China, capitalist accumulation and the world crisis

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February 2010 -- The consensus among economists is that China's post-1978 market reform policies have produced one of the world's greatest economic success stories. Some believe that China is now capable of serving as an anchor for a new (non-US dominated) global economy. A few claim that the reform experience demonstrates the workability (and desirability) of market socialism. This paper is critical of these views.

Its main conclusions are as follows: first, the reforms have led to the restoration of capitalism, not a new form of market socialism. Second, the reforms have produced an increasingly exploitative growth process, one that generates considerable wealth for a minority at unacceptably high cost for the majority. Finally, the reforms also produced a growth process whose logic led it to become enmeshed in, and dependent upon, a broader process of transnational restructuring, one controlled by transnational capital. As a result, China is not only incapable of serving as an anchor for an alternative global economy, its accumulation dynamics actually contribute to the strengthening of existing structures of power and the global imbalances and tensions they generate.

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Interest in the post-1978 Chinese market reform experience remains high and for an obvious reason: China is widely considered to be one of the most successful developing countries in modern times. Adding to the interest is the Chinese government's claim that this success demonstrates both the workability and superiority of 'market socialism.'

Many economists, especially those critical of neoliberalism, are encouraging other countries to learn from China's gradual, state controlled process of marketization, privatization, and deregulation of economic activity. A few share the Chinese government's view that China has indeed pioneered a new type of socialism.

A significant number also believe that because of its size and pattern of growth, China is capable of anchoring an alternative international economic system, one that offers other countries the opportunity to reduce their dependence on the US market and established global institutions. In fact, many believe that China's economic performance during the current world crisis demonstrates that it is now ready, willing and able to play this role.

Unfortunately, as argued below, there is little justification for this positive perspective on the Chinese experience. First, regardless of what Chinese leaders say, China is not pioneering a new form of market socialism—rather the reforms have led to the restoration of capitalism. As a result, Chinese internal dynamics are clearly hostile to the creation of any anti-capitalist alternative. Second, the reforms have produced an increasingly exploitative growth process, one that is generating considerable wealth for a small minority at unacceptably high cost for the great majority of Chinese working people.

Finally, China's growth process is now structurally enmeshed in, and dependent upon, the operation of a broader process of regional and international restructuring, one controlled by transnational capital. As a result, China is not only incapable of serving as an anchor for an alternative global economy, its accumulation dynamics have actually contributed to the strengthening of existing international structures of power and the global imbalances and tensions they generate. In fact Chinese government policy responses to the current crisis have only served to intensify international competitiveness pressures with negative consequences for most working people.

The stakes are high in this engagement over the nature and significance of the Chinese experience. Progressive support for the Chinese reform experience encourages, consciously or unconsciously, the mistaken belief that meaningful development or even socialism can be achieved through the use of markets and a closer integration with global capitalist accumulation dynamics. Chinese workers, in growing number, are beginning to challenge Chinese state policies, not just in response to the exploitation they experience but also because of their renewed interest in socialism itself. Therefore, it is vital that we develop an accurate understanding of the Chinese experience, both to ensure that efforts at social transformation in other countries are not compromised by false understandings of the dangers of markets and capitalist imperatives and to provide support for those seeking socialist renewal in China.

China's structural transformation

In 1978, two years after the death of Mao Zedong, the leadership of the Chinese Communist Party, led by Deng Xiaoping, decided to radically increase the economy's reliance on market forces. The leadership claimed that such a step was necessary to overcome the country's growing economic problems which were alleged to be caused by Mao's overly centralized system of state planning and production. However, although political and economic changes were definitely desired by the majority of Chinese, Deng and his followers greatly overstated the severity of existing problems and, more importantly, ignored popular calls for an exploration of other, non-market reform responses.

Once begun, the market reform process quickly became uncontrollable.[1] Each stage generated new tensions and contradictions that could only be resolved (given the leadership's opposition to worker-community centered alternatives) through a further expansion of market power. The 'slippery slope' of market reforms thus led to an eventual privileging of market dynamics over planning, private ownership over public ownership, and foreign enterprises and markets over domestic ones.

Economic transactions are now overwhelmingly shaped by market prices. The share of retail sales made according to market determined prices rose from 3 per cent in 1978 to 96.1 per cent in 2003. For producer goods, the share rose from 0 per cent to 87.3 per cent over the same period.[2]

The growing industrial dominance of the private sector is also clear. In 1978, state owned enterprises accounted for all value added in China's industrial sector (defined as mining, utilities, and manufacturing). By 2003, the private sector share was larger than the state sector share: 52.3 per cent to 41.9 per cent.[3] But even this diminished state share overstates the actual 'economic weight' of state production.

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

The declining strategic importance of the state sector becomes clearer if we narrow our focus to manufacturing. The OECD has divided China's manufacturing sector into two groups. The first includes the 5 industries that continue to be dominated by state production: petroleum processing and coking, smelting and pressing of ferrous metals, smelting and pressing of non-ferrous metals, tobacco processing, and transport equipment.

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

In 1998 the private sector produced the higher share of value added in only 5 out of these 23 ... manufacturing industries. By 2003, this was true for all 23 of these industries. Moreover, in half of them, private firms produced more than three-quarters of output. Overall in these 23 industries, the private sector employs two-thirds of the labor force, produces two-thirds of these industries' value added and accounts for over 90 per cent of their exports.[4]

State-owned enterprises do remain important and the Chinese state still exercises control over critical sectors of the economy, but these areas of strength are now largely limited to finance and activities supported by state ownership of natural resources. Thus, in 2006, three state oil companies accounted for half of the earnings of the 160 largest 'state owned monopolies and oligopolies.' In fact, 'Up to 80 percent of the year-on-year increase in profits realized in 2006 by all Chinese enterprises were attributable to ... monopoly financial groups or monopoly firms in the areas of oil and petrochemicals, electricity, coal and metals.'[5]

Foreign capital also enjoys a greatly strengthened role in the Chinese economy. The share of foreign manufacturers in China's total manufacturing sales grew from 2.3 per cent in 1990 to 31.3 per cent in 2000.[6] Perhaps more revealing, a 2006 government report concluded that foreign capital holds a majority of assets in 21 out of 28 of the country's leading industrial sectors.[7]

One consequence of this development is that China's economic growth has become increasingly dependent on foreign produced exports. Foreign firms dominate China's export activity: their share of China's total exports grew from 2 per cent in 1985 to 58 per cent in 2005 (and stands at 88 per cent for high tech exports).[8] Moreover, these exports are increasingly being produced by 100 per cent foreign owned firms. A case in point: the share of computer related exports produced by 100 per cent foreign owned firms increased from 51 to 75 per

cent over the period 1993-2003.[9] As a result of these trends, the ratio of exports to GDP has climbed from 16 per cent in 1990 to over 40 per cent in 2006.

In sum, while state planners and enterprises continue to play an important role in China's economy, state power has been used to shape an accumulation process that is now dominated by private (profit-seeking) firms, led by foreign transnational corporations, whose production is largely aimed at markets in other (mostly advanced capitalist) countries. Regardless of how one might evaluate the performance of the Chinese economy, it is hard to imagine how this development can be viewed as laying the foundation for an alternative to capitalism, at either national or international levels. Rather it points to the conclusion that capitalism itself has been restored in China.

The social consequences of China's market reform policies

Most analysts are no longer interested in whether China is socialist. Rather, they are concerned with whether China's growth and transformation has led to 'successful' economic development. And, for a majority, the answer is an unequivocal yes. This answer appears largely based on a consideration of a limited, but important set of indicators, especially rates of growth of foreign investment, exports, and GDP. However, if we broaden our notion of development to include measures of working class well-being, the answer tragically changes. The reality is that China's market reform polices have created a growth process underpinned by increasingly harsh working and living conditions for the great majority of Chinese.

Perhaps most surprising is the fact that the country's rapid growth has failed to generate adequate employment opportunities. According to the International Labor Organization (ILO), total urban (regular) manufacturing employment actually declined over the period 1990-2002, from 53.9 million to 37.3 million.[10] While there was a small increase in total urban employment, almost all the growth was in irregular employment, meaning casual-wage or self-employment—typically in construction, cleaning and maintenance of premises, retail trade, street vending, repair services, or domestic services. More specifically, while total urban employment over this thirteen year period grew by 81.7 million, 80 million of that growth was in irregular employment.[11] As a result, irregular workers now comprise the largest single urban employment category.

The reform process has taken an especially heavy toll on state workers. According to Chinese government figures, state-owned enterprises laid off 30 million workers over the period 1998-2004. As of June 2005, 21.8 million of them were struggling to survive on the government's 'minimum living allowance'—the basic welfare grant given to all poor urban residents. In June 2005, this allowance was approximately $19 a month.[12]

There has been job growth in the private sector, especially at firms producing for export. However, most of the new jobs are low paid with poor working conditions. 'Even after doubling between 2002–2005, the average manufacturing wage in China was only 60 US cents an hour, compared with $2.46 an hour in Mexico.'[13] A report on labor practices in China by Verite Inc., a US company that advises transnational corporations on responsible business practices, found that 'systemic problems in payment practices in Chinese export factories consistently rob workers of at least 15 per cent of their pay.'[14] Workplace safety is an even greater problem. According to government sources, about 200 million workers labor under 'hazardous' conditions. 'Every year there are more than 700,000 serious work-related injuries nation-wide, claiming 130,000 lives.'[15]

One critical but often overlooked explanation for China's manufacturing competitiveness is that approximately 70 per cent of manufacturing work is done by migrants. Over the last 25 years, some 150-200 million Chinese were driven by economic conditions to move from the countryside to urban areas in search of employment. As Hung Ho-Fung explains:

From the 1990s onwards, the deterioration of agricultural incomes and demise of collective rural industries … forced most young laborers in the countryside to leave for the city, creating a vicious cycle which has precipitated a rural social crisis. China's agrarian sector was not only neglected, however, it was also exploited in support of urban growth. A recent study has found that there was a sustained and increasing net transfer of resources from the rural-agricultural to the urban-industrial sector between 1978 and 2000, both through fiscal policy (via taxation and governments spending) and the financial system (via savings deposits and loans).[16]

Although the great majority of migrants moved legally, they suffer enormous discrimination. For example, because they remain classified as rural residents under the Chinese registration system, not only must they pay steep fees to register as temporary urban residents, they have no rights to the public services available to urban born residents (including free or subsidized education, health care, housing and pensions). The same is true for their children, even if they are born in an urban area.[17]

As a consequence, migrant workers are easily exploitable. Employment conditions at Foxconn, a Taiwanese-owned electronics and computer parts manufacturing subcontractor for firms such as Apple and Dell, are representative. Foxconn employs over 200,000 workers in China, a majority in Shenzhen (a major manufacturing center in south China). Its assembly line workers in Shenzhen earn approximately $32 for a 60 hour work week (along with company provided dormitory housing and meals). Apple-hired investigators of a Foxconn plant that builds iPods found that mangers routinely used corporal punishment to discipline workers, 'and that workers labored more than six consecutive days 25 per cent of the time,' despite the fact that Chinese law 'requires at least one day off each week.'[18]

The overall effectiveness of Chinese labor policies (which are primarily designed to boost export competitiveness) is well illustrated by recent trends in wages and consumption. Chinese wages as a share of GDP have fallen from approximately 53 per cent of GDP in 1992 to less than 40 per cent in 2006. Private consumption as a per cent of GDP has also declined, falling from approximately 47 per cent to 36 per cent over the same period. By comparison, private consumption as a share of GDP is over 50 per cent in Britain, Australia, Italy, Germany, India, Japan, France and South Korea; it is over 70 per cent in the US[19]

As the *Economist* magazine points out, 'the decline in the ratio of [Chinese] consumption to GDP ... is largely explained by a sharp drop in the share of national income going to households (in the form of wages, government transfers and investment income), while the shares of profits and government revenues have risen.' Although the share of income going to working people has fallen in many countries over the past decades, 'nowhere has the drop been as huge as in China.'[20] A vicious cycle is at work: the lower the share of income going to workers, the more economic forces reinforce the export orientation of the Chinese economy, which encourages the implementation of new policies to suppress worker earnings.

China's growth and industrial transformation has also generated great wealth, leading to an explosion of inequality and the formation (or solidification) of new class relations. An Asian Development Bank study of 22 East Asian developing countries concluded that China had become the region's second most unequal country, trailing only Nepal. This is not surprising considering that over a roughly 10-year period (from the early 1990s to the early 2000s) China recorded the region's second highest increase in inequality, again trailing only Nepal.[21]

While the results of the Asian Development Bank study are significant, they do not adequately convey the real concentration of wealth that has accompanied and motivated China's market reform program. According to the Boston Consulting Group, China had 250,000 US dollar millionaire households (excluding the value of primary residence) in 2005. Although this group made up only 0.4 per cent of China's total households, it held 70 per cent of the country's wealth.[22] According to Rupert Hoogewart, the publisher of an annual list of China's 1000 richest people, the number of US dollar billionaires has grown from zero in 2003 to 260 in 2009 (more than in any other country except the US).[23] And, China's 'nouveau riche' have not been shy about spending their money: 'LVMH Moët Hennessy Louis Vuitton, the world's largest luxury goods maker, plans to open two to three stores a year in China, where sales are rising 50 per cent annually. Financièr Richemont, the world's second-biggest, expects to quadruple sales in China within five years by selling more Cartier jewelry and Piaget watches.'[24]

The Communist Party has become increasingly concerned that widening income (and consumption) inequalities are adding fuel to growing popular anger over deteriorating employment, health, housing, and retirement conditions. And, with good reason: the number of large scale 'public order disturbances' has steadily climbed from 58,000 in 2003, to 74,000 in 2004, 87,000 in 2005, and 94,000 in 2006.[25] Particularly worrisome to the leadership is the increasingly effective strike activity at foreign owned export factories (despite the fact that strikes remain illegal in China).

With repression alone unable to stem the rising tide of protest, the Communist Party introduced a number of reform policies which were designed to ameliorate the worst excesses generated by China's growth strategy without radically changing its orientation. Among the most important was a new Labor Contract Law in January 2008.[26] The law requires, among other things, that businesses provide their workers with a written contract (something that a majority of workers either do not have or have never seen) and premium pay for overtime and weekend work.

While the law has generated a sharp increase in arbitration cases, its impact on employment conditions has been limited.[27] Many companies circumvent it by reducing their employment of 'regular' workers, relying instead on workers provided by labor dispatch companies or increasing their use of subcontracting relationships. Some companies now pay workers their contracted salaries and respect vacation and overtime standards, but then undermine worker gains by requiring workers to pay for company provided dormitories

and canteen meals. Some foreign owned companies are threatening to shift production to a different location within or even outside of China if workers press their demands too aggressively. Regardless, the Chinese government, worried about the effects of the world economic crisis on corporate profitability, began rescinding many of the law's worker protections before the year was out.[28]

A major reason that many in the leadership of the Communist Party remain unwilling to support fundamental changes in China's current growth strategy, despite its negative consequences for growing numbers of working people, is that they have been among its biggest beneficiaries. Their ability to shape the reform process has enabled them to use state assets for personal gain, place family and friends in lucrative positions of authority in both the state and private sector, and ensure that the rapidly growing capitalist class remains dependent on the Party's good will. This, in turn, has led to a fusion of party-state-capitalist elites around a shared commitment to continue the advance of a capitalist political economy with 'Chinese characteristics.'

The results of this development are easy to see: many of the children of leading party officials (known as the 'princelings') were appointed to key positions in 'China's most strategic and profitable industries: banking, transportation, power generation, natural resources, media, and weapons. Once in management positions, they get loans from government-controlled banks, acquire foreign partners, and list their companies on Hong Kong or New York stock exchanges to raise more capital. Each step of the way the princelings enrich themselves—not only as major shareholders of the companies, but also from the kickbacks they get by awarding contracts to foreign firms.' Not surprisingly, more than 90 per cent of China's richest 20,000 people are reported to be 'related to senior government or Communist Party officials.'[29]

In sum, it appears that those driving China's economic strategy have been remarkably successful in using the reforms to shape an accumulation process responsive to their interests. And, consistent with the underlying capitalist nature of this process, their gains have come at ever greater cost to the majority of Chinese working people. As a result, Chinese leaders must now contend with an explosion of strikes and demonstrations. Regardless of what happens, it is difficult to see on what basis progressives would want to celebrate and promote China's reform experience.

China's market reforms and transnational accumulation dynamics

Many analysts believe that the combination of China's size and pattern of growth, along with the (self-proclaimed) socialist orientation of the leadership of the Chinese Communist Party, mean that China will soon be capable of anchoring a new, more progressive international economic order. Some believe that China's ability to continue growing rapidly despite the severity of the current global economic crisis demonstrates that it is now ready, willing and able to play this role.

This belief tends to be buttressed by the following reasoning: China can be expected to maintain high rates of growth for decades. Because this growth is highly import dependent, it can support the export production and thus economic growth of China's trading partners (especially in East Asia but also in Latin America and Africa). This vision of China as a powerful and positive agent for international change is attractive but flawed. It is largely sustained by the continued popularity of using a nation-state lens to understand Chinese accumulation dynamics. However, the reality is that China's economic transformation is not occurring in a vacuum or solely in response to Chinese initiatives.

East Asia's economies, including China's, are being linked and collectively reshaped by broader transnational capitalist dynamics, in particular by the establishment and intensification of cross-border production networks organized by transnational corporations. As a result, China's own accumulation dynamics have become tied to dominant patterns of investment and trade, thereby reinforcing rather than offering an alternative to them.

Most immediately, the expansion of cross-border production networks has led to a significant increase in the trade dependency of all East Asian economies. One indicator: the region's export/GDP ratio grew from 24 per cent in 1980 to 55 per cent in 2005. By comparison, the world average in 2005 was only 28.5 per cent.[30] And, a growing share of this activity is now under the control of transnational corporations; for example, they account for 73 per cent of Malaysia's and 86 per cent of Singapore's exports of manufactures.[31]

More significantly, as a consequence of the operation of these networks, a rising share of East Asia's trade in manufactures is now in parts and components. This is illustrated by the changing trade composition of leading Southeast Asian countries (Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam): the share of parts and components in the group's total exports of manufactures grew from 27.5 per cent in 1992-3 to 40.3 per cent in 2004-5.[32] The import share of parts and components also grew substantially over the same period, from 32.6 per cent to 48.5 per cent. Trends are similar for Taiwan and Korea.

In addition, almost all the parts and components traded by East Asian countries come from the same three industrial categories (with identical national rankings of importance): electronics machinery, office machines and automatic data processing, and telecommunications and sound recording. Moreover, these parts and components are increasingly being traded from one developing East Asian country to another; the intra-regional share of parts and components trade rose from 37.8 per cent in 1992-3 to 55.6 per cent in 2004-5. In short, East Asian export production (itself a growing share of total national production) is increasingly narrowing not only to parts and components, but to a select few operations in a select few industries in response to the needs of transnational corporate controlled production networks.

China was not only pulled into this process of regional restructuring, it has become central to its functioning. In the words of the Asian Development Bank, 'the increasing importance of intra-regional trade is attributed mainly to the parts and components trade, with the PRC functioning as an assembly hub for final products in Asian production networks.'[33] China's unique position as the final production platform in this transnational structured regional production system is highlighted by the fact that it is the only country in the region that runs a regional trade deficit in parts and components.

As a consequence of this restructuring, East Asia's overall export activity has shifted away from the US and the European Union and towards East Asia, and in particular China. China, on the other hand, has shifted its export emphasis away from East Asia and towards the United States and the European Union. Between 1992-3 and 2004-5, the East Asian share of China's final goods exports declined from 49.5 per cent to 26.5%, while the OECD share (excluding Japan and Korea) increased from 29.3 per cent to 50.1 per cent.[34] Thus, the mirror image of China's surplus in trade with the US and the European Union is its deficit in trade with East Asia.

As a result of this regional restructuring, China has become the first or second most important export market for almost all East Asian nations. This development has, as noted above, encouraged the belief that China's import dependent production will enable East Asian countries (and those in Latin America and Africa that export commodities to China) to 'uncouple' from the US dominated international economic order. However, since this trade activity largely involves an intra-regional trade of parts and components culminating in China-based production with final sales largely directed to the US and the European Union, East Asia's overall dependence on developed capitalist markets has actually grown stronger rather than weaker.

This outcome is illustrated by the following trends: the correlation between the growth in East Asian intraregional exports and US non-oil imports increased from.01 during the 1980s, to .22 during the 1990s, and .63 during the first half of the 2000s. The correlation between the growth in East Asian exports and G-3 non-oil imports rose from .21 during the 1980s, to .34 during the 1990s, and .77 during the first half of the 2000s.[35]

This regional perspective enables us to see more clearly the problematic nature of Chinese growth dynamics (for working people both inside and outside of China). During the Mao era, China made significant industrial and technological strides, largely though its own national efforts.[36] However, China's current position as final assembly hub within numerous cross-border production chains has significantly weakened the country's efforts at technological upgrading.

While early reform initiatives promoting the decentralization of production did stimulate new economic dynamism, the gains have largely been undermined by the negative consequences of later reform policies which encouraged foreign integration and domination of key manufacturing activities.[37] This outcome is highlighted by Lee Branstetter and Nicholas Lardy, who describe China's technological situation as follows:

(T)he rapidly changing commodity composition of China's exports does not appear to constitute evidence that Chinese firms are leapfrogging ahead technologically, because these exports are not primarily driven by the expanding 'knowledge stock' or innovative capabilities of domestic firms. … Furthermore, there is evidence suggesting that many indigenous Chinese firms spend little on research and development to develop new technologies on their own.[38]

Surveying China's situation five years after the country's 2001 accession to the WTO, the Chinese economist Han Deqiang recalls that he had 'argued the greatest damage [of membership] would be to China's capacity to control its industrial and technological development autonomously. I think it's safe to say these last five years have more than proven that true. In China, any industry that wants to develop its own technology or markets has encountered increasingly great barriers.'[39]

Business Week provides supportive evidence for this negative assessment, noting that 'experts familiar with highly touted Chinese achievements such as commercial jets and high-speed trains say the technologies that underpin them were largely developed elsewhere.' China exported $416 billion worth of high-tech goods in 2008, 'but subtract the mainland operations of Taiwanese contract manufacturers and the likes of Nokia,

Samsung, and Hewlett-Packard, and China is an electronics lightweight. ... [M]ost mainland companies mine existing technologies and compete on high volume and low cost in commodity goods.'[40]

More problematic still, is the fact that in order to maintain the country's key regional position in the face of competition from other countries seeking to improve their own position within cross-border value chains, the Chinese state has had to ensure that wages are kept low and productivity high. One consequence of its success is that transnational corporations throughout East Asia (and elsewhere) have been shifting their production to China. This has led to lower rates of investment and growth throughout the region and the implementation of new labor regimes designed to weaken labor protections. As a result, workers throughout East Asia (and elsewhere) have become pitted against each other in a contest to match the level of labor exploitation achieved in China.[41]

The most visible and immediate problem is that China's growth dynamics (and thus the region's production) have become highly dependent on the ability of the US to run ever greater trade deficits. While most analysts thought that such a weakness was either hypothetical or of only future concern, events have proven them wrong.

The US officially entered recession in December 2007. Steadily deteriorating economic conditions eventually produced a sharp contraction of credit, rapid increase in unemployment, and steep decline in consumption. Given the integrated nature of the global economy, US economic problems were quickly transmitted throughout the world, helping to push both the European Union and Japan into recession as well. The World Trade Organization has predicted that world merchandise trade will decline by 10 per cent in 2009.[42]

Given its export dependence, China was quick to experience the consequences. Exports fell, causing a spike in unemployment, a decline in industrial profits, and a slowdown in growth. Recognizing the dangers of inaction, the Chinese government initiated a $585 billion stimulus plan in November 2008 and pushed state banks to aggressively make loans. The results have been impressive: in the first half of 2009, the Chinese economy recorded a rate of growth of 7.1 per cent, with state directed investments accounting for 6.2 percentage points of the growth.[43] Many analysts believe that this growth record demonstrates both the enormous capacities of the Chinese state to successfully guide the economy and the stability of China's high-speed growth strategy. Unfortunately there are strong reasons to reject this optimistic assessment.

Although recent GDP gains in the G-3 countries suggest that the world recession may be ending, there is no obvious engine of growth to support a sustained recovery and, by extension, a renewal of past global economic dynamics (and imbalances).[44] For example, the US economy registered positive growth in the third quarter 2009 thanks to a government stimulus program and aggressive monetary policy. However, government actions have, by design, done little to transform the structural underpinnings of the economy. In particular, labor market conditions remain dire and there is little reason to expect that the recovery (even if sustained) will produce significant job creation or an increase in earnings.[45] Therefore, as the effects of the stimulus dissipate, the US economy is likely to sink back into recession or at best remain stagnate for years to come.

Aware that such an outcome poses a serious threat to China's long run growth prospects, many analysts have encouraged the Chinese government to take steps to reorient the economy away from its current export dependence. This is far from an easy transformation, and would involve major structural changes with significant political and social consequences. As one economist explains:

Entire export industries will have to be retooled to serve domestic sectors. Retooling, say, factories in Shenzhen from assembling iPods and mobile phones towards products that Chinese consumers would buy would require a long process of reconfiguring supply chains across Asia, affecting, among other things, semiconductor production in Taiwan, memory production in Korea, and hard drive production in Singapore.[46]

It appears that the Chinese government has little interest in promoting such a transformation. Rather its policies have been designed to maintain the status quo. In line with this aim, government stimulus spending has largely been directed at large scale, capital intensive infrastructural projects (rail, roads, airports), which support growth while producing largely unneeded and expensive facilities and few jobs.[47]

Even more striking has been the expansion of state loan activity; in the first half of 2009, state banks loaned three times more than in the same period in 2008.[48] Approximately half of the loans have gone to finance property and stock speculation, raising incomes at the top while fueling potentially destructive bubbles. Much of the other half has gone to finance the expansion of state industries like steel and cement, which are already suffering from massive overcapacity problems.[49]

It is difficult to know how long the Chinese government can sustain this effort. Property and stock bubbles are worsening. Overcapacity problems are driving down prices and the profitability of key state enterprises. Both trends threaten the health of China's already shaky financial system. [50]

Perhaps more threatening is the deepening mass resistance to existing social conditions. The number of public order disturbances continues to grow, jumping from 94,000 in 2006 to 120,000 in 2008, and to 58,000 in the first quarter of 2009 (on pace for a yearly record of 230,000). [51] The nature of labor actions is also changing. In particular, workers are increasingly taking direct action, engaging in regional and industry wide protests, and broadening their demands. [52] While this development does not yet pose a serious political threat to the Chinese government, it does have the potential to negatively affect foreign investment flows and the country's export competitiveness, the two most important pillars supporting China's growth strategy.

The Chinese government's determination to sustain the country's export orientation means that it can do little to respond positively to popular discontent. In fact, quite the opposite is true. In the current period of global turbulence the government finds itself pressured to pursue policies that actually intensify social problems.

Although China has suffered a significant decline in exports, it has done far better than most other countries; it actually surpassed Germany in 2009 to become the world's biggest exporter. China's gains have come largely because it is 'winning a larger piece of a shrinking pie.' In other words, although selling less than the previous year, China has raised its import share in both the US and Europe by taking market share from other countries.

The reason is that hard pressed consumers seek lower cost goods and, as the *New York Times* points out, 'Beijing, determined to keep its export machine humming, is finding a way to deliver.' Delivering in this context means that the Chinese government is doing whatever necessary to ensure the 'ability of Chinese [based] manufacturers to quickly slash prices by reducing wages and other costs in production zones that often rely on migrant workers.' [53] This includes rolling back recently approved labor protections, as highlighted above. Regardless of whether Chinese state policies continue to prove successful in promoting China-based exports, it is difficult to see how its efforts contribute to the creation of a more humane and stable global economic system.

In sum, the market logic driving China's reform strategy promoted an economic transformation that allowed Chinese economic dynamics to become enmeshed in a broader process of transnational restructuring, one that accelerated the reforms in ways guaranteed to ensure the dominance of capitalist imperatives in China. As a result, far from opening up new possibilities for working people, China's reform strategy has actually ended up strengthening a highly exploitative and unstable transnational accumulation process.

Final thoughts

Several conclusions emerge from the above examination of the Chinese experience. First, China's market reform process has led not to a new form of (market) socialism, but rather to the restoration of capitalism (although 'with Chinese characteristics'). Concretely, the Chinese growth process has given rise to a new political economy that is hostile to the goals of socialism: the promotion of all-rounded human development; solidaristic relations; cooperative planning and production for community needs; and collective or social ownership of productive assets. Thus, the Chinese experience stands as a clear warning: socialism cannot be built through the use of markets and a closer integration with global capitalist accumulation dynamics.

Second, China's economic experience reveals much about the nature of contemporary capitalism. China is considered a model developer; the country has achieved a sustained and rapid rate of growth, attracted massive inflows of productive capital, and is exporting ever more sophisticated manufactured goods. Yet, these accomplishments have not translated into meaningful gains for growing numbers of Chinese workers. In fact, workers in China face living and working conditions increasingly similar to those in Latin America and Africa, regions where most countries are considered development failures. Therefore, it appears that the answer to worker problems in Africa, Latin America, and elsewhere for that matter, is not to be found in supporting policies designed to achieve 'successful' capitalist development, especially those designed to replicate the Chinese experience.

Third, China's growth trajectory has become tied to and dependent upon existing accumulation processes shaped by transnational capitalist dynamics. As a result, China cannot be counted on to assist in the creation of a radically new economic system. This does not mean that trade with China is to be avoided. It also does not mean that Chinese elites and western (especially US) elites see eye to eye on all geopolitical issues. Capitalist competition is real and differences between these elites can and often does create openings that are helpful for other countries, especially those in the third world. At the same time, since Chinese elite interests are structurally shaped by capitalist imperatives, there are limits to the types of changes that Chinese leaders can be expected to support.

Growing numbers of people in China are openly and directly challenging their country's growth strategy. Even more noteworthy, these challenges are now fueling political discussions and debates (many of which are taking place on electronic chat rooms and bulletin boards) about the nature and significance of Mao era experiences and socialism. [54] To this point, farmer and worker participants appear focused on refuting the false claims of ruling elites that the Mao period was both a social and economic disaster by drawing on their own life experiences to illustrate the accomplishments of that period, in particular employment and social security and a sense of national purpose.

This process of political renewal is taking place under very difficult conditions due, most importantly, to the ongoing repression of grassroots organizing and activism by the Communist Party. Additional challenges include tensions between immigrant and urban born workers over jobs and access to social services; confusion caused by Chinese Community Party claims to be building socialism; and the fact that the strongest resistance to Party policies comes from those that continue to uncritically praise Maoism, despite the fact that Mao generally opposed farmer and worker self-organization and direct participation in political and economic decision-making. Despite their current limitations, these struggles, discussions, and debates represent a promising development. It makes our own efforts to better understand the nature of the Chinese reform experience ever more important.

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