A BRIEF HISTORY OF NEOLIBERALISM

DAVID HARVEY

OXFORD

A Brief History of Neoliberalism

David Harvey

OXFORD
UNIVERSITY PRESS

OXFORD
UNIVERSITY PRESS

Great Clarendon Street, Oxford OX2 6DP

Oxford University Press is a department of the University of Oxford.
It furthers the University's objective of excellence in research, scholarship,
and education by publishing worldwide in

Oxford New York

Auckland Cape Town Dar es Salaam Hong Kong Karachi
Kuala Lumpur Madrid Melbourne Mexico City Nairobi
New Delhi Shanghai Taipei Toronto

With offices in

Argentina Austria Brazil Chile Czech Republic France Greece
Guatemala Hungary Italy Japan Poland Portugal Singapore
South Korea Switzerland Thailand Turkey Ukraine Vietnam

Oxford is a registered trade mark of Oxford University Press
in the UK and in certain other countries

Published in the United States
by Oxford University Press Inc., New York

First published 2005
First published in paperback 2007

British Library Cataloguing in Publication Data

Data available

Library of Congress Cataloging in Publication Data
Data to follow

Typeset by RefineCatch Limited, Bungay, Suffolk
Printed in Great Britain
on acid-free paper by
Clays Ltd, St Ives plc

ISBN 0–19–928326–5 978–0–19–928326–2
ISBN 0–19–928327–3 (Pbk.) 978–0–19–928327–9 (Pbk.)
EAN 978 0 19 928326 2

1 3 5 7 9 10 8 6 4 2

5

Neoliberalism ‘with Chinese Characteristics’

In December 1978, faced with the dual difficulties of political uncertainty in the wake of Mao’s death in 1976 and several years of economic stagnation, the Chinese leadership under Deng Xiaoping announced a programme of economic reform. We may never know for sure whether Deng was all along a secret ‘capitalist roader’ (as Mao had claimed during the Cultural Revolution) or whether the reforms were simply a desperate move to ensure China’s economic security and bolster its prestige in the face of the rising tide of capitalist development in the rest of East and South-East Asia. The reforms just happened to coincide—and it is very hard to consider this as anything other than a conjunctural accident of world-historical significance—with the turn to neoliberal solutions in Britain and the United States. The outcome in China has been the construction of a particular kind of market economy that increasingly incorporates neoliberal elements interdigitated with authoritarian centralized control. Elsewhere, as in Chile, South Korea, Taiwan, and Singapore, the compatability between authoritarianism and the capitalist market had already been clearly established.

While egalitarianism as a long-term goal for China was not abandoned, Deng argued that individual and local initiative had to be unleashed in order to increase productivity and spark economic growth. The corollary, that certain levels of inequality would inevitably arise, was well understood as something that would need to be tolerated. Under the slogan of *xiaokang*—the concept of an ideal society that provides well for all its citizens—Deng focused on ‘four modernizations’: in agriculture, industry, education, and science and defence. The reforms strove to bring market forces to bear internally within the Chinese economy. The idea was to stimulate competition between state-owned firms and thereby spark, it was hoped, innovation and growth. Market pricing was introduced, but this was probably far less significant than the rapid devolution of political-economic power to the regions and to the localities. This last move proved particularly astute. Confrontation with traditional power centres in Beijing was avoided and local initiatives could pioneer the way to a new social order. Innovations that failed could simply be ignored. To supplement this effort, China was also opened up, albeit under strict state supervision, to foreign trade and foreign investment, thus ending China's isolation from the world market. Experimentation was initially limited, mainly to Guangdong province close to Hong Kong, conveniently remote from Beijing. One aim of this opening to the outside was to procure technology transfers (hence the emphasis on joint ventures between foreign capital and Chinese partners). The other was to gain enough foreign reserves to buy in the necessary means to support a stronger internal dynamic of economic growth.[1]

These reforms would not have assumed the significance we now accord to them, nor would China's extraordinary subsequent economic evolution have taken the path and registered the achievements it did, had there not been significant and seemingly unrelated parallel shifts in the advanced capitalist world with respect to how the world market worked. The gathering strength of neoliberal policies on international trade during the 1980s opened up the whole world to transformative market and financial forces. In so doing it opened up a space for China's tumultuous entry and incorporation into the world market in ways that would not have been possible under the Bretton Woods system. The spectacular emergence of China as a global economic power after 1980 was in part an unintended consequence of the neoliberal turn in the advanced capitalist world.

Internal Transformations

To put it this way in no way diminishes the significance of the tortuous path of the internal reform movement within China itself. For what the Chinese had to learn (and to some degree are still learning), among many other things, was that the market can do little to transform an economy without a parallel shift in class relations, private property, and all the other institutional arrangements that typically ground a thriving capitalist economy. The evolution along this path was both fitful and frequently marked by tensions and crises, in which impulses and even threats from outside certainly played their part. Whether it was all a matter of conscious though adaptive planning ('groping the stones while crossing the river' as Deng called it) or the working out, behind the backs of the party politicians, of an inexorable logic deriving from the initial premises of Deng's market reforms, will doubtless long be debated.[2]

What can be said with precision, is that China, by not taking the 'shock therapy' path of instant privatization later foisted on Russia and central Europe by the IMF, the World Bank, and the 'Washington Consensus' in the 1990s, managed to avert the economic disasters that beset those countries. By taking its own peculiar path towards 'socialism with Chinese characteristics' or, as some now prefer to call it, 'privatization with Chinese characteristics', it managed to construct a form of state-manipulated market economy that delivered spectacular economic growth (averaging close to 10 per cent a year) and rising standards of living for a significant proportion of the population for more than twenty years.[3] But the reforms also led to environmental degradation, social inequality, and eventually something that looks uncomfortably like the reconstitution of capitalist class power.

It is hard to make sense of the details of this transformation without a rough map of its general path. The politics are difficult to fathom, masked as they are by the mysteries of power struggles within a Communist Party determined to maintain its singular and unique hold on power. Key decisions ratified at party congresses set the stage for each step on the reform trail. It is unlikely, however, that the party would have easily countenanced the active reconstitution of capitalist class power in its midst. It almost certainly embraced economic reforms in order to amass wealth and upgrade its technological capacities so as to be better able to manage internal dissent, to better defend itself against external aggression, and to project its power outwards onto its immediate geopolitical sphere of interest in a rapidly developing East and

South-East Asia. Economic development was seen as a means to these ends rather than as an end in itself. Furthermore, the actual developmental path taken seems to fit with the aim of preventing the formation of any coherent capitalist class power bloc within China itself. Heavy reliance upon foreign direct investment (a completely different economic development strategy to that taken by Japan and South Korea) has kept the power of capitalist class ownership offshore (Table 5.1), making it somewhat easier, at least in the Chinese case, for the state to control.[4] The barriers erected to foreign portfolio investment effectively limit the powers of international finance capital over the Chinese state. The reluctance to permit forms of financial intermediation other than the state-owned banks—such as stock markets and capital markets—deprives capital of one of its key weapons vis-à-vis state power. The long-standing attempt to keep structures of state ownership intact while liberating managerial autonomy likewise smacks of an attempt to inhibit capitalist class formation.

But the party also had to face a number of awkward dilemmas. The Chinese business diaspora provided key external links and Hong Kong, reabsorbed into the Chinese polity in 1997, was already structured along capitalistic lines. China had to compromise with both, as well as with the neoliberal rules of international trade set up through the WTO, which China joined in 2001. Political demands for liberalization also began to emerge. Worker protests surfaced in 1986. A student movement, sympathetic to the workers but also expressive of its own demands for greater freedoms, climaxed in 1989. The tremendous tension in the political realm that paralleled economic neoliberalization culminated in the massacre of students in Tiananmen Square. Deng's violent crackdown, carried out against the wishes of party reformers, clearly indicated that neoliberalization in the economy was not to be accompanied by any progress in the fields of human, civil, or democratic rights. While Deng's faction repressed the political it had to initiate yet another wave of neoliberal reforms to survive. Wang summarizes these as follows:

> monetary policy became a prime means of control; there was a significant readjustment in the foreign currency exchange rate, moving towards a

Table 5.1. Measures of capital inflows: foreign loans, foreign direct investments, and contractual alliances, 1979–2002

	Amount (US$100 million)				Percentage shares of total capital inflows		
	Total	Foreign loans	Actual FDI inflows	Contractual alliances	Foreign loans	Actual FDI inflows	Contractual alliances
1979–1982	124.57	106.90	11.66	6.01	85.82	9.36	4.82
1983	19.81	10.65	6.36	2.80	53.76	32.10	14.13
1984	27.05	12.86	12.58	1.61	47.54	46.51	5.95
1985	46.45	26.88	16.61	2.96	57.87	35.76	6.37
1986	72.57	50.14	18.74	3.69	69.09	25.82	5.08
1987	84.52	58.05	23.14	3.33	68.68	27.38	3.94
1988	102.27	64.87	31.94	5.46	63.43	31.23	5.34
1989	100.59	62.86	33.92	3.81	62.49	33.72	3.79
1990	102.89	65.34	34.87	2.68	63.50	33.89	2.60
1991	115.55	68.88	43.66	3.01	59.61	37.78	2.60
1992	192.03	79.11	110.07	2.85	41.20	57.32	1.48
1993	389.60	111.89	275.15	2.56	28.72	70.62	0.66
1994	432.13	92.67	337.67	1.79	21.44	78.14	0.41
1995	481.33	103.27	375.21	2.85	21.46	77.95	0.59
1996	548.04	126.69	417.26	4.09	23.12	76.14	0.75
1997	587.51	120.21	452.57	14.73	20.46	77.03	2.51
1998	579.36	110.00	454.63	14.72	18.99	78.47	2.54
1999	526.6	102.12	403.19	15.18	19.4	76.6	2.88
2000	594.5	100	407.1	17.71	16.8	68.5	2.98
2001	496.8	—	468.8	18.4	—	94.4	3.7
2002	550.1	—	527.4	21.3	—	95.9	3.87

Source: Huang, 'Is China Playing by the Rules?'.

unified rate; exports and foreign trade came to be managed by mechanisms of competition and assumption of responsibility for profits or losses; the 'dual track' pricing system was reduced in scope; the Shanghai Pudong development zone was fully opened and the various regional development zones were all put on track.[5]

After an ageing Deng toured the southern region in 1992 to see for himself what effect the opening to the outside was having on economic development, he pronounced himself fully satisfied. 'To get rich is glorious' he said, adding: 'What does it matter if it is a ginger cat or a black cat as long as it catches mice?' The whole of China was opened up, though still under the watchful eye of the party, to market forces and foreign capital. A democracy of consumption was encouraged in urban areas to forestall social unrest. Market-based economic growth then accelerated in ways that sometimes seemed to be beyond party control.

When Deng initiated the reform process in 1978, almost everything of significance in China lay within the state sector. State-owned enterprises (SOEs) dominated the leading sectors of the economy. By most accounts these were reasonably profitable. They offered not only security of employment to their workers but a wide range of welfare and pension benefits (known as 'the iron rice bowl' or the state's guarantee of a livelihood). There were in addition a variety of local state enterprises under provincial, city, or local government control. The agrarian sector was organized according to a commune system, and most accounts agree it was lagging in productivity and badly in need of reform. Welfare arrangements and social provision were internalized within each of these sectors, though unevenly. Rural dwellers were the least privileged and were kept separate from urban populations by way of a residency permit system which conferred many welfare benefits and rights on the latter while denying them to the former. This system also helped hold back any mass rural migration to the cities. Each sector was integrated into a regionally organized state planning system in which output targets were assigned and inputs allocated according to plan. State-owned banks largely existed as a depository for savings and provided investment moneys outside of the state budget.

The SOEs were long maintained as the stable centrepieces of state control of the economy. The security and benefits they conferred on their workers, though whittled away over time, kept a social safety net under a significant sector of the population for many years. A more open market economy was created around them by dissolving the agricultural communes in favour of an individualized 'personal responsibility system'. Township and village enterprises (TVEs) were created out of the assets held by the communes, and these became centres of entrepreneurialism, flexible labour practices, and open market competition. A wholly private sector was permitted at first only in small-scale production, trade, and service activities, with limits (gradually relaxed over time) on the employment of wage labour. Finally, foreign capital flowed in, gathering momentum during the 1990s. Initially limited to joint ventures and certain regions, it ultimately bore down everywhere, though unevenly. The state-owned banking system expanded during the 1980s and gradually substituted for the central state in providing lines of credit to the SOEs, the TVEs, and the private sector. These different sectors did not evolve independently of each other. The TVEs drew their initial finance from the agrarian sector and provided markets for outputs or furnished intermediate inputs to the SOEs. Foreign capital integrated into the TVEs and the SOEs as time went on, and the private sector became much more significant both directly (in the form of owners) and indirectly (in the form of stockholders). When the SOEs became less profitable they received cheap credit from the banks. As the market sector gained in strength and significance, so the whole economy moved towards a neoliberal structure.[6]

Consider, then, how each distinctive sector evolved over time. In agriculture, peasants were given the right to use communal lands under a 'personal responsibility' system in the early 1980s. Initially, they could sell surpluses (over and above the commune target) at free market rather than state-controlled prices. By the end of the 1980s the communes had been totally dissolved. Though the peasants could not formally own the land, they could lease it and rent it out, hire in labour, and sell their product at market prices (the dual price system effectively collapsed). As a result, rural incomes increased at the astonishing rate of 14 per cent annually and output similarly surged between 1978 and 1984. Thereafter, rural incomes stagnated and even fell in real terms (particularly after 1995) in all but a few select areas and lines of production. The disparity between rural and urban incomes increased markedly. Urban incomes that averaged just $80 a year in 1985 soared to over $1,000 in 2004, while rural incomes rose from around $50 to around $300 in the same period. Furthermore the loss of the collective social rights earlier established within the communes—weak though they may have been—meant the peasants had to face burdensome user charges for schools, medical care, and the like. This was not the case for most permanent urban residents, who were also favoured after 1995 when an urban real-estate law conferred real-estate ownership rights on urban residents, who could then speculate on property values. The urban/rural differential in real incomes is now, according to some estimates, greater than in any other country in the world.[7]

Forced to seek work elsewhere, rural migrants—many of them young women—have consequently flooded—illegally and without the rights of residency—into the cities to form an immense labour reserve (a 'floating' population of indeterminate legal status). China is now 'in the midst of the largest mass migration the world has ever seen' which 'already dwarfs the migrations that reshaped America and the modern Western world'. By official count, it has '114 million migrant workers who have left rural areas, temporarily or for good, to work in cities', and government experts 'predict the number will rise to 300 million by 2020, eventually to 500 million'. Shanghai alone 'has 3 million migrant workers; by comparison, the entire Irish migration to America from 1820 to 1930 is thought to have involved perhaps 4.5 million people'.[8] This labour force is vulnerable to super-exploitation and puts downward pressure on the wages of urban residents. But urbanization is hard to stop, and the rate of urbanization stands at something like 15 per cent per year. Given the lack of dynamism in the rural sector, it is now widely accepted that whatever problems there are will be solved in the cities or not at all. Remittances back to the rural regions are now a crucial element in the survival of rural populations. The dire condition of the rural sector and the instability it is generating is today one of the most serious problems facing the Chinese government.[9]

When the communes were dissolved their previous political and administrative powers were turned over to newly created township and village governments set up under the Constitution of December 1982. Later legislation allowed these governments to take possession of the communes' industrial assets and restructure them as TVEs. Liberated from central state control, local administrations typically took an entrepreneurial stance. The initial surge in rural incomes provided savings that could be ploughed back into the TVEs. Depending on location, joint ventures with foreign capital (particularly from Hong Kong or through the Chinese business diaspora) also flourished. TVEs were particularly active in rural peripheries of large cities, such as Shanghai and in the provincial zones, such as Guangdong, that had been liberated for foreign investment. The TVEs became an incredible source of dynamism in the economy during the first decade and a half of the reform period. By 1995 they were employing 128 million people (see Table 5.2). They centred grassroots experimentation, functioning as proving grounds for reforms.[10] Whatever worked with the TVEs could later become the basis of state policy. And what largely worked was a surge of development in light industry producing consumer goods for export, thus leading China down the export-led industrialization path. Only in 1987, however, did the state finally commit to the idea that development should be export-led.

Accounts as to what these TVEs were about vary greatly. Some

Table 5.2. Changing employment structure in China, 1980–2002 (millions)

	1980	1990	1995	2000	2002
Total	**423.6**	**647.5**	**680.7**	**720.9**	**737.4**
Urban	105.3	170.4	190.4	231.5	247.8
state	80.2	103.5	112.6	81.0	71.6
(SOEs)	67.0	73.0	76.4	43.9	35.3
collective	24.3	35.5	31.5	15.0	11.2
joint-owned	0	1.0	3.7	13.4	18.3
foreign	0	0.7	5.1	6.4	7.6
private	0.8	6.7	20.6	34	42.7
residual	0	23.1	16.9	81.6	96.4
Rural	318.4	477.1	490.3	489.3	489.6
TVEs	30.0	92.7	128.6	128.2	132.9
private		1.1	4.7	11.4	14.1
self-employed		14.9	30.5	29.3	24.7
farmers	288.4	368.4	326.4	320.4	317.9

Source: Prasad, *China's Growth and Integration into the World Economy*, table 8.1.

cite evidence that they were private operations 'in all but name', exploiting dirt-cheap rural or migrant labour—particularly young women—and operating outside of all forms of regulation. The TVEs often paid dismally low wages and offered no benefits and no legal protections. But some TVEs provided limited welfare and pension benefits as well as legal protections. In the chaos of transition, all manner of differences emerged, and these frequently had marked local and regional manifestations.[11]

During the 1980s it became clear that most of China's phenomenal growth rate was being powered from outside the SOE sector. In the revolutionary period the SOEs provided job security and social protections for their workforces. But in 1983 SOEs were allowed to hire 'contract workers' with no social protections and limited tenure.[12] They were also granted greater managerial autonomy from state ownership. Managers could retain a certain proportion of their profits and sell any surplus they produced over their targets at free market prices. The latter were much higher than the official prices, thus setting up an awkward and, it turned out, short-lived dual pricing system. In spite of these incentives, the SOEs did not flourish. Many of them fell into debt and had to be supported either by the central government or by the state-owned banks, which were encouraged to lend to them on favourable terms. This later posed serious problems for the banks as the volume of non-performing loans to the SOEs grew exponentially. Pressure for further reform of the SOE sector mounted. In 1993, therefore, the state decided 'to turn targeted large and medium state enterprises into limited liability or shareholding companies'. The former would have 'two to fifty shareholders' while the latter would have 'more than fifty shareholders and could offer public issues'. A year later a far more extensive programme of corporatization was announced: all but the most important of the SOEs were to be converted into 'share-based co-operatives' in which all employees had the nominal right to purchase shares. Further waves of privatization/conversion of the SOEs occurred in the late 1990s so that, by 2002, SOEs accounted for only 14 per cent of total manufacturing employment relative to the 40 per cent share they had held in 1990. The most recent step has been to open both the TVEs and the SOEs to full foreign ownership.[13]

Foreign direct investment, for its part, met with very mixed results in the 1980s. It was initially channelled into four special economic zones in southern coastal regions. These zones 'had the initial objective of producing goods for export to earn foreign exchange. They also acted as social and economic laboratories where foreign technologies and managerial skills could be observed. They offered a range of inducements to foreign investors, including tax holidays, early remittances of profits and better infrastructure facilities.'[14] But initial attempts by foreign firms to colonize the internal China market in areas such as automobiles and manufactured goods did not do well. While Volkswagen and Ford (barely) survived, General Motors failed in the early 1990s. The only sectors where clear initial successes were recorded were in those sectors exporting goods with high labour content. More than two-thirds of the foreign direct investment that came in during the early 1990s (and an even great percentage of the business ventures that survived) was organized by the overseas Chinese (particularly operating out of Hong Kong but also from Taiwan). The weak legal protections for capitalist enterprises put a premium on informal local relations and trust networks that the overseas Chinese were in a privileged position to exploit.[15]

Subsequently the Chinese government designated several 'open coastal cities' as well as 'open economic regions' for foreign investment (Figure 5.1). After 1995 it virtually opened the whole country up to foreign direct investment of any type. The wave of bankruptcies that hit some of the TVEs in the manufacturing sector in 1997–8, spilling over into many of the SOEs in the main urban centres, proved a turning-point. Competitive pricing mechanisms then took over from the devolution of power from the central state to the localities as the core process impelling the restructuring of the economy. The effect was to severely damage, if not destroy, many of the SOEs and create a vast wave of unemployment. Reports of considerable labour unrest abounded (see below) and the Chinese government was faced with the problem of absorbing vast labour surpluses if it was to survive.[16] It could not solely rely on an ever-expanding inflow of foreign direct investment to solve the problem, important though this might be.

Since 1998, the Chinese have sought in part to confront this

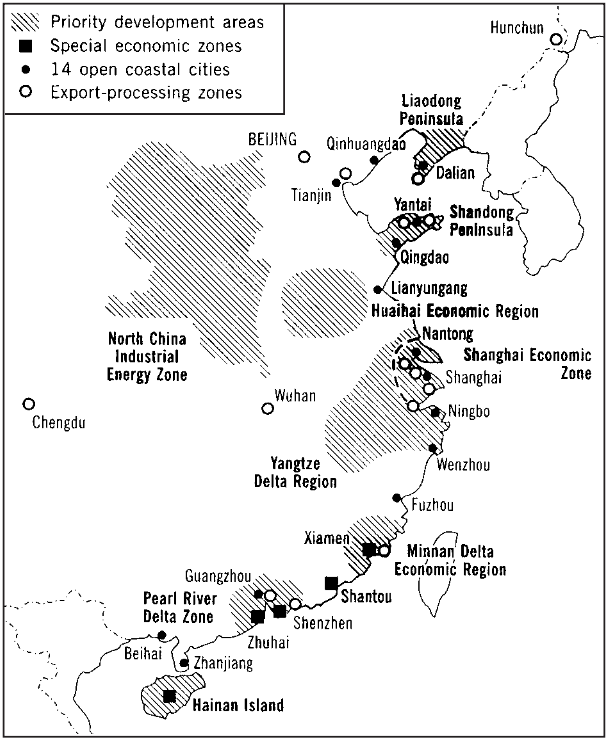

Figure 5.1 The geography of China's opening to foreign investment in the 1980s
Source: Dicken, *Global Shift*.

problem through debt-financed investments in huge mega-projects to transform physical infrastructures. They are proposing a far more ambitious project (costing at least $60 billion) than the already huge Three Gorges Dam to divert water from the Yangtze to the Yellow River. Astonishing rates of urbanization (no fewer than forty-two cities have expanded beyond the 1 million population mark since 1992) required huge investments of fixed capital. New subway systems and highways are being built in major cities, and 8,500 miles of new railroad are proposed to link the interior to the economically dynamic coastal zone, including a high-speed link between Shanghai and Beijing and a link into Tibet. The Olympic Games are prompting heavy investment in Beijing. 'China is also trying to build an interstate highway system more extensive than America's in just fifteen years, while practically every large city is building or has just completed a big new airport.' At last count, China had 'more than 15,000 highway projects in the works, which will add 162,000 kilometers of road to the country, enough to circle the planet at the equator four times'.[17] This effort is far larger *in toto* than that which the United States undertook during the 1950s and 1960s in constructing the interstate highway system, and has the potential to absorb surpluses of capital and labour for several years to come. It is, however, deficit-financed (in classic Keynesian style). It also entails high risks, since if the investments do not return their value in due course, then a fiscal crisis of the state will quickly ensue.

Rapid urbanization provides one way to absorb the massive labour reserves that have converged on the cities from rural areas. Dongguan, just north of Hong Kong, for example, has exploded from a mere town to a city of 7 million inhabitants in a little over twenty years. But 'city officials are not content with a 23 per cent annual economic growth rate. They are putting the finishing touches on a vast, entirely new annex city that they hope will draw 300,000 engineers and researchers, the vanguard of a new China'.[18] It is also the site of construction for what is slated to be the largest shopping mall in the world (built by a Chinese billionaire, it has seven zones modelled on Amsterdam, Paris, Rome, Venice, Egypt, the Caribbean, and California, each constructed with such close attention to detail as to be indistinguishable, we are told, from the real thing).

Such new tier cities are locked in ferocious inter-urban competition. In the Pearl River delta, for example, each city is now trying to capture as much business as possible 'by outbuilding its neighbors, often with duplicative results. Five international airports were built in the late 1990s in a 100–kilometer radius, and a similar boom is starting for ports and bridges'.[19] Provinces and cities resist Beijing's efforts to rein in their investments, in part because they have the power to fund their own projects by selling rights to develop real estate.

Cities have also become venues for frenzied real-estate development and property speculation:

During the early to mid 1990s when a 'casino mentality' gripped the country, banks and other financial institutions imprudently funded massive property developments throughout China. First class office spaces, luxury villas, ostentatious town houses, and apartments sprang up overnight, not only in major cities like Beijing, Shanghai, Shenzhen, but also in many of the smaller provincial and coastal towns . . . The so-called 'Shanghai bubble' transformed this once drab city into one of the world's most glamorous metropolises. By the end of 1995, Shanghai boasted over a thousand skyscrapers, some one hundred five-star hotels, about 13.5 million square feet of office space—five times the 2.7 million feet in 1994—and a 'hot' real estate market that was adding stock at a faster rate than new York City . . . By late 1996 the bubble had burst, in large part because of inefficient allocation of resources and overcapacity.[20]

But the boom resumed even more vigorously in the late 1990s only to be followed by rumours of overbuilding in key urban markets in 2004.[21]

Behind much of this lay the financial role of China's largely state-owned banking system. This sector expanded rapidly after 1985. By 1993, for example, the number of branches of state banks had risen 'from 60,785 to 143,796 and the number of employees increased from 973,355 to 1,893,957. During the same period deposits increased from 427.3 billion yuan (US$51.6) to 2.3 trillion yuan while total loans increased from 590.5 billion yuan to 2.6 trillion yuan.'[22] By then the banks' disbursements exceeded government budget expenditures by a factor of five. A lot of money went to failing SOEs and the banks clearly 'played a leading role in creating "asset bubbles", especially in the volatile real estate and construction sectors'. Non-performing loans became a problem and in the end the central government had to spend 'almost as much to clean up bad loans' as the US did to rescue the savings and loan industry in 1987 (the cost of that bail-out was '$123.8 billion in public funds and $29.1 billion in supplemental deposit insurance premiums from financial institutions'). In 2003, for example, China announced a complex transfer of $45 billion from its foreign exchange reserves to two big government banks, and this was 'the third largest bailout in the banking system in less than six years'.[23] Although the non-performing loan portfolio accounts for perhaps 35 per cent of China's GDP, this pales in comparison with the overhang of US federal government and consumer debt that stands at more than 300 per cent of GDP.[24]

In one key respect China evidently learned from Japan. The modernization of education and science had to go hand in hand with a definitive strategy of research and development for both military and civilian purposes. Chinese investment in these fields has been significant. It now even offers its services as a commercial satellite provider (much to the irritation of the US). But from the late 1990s on, foreign corporations began to transfer a significant amount of their research and development activity into China. Microsoft, Oracle, Motorola, Siemens, IBM, and Intel have all set up research laboratories in China because of its 'growing importance and sophistication as a market for technology' and its 'large reservoir of skilled but inexpensive scientists, and its consumers, still relatively poor but growing richer and eager for new technology'.[25] More than 200 major foreign corporations, including such giants as BP and General Motors, have now placed a significant part of their research effort in China. These corporations often complain at what they consider the illegal pirating of their technologies and designs by indigenous Chinese companies. But they can do little about it given the reluctance of the Chinese government to intervene and the power of the Chinese state to make things difficult for them to operate in the world's largest market if they press too hard on such issues. And it is not only foreign companies that have been active. Both Japan and South Korea have invested in large-scale 'research cities' in China to position themselves to take advantage of highly skilled but low-cost labour. The overall effect is to make China a much more attractive location for high-tech sector activities.[26] Even Indian high-tech companies find it cheaper to offshore some of their activities to China. An indigenous high-tech sector has also taken off in a number of areas. In Shenzhen, for example, 'with dozens of sleek stone and glass buildings that would not look out of place in Silicon Valley, the expanding campus houses many of the 10,000 engineers working to establish Huawei as China's first international player in the communications equipment business'. Beginning in the late 1990s 'Huawei invested heavily in establishing sales networks in Asia, the Middle East and Russia; it now sells products in 40 countries, often at prices as much as a third lower than its rivals'.[27] And in personal computer marketing and production Chinese corporations now have a very active presence.

External Relations

Foreign trade accounted for only 7 per cent of China's GNP in 1978 but by the early 1990s it had soared to 40 per cent and it has stayed at that level ever since. China's share of world trade quadrupled during the same period. By 2002, over 40 per cent of China's GDP was accounted for by foreign direct investment (and manufacturing accounted for half). By then China had become the largest recipient of foreign direct investment in the developing world, and multinationals were exploiting the China market profitably. General Motors, which had lost on its failed venture in the early 1990s, re-entered the market at the end of the decade and by 2003 was reporting far higher profits on its Chinese venture than on its domestic US operations.[28]

It seemed as if an export-led development strategy had succeeded brilliantly. But none of this had been planned in 1978. Deng had signalled a departure from Mao's policies of internal self-reliance, but the first openings towards the outside were tentative and confined to special economic zones in Guangdong. It was not until 1987 that the party, noting the success of the Guangdong experiment, accepted that growth should be export-led. And it was only after Deng's 'southern tour' in 1992 that the full force of the central government was put behind the opening to foreign trade and foreign direct investment.[29] In 1994, for example, the dual currency exchange rate (official and market) was abolished by a 50 per cent devaluation of the official rate. While the devaluation sparked something of an internal inflationary crisis, it paved the way for massive growth in trade and of capital inflows that have now positioned China as the world's most dynamic and successful economy. What this betokens for the future of neoliberalization, given the latter's penchant for change through competitive uneven geographical developments, remains to be seen.

The initial success of Deng's strategy depended upon the Hong Kong connection. As one of the first of Asia's 'tiger' economies, Hong Kong was already a significant centre of capitalist dynamism. Unlike the other states in the region (Singapore, Taiwan, and South Korea), which resorted to high levels of state planning, Hong Kong had developed in a more chaotic entrepreneurial way without significant state guidance. It conveniently stood at the centre of a Chinese business diaspora that already had significant global connections. Hong Kong's manufacturing had developed along labour-intensive and low-value-added lines (textiles being in the lead). But by the late 1970s it was suffering from severe foreign competition and acute labour shortages. Guangdong, just across the border in China, had all the cheap labour in the world. Deng's opening therefore came as a godsend. Hong Kong capital seized the opportunity. It took advantage of its many hidden connections across the border into China, its function as an intermediary for whatever foreign trade China already had, and its marketing network into the global economy through which Chinese-made goods could easily flow.

As late as the mid-1990s, some two-thirds of foreign direct investment (FDI) in China came through Hong Kong. And although some of this was Hong Kong business expertise intermediating for more diverse sources of foreign capital, there is no question that the fortuitous fact of Hong Kong's proximity was critical to the developmental path that unfolded in China as a whole. The provincial government's economic development zone in urban Shenzhen, for example, was unsuccessful in the early 1980s. What attracted the Hong Kong capitalists were the newly created TVEs in rural areas. Hong Kong capital provided the machinery, the inputs, and the marketing while the TVEs did the work. Once established, this style of operation could be emulated by other foreign capitalists (particularly Taiwanese, mainly around Shanghai after it was opened up). The sources of FDI diversified greatly during the 1990s as Japanese and South Korean as well as US corporations began to use China as an offshore production centre in a big way.

Neoliberalism 'with Chinese Characteristics'

By the mid-1990s, it became clear that China's huge internal market was becoming more and more attractive to foreign capital. While only 10 per cent of the population may have possessed the purchasing power of a nascent and growing middle class, 10 per cent of more than a billion people constituted a huge internal market. The competitive race was on to provide them with automobiles, mobile phones, DVDs, televisions, and washing machines, as well as with shopping centres, highways, and 'luxury' homes. Monthly car production rose gradually from around 20,000 in 1993 to just over 50,000 in 2001, but thereafter leapt upwards to nearly 250,000 monthly by mid-2004. A flood of foreign investment—everything from Wal-Mart and McDonald's to computer chip production—poured into China in anticipation of rapid future internal market growth, in spite of institutional uncertainties, the uncertainties of state policy, and the evident dangers of overcapacity.[30]

The heavy reliance on FDI makes China a special case, very different from Japan or South Korea. Chinese capitalism is not well integrated as a result. Inter-regional trade is rather weakly developed, even though there have been massive investments in new means of communication. Provinces such as Guangdong trade far more with the outside world than they do with the rest of China. Capital does not flow easily from one part of China to another, in spite of a recent spate of merger activity and state-led efforts to create regional alliances among different provinces.[31] Reliance on FDI will therefore diminish only to the extent that resource allocation and capitalist interlinkages improve within China itself.[32]

China's external trading relations have mutated over time, but particularly over the last four years. While accession to the WTO in 2001 has had a lot to do with it, the sheer dynamism of Chinese economic growth and the shifting structures of international competition have made a major realignment of trading relations inevitable. In the 1980s China's position in global markets was mainly through low-value-added production, selling cheap textiles, toys, and plastics in international markets in large volume. Maoist policies had left China self-sufficient in energy and many raw materials (it is one of the largest cotton producers in the world). It merely needed to import the machinery and the technology and gain access to markets (with Hong Kong conveniently obliging). It could use its cheap labour to great competitive advantage. Hourly wages in textile production in China in the late 1990s stood at 30 cents compared to Mexico's and South Korea's $2.75, Hong Kong's and Taiwanese levels hovering around $5, and the US's cost of more than $10.[33] Chinese production was, however, largely subservient in the initial stages to the Taiwanese and Hong Kong merchants, who commanded the access to global markets, took the lion's share of the trading profits, and increasingly achieved backward integration into production by buying out or investing in the TVEs or SOEs. Production facilities employing as many as 40,000 workers are not uncommon in the Pearl River delta. Furthermore, low rates of pay make capital-saving innovations possible. Highly productive US plants use expensive automated systems, but 'Chinese factories reverse this process by taking capital out of the production process and reintroducing a greater role for labor'. The total capital required is typically reduced by one-third. 'The combination of lower wages and less capital typically raises the return on capital above the US factory levels.'[34]

Incredible wage labour advantages of this sort mean that China can compete against other low-cost locations such as Mexico, Indonesia, Vietnam, and Thailand in low-value-added production sectors (such as textiles). Mexico lost 200,000 jobs in just two years as China (in spite of NAFTA) overtook it as the major supplier of the US market in consumer goods. During the 1990s China began to move up the value-added ladder of production and to compete with South Korea, Japan, Taiwan, Malaysia, and Singapore in spheres such as electronics and machine tools. This occurred in part as corporations in those countries decided to move their production offshore to take advantage of the large pool of low-cost and highly skilled labourers being churned out by the Chinese university system. Initially, the biggest inflow came from Taiwan. As many as 1 million Taiwanese entrepreneurs and engineers are now thought to be living and working in China, taking a lot of production capacity with them. The inflow from South Korea has also been strong (see Figure 4.4). Korean electronics corporations now have substantial operations in China. In September 2003, for example, Samsung Electronics announced it was moving its entire PC-making business to China, having previously invested $2.5 billion there, 'creating 10 sales subsidiaries and 26 production companies, employing a total of 42,000 people'.[35] Japanese outsourcing of production to China contributed to the decline in Japanese manufacturing employment from 15.7 million in 1992 to 13.1 million in 2001. Japanese companies also began to withdraw from Malaysia, Thailand, and elsewhere in order to relocate in China. They are now so heavily invested in China that 'more than half of China–Japan trade is conducted among Japanese companies'.[36] As happened in the US, corporations can do very well while their home countries suffer. China has displaced more manufacturing jobs from Japan, South Korea, Mexico, and elsewhere than it has from the US. China's spectacular growth both internally as well as in its international trading position has corresponded with long-lasting recession in Japan, and lagging growth, stagnating exports, and periodic crises in the rest of East and South-East Asia. The negative competitive effects on many countries will likely deepen in time.[37]

China's dramatic growth has, on the other hand, made it more dependent upon foreign sources of raw materials and energy. In 2003 China took '30 per cent of the world's coal production, 36 per cent of the world's steel and 55 per cent of the world's cement'.[38] It went from relative self-sufficiency in 1990 to being the second largest importer of oil after the US in 2003. Its energy companies sought stakes in Caspian Basin oil and opened negotiations with Saudi Arabia to secure access to Middle Eastern oil supplies. Its energy interests in the Sudan as well as in Iran have created tension with the US in both arenas. It competed with Japan over access to Russian oil. Its imports from Australia quadrupled in the 1990s as it sought new sources of metals. In its desperate need for strategic metals such as copper, tin, iron ore, platinum, and aluminium it scurried to cut deals with Chile, Brazil, Indonesia, Malaysia, and many other countries. It sought agricultural and timber imports from everywhere (massive purchases of soy beans from Brazil and Argentina helped breathe new life into those economies), and Chinese demand for scrap metal became so enormous as to raise prices all over the globe. Even US manufacturing has benefited from the Chinese demand for earth-moving equipment (Caterpillar) and turbines (GE). Asian exports to China have also grown at startling rates. China is now the primary export destination for South Korea and rivals the US in Japan's export market. The rapidity of the reorientation of trade relations is best illustrated by the case of Taiwan. China overtook the US as the prime destination of Taiwanese exports (mainly of intermediate manufacturing goods) in 2001, but by the end of 2004 Taiwan was exporting twice as much to China as to the US.[39]

China effectively dominates the whole of East and South-East Asia as a regional hegemon with enormous global influence. It is not above reasserting its imperial traditions in the region and beyond. When confronted by Argentina's worries about cheap Chinese imports destroying the vestiges of its indigenous textile, shoe, and leather industries that began to revive in 2004, the Chinese advice was simply to let such industries die and concentrate on being a raw material and agricultural commodity producer for the booming China market. It was not lost on the Argentines that this was exactly how Britain had approached its Indian empire in the nineteenth century. Nevertheless, the massive infrastructural investments under way in China have entrained much of the global economy. Conversely, China's slower growth in 2004 has been

> roiling commodity and financial markets everywhere. Nickel prices have plunged from 15-year highs, copper has tumbled from 8-year highs. The currencies of commodity-driven economies like Australia, Canada and New Zealand have also suffered. And markets in Asia's other export-driven economies have trembled amid concern that China might buy fewer semiconductors from Taiwan and fewer steel rods from South Korea as well as less Thai rubber, Vietnamese rice and Malaysian tin.[40]

As invariably happens with the dynamics of successful capital accumulation, there comes a point at which internally accumulated surpluses require external outlets. One path has been to fund the US debt and thereby keep the market for Chinese products buoyant while keeping the yuan conveniently pegged to the value of the dollar. But Chinese trading companies have long been active globally, and they expanded their scope and range markedly from the mid-1990s on. Chinese businesses also invest overseas to secure their position in foreign markets. Chinese television sets are now being assembled in Hungary to assure access to the European market and in North Carolina to assure access to the US. A Chinese auto company plans to assemble cars and eventually build a factory in Malaysia. Chinese companies are even investing in Pacific region tourism to meet their own surging demand.[41]

But in one respect the Chinese depart glaringly from the neoliberal template. China has massive labour surpluses, and if it is to achieve social and political stability it must either absorb or violently repress that surplus. It can do the former only by debt-financing infrastructural and fixed-capital formation projects on a massive scale (fixed-capital investment increased by 25 per cent in 2003). The danger lurks of a severe crisis of over-accumulation of fixed capital (particularly in the built environment). Abundant signs exist of excess production capacity (for example in automobile production and electronics) and a boom and bust cycle in urban investments has already occurred. But all of this requires that the Chinese state depart from neoliberal orthodoxy and act like a Keynesian state. This requires that it maintain capital and exchange rate controls. These are inconsistent with the global rules of the IMF, the WTO, and the US Treasury. While China is exempt from these rules as a transitional condition for WTO membership, it cannot remain so in perpetuity. The enforcement of capital flow controls is becoming increasingly difficult as Chinese yuan seep across a highly porous border via Hong Kong and Taiwan into the global economy. It is worthwhile recalling that one of the conditions that broke up the whole Keynesian post-war Bretton Woods system was the formation of a eurodollar market as US dollars escaped the discipline of its own monetary authorities.[42] The Chinese are already well on their way to replicating that problem, and their Keynesianism is correspondingly threatened.

The Chinese banking system, which is at the heart of the current deficit financing, cannot currently withstand integration into the global financial system because as much as half its loan portfolio is non-performing. Fortunately, the Chinese have a balance of payments surplus that can be applied, as we have already seen, to wiping the banks' slates clean. But it is at this point that the other shoe is liable to drop, because the only way the Chinese can afford this is by piling up balance of payments surpluses against the US. A peculiar symbiosis emerges, in which China, along with Japan, Taiwan, and other Asian central banks, fund the US debt so that the US can conveniently consume their surplus output. But this renders the US vulnerable to the whims of Asian central bankers. Conversely, Chinese economic dynamism is held hostage to US fiscal and monetary policy. The US is also currently behaving in a Keynesian fashion—running up enormous federal deficits and consumer debt while insisting that everyone else must obey neoliberal rules. This is not a sustainable position, and there are now many influential voices in the US suggesting that it is steering right into the hurricane of a major financial crisis.[43] For China, this would entail switching from a politics of labour absorption to a politics of overt repression. Whether or not such a tactic can succeed, as it did in Tiananmen Square in 1989, will depend crucially upon the balance of class forces and how the Communist Party positions itself in relation to those forces.[44]

Towards a Reconstitution of Class Power?

On 9 June 2004 a certain Mr Wang purchased a $900,000 Maybech ultra-luxury sedan from Daimler Chrysler in Beijing. The market in luxury cars of this sort is, apparently, quite brisk. The inference is that 'a few Chinese families have accumulated extraordinary wealth'.[45] Further down the car status-ranking, China is now the largest market in the world for Mercedes-Benz cars. Somebody, somewhere and somehow, is getting very rich.

Though China may have one of the world's fastest-growing economies it has also become one of its most unequal societies (Figure 5.2). The benefits of growth 'have been bestowed mainly on urban residents and government and party officials. In the past five years, the income divide between the urban rich and the rural poor has widened so sharply that some studies now compare China's social cleavage unfavourably with Africa's poorest nations.'[46] Social inequality was never eradicated in the revolutionary era. The differentiation between town and country was even written into law. But with reform, writes Wang, 'this structural

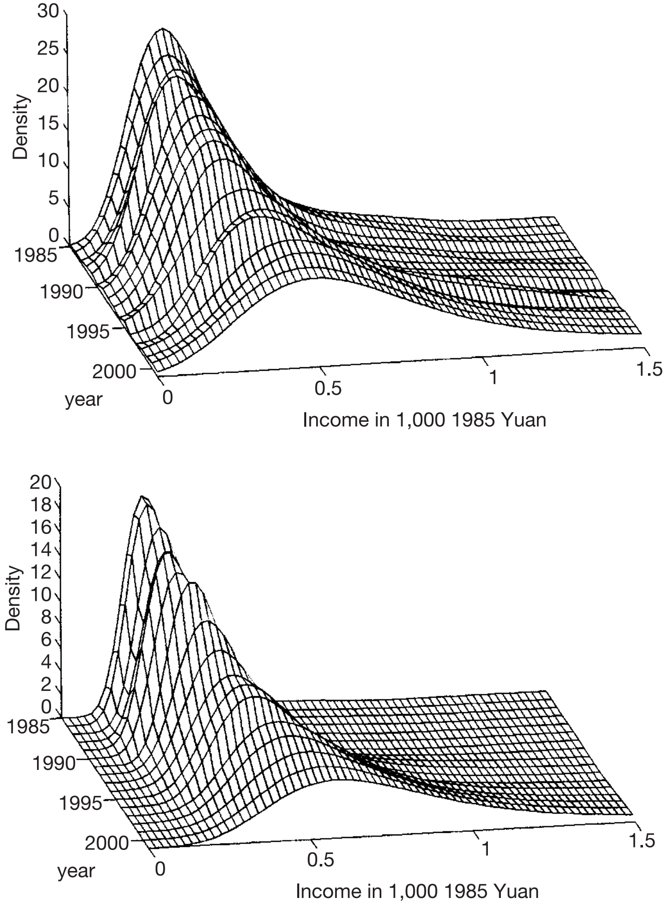

Figure 5.2 Increasing income inequality in China: rural (above) and urban (below), 1985–2000

Source: Wu and Perloff, *China's Income Distribution Over Time*.

inequality quickly transformed itself into disparities in income among different classes, social strata, and regions, leading rapidly to social polarization'.[47] Formal measures of social inequality, such as the Gini coefficient, confirm that China has travelled the path from one of the poorest and most egalitarian societies to chronic inequality, all in the space of twenty years (see Figure 5.2). The gap between rural and urban incomes (ossified by the residential permit system) has been increasing rapidly. While affluent urban dwellers drive BMWs, rural farmers are lucky to eat meat once a week. Even more emphatic has been the increasing inequality *within* both the rural and the urban sectors. Regional inequalities have also deepened, with some of the southern coastal zone cities surging ahead while the interior and the 'rust belt' of the northern region have either failed to take off or floundered badly.[48]

Mere increases in social inequality constitute an uncertain indicator of the reconstitution of class power. The evidence on this last point is largely anecdotal and by no means secure. We can, however, proceed inferentially by looking first at the situation at the bottom of the social ladder. 'In 1978 there were 120 million workers in China. By 2000 there were 270 million. Adding the 70 million peasants that have moved to the cities and found long-term wage work, China's working class now numbers approximately 350 million.' Of these 'more than 100 million' are now employed in the non-state sectors and are officially categorized as wage labourers.[49] A large proportion of those employed in what is left of the state sector (both SOEs and TVEs) in effect have the status of wage labourers also. There has, therefore, been a wholesale process of proletarianization going on in China, marked by the stages of privatization and the steps taken to impose greater flexibility on the labour market (including the shedding of welfare and pension obligations on the part of public enterprises). The government has 'gutted' services as well. According to China Labor Watch, 'Rural governments get almost no support from wealthier areas. They tax local farmers and impose endless fees to finance schools, hospitals, road building, even the police.' Poverty is intensifying among those left behind even as growth roars ahead at 9 per cent. Between 1998 and 2002, 27 million workers were let go from SOEs as their numbers fell from 262,000 to 159,000. Even more surprising, the net loss of manufacturing jobs in China over the past decade or so has been around 15 million.[50] In so far as neoliberalism requires a large, easily exploited, and relatively powerless labour force, then China certainly qualifies as a neoliberal economy, albeit 'with Chinese characteristics'.

The accumulation of wealth at the other end of the social scale is a more complicated story. It seems to have proceeded in part via a combination of corruption, hidden ruses, and overt appropriation of rights and assets that were once held in common. As local governments transferred shares of enterprises to management as part of their restructuring strategy, so many managers 'have overnight come to hold shares worth tens of millions of yuan through various means, forming a new group of tycoons'. When SOEs were restructured into joint stock corporations 'the managers were given significant portions of the shares' and sometimes received a yearly salary one hundred times that of their average worker.[51] The chief managers of the Tsingtao Brewery, which became a stockholding company in 1993, not only came to own a large slice of the shares of a lucrative business (that is augmenting its national presence and oligopolistic power through takeovers of many local breweries) but also pay themselves handsomely as managers. The privileged relationships between party members, government officials, and private entrepreneurs and the banks have also played an important role. Managers of newly privatized businesses who have received a certain number of shares may borrow from banks (or from friends) to buy up the remaining shares from the workers (sometimes coercively, by threatening layoffs for example). Since a large number of bank loans are non-performing, the new owners either run the companies into the ground (asset-stripping for personal gain along the way) or find ways to renege on their debts without declaring bankruptcy (bankruptcy law is not well developed in China). When the state takes $45 billion of foreign exchange earned off the backs of highly exploited labour and bails out the banks to cover their non-earning loans then it may well be redistributing wealth from the lower to the upper classes rather than writing off bad investments. Unscrupulous managers can gain control over newly privatized corporations and their assets all too easily and use them for their own personal enrichment.

Indigenous capital is also playing an increasingly important role in wealth creation. Having benefited from more than twenty years of technology transfer through joint ventures, blessed with access to large pools of skilled labour and managerial skills and above all harnessing the 'animal spirits' of entrepreneurial ambition, many

Chinese firms have now positioned themselves to compete with foreign rivals not only in the domestic market but also in the international arena. And this no longer occurs only in the low-value-added sectors. What is now the eighth-ranked computer maker in the world, for example, was set up in 1984 by a group of Chinese scientists backed by government funds. By the late 1990s it had transformed itself from a distributor to a maker and held the largest share of the Chinese market. Lenovo, as it is now called, is currently locked in fierce competition with major players, and has now taken over IBM's personal computer line to gain better access to the global market. The deal (which, incidentally, threatens Taiwan's position in the computer business) enables IBM to build a firmer bridge into the Chinese software market at the same time as it builds a huge Chinese-based company in the computer industry with a global reach.[52] While the state may hold shares in companies like Lenovo, their managerial autonomy guarantees an ownership and reward system that permits increasing concentrations of executive officer wealth on a par with that found elsewhere around the world.

Real-estate development, particularly in and around the large cities and in the export development zones, appears to be another privileged path towards amassing immense wealth in a few hands. Since peasant cultivators did not hold title to the land, they could easily be dispossessed and the land converted to lucrative urban uses, leaving the cultivators with no rural base for a livelihood and forcing them off the land and into the labour market. The compensation offered to the farmers is usually a small fraction of the value of the land then passed on to developers by government officials. As many as 70 million farmers may have lost their land in this way over the past decade. Commune leaders, for example, frequently asserted de facto property rights over communal land and assets in negotiations with foreign investors or developers. These rights were later confirmed as belonging to them as individuals, in effect enclosing the commons to the benefit of the few. In the confusion of transition, writes Wang, 'a significant amount of national property "legally" and illegally was transferred to the personal economic advantage of a small minority'.[53] Speculation in land and property markets, particularly in urban areas, became rife even in the absence of clear systems of property rights. So serious had the loss of arable land become that the central government had to put a moratorium on conversions in 1998 until more rational land-use planning could be implemented. But a lot of the damage had already been done. Valuable land had been assembled, and developers (utilizing privileged relationships with the banks) had gone to work, accumulating immense wealth in a few hands. Even on a small scale, much more money was to be made in real-estate ventures than in production.[54] The fact that the $900,000 car was purchased by someone who had made his money in real estate is significant.

Speculation in asset values, often using credit granted on favourable terms, has also played its part. This has been particularly marked in urban real estate in and around the large cities such as Beijing, Shanghai, Shenzhen, Dongguang, and the like. The gains, which have been huge for certain brief periods of boom, typically belong to the speculator, and the losses during the crashes are largely borne by the banks. In all of these arenas, including that hidden zone of corruption that is beyond measure, the appropriation of assets, often by key party leaders or government officials, has transformed them from agents of state power to independent and extremely wealthy businessmen well able to protect their new-found wealth, if necessary by spiriting it out of the country via Hong Kong.

A surging consumer culture has emerged in the main urban centres, to which the increasing inequalities add their particular features, such as gated and protected communities of high-income housing (with names like Beverly Hills) for the rich, and spectacular privileged consumption zones, restaurants and nightclubs, shopping malls, and theme parks in many cities. Postmodern culture has arrived in Shanghai, big time. All of the trappings of Westernization are there to be found, including transformations in social relations that have young women trading on their sexuality and good looks at every turn and cultural institutions (ranging from Miss World beauty pageants to blockbuster art exhibits) forming at an astonishing rate to create exaggerated versions, even to the point of parody, of New York, London, or Paris. What is now called 'the rice bowl of youth' takes over as everyone speculates on the desires of others in the Darwinian struggle for position. The gender consequences of this have been marked. 'In the coastal cities, women encounter the extremes of greater opportunities to earn unprecedented levels of income and professional employment, and, on the other hand, relatively low wages in manufacturing or low-status service sector jobs in restaurants, domestic service, and prostitution.'[55]

The other source for amassing wealth arises out of the super-exploitation of labour power, particularly of young women migrants from rural areas. Wage levels in China are extremely low, and conditions of labour are sufficiently unregulated, despotic, and exploitative to put to shame the descriptions that Marx assembled long ago in his devastating account of factory and domestic labour conditions in Britain in the early stages of the Industrial Revolution there. Even more invidious is the non-payment of wages and pension obligations. Lee reports that,

> in the heart of the NE rustbelt, Shenyang, between 1996–2001, 23.1% of employed workers experienced wage arrears, 26.4% of retirees experienced pension arrears. Nationwide, the total number of workers who were owed unpaid wages increased from 2.6 million in 1993 to 14 million in 2000. The problem is not restricted to old and bankrupt industrial bases with retirees and laid off workers. Government surveys showed 72.5% of the country's nearly 100 million migrant workers were owed wages. The total amount of owed pay was estimated to be about $12 billion (or about 100 billion yuan). 70% of these are in the construction trade.[56]

Much of the capital accumulated by private and foreign firms comes from unpaid labour. The result has been the eruption of fierce labour protests in many areas. While Chinese workers seem prepared to accept the long hours, the appalling working conditions, and the low wages as part of the price of modernization and economic growth, the non-payment of wages and of pensions is something else. Petitions and complaints to the central government on this score have mounted in recent years, and the failure of the government to respond adequately has led to direct action.[57] In the north-eastern city of Liaoyang more than 30,000 workers from some twenty factories protested for several days in 2002 in what was the 'largest demonstration of its kind since the Tiananmen crackdown'. In Jiamasu, in northern China, where about 80 per cent of the town's population was unemployed and living on less than $20 week after a textile factory employing 14,000 suddenly closed, direct action erupted after months of unanswered petitions. 'On some days retirees blocked all traffic on the main highway into town, squatting in rows on the pavement. On other days, thousands of laid off textile workers sat on railway tracks, disrupting service. In late December, workers from an ailing pulp mill lay like frozen soldiers on Jiamasu's only runway, preventing planes from landing.'[58] Police data show that 'some three million took part in protests' in 2003. Until recently, conflicts of this sort have been successfully managed by keeping them isolated, fragmented, unorganized, and certainly under-reported. But recent accounts suggest that more widespread conflicts are erupting. In Anhui province, for example, 'about 10,000 textile workers and retirees recently protested decreases in pension payments, the lack of medical insurance and compensation for injuries'. In Dongguan, Stella International Ltd, a Taiwanese-owned shoe manufacturer employing 42,000 people 'faced strikes this spring that turned violent. At one point more than 500 rampaging workers sacked company facilities and severely injured a Stella executive, leading police to enter the factory and round up ringleaders.'[59]

All manner of protests, 'many of them violent, have broken out with increasing frequency across the country in recent months'. Riots and protests have also erupted all over China over the land seizures occurring in rural areas. Whether or not this will all give rise to a mass movement is hard to predict. But the party is clearly fearful of the potential breakdown in order and is mobilizing party and police powers to forestall the proliferation of any general social movement that may arise. Lee's conclusions as to the nature of political subjectivity are here of interest. Both state and migrant workers, she suggests, reject the term working class and refuse 'class as the discursive frame to constitute their collective experience'. Nor do they see themselves as 'the contractual, juridical, and abstract labour subject normally assumed in theories of capitalist modernity', bearing individual legal rights. They typically appeal instead to the traditional Maoist notion of the masses constituted by 'workers, the peasantry, the intelligentsia and the national bourgeoisie whose interests were harmonious with each other and also with the state'. In this way workers 'can make moral claims for state protection, reinforcing the leadership and responsibility of the state to those it rules'.[60] The aim of any mass movement, therefore, would be to make the central state live up to its revolutionary mandate against foreign capitalists, private interests, and local authorities.

Whether or not the Chinese state is currently able or willing to live up to such moral claims and thereby retain its legitimacy is by no means certain. In rising to the defence of a worker brought to trial for leading a violent factory walk-out, a prominent lawyer observed that before the revolution 'the Communist Party stood alongside the workers in their fight against capitalist exploitation, whereas today the Communist Party is fighting shoulder to shoulder with the cold-blooded capitalists in their struggle against the workers'.[61] While there are several aspects of Communist Party policy that were designed to frustrate capitalist class formation, the party has also acceded to the massive proletarianization of China's workforce, the breaking of the 'iron rice bowl', the evisceration of social protections, the imposition of user fees, the creation of a flexible labour market regime, and the privatization of assets formerly held in common. It has created a social system where capitalist enterprises can both form and function freely. In so doing it has achieved rapid growth and alleviated the poverty of many, but it has also embraced great concentrations of wealth in the upper echelons of society. Moreover, business membership within the party has been growing (up from 13.1 per cent in 1993 to 19.8 per cent by 2000). It is, however, hard to tell whether this reflects an influx of capitalist entrepreneurs or the fact that many party members have used their privileges to become capitalists by dubious means. In any case what this signals is the growing integration of party and business elites in ways that are all too common in the US. The links between workers and the party organization have, on the other hand, become strained.[62] Whether this internal transformation of party structure will consolidate the ascendance of the same sort of technocratic elite that led the Mexican PRI towards total neoliberalization remains to be seen. But it cannot be ruled out either that 'the masses' will seek a restoration of their own unique form of class power. For the party is now lined up against them and is plainly prepared to use its monopoly of violence to quell dissent, throw peasants off the land, and suppress the rising demands not only for democratization but also for a modicum of distributive justice. China, we may conclude, has definitely moved towards neoliberalization and the reconstitution of class power, albeit 'with distinctly Chinese characteristics'. The authoritarianism, the appeal to nationalism, and the revival of certain strains of imperialism suggest, however, that China may be moving, though from a quite different direction, towards a confluence with the neoconservative tide now running strongly in the US. That does not bode well for the future.