and control of foreign MNCs.

In any case the method of measuring China's growth performance requires that the politically sensitive factor of Chinese versus non-Chinese is taken into account. The result is likely to downgrade or diminish the performance of China. On the other hand if we conceive of the MNC as extensions of the major imperial powers (US, EU and Japan), as dynamic outposts or enclaves of empire embedded in the Chinese economy, we should consider their expansion as part of the growth of empire.

In other words, political-legal "China" grows as the imperial powers expand – as is evident over the past quarter of a century and probably for the next several decades. This suggests that the arguments about Chinese power challenging the US, EU and Japan is based on a false premise, namely that what is "Chinese" is analytically and factually distinct from the principle economic units of the US and other imperial countries, which operate in China.

The assumption of growing Chinese power is based on the idea that Chinese-owned and controlled economic units in strategic sectors of finance, manufacturing and export are growing faster than imperial-based MNCs and international investment houses. As we will demonstrate in the text below, the data do not support such an assumption.

Another questionable presumption is the notion that foreign investment and MNCs are being subordinated or harnessed by the Chinese state to serve Chinese strategic goals just as the US used British investment in the railroads to expand US capitalism. There are several problems with this argument. First of all, the Chinese state, its policies and leadership are not fixed in time: initial foreign investment has led to accelerated entry in a wide range of sectors, both cause and consequence of increasing liberalization. Chinese governing elites have mutated over time from dominant partners to co-owners to minority shareholders in the latest investment ventures. The notion of 'harnessing' foreign investors to serve Chinese development strategy is losing relevance as MNCs capture the commanding heights of several sectors or at least lead management in key enterprises. As the Chinese state invests in infrastructure (railroads, ports, air transport and so on) the MNCs increase their role in the dynamic sectors of the market. China's 21st strategy reverses the US' 19th century strategy with regard to foreign investment – the lucrative growth sectors pass on to foreign capital, while the Chinese treasury funds the high cost, long-term, large-scale, low-return infrastructure.

The second general problem with regard to the notion of Chinese growth performance is the extremely limited geographical area and working population that it encompasses. One could almost write of "Two Chinas" – the coastal region and the interior. The fact of the matter is that China's productive grid is extremely limited to its port regions, with links to mining enclaves in the interior. Given the lack of national economic integration and the high level of integration (trade and investment) with external imperial powers (Japan, USA and EU) it is problematic to refer to China as a national economy. This is particularly the case when the coastal economic zones concentrate almost all of the foreign-owned or managed enterprises. In analytical terms what is termed Chinese growth is rather zones of expansion within which foreign-owned enclaves operate. Geographically speaking Chinese growth is profoundly circumscribed; within these circumscribed zones, the most dynamic enterprises are not Chinese.

State revenues and expenditures reinforce the "zonal" and enclave nature of what is effectively "China". At best the interior of China serves as a source of cheap labor, a declining share of food and raw materials, much as overseas labor and neo-colonies serve the imperial powers.

The third problem with discussing China's economic performance as an undifferentiated entity is the issue of the class-specific process of accumulation and distribution. The entire process of accumulation, reproduction, concentration and distribution is directed, owned and benefits an extremely limited class of foreign and domestic capitalists and state directors and their extended family networks.

The extreme and growing class inequities in power, wealth, ownership, access to state credit, contracts, licenses, incentives and land concessions is totally mystified by references to "China" invests, grows…etc. While the foreign and domestic ruling classes compete for government subsidies, concessions and market shares, they share at least two essential characteristics: one a common support for increasing capital's share of national income; and a common opposition to any efforts by labor to organize, protest or improve working and living condition. Conceptually this requires us to discard the undifferentiated notion of "China" and to focus on the class actors who act in the name of China, but who design or demand development policies compatible with their class interests. Otherwise the presumption is that the collective population embodied in the notion of 'China' is somehow implicated in the essential economic decisions or that those, who make the decisions, in some way "represent" the interests of the Chinese workers, unemployed and peasants rather than the class-controlled institutions in which they are embedded.

An equally important methodological issue arises from measuring the standard of living in China. Most analysts equate standard of living with monetary income and conclude that there has been a vast increase in living standards, a "historic" massive reduction in poverty and improved opportunity. These are very questionable inferences for several crucial reasons. Measuring the standard of living involves far more than a discussion of monetary income, especially in economies in transition from socialism to free-market capitalism.

The elimination of free education, health, paid vacations and pension in the transition signals a decline in living standards and should result in a major deduction from monetary earnings. Secondly capitalist displacement of millions of farmers, artisans and others with sideline earnings in kind (food, utensils and so on) means another deduction from monetary income. Thirdly the increase of living costs (rents, energy, electricity, water and so on) must be deducted from monetary income.   Fourthly, the stress and physical abuse from the intensified exploitation of labor in export factories increases the likelihood of physical disabilities, workplace injuries and deaths, worsening conditions at the workplace means a further decline in living standards. The added multiple tax burdens on peasants by exploitative local officials, the delays and avoidance of paychecks by private owners, the eradication of workers neighborhoods and housing to benefit real estate speculators all have worsened living standards. While personal consumption has increased – very unequally over time and place – employment, land tenure, price and retirement insecurity are negative determinants of living standards.

If the estimates of mass living standards are distorted upwardly by reference to monetary income, they are understated for the new class of billionaire and millionaire capitalists and their progeny. Monetary income forms are important but partial measures of their living standards. Their access to the best private foreign and domestic health services, elite private foreign and domestic educational institutions, privileged and easy direct access to government policy makers, accumulation of a conglomerate of physical assets (productive and financial), their extended family privileges, capacity to inherit established wealth, their luxurious vacations, mansions, automobiles…to name only a few of their non-monetary assets, means that monetary measures of income underestimate the living standards of the capitalist class.

By any measure, the relative standard of living of the Chinese masses, as a share of the total goods and services and quality of life has declined precipitously. This is especially the case if we examine the 'ecology' of habitation and work and its unequal impact on classes. Scientists and all observers have written and spoken to the vast increase of air, water and ground pollution generated by unregulated capitalist expansion by private and state enterprises. What most observers fail to note however is that the sickness and deaths accrue overwhelmingly among the workers, peasants and low-paid salaried classes who are most exposed to pollution at their workplace, in their movements through the cities, their dependence on public water facilities and the location of their dwellings.

The ruling and upper classes live in less polluted locations, drink bottled water, have country and seashore villas to escape the contaminated air, have air-conditioned cars, homes, country clubs and are located far from the highly contaminated mines, factories, sewers, waste dumps and incinerators. The advent of capitalism has certainly increased respiratory illnesses and childhood diseases especially in "high growth" industrial zones. Ecological impoverishment is a major factor in reducing living standards because it adversely affects the quality of life.

Given the vast and growing inequalities, the worst measures of living standards are those, which rely on 'per capita income' (income divided by population). For reasons mentioned above, monetary income is a near useless or very limited measure. Per capita income obscures the elephantine inequalities between the top 5% and the bottom 75% of the population. The 'average' is a deceptive statistical artifact which obscures the real income levels of the vast majority. It would be more appropriate to average the monetary income by decimals, minus the costs of social services (health, education and pensions, rents, energy, travel and taxes). In addition, to convert the remainder of monetary income into a measure of living standards, we would have to counterpoise gains in purchases of consumer goods to losses in fresh air, leisure time, job security, near rent-free housing, paid vacations, benign working conditions and family separations.

The measure of monetary income and living standards is much more complex than what is argued by most orthodox economists. If we expand our discussion of living standards to what needs to be called the social pathologies, the argument in favor of rising living standards becomes even more dubious. The decline of public morality in the transition to capitalism is universally recognized. China ranks among the worst countries in the world in terms of corruption by public officials, usually but not exclusively in terms of transactions with the private sector. In terms of the monetary value of corruption and white-collar crime, China surely ranks at the highest level of the big US enterprises like World Com, Enron and the US savings and loan corporations. Tens of billions of dollars are illegally transferred (laundered) by Chinese elites overseas, purchasing real estate in the US, Canada and England, stocks, bonds and Treasure notes as well as financing expensive education and health care for progeny and family. Corruption permeates Chinese economic and public life down to local village officials – reinforcing class privileges and creating new ones. While corruption existed during the Communist period, it was on a far lower scale and scope than the present, as most of the Chinese perceive and attest. Corruption has enormous class consequences: enhancing the power, property and privileges of the wealth while increasing the taxes for the peasants and deteriorating public services and eliminating public investments beneficial to the urban working class.

Equally important has been the massive increase of crime, including drugs, prostitution, sex slavery, and fraud and illegal public assaults on protestors deprived of land, jobs, pensions and homes. The geometric growth of street, office and state crime and the ensuing insecurity, loss of property, income and life, is a product of the new capital ethos of "get rich", which undermines the civic virtues of the collective good which reigned in the previous period, even as it was frequently breached in practice. Living with pervasive corruption, crime and arbitrary authority guided by motives of private gain at public expense is certainly a measure of declining living standards.

These methodological considerations will guide our discussion of the transition of the Chinese economy to 21st Century capitalism.

Stages of Chinese Development: From Semi-Colony to Revolution

Historical changes occur in unequal time frames: relatively slow processes involving small-scale changes and gradually emerging contradictions are followed by rapid and abrupt revolutions. China is illustrative of this proposition. Over the past half century China has passed through two major revolutions and two "transitional regimes" which have transformed property relations, the class structure and the nature of state power. Each political revolution has set in motion a re-organization of the economy and changed the nature of the class struggle, guided by a new configuration of socio-political power.

Each stage of development grows out of the previous period, carrying forth to the new political-economic regime some of the practices, values and classes from the old. Moreover the transition from socialism to capitalism, in particular, the high growth rates and many of the attractions for private foreign and domestic investors were products of the basic human and capital investments undertaken under the socialist regime. Each political-economic regime contains the seeds of its own destruction and the social agencies for the emergence of the new regime.

Stage One: From Colony and Neo-Colony to Revolutionary Socialist Regime

The Chinese socialist revolution (CSR) (1949) created the most basic political and economic conditions for any sustained and consequential economic development. The revolutionary movement played a major role in the military defeat of Japanese colonialism, ended the European enclaves and the coastal concessions in the course of creating national sovereignty. The CSR defeated provincial and local warlords and their allies in the Kuomintang thus creating a unitary state. It ended skyrocketing inflation, monumental corruption and pillage of the public treasury and financial system, laying the groundwork for a stable currency, fiscal discipline and a functioning economy capable of reconstructing the war devastated economy. It repulsed US threats to its frontiers during the US invasion of North Korea. Within the framework of a sovereign national state, free of intrusive imperial tutelage, the CSR organized vast infrastructure projects (roads, ports, airfields, railroads, irrigation, flood control, water and electrical linkages) that stimulated high rates of economic growth in industry, trade and agriculture, ending decades of mass starvation under Western and Eastern imperial domination. The CSR brought about several strategic reforms which provided the basis for long-term growth: it inaugurated a mass public literacy and health campaign at all levels of society – creating an educated, healthy labor force, and including millions of engineers, scientists and highly skilled machine/tool operators. Equally important it converted a mass of rural peasants into a disciplined skilled and productive urban industrial labor force, raising living standards in the course of creating a complex division of labor. Upstream industries in steel and coal and the capital goods sector created the basis for downstream light industries and inexpensive consumer items. In the countryside, fragmented and unproductive mini-agricultural holdings were consolidated leading to greater mechanization and facilitating the provision of social services to cooperative and later to larger collectivist units.

Without these profound structural changes, nation building and the emergence of productive economy would never have been possible. The development process was not altogether a linear, stable process: over-ambitious goals, which over-estimated the regimes organizational and technical capacity such as the Great Leap Forward (1957-58) led to temporary setbacks which had substantial negative consequences especially in the countryside. Equally important, the new system and regime, despite the radical changes in property relations, class structure and the new egalitarian norms, contained many of seeds of the past 'commercial-landlord-hierarchal-colonial' society, which preceded it. Party cadres acting on behalf of the state transferred the rural surplus extracted from the peasant coops to the central government engaged in rapid urban industrialization, using the same mixture of coercion and persuasion as the "tax collectors" in the semi-feudal past, even as the ends pursued were totally different. The vertical-centralized organizational structure of the regime in pursuit of egalitarian goals reflected the ruptures and continuities with the past, the combination of "feudalism" and socialism.

For nearly a decade after the revolution, a substantial number of capitalist enterprises continued to operate under the tutelage of the Communist regime. Subsequent to nationalization, many of the business leaders either fled the country or were incorporated into the economic, planning or industrial ministries. Some of these capitalist holdovers or their kin later made a comeback with the reversion to capitalism and the revival of private enterprise. Beyond the individual or class incorporation of capitalists into the public sector, the new enterprise directors adopted what they considered the "modern forms of production" – namely, mass production line, Taylorist production methods, unbalanced growth, emphasizing heavy industry and production goals over agriculture and consumption.

The influence of the Soviet model of economic development played a major role in defining growth and accumulation strategies, and the priorities and methods of economic development. Social consumption – investment allocations to public health, transport and education took far greater precedence over individual consumption based on quality goods, including clothing, housing, recreation, food and household appliances.

The tensions between feudal-capitalist-Soviet methods and organization emphasizing vertical control and public-defined priorities increasingly came into conflict with mass demands for greater popular participation, horizontal solidarity and personal consumption. The latent and overt conflicts between the Party elite and the masses over participation took place within a general consensus over the iron rice bowl (guaranteed employment), universal free public education and health, 'affirmative action' (promoting individuals from worker or peasant background) and public ownership of the means of production. The major exceptions among the masses to this consensus existed in the countryside among peasants who cultivated small private lots for self-consumption, barter or occasional sale, and among a limited stratum of urban vendors. The most influential exception to the socialist consensus in the elite was among an important stratum of party leaders, ideologues and followers who argued for greater role for "the market", greater enterprise autonomy and the introduction of market reforms. The open class conflict between these forces eventually led to the "Cultural Revolution" (1966-1974), which sought to definitively set the revolution on a course toward deepening the socialist perspective. Paradoxically the outcome of the Cultural Revolution severely weakened the mass movements and led to the ascendance of what later became the "capitalist roaders" under the leadership of Deng Tsiao Peng.

The Cultural Revolution, at the onset, challenged the "feudal" extraction of the rural surplus, the Soviet style hierarchy and abuse of authority and the "Taylorist" organization of work. The struggle reaffirmed the primacy of the workers role in society thus precluding any openings toward the market, postponing at least for 20 years any liberalization. The urban mobilizations, especially of the young generation, was aimed at ending the abuse of power by public authorities and professionals who monopolized the public institutions of education, health, science and culture in order to bring them into line with egalitarian norms. The mass excesses and the conversion of the ideological/class struggle into an elite-bureaucratic conflict controlled from above, and the lack of any positive direction of the mass mobilization led to the exhaustion and disillusion of the mass movements.

The eventual ascendancy of the 'capitalist roaders' in the late 1970's was not so much a result of any decisive political-military victory as it was a byproduct of the demise and dissolution of the mass movements under the leadership of an aging Mao Tse Tung and what came to be called the 'Gang of Four'.

Stage II: From Communism to State Capitalism 1970-1989

The eclectic communism of the period (1949-78) period, and the demise of the renovating forces in the Cultural Revolution (1966-73) strengthened the bureaucratic elite favorable to opening up to the market, reinforced the capitalist remnants embedded in the regime, and more important opened room for advancement for economists, scientists, engineers and other party cadre educated or influenced by late Soviet experiments with profit-based enterprises and calculus. Equally important Mao's foreign policy right turn embracing Washington (Nixon and Kissinger) and a host of right-wing, anti-communist dictators and leaders from Pinochet in Chile, Marcos in the Philippines and Savimbi in Angola opened the entire party of a reassessment to its international politics and the centrality of the world capitalist market. This reassessment, in turn, strengthened the emerging new generation of professionals and cadres who came to maturity in the post-revolutionary period. Their thinking was shaped in sharp reaction to the plebian-egalitarian thrust of the Cultural Revolution and particularly by its excesses and its attempt to circumvent objective problems by 'creating facts' and by its frontal attack on scientists, experts and academics.

The new power configuration was made up of technocrats, market-oriented Communist leaders, aspiring private entrepreneurs, political ideologues of a new capitalist class and sectors of the old bourgeoisie restored to respectability. They developed a strategy of liberalization in stages. This new power elite sought to avoid a frontal attack on the social welfare system and collective property. Instead they adopted a series of 'staggered liberalizing measures throughout the 1980's. They substituted a de facto privatization of land via the dismantling of the collective farms, even those which were successful and imposed a 'family leasehold' system, encouraging private trade, individual accumulation and gradual land concentration. High Party and State officials and Party cadres, as agents of the state transfers of property to the private sector, contracts, import licenses, land use permits, credits, loans and incentives, enriched themselves and soon became capitalists on their own right. These perquisites were distributed by state officials to the new class of capitalists at a price: corruption was the link between the liberal collectivist apparatus and the capitalists, often blurring the line between public and private ownership especially as a high percentage of new class capitalist were progeny or kin of state officials.

"State Capitalism" became the transitional regime between socialism and neo-liberal capitalism. This transitional regime's most important role was to create the optimal framework for the rapid accumulation of private capital and wealth. This involved the imposition of a harsh regimen of labor control and repression of workers demands and unregulated exploitation by capital over labor. Total labor control allowed the regime to privatize and close numerous enterprises, engage in massive pillage of resources and the creation of a new class of rich millionaires within a decade. Economic liberalization encouraged the growth of two sets of oppositions: A pro-Western/imperialist liberal democratic student opposition bent on taking the "Russian road" and a worker-based opposition which demanded democracy in the name of defending the heritage of full employment, trade union rights, the iron pot' and other welfare measures being undermined by the state capitalists with liberal leanings. The 'Tiananmen Square (1989) uprising was dominated by the student-liberals; in Shanghai and elsewhere the worker-socialist opposition predominated.

Both oppositions were defeated, strengthening the state apparatus and the advance of liberalization in the 1990's until the early 2000. The 'state capitalist' regime attempted to ride two horses, a continued strong state sector, nourishing a privileged and corrupt official elite and a market opening for commercial, agricultural and private business and investors to 'complement' the state sector. The statist sector, initially the dominant group insisted that public banks continue to favor loans to state enterprises, while the liberal factions and other state officials pushed for greater public loans for private firms and wider areas for private investment.

By the end of 1980's and into the 1990's, the internal relation of forces, shifted inexorable toward the 'liberalizing' sectors of the state ruling elite, as the private sector gained momentum and increasing concessions from the state.

In other words ‘state capitalism’ became the breeding ground for private capitalism.

State capitalism as a “transitional regime” to liberal capitalism combines the outer forms of socialism (the predominance of state enterprises and state planning) while the inner dynamics moved toward capitalist relations (land leasing, export strategy, openings to foreign investments, and privatizations). Most important a new “ideology” encouraging individual enrichment served as a justification and stimulus for the emerging new class of capitalists. The accelerated, if lopsided and income concentrating, growth during the 1980s was underwritten by the basic foundations for development constructed during the preceding Communist period. The newly emerging capitalist regime benefited from healthy, trained and skilled urban industrial working class, basic industries (steel, coal, heavy machines) and light industries (textiles, shoes and related activities) which served as the take-off points for the export strategy. Basic infrastructure (railroads, ports, airports and shipping) and an orderly, stable and unified state capable of defending national sovereignty built under the Communist regime were essential conditions for the capitalist take-off.

The key element within the state capitalist formation that facilitated the movement away from communism and toward the transformation of China into a liberal capitalist state was the re-socialization of the entire policy-making and advisory elite: namely the unquestioning adoption of capitalist criteria, methods, motivations and organizational structures. During the 1980s, a whole generation of children of the state capitalist elite was educated by Western liberal economists both in China and abroad. They were taught market economic models, the equation of “modernization’ with capitalist liberalization, the positive role of the multi-national corporations and foreign investment. They were induced to believe that efficiency was identical with profitability and privatization, that inequality with was a result of ‘merit’ (or lack of it). The entire litany of capitalist virtues was almost universally and unquestionably accepted by the educated elite – and put into practice – because it provided a justification and incentive for their own class ambitions.

The progeny of the state-capitalist elite became the political and economic agency for the transformation of state capitalism to its liberal variant. The emerging new class of liberalizing capitalists benefited educationally and in terms of economic opportunities from the privileged position of their families in the state apparatus. They also benefited from their political links to state sector officials in terms of the rigged privatization of state property, largely based on corruption, illegal transfers, swindles, under-pricing and other political mechanisms.

The transition to from state to liberal capitalism was based on a kind of ‘primitive accumulation’ or pillage of public resources, as the motor force of expanded capitalist reproduction in the subsequent liberal capitalist phase. The state capitalist elite justified the opening to liberalization as a means of “developing the forces of production as a prelude to socialism”. The emergence of a powerful, influential billionaire capitalist class diminished the credibility of this slogan.

The principal groundwork for the liberal transition performed by the state capitalist was the abolition of all restraints on the most savage forms of capitalist exploitation of labor and the cheapening of labor costs by creating a mass of 400 to 500 million displaced rural and urban workers available for employment in low-paid factors, construction and domestic services. By 2005 China had the worst inequalities of any Asian country – a far cry form the early 1970’s when it was one of the most egalitarian countries.

Transition from State Capitalism to Liberal Capitalism

The growing presence of Chinese capitalists throughout all sectors of the economy, their high concentration in the dynamic growth sectors was cause and consequence of their greater political presence directly and indirectly in the top spheres of the political system. The result was the deepening of liberalization: the accelerated dismantling of trade barriers, of protective labor laws, the savaging of the countryside, the massification the reserve army of unemployed and the near unquestioning orientation toward the export market strategy. This led to the emergence of a class of billionaires – ‘super-rich’ – comparable to the richest of the rich in the imperial countries and the world’s greatest inequalities between the top 1% and the bottom 50% of the class structure.

The 'victims of the Cultural Revolution' became the executioners of one of the harshest capitalist restorations in modern history (perhaps exceeded by the Russian and some of the Eastern European and ex-Soviet Republics) if we measure the social losses and the extraordinary mass of profit, rents and land seizures which take place under the ascendant liberal elite.

The predominant group, at least in the early to middle years of the liberal regime, were Chinese national capitalists, though early on a substantial stake was taken on by overseas Chinese from Hong Kong, Taiwan and elsewhere. The advance of national private capitalism took two routes: either through the takeover of privatized state factories or via investments in new enterprises or services. In nearly all cases corruption of state officials played a major role in "lubricating" the process over and above the "entrepreneurial talents", market savvy and innovative behavior of the new class. Privatization beneficiaries – the new owners – were in part former Party-State officials who simply turned elite control into capitalist ownership and aspiring private business people with close ties to the local, provincial or state authorities. Likewise the new private enterprise bourgeoisie benefited enormously from state contracts, land grants, tax exonerations, state-controlled cheap labor and (especially at the beginning) nearly oligopolic markets. In both cases liberalization was as much state-driven as it was market-oriented. The interventionist state remained a key factor but its role changed dramatically from a direct investor to a promoter of private investment.

Rules limiting market activities were superseded by new regulations (or at least practices), which gave capitalists land sites, investment incentives and protection of property rights. Throughout the 1990's and into the new millennium, the one constant was the growing proportion of production, exports, investments of profits controlled by private capitalists. What began in the early 1980s, as a 'market opening', turned into torrents in the following two decades. By the middle of the first decade of the 21st century, private capital accounted for 75% of non-agricultural production. In large part, the growth of private capitalism was the result of the closing of state factories or their sell-offs and the vast infusion of private capital both local and foreign.

The rapid reproduction of private capital at the national level resulted from the expansion of consumer goods production both durables and non-durables, based on the pent-up demand and initially little competition; the property, real estate and construction boom turned well-connected "entrepreneurs" into multi-millionaires. The buyouts of state enterprises also led to the rise of a new industrial bourgeoisie. By hook or crook, swindles, captive markets and above all else an unregulated market to plunder cheap labor, the emerging capitalists catapulted in less than a decade from small-scale businessmen into tycoons with multiple mansions, million-dollar condos, Mercedes, mistresses and overseas bank accounts.

Given the initial high levels of exploitation of labor, the hundreds of millions of unemployed workers and peasants and the high concentration of wealth in the upper tenth percentile, domestic demand was relatively constricted. The regime and the new capitalist ruling class looked toward the export market as a mechanism to retain class privileges and find a profitable outlet for growing production.

Given that the locus of markets was overseas, it was logical and profitable to develop the coastal regions of China, closest to the ports and force labor to move from the interior to production sites. The export markets determined production sites and the latter determined the direction of mass internal migration. The coastal production sites, ports, commercial and banking center became the hotbed for neo-liberal ideology spawned by the academic and research centers. The coastal cities also were the centers for the biggest economic transactions between state officials and the new big bourgeoisie, and between the latter and the foreign investors seeking "strategic partners" and entry into the Chinese market. All the major urban coastal centers became the centers for the most rancid forms of real estate speculation and corrupt land deals, which accompanied the construction of luxury apartments, upscale shopping malls, boutiques, five-star hotels and high rent skyscraper office buildings – to provide work space and cater to the whims and conspicuous consumption of the new bourgeois multi-millionaires and the first billionaires.

Millions of construction workers, miners, domestic servants and assembly-line workers labored under the most abominable conditions: the longest hours, the worst safety conditions, lowest pay and least sanitary and regulated work conditions in Asia produced the huge profit margins, private domestic services and the physical facilities within which the new rich got richer and conspicuous consumption became a daily ritual.

Never in Chinese history or for that matter in the history of capitalism was so much private wealth accumulated, in such a short time, exploiting so much labor with so few rights and benefits. Juxtaposed upon the geographical concentration of production and distribution was the class concentration of wealth, consumption and political power. The notion of “Two Chinas” took on an altogether new meaning (no longer referring to the US distinction between China and Taiwan): it referred to the China of the coastal regions dominated by the new big bourgeoisie and the China of the interior made up of hundreds of millions of unemployed former peasants supplying cheap labor, foodstuffs, raw materials and finished goods to the coastal areas for processing, finishing, exporting and…profiting.

Foreign Capital: The First Beachheads

Parallel to the growth of an elite Chinese bourgeoisie, big foreign investors established manufacturing beachheads, and enclaves in key sectors, such as transport and other growth sectors. Major MNCs subcontracted with local Chinese manufacturers in all the major export sectors (clothes, shoes and toys) or directly invested in these sectors.

The turning point came with China’s entry into the World Trade Organization: large-scale, long-term policy of state factory closings followed and were accompanied by privatizations and the transfer of ownership to private national or foreign capitalists. Entry into the WTO decisively shifted the balance between private and state capital, and the ideological predominance of the former.

Private capital surpassed state capital in the value of output, exports and employment offerings. Big private firms began to receive an increasing percentage of loans from state banks where in the past they were excluded or restricted. Under the cover and protection of equal treatment for foreign and national capital, Japanese, US, Hong Kong, Taiwanese and European Union MNCs accelerated their entry, spreading to most sectors of the economy from face creams to golf courses, from factories to high tech enterprises. Practically nothing was ‘off limits’.

The “bureaucratic statists” engaged in rear-guard actions meant to slow the pace of privatization via regulatory delays and non-implementation of political decisions. Some of these objections were based on political beliefs, others as a means of extracting pay-offs. In the end, however, the statists were clearly in retreat.

High growth meant the expansion of conglomerates under the ownership of billionaires and pervasive family-based capitalist intertwined with overseas Chinese billionaires and Western investment houses.

The state capitalist model based on a triple alliance of state capital – national private capital – foreign investment was replaced by a new dual coalition of national and foreign capital. By the middle of the first decade of the 21st century, the national bourgeoisie had reached the apex of power – surpassing state capital and not yet challenged for dominance by the ascending foreign multi-nationals. Labor unrest was spreading at a geometrical rate, but so were the systems of repressions and special police and paramilitary forces. Cheap labor pools were declining but the inflow from the countryside compensated for high labor turnover. Competition was intensifying but overseas financing was growing and opportunities for strategic alliances were increasing. Opposition for foreign capital penetration was as yet limited to bureaucratic sectors. Most Chinese capitalists preferred to subcontract and form partnerships with foreign capital. Most university graduates were looking to careers in the private national monopolies and foreign MNCs. A state-anchored career was a lesser preference. Bankruptcies among small and middle size firms proliferated as competition intensified and profit margins declined, but new and bigger monopolies took their place.

China was not only a Chinese capitalist’s ‘paradise’ – it was a magnet for capitalists and investors world wide: everyone wanted to get into the act of unrestricted exploitation of labor and the market of 200 million middle class consumers, 10 million millionaires and thousands of super-rich billionaires.

The Future: The Transition from Liberalism to Neo-Liberalism – Eclipse of the National Bourgeoisie?

The present tendencies - the middle of the first decade of the 21st century - mark out a clear trajectory toward a deepening of capitalist, especially foreign capitalist, expansion (barring a major crisis in the global trading system, a social revolution in China, a serious recession in the US or a Sino-US military confrontation).

Foreign investment and overseas MNCs are growing at a rapid rate, moving beyond their initial beachheads as minority shareholders in select firms. From the present to the next decade, MNCs and foreign investment banks will buy into and extend their reach into production, distribution, transport, telecommunications, real estate and the service sectors throughout the lucrative coastal economies. This process proceeds via three routes: via direct investments in new enterprises; the most common approach is to engage in joint ventures with a strategic partner; the third route is to buy shares in existing enterprises. In all cases there is an unmistakable tendency for the MNCs to extend their influence and investments over time, eventually taking control over the strategic management positions. This process is not uniform, particularly where there are conflicts with Chinese management, political interference and sustained economic losses, in which case the MNCs withdraw.

As labor, rent and 'start-up' costs rise in the principle cities and as a relatively prosperous bourgeoisie and petit bourgeoisie emerge in the 'hinterland', the MNC will extend their operations toward the Chinese 'heartland'. Despite the lower living standards among the great mass of workers, peasants and unemployed, there is an internal market of 100-200 million active consumers in the heartland. The historic shift of FI and MNCs is toward capturing a substantial and eventually majority share of the domestic market even as China continues to serve as an assembly and export platform for foreign-owned firms.

The MNCs have launched a multi-pronged economic offensive to:

1) capture control of the banking and financial system

2) dominate the high and middle sectors of the domestic consumer goods market

3) penetrate into the telecommunications sector, and

4) gain shares in the cultural, entertainment, publicity and commercial markets.

Through the banking system, foreign capital will gain access to huge sums of internal savings, control credit to large, medium and small firms and more important, will be able to finance MNC investments with Chinese savings. China's leading banks are already selling shares to foreign investors and several major multi-national banks have purchased local banks. Bu the end of 2006, when restrictions on foreign ownership are lifted, the foreign takeover of the banking sector should accelerate. By the beginning of the second decade of this century, foreign banks will likely be in control of the financial levers of the Chinese economy. From there, the strategic leverage of loans, credit, refinancing and investment, foreign capital will be in a position to penetrate the peak industries of the country.

Foreign investors are oriented to capturing the existing consumer market – not in creating a mass market, which would entail increasing income, and/or redistributing income toward the hundreds of millions with extremely limited consumer power. The tendency is to target the higher end of the market - the new bourgeoisie and the more affluent, upwardly mobile petit bourgeoisie. Cosmetics, brand name fashions, transport and electronics are already penetrating the market. It is likely cheaper versions of the same goods will follow, gaining mass-market shares among employed workers and salaried people in the interior and coastal regions.

On the horizon, foreign investors can be expected to use the new world trade agreements to penetrate Chinese communications and service sectors, especially the mass media, entertainment, advertising and marketing outlets, especially the major retail outlets.

The step-by-step gradualist takeover strategy of the 1990s and the first five years of the new century will gain momentum in the following decade. The two step approach of buying into national firms and accumulating shares and influence over time will be replaced by outright buyouts and direct investments in new monopoly firms.

Chinese firms will still predominate in the highly competitive labor intensive sectors. However they will be subject to a greater profit squeeze by the MNC subcontractors and subject to high rates of bankruptcy, opening the way toward greater concentration of ownership.

A “division of labor” between foreign and Chinese capitalists is already beginning to emerge. The MNCs will control marketing, financing, design, technology, R and D, production targets and overseas sales. Their Chinese partners will be in charge of government relations (leveraging contacts, paying “commissions” or bribes, etc), labor relations, hiring of workers (but not necessarily hiring or firing middle and high level personnel, promotions and bonuses), public relations and engineering.

At some point, most likely in the second decade of this century, the cumulative power resulting from the dynamic growth of MNC power in finance, production, political influence and exports will result in a ‘Great Leap Forward’.

In the fourth great transformation, China will the leap from liberalism to neo-liberalism. The “Chinese” economy will lose its “national identity” and become a territorial outpost for foreign controlled and operated banks and multinational corporations. Quantitative penetration will lead to qualitative change in the commanding heights of the economy and in the elite spheres of the governing class. China’s bid to become a “world power” will be subverted. Instead China will become a gigantic proxy for imperial powers, who will increasingly compete for dominance, using different sectors of the political elite, military, students and so on.

The point at which China will be transformed from a burgeoning world power into a proxy for the imperial states depends on when the MNCs capture the key means of production, finance and trade and when this economic power is expressed within the Chinese state. There is a symbiotic relation between the growing presence of MNCs and the conversion of the Chinese state into a promoter of “free market” policies, each reinforcing the other. China’s Great Leap into an industrial outpost of empire will be consummated when the share of profits shift from the national bourgeois to foreign capital, a process which accelerated in the first decade of the 21st century.

China’s bourgeoisies’ lead role in the capitalist transformation is based on two factors: bureaucratic regulation and residual anti-imperialism of political officials. Some public officials undermine, delay and add costs to MNC entry. Another impediment are the investment miscalculations which foreign investors make in terms of corrupt or incompetent “strategic partners”. The Chinese bourgeoisie is strongest in the most labor-intensive industries drawing on the mass reserve army of rural unemployed. As this “reserve” is exhausted and urbanized workers demand higher salaries, the comparative advantages of national bourgeoisie over foreign capital will decline. While the national bourgeoisie most certainly will press for greater repression of labor unrest, they will be caught between heightened workers pressures and greater MNC competition. The prospects for ‘advance’ of the national bourgeoisie will reside in concentration (monopolization), going ‘overseas’ in search for new cheap sites of exploitation or upgrading their technology and internal organization. The likelihood is that large-scale global Chinese capitalists will seek to find a modus vivendi with the ascending multi-nationals, sacrificing global power for a relatively declining share of the Chinese market and a handful of overseas operations in the poorer African, Asian and Latin American markets and resource enclaves.

The history and logic of large-scale, long-term developments bears out the idea that each preceding social regimes contains the transformative agents of the forthcoming regime. Just as “elite collectivists” (the “capitalist roaders”) transformed China from a socialist into a state capitalist economy (“market socialism”) so did the political official and the emerging bourgeois lay the groundwork for the rise of liberal capitalism. Finally foreign capital has grown into a dynamic force within the liberal framework, deepening its control within enterprises and banks and expanding across all sectors of the economy. Accompanying this non-violent transformation of China from a liberal to a neo-liberal capitalist state, is the increasingly mass resistance to the harshest exploitative conditions in the world, the most arbitrary usurpation seizure of land, the most dangerous working condition anywhere, the greatest inequalities between the top 1% and the bottom 50%. Added to the Chinese bourgeoisie's brutal exploitation is their laissez faire agricultural import policies which are ruining millions of peasants and driving them to desperation. By the middle of the first decade of the 21st century massive importation of heavily subsidized US cotton, rice and other grains has devastated sectors of the countryside. Increased competition by both national and foreign private capital has set in motion close to 100,000 mass demonstrations involving millions of workers and peasants protesting arbitrary firings, plant shutdowns, stolen pensions, arbitrary seizure of property without compensation.

The Deepening Social Crisis: The Return of Class Struggle

Between 2001 and 2004, major social protests rose from 4,000 to 72,000 a year, and in 2005 they increased to 91,000. Despite the formation of special military police units throughout the country, the rising tide of social protest, especially in the countryside was threatening to destabilize the regime. China's leadership responded by announcing a series of new programs. In March 2006, at the annual session of the National Peoples' Congress, Prime Minister Wen Jiabao promised to build a "new socialist countryside", describing it as a "major historic task". Wen promised that the government would spend an extra $5.2 billion dollars on rural schools, hospitals, crop subsidies and other programs – a 15% increase over the past year. A World Health Organization survey measuring the equality of medical treatment placed China 187th out of 191 countries. The regime's neo-liberal policies were reaping the whirlwind of mass rural protest against arbitrary land seizures by rapacious developers and corrupt officials. To head off the protests Du Ying, Deputy Minister of China's powerful National Development and Reform Commission proposed 'reforms' based on "market mechanisms" to provide "just compensations" for land seized for commercial use. Over 133,000 hectares of Chinese farmland is converted to non-agricultural use every year leaving about 1 million farmers without land to farm. The leadership's "new socialist countryside" proposal included lower taxes and an end to extortionate payment demands by corrupt local officials. To fund these social reforms the leadership announced a slow down in the growth rate to 8% and a plan to reallocate spending to encourage the growth of the domestic consumer market.

These measures, however, are too little and too late. In the first place the groups which would be adversely affected by these reforms are the same people why would be asked to implement the changes – a very dubious proposition. Secondly the additional spending of a few billion dollars will have a minimum effect on 800 million rural poor. The extension of the free market policies in the countryside, especially in the context of the so-called leasehold system, will continue to concentrate landownership and increase the number of rural unemployed. The rich farmers, transport owners, commercial middlemen and informal money lenders, in alliance with urban land speculators, have a stranglehold on political power and will certainly ensure that few if any of the new rural funding reaches the most needy multitudes. The regime's policy to promote domestic consumption requires a sharp increase in the minimum wage and regulation of highly skewed salary-profit ratios, which in not part of the neo-liberal agenda. Since most manufacturers are geared to the export market, the entire production structure would have to be adjusted to potential local market demand – again a costly process not currently on the screen for the new capitalist class. A substantial increase in the domestic consumer market means higher wages and products at affordable prices, both of which impinge on the profits of the new capitalists with the closest links to the leadership. The dilemma of power is that in order to contain rising social discontent by progressive structural adjustments the regime would need to be transformed, a new social power configuration would have to come to power and restrictions in the 'open-door' policy to foreign investors would have to take place.

There are clear signs that the rapid national and foreign private takeover of strategic sectors of the economy has engendered sharp opposition even within the Party. A sharp ideological dispute over a new property law protecting private property in the National Peoples Congress (March 2006) has taken place. Two sets of criticism arose in the debate: some argued that the property protections would shield the billionaires and millionaires who stole public assets or officials who took bribes; others claimed that the property law would obliterate the balance between state and private property in favor of the latter. While the debate is important in highlighting how China's foreign takeovers and rapid privatization has provoked vocal intellectual and public opposition, it is unlikely to have serious implications. The entire leadership of the regime is linked to the powerful expanding private sector elites who have become the essential motor force of growth. The social, familial and economic overlap between the political leadership and the private economic elites and the dominant neo-liberal model precludes any serious reforms. The class struggle will probably deepen.

The old paternalistic communist and state capitalist bonds between directors and workers, cadre collective farm leaders and peasants have been shattered. The spontaneous decentralized protests resulting from the first wave of liberal exploitation of mostly peasant workers is likely to be replaced by the new urbanized workers, angered by the grotesque class contrasts between a ruling class life style of conspicuous consumption and arbitrary power and a growing army of impoverished unemployed urban workers, displaced peasants and exploited workers. The centralization of capital in large factories in concentrated urban settings facilitates organization, exchange of ideas, sharing of experience, recollection of safer more secure guaranteed employment without great class distinctions.

Past recollections, the permeation of workers ideology converging with massified urbanized and concentration of highly exploited workers is likely to generate a new type of cultural revolution, one with a distinctly class and anti-imperialist content. There is an inverse relation between the rise and relative decline of the national bourgeoisie and the decline and rise of the new working class as the focus shifts from a 'consumerist ethic' to a fight for class dignity and freedom from the thousands of trials and tribulations imposed by the ruling class. The future ruling foreign bourgeoisie will lack the national bourgeoisie's cultural ties, the 'national guise', the messianic discourse of a 'world power' to mystify the workers; Worker-capital relations will revolve totally around the cash nexus. Social relations based on foreign pillage will reawaken both class and national bonds and spread outward toward intellectuals, students, shopkeepers, peasants threatened by the dynamic accumulation of foreign capital – setting in motion new revolutionary struggle in the coming decades.