China: End of a Model…Or the Birth of a New One?

written by Au Loong Yu | June 12, 2009

CHINA'S THIRTY YEARS OF NEARLY UNINTERRUPTED HIGH GROWTH has encountered great challenge as the global economic crisis has hit China's export hard. Since China's trade as a percentage of GDP is as high as 70 percent, the export-led growth mode has practically ended. The Chinese Communist Party (CCP) is aware of this. Back in April, 2008 President Hu Jintao spoke of the need to change the mode of development from export-led growth to domestic-led growth by expanding domestic demand. In November the 4 trillion RMB (*rinminbi,* "people's currency") of rescue package followed. The economy is slowing down, and the target of the rescue package at "Baoba," or keeping the growth rate at 8 percent, is hard to achieve. Nevertheless, a slower growth rate of 5-6 percent, which most commentators are speculating, is still outstanding when the United States and EU are sinking further into deep recession. The global downturn on one hand and China's relative strength in containing the crisis on the other makes the topic "the rise of China" more heated than ever.

China's advantages

THE REASONS FOR CHINA'S PERFORMANCE must first be sought from the one party state's exceptional success in restoring capitalism over an exceptionally long period of 25 years. Deng Xiaoping's motto "Crossing the rivers by feeling the stones" has enabled the top leadership to integrate with global capitalism in a gradual and prudent way, so that as the global financial crisis set in, the state still retained control over commanding heights of the economy, giving China more leverage than the United States or UK in containing the present crisis. China's capital account control is still largely in place; her currency, RMB, not yet convertible. Her banks, though floated inside and outside China, still have their major shares controlled by the state. Thus China has no shadow banking, nor toxic debts, as do the United States, UK, or even Hong Kong. Due to vast underground banking, billions of RMB have escaped foreign exchange control to flow in and out of China, a factor that may prove problematic to China in the downturn cycle. Still, state control over cross border capital movement is not totally ineffective. In sum, a firewall, though one with holes, still exists for China's financial markets for the moment, and therefore China is to some extent able to insulate itself from the global credit crunch. This makes China's economic downturn more resemble the classic model: an overproduction crisis accompanied by credit over-expansion, but with a credit crisis far from the scale of what is happening in the United States or the UK. Moreover, China had experienced her banking crisis at the turn of the past century, and had overcome it at the expense of working people, particularly the sacked bank workers in the tens of thousands. The government also cleared billions of RMB of bad debt from the banks. The banks have become healthier since then, with non-performing loans having dropped from 40-50 percent of their assets to the present 6 percent. On top of that, both household debt and public debt are small in proportion to GDP and much smaller than that in most countries.[1] A word of prudence is necessary, though, about these statistics. In China, no figure is reliable, especially when we talk about company debts and bank loans, domestic and overseas. The Asian crisis ten years ago revealed just how serious the problem of hidden debts was among those SOEs (State Owned Enterprises) which invest overseas. The global crisis will still have an impact on China, and if the crisis expands, China's "firewall" will not hold. Although China has not experienced what some term "financialization" and has thus been spared the worst financial crisis, a traditional over-production crisis could develop into depression, as the 1930s have shown. The high economic growth rate has tempted many, including some on the

left, to make an exceedingly favorable assessment of China. But economic growth has had little bearing on the well being of working people, because China's growth has been close to jobless. A 2005 ILO (International Labor Organization) study on the relationship between economic growth and job creation found out that in the period of 1990-2002, an average 9.3 percent growth only brought about 0.8 percent of employment growth, and for manufacturing jobs, the change was negative. No wonder the high growth rate has been accompanied by high unemployment rates.[2]

Social factors

IN ORDER TO CORRECTLY ASSESS China's economic and social situation, the scope of investigation must be broadened to take account of societal changes as a result of the 1949 revolution. The revolution had a contradictory effect on peasants and workers. On the one hand it accomplished land reform, and on the other it gave birth to a highly centralized and bureaucratized party state which maintains incredibly tight control over peasants and workers. The subsequent evolution of land ownership into the "household responsibility system" entitles peasants the right to use a small plot of land, which today acts as a kind of social security for the returning rural migrant workers, who, because of the downturn in manufacturing due to the global economic crisis, fail to find a job in the urban areas. For them, going back to their home village is better than starving in the city.[3] It also works to the benefit of the party state, though. The state can simply treat these migrant workers as disposable labor: when crisis sets in, it just tells the migrant workers to return to their home village and their miserable piece of land. This actually helps the municipal government in defusing a social time bomb. It may not be effective in the long run, but it may have partial effects in the short and medium term. If dissolving the angry jobless migrant workers into the vast countryside is not enough, there is always the coercion of the state, which is particularly harsh and effective. While the South Korean state before 1990 was as ruthless as the CCP's state, it never had the ability to wipe out all civil associations; the church, for instance, always provided some space for initial worker organizing. In contrast, the CCP has succeeded in accomplishing precisely this since the 1950s. All Chinese traditional religious and civil associations either disappeared, that is, were destroyed or were co-opted into the bureaucracy, to the extent that even Taoist or Buddhist monks had practically turned into public employees and were paid by the state in accordance with the same pay scale of the bureaucracy, before they were forced to renounce their faith altogether during the Cultural Revolution. There was, and is, no civil society. There was, and is, no organized social movement, let alone organized political opposition. This social and political reality explains why when Indira Gandhi, former Prime Minister of India, failed in her attempt to force poor women to sterilize in the name of birth control in early 1980, China could be terribly successful in imposing a one child policy on her 1.3 billion people. Ironically, the rebirth of capitalism did create some space for *weiquan*, literally "rights activists," but no autonomous trade union is possible. The absence of organizations independent of the CCP and state holds true even for the bourgeoisie. Nearly all chambers of commerce or industrial associations are founded and run by the party state or its agents. In her book *China's New Business Elite,* Margaret Pearson explains why the market reform and the birth of this class have not led to civil society or democratization:

> Members of China's business elite have shown few signs of becoming an independent, activist political force. They desire to escape from politics, not to engage in it or to create a "civil society"…Having gained structural independence, they try to rebuild informal ties to the state. Members of the business elite are characterized by neither strong horizontal ties to each other, nor strong links to other societal actors, both of which we expect in an emergent civil society.[4]

The absence of civil society is hugely profitable to business. China's attraction for Foreign Direct

Investment (FDI), for which it has been top-ranked in the world, lies not only in its cheap wages. In fact, her wages are not the lowest among developing countries. Rather, it is the institutionalized barracks-like factory regime that gives China an advantage over other developing countries in attracting transnational corporations (TNCs) all over the globe to use China as the world sweatshop for export. While the power of Indian bourgeoisies and their government are being constantly checked by liberal democracy and organized labor, her Chinese counterpart is free from such constraints. In a report released by Globalization Monitor, the Maersk container manufacturing plant in Dongguang, Guangdong Province, was reported as making workers there obey seventy-three rules as laid down by the "employees' manual." Apart from banning leafleting, petition, and strikes, punishable by instant dismissal if anyone violates, there is…

> Clause 18: Violating canteen regulations, damaging canteen equipment and disturbing order, including but not limited to: destroying utensils, not queueing for meals, leaving utensils on the table or failing to put them back into the designated place after meals: failing to put scraps and rubbish in designated places: or leaving food, soup, fruit skin, drinks, etc, spattered on the table or floor. 1st and 2nd offences: demerit recorded; 3rd offences: dismissal.

The Dongguang Maersk workers responded to the prison-like factory with two violent strikes in 2008, but with the help of local government they were repressed and subsequently only achieved minimum improvement. We may add in passing: the plant is hugely productive. China's success in her export drive has been to a great extent dependent on the China-US economic partnership. While China acts as a global supply engine, the United States plays the role of demand engine. The relationship is due to the neoliberal new world order since 1989, as pointed out by David Harvey.[5]

The State: solution or problems?

FOR THE NATIONALISTS AND MANY "NEW LEFTISTS," the state is a solution to both the problems of the capitalist market failure and the West/Japan's attempt in containing "the rise of China." They fail to see the other side of the coin, the state's problematic role. The state is never neutral, especially so when the bureaucracy that constitutes the state apparatus is free of all social control from all classes. In China, since the 1950s, the bureaucracy has practically hijacked the state and uses it as the machinery for its own appropriation of social surplus. From late 1980s on, the bureaucracy has chosen to restore capitalism and has plundered the country to the point that it is driving working people more and more to the brink of rebellion. It is the evolution of the bureaucracy into a new appropriating class that one must take into account in any correct understanding of China's state-controlled capitalism, both for its strength and weakness. In the course of the past 25 years of reform, the CCP could not enrich itself without first nurturing a private capitalist class, but any major measure of reform has been first and foremost aimed at enriching the bureaucracy itself. In the late 1980s, the price reform created the so called *guandao*, or officials who engaged in speculation. Meanwhile nearly all levels of state departments set up different kinds of companies to make money. The bureaucracy was beginning to transform themselves into capitalists as well. This enraged the people who rose in protest against the government in 1989. The CCP's crackdown crushed all opposition to capitalist reform — workers bore the main blow — and led to the further enrichment of the bureaucracy. Deng Xiaoping's 1992 tour to the south signified that the CCP had taken another big leap forward again, towards full integration with global capitalism. To make the leap successful the terror of the aftermath of 1989 crackdown was no longer enough, though. It was imperative to inflict more defeat on the SOE (State Owned Enterprise) workers, who accounted for the overwhelming majority of urban workforce. This time the purpose of the crackdown was to downsize the workforce of the state sector in order to turn

these enterprises into competitive “modern corporations.” More than 40 million workers were sacked, and protests against dismissal were all crushed. Small and medium-sized SOEs were privatized, with municipal level bureaucrats and former SOE directors as the greatest beneficiaries. The big SOEs fell into the hands of higher level bureaucrats and turned into commercial entities, mostly floated in domestic and overseas markets. Since the state or municipal government always retains the controlling shares, this level of bureaucrats and their cronies can simultaneously enjoy the benefits of ”state ownership” as well as of the “free market.” Meanwhile, a second wave of privatization of urban land (including those rural lands close to city suburbs) has also begun, enriching again the municipal government officials and their cronies. Government departments at all levels run their own companies to make money for the bureaucrats, despite the official ban in effect since the late 1980s.[6] For instance, the police department runs its own security guard companies; the labor department runs its own labor dispatch companies; the fire fighting department runs its own companies to sell fire extinguishers; and so forth. Their companies are always successful because they always use their coercive power to sell their services to firms and factories under their jurisdiction. For instance, the fire fighting department will require factories to buy fire extinguishers from a particular company run by them, or else face the consequences: the factories in question may end up being fined for the most minor offences. Their operations resemble the mafia; in fact, these officials often use local gangsters to do their jobs. THE METAMORPHOSIS OF THE BUREAUCRACY from fiercely anti capitalist to bureaucrats/capitalists has thus been completed. This is not something new, though. The KMT party state of the 1930-40s has been described, ironically, by the then CCP as “bureaucratic capitalists” as well. The only difference is that the current CCP party state has institutionalized this on a phenomenal scale, which profoundly surpasses the KMT model. To cast the present Chinese state as autonomous, or even somewhat independent of the bourgeoisie, to contend that it has not been subordinated to their class interest, and hence that China remains non-capitalist or even ”socialist,” as Giovanni Arrighi does in his new book *Adam Smith in Beijing*,[7] is wrong. Based on Western European experiences, this analysis treats the bureaucracy and the capitalist class as necessarily two entirely different or even opposing social groups. In contrast, the Chinese bureaucracy is the capitalist class. Martin Hart-Landsberg has argued convincingly that China’s economy has long become capitalist, but he traces the point of departure from the “slippery slope” of market reform on which the CCP embarked.[8] I would argue, in contrast, that it has been the conscious choice of the bureaucracy to restore capitalism rather than a wrong choice of policy, because apart from losing faith in socialism, they themselves want to be capitalists. Deng Xiaoping was already feeling his way in 1984 when China signed the agreement with the UK, which is entirely against socialist principle: Hong Kong laissez-faire capitalism is to be maintained for fifty years after being handed over to China. Later he was reported as saying that HK capitalism should be allowed to continue beyond the timeline. In 1987 he told an African delegation, “Do not follow socialism. Do whatever you can to make the economy grow.”[9] His subsequent crackdown on the 1989 democratic movement signified that his party had decisively and qualitatively transformed into a capitalist party. It is utterly unconvincing for some Maoists to put all the blame on Deng Xiaoping alone, however. Deng encountered no significant opposition. On the contrary he received an enthusiastic response from the bureaucracy, which suggests that he was carrying out the bureaucracy’s wishes. This situation should not startle any socialist. Even in Mao’s era when the bureaucracy was fiercely anti-capitalist, it was also extraordinarily privileged, a ruling elite which exercised the exclusive right to distribute social surplus through its monopoly of the state. Like any other ruling elite, they were never content with their salary – which was ten to 30 times that of the ordinary workers’[10], and always wished to appropriate more social surplus than they deserved.[11] Their fundamental interest lies in restoring private property rather than being the faithful public servant defending common ownership indefinitely.[12] To argue that in Mao’s era the Chinese bureaucracy was already capitalist, as some Maoists have, is like confusing the present continuous tense and the future. The argument wrongly accepts Mao’s view that Liu Shaoqi was a “capitalist roader.” There was not a single piece of evidence that Liu wanted capitalism then. Liu, or the bureaucracy in general, could not have been

capitalist in the 1960s because by then they only appropriated an unusually large share of social surplus in the form of use value and small sum of exchange value (money wages), but never surplus value, as there was little commerce. But the bureaucracy, by their nature, could not be content with a kind of ownership which denies them the right to pass their privileges to their children, and after Mao's death the realignment of relationship of social forces both in China and the world provided the bureaucracy with the best opportunity to break the constraint on private property and evolve into a capitalist class. To argue now that the present Chinese bureaucracy is still in the service of socialism is dead wrong. An inquiry into the present rescue package is illustrative of the hidden agenda of the bureaucracy: The government still resists giving any detail even to the People's Congress, the supposed highest government body in China, regarding the rescue package. Subject to neither transparency nor democratic control, when the government hands out the rescue money it is not going to be done impartially. Even the censored press finds it necessary to warn against corruption. *The Legal Daily* says that the package will "bring about a fierce competition between provincial governments for projects" and "behind these big projects there is always big corruption."[13] That is also why the package focuses on investment on infrastructure rather than on raising the share of wages in the national income, although the latter measure is more effective in addressing the problem of lack of consumer demand. It reminds us again that the self- interest of the bureaucracy defines the package, or any reform. To conclude: in contrast to the former Soviet bloc, the CCP is exceptionally successful in restoring capitalism, because it achieves this without paying the cost of its own disintegration. It is this which gives all the advantages and leverage to the present party state. Only with this accomplishment could the bureaucracy drive wages down to a horrible level that allows a crazed accumulation of capital. According to a World Bank report, wages in China as a share of GDP declined from 53 percent in 1998 to 41.4 percent in 2005, as opposed to 57 percent in the United States.[14] The other side of the same coin is that profit as a share of GDP has risen dramatically in the same period. A Chinese scholar named Wang Lianli, wrote that in manufacturing the proportion of wages to profit rose from1:3.1 in 1990 to 1:7.6 in 2005.[15] Apart from spending extravagantly, the newly rich either invest or save their money, hence the exceedingly high saving rate and investment rate. For decades the share of investment in China's GDP has exceeded 40 percent, which is twice as high as that of the United States and is top among the major Asian countries, including Korea when she was at the height of industrialization.[16] Nevertheless, the forces of capitalist development cannot promote the polarization of rich and poor without at the same time creating obstacles for its further development. High profit squeezes wages, further creating long-term decline of private consumption. Private consumption as a percent of GDP has declined from 47 percent to 36 percent between 1992 and 2006, whereas the figure in South Korea, India, Britain, Australia, and Japan was over 50 percent.[17] The World Bank reported that much of the decline of private consumption in China can be explained by the decline of wages as a share of GDP. Thus, China's rapid accumulation, bought at the price of brutal exploitation of workers and farmers, in turn creates severe imbalances in consumption and investment, or more precisely, under-consumption and over-investment, leaving productive capacity idle, and in turn causing increasing reliance on export of goods and capital to pay for the investment.

Exporting China's problem creates more problems

IN 1998 THE NOW DISSOLVED State Economic and Trade Committee released a policy document: Index of Over-Invested Products for Moving Abroad. The title of the document is self explanatory. Export would solve China's excessive capacity and domestic problems. The report targeted the first batch of industries and products to move abroad: the light industry, machineries and electronics, motorcycles, refrigerators and Tvs, etc.[18] While export of goods has always been growing rapidly, export of capital began to experience leaps and bounds only since 2000. The next year Premier Zhu Rongji officially proclaimed the strategy of "going global."[19] Within a short period China has become a creditor country for developing countries, especially Africa. Arrighi argues in an article that China

remains socialist or non-capitalist and poses an alternative to global capitalism, refuting the accusation that China's role in Africa is colonialist but admitting it is capitalist:

> Though China is not a colonialist, it is a successful capitalist in Africa. The path it has taken on that continent is consistent with the logic of market capitalism — liberal trade based on fair contracts…..Although capitalism implies exploitation to many, China's capitalists have to limit their exploitation within the framework of the WTO and abide by local laws.[20]

It has also been argued that China somehow has developed her own alternative model to globalization led by U.S. capital — the so called "Beijing Consensus" which is allegedly in opposition to Washington Consensus. Even if we concede that there is something called the "Beijing Consensus," it has nothing to do with socialism. Both are in the service of capitalism, the same mode of accumulation that is extremely hostile to labor, the welfare state, and democratic rights. The fact that China "only" privatized her small and medium SOEs, leaving the big ones in the state's hands, that the CCP opted for a gradual transformation for capitalism rather than "shock therapy," that the state still heavily intervened with the "free market" that it allows local and even rural party officials' initiatives for industrialization etc. do not constitute something substantially different from neoliberalism.[21] If the party state retains ownership control over the commanding heights of the economy, it is not because of any supposed adherence to socialism, as Arrighi suggests; rather it is simply because the ruling elite cannot tolerate any idea of giving away the most profitable sector of the economy. If "Beijing Consensus" is competing with "Washington Consensus" it means only that the Chinese party state wants to use the devil to beat the devil. In the final analysis, despite occasional tension, the China-U.S. economic partnership worked well for both sides until recently. If there is also a dimension of intense competition between them, it is only a struggle between great capitalist powers for hegemony, not anything near a struggle between a progressive alternative and the evil Empire. With the global economy sinking further, leading figures of the U.S. elite now point accusing fingers at China, blaming the crisis on China's high saving rate. The Chinese government has reacted by mocking the United States as shifting the blame to others when it is American spending to be blamed. As a matter of fact, both are right, because the U.S. – China global economic partnership is really a unification of contradictions: Reacting to the same problems of lack of buying power for common people, the United States' and China's ruling elites opted for opposing and at the same time complementary economic decisions, i.e, China, although a poor country, lent cheap credit to the United States to allow the latter to import from China. Each in its own way solved its respective problems for a while, and continues to benefit from it. China was made to pay more for the partnership, but she gets what she wants, though. On top of the smaller share of profit that Chinese companies earn, the Chinese government has earned a very powerful leverage in influencing U.S. decision-making. If the U.S. government plays too many of the cards of the double Ts (Tibet and Taiwan), the CCP can always retaliate by selling its U.S. bond reserve to disrupt U.S. money market and the US government's budget. Therefore both US and China wanted to continue such kind of partnership, at the cost of creating a global imbalance in the longer term. Now both wish to look for an alternative growth model, but it is not going to be easy. The Chinese government is deeply concerned about the continuing drop in the value of China's foreign reserves, but selling her U.S. bond reserves is not an option. The partnership has so integrated both economies that China's sale of the reserves will result in catastrophes for both sides.

Hidden rules in the service of the hidden agenda of the bureaucracy

ARRIGHI APPLAUDS CHINA'S MODEL for its "accumulation without dispossession," but it is only half-true. While peasants still retain their small plot of land in the course of rapid industrialization —

which we have acknowledged long ago[22] — one must not forget that in return for the right to till a plot of land came with a heavy cost for the peasants, namely all kinds of taxes and levies, which had been so heavy in 1990s until 2006 that it virtually bankrupted the peasants. The problem of "scissors" (the inverse relationship between prices of industrial and agricultural products) was the last straw. They were left with no savings, no cash. Millions of rural migrants began to flow into cities to find jobs, and ended up being brutally exploited by the capitalists. This is the hidden dispossession, which Arrighi has not taken into account. Adding to the list of dispossession was the 100 million SOEs and collective workers: from "ownership by all people" these SOEs have been transformed into share holding companies. For the moment, the peasants' plots of land are still there, but nothing is secure. After privatizing the state owned enterprises and urban land, the bureaucracy and the newly rich are now looking for a third wave of privatization: the privatization of rural land. Whereas the top leaders of CCP have not dared to risk rebellion by doing this, the neoliberals, in the service of local officials and the business elites, have been tirelessly pushing the government on this matter. In order to shift to a growth model led more by domestic demand, China requires nothing less than a redistribution of wealth. The bureaucratic capitalists and their minor partner, the private capitalists, would not allow part of their profit to be re-allocated to working people without a fight, notwithstanding the central government's rhetoric of significantly raising social wages. While the party state carries more leverage and power in dealing with the economic crisis than in many other countries, the self-interest of the bureaucracy also serves to offset the advantages they enjoy. Hence the objective of long term rebalancing of the economy, through a substantial redistribution of wealth to enlarge domestic market is excluded, although in the short term limited success of containing the crisis through more state intervention is possible. It is even conceivable that China's economy might continue to grow despite a narrow domestic market by exporting her problem again, this time to developing countries and at the expense of working people there. China's leadership very much resembles the Korean military junta, but is ten times its scale: an authoritarian regime which actively supports rapid accumulation and export drive at the expense of working people by denying the latter basic civil and labor rights.[23] For Naomi Klein, the China regime is comparable to Pinochet's Chile: free market combined with authoritarian political control, enforced by iron-fisted repression.[24] The financial crisis boosts the self-confidence of the CCP even further in maintaining an iron hand.[25] Why do so many still fail to see the true picture of China? One of the reasons is that they take too literally the rhetoric of the bureaucracy and believe that the Chinese official policy of eradicating poverty, of raising the income of the peasants, of adopting labor laws to protect the workers, are really working. They are apparently unaware that all written laws and regulations are not necessarily binding. Since the 1950s, a whole set of hidden and unwritten rules governed the Chinese bureaucracy, as was true for two thousand years previously, when China was ruled by a professional bureaucracy with the Emperor at the top. The purpose of the hidden rules is obvious: it is meant to serve the hidden agenda of the bureaucracy, namely their own enrichment. A third element at work in the politics of bureaucracy is *guanxi*,[26] which is a central concept in understanding Chinese politics. In a broader sense it means personal network of influences, but it is better to be understood as a patron-client relationship or even mafia-like cliques. The Chinese bureaucracy is practically organized along cliques who override laws and regulations, or even the authority of central governments. They constitute the most powerful material obstacles in all levels of government and in the enforcement of laws. The 1949 revolution, despite its achievement, is also deeply bureaucratically deformed and it eventually rebuilt an all powerful bureaucracy. Partly thanks to this long tradition of bureaucratic politics — hidden agenda, hidden rules, and *guanxi*, — the bureaucracy is able to undo all legal constraint laid down by the revolution and the constitution and eventually transform themselves into the new exploiting class. This is not to deny the possibility of reform in the future, but any significant reform by the party state is inconceivable without a social upheaval. The workers have already summed up their experiences in their own slogan: "Big struggle big gain, small struggle small gain, no struggle no gain."

Further rise of China?

IN VIEW OF THE BANKRUPTCY OF THE FREE MARKET, there is no doubt that the one-party state of China has more advantages than United States/UK in imposing counter-cyclical measures. In the longer term, this may support China's rise as a bigger power if the one-party state remains unchallenged socially. This not only spells disaster for Chinese toilers, but also for the world labor, because it implies an accelerated race to the bottom among them, with Chinese barracks capitalism becoming the new global labor standard. The further rise of Chinese barracks capitalism is not predetermined, however. The hegemony of the party state works in a contradictory way as well. It is effective in controlling the people, but increasingly it also loses control of itself. It cannot control its own greed, nor its corruption, nor even its ranks — for decades, despite repeated directives issued from central government to shrink the size of public servants, it goes on expanding. The tainted milk scandal is just one example of the depth of corruption, which results in deep distrust and hatred of government officials and the disintegration of social fibres, driving people more and more to the brink of rebellion. The resentment against the officials is so high that the smallest skirmish in the street may quickly trigger confrontation between police and a large crowd.[27] In a word, the repression is turning into its own antithesis. It will make the authority's plan to shift the burden of economic crisis to working people less easy. To sum up, China's future direction is going to be determined by a protracted social contest between the haves and the have-nots. There are not many signs of optimism for the moment, though. The private bourgeoisie is merely an appendage of the bureaucracy. The intellectuals continue their drift to the right. The liberals are more like neoliberals[28], and many well known new leftists have completed their journey to nationalism. Some have practically become apologists for the monolithic party state, from the past to the present.[29] The youth seems not to be much better. A jingle posted in the internet in response to the coming 90th anniversary of the May Fourth Movement — a youth movement in 1919 which aspired to individual freedom, democracy, and national renaissance — reflects the deep political apathy of young people: "The youth only care about their personal interests, and the May Fourth idea is now obsolete." College graduates have been experiencing downward mobility because the high growth rate fails to create jobs, but they have little idea of linking up with workers to stage a united struggle, as the Korean students did in the past. The blow that the CCP dealt to people's spiritual lives in the 1989 crackdown is still being felt today.

Perspective on labor movement

YET, A POSITIVE SIDE OF CAPITALIST RESTORATION IN CHINA — as opposed to what occurred in the former Soviet Bloc – is accelerated industrialization. As a result, the number of China's wage workers is constantly increasing, and they now comprise half the working population and account for one-fourth of the world's wage workers. Being at the center of production and distribution makes them a potentially phenomenal social force, the only force capable of stopping and eventually reversing the direction in which China is now heading. For the moment they are still a class-in-itself, though. There is no labor movement in the strict sense. The ACFTU (All China Federation of Trade Unions) is very much part of the state apparatus and one of its missions is to monopolize the right to form a union. Although the ACFTU necessarily plays some role of coercion, as in the enforcement of "family planning" (producing a "pregnancy permit" for women workers as the necessary proof for "legal" pregnancy), the eras of Mao and Deng differ. Before the reform, the official unions were also responsible for allocating apartments to workers and footing their medical bills. These are not small things. Unfortunately these benefits were lost when a full restoration of capitalism set in. In the privatized SOEs, the workplace ACFTU virtually lost all functions in welfare provisions, except occasional recreational activities, while the repressive side of their functions remained largely in place. There is a trend for official workplace unions to move away from the direct control of the National and local ACFTU, but only towards the direction of becoming tools of the new bosses. As

for private enterprises the workplace unions are purely a formality, and it is common to see that the chairpersons of these unions are the personnel managers. Hence it is not accidental to see wages as a share of national income have declined to such a deplorable level, despite the presence of the chairperson of ACFTU in the Polibureau of the CCP and despite its 193 million members. ACFTU never strikes against the state or the bosses, regardless of how workers are treated.[30] Since 2006, the ACFTU seems to be more proactive in organizing workers by targeting Walmart, which some overseas trade union activists may see as encouraging signs. As a matter of fact, two years after the Walmart organizing drive, the chairperson of the workplace union of Walmart in Nanchang City, Gao Haitao, was forced to resign from both the union and the company not only because the boss simply bypassed his union for collective bargaining, but also because the National ACFTU had practically supported the boss by making things difficult for Gao. Deeply frustrated, he left Nanchang altogether. Another recent example of how ACFTU suffocated rank and file trade unionism is the Ole Wolff case. Ole Wolff is a Danish company which operates an electronic plant in Yantai City, Shangdong province. In 2006, the women workers decided to found a workplace union after a strike to protest against wage cuts and layoffs. It was met with hostility from the local ACFTU, although eventually the workers succeeded in registering the union. Within two years the boss sacked nine-tenths of the workers along with nearly all the leadership, and the local ACFTU did nothing at all. The workplace union, in a way that never happened before in China, wrote to 3F, the Danish union, for solidarity and got a responsive reply. 3F pressed Ole Wolff to compensate six dismissed workers' representatives, but was not able to make the company negotiate with the workplace union. Towards the end of 2008, the national ACFTU praised the company for complying with the laws although it was not true.[31] In Guangdong province there are now scattered workers' legal aid centers, some from Hong Kong and some local initiatives. They are often registered under commercial registration as sole proprietor, because in no way can they obtain the license for running a workers' association. They are so vulnerable that many of them prefer to avoid operating in industrial areas because the local authority hates the idea of allowing these centers to have close encounters with workers. *Dagongzhe*, or Workers, was a workers' center which located in Shenzhen industrial area. The person in charge, Huang Qingnan, was seriously injured last year when attacked by gangsters with knives, after the center had been repeatedly harassed. In addition to workers' centers are *heilushi*, or "barefoot lawyers," who are often self-taught people with no legal rights to practice law. Some of them are themselves workers who have become familiar with labor laws after engaging in years-long legal actions against their bosses. In general both workers' centers and "barefoot lawyers" are met with hostility from the provincial ACFTU, which views them as potential trouble makers and contenders. At one point, in a Guangdong city, the ACFTU opened an official worker center with the same name as another worker center, founded much earlier by common citizens, so as to out-compete the latter. In 2007 it was reported that the Shenzhen ACFTU joined hands with local government to crack down on the barefoot lawyers and workers' center. After the sticks came the carrots: The Shenzen ACFTU co-opted sixty of them who agreed not to contact foreign reporters and not to seek funding from foreign funding agencies.[32] There are deeper reasons for the difficult birth of a labor movement other than state repression, however. First and foremost is the deep division of the working class between two sections, the state sector and the rural migrant workers. The division is so deep that not only is there is common struggle, there is virtually no exchange of ideas and very rare intermarriage. Although the rural migrant workers have not experienced the devastating defeat of SOEs workers, neither do they possess collective memory as a class. They are *nongmingong*, literally "peasant workers," more peasants than workers, not because they really till the land — in fact, most of them rarely do — but because the *hukou* system acts like a kind of social apartheid, barring them from raising families in the cities and sinking their roots there. No matter how long they stay in the cities they are aware that it is bound to be temporary. Hence the sense of class identity is hard to forge. But neither are they entirely passive. The rural migrant workers have staged numerous spontaneous strikes against their bosses and local authorities. These spontaneous strikes often win partial victories, and they are so common that the authority's defacto ban on

strikes[33] broke down long ago, to the effect that local governments have had to learn to live with that. Organizing is still very difficult, though, and without it workers' resistance remains fragmented and ineffective in bringing about a substantial redistribution of wealth or a raise of confidence in collective resistance. The next stage of struggle will likely be a struggle to defy the ban on organization, though how this will occur I cannot predict. The spontaneous struggles of workers have achieved the unexpected goal of training small circles of individual activists, and from this milieu occasionally a loose or more integrated network of activists could be forged. Both the bosses and the authority have to live with that as long as the activists learn how to combine courage with prudence. The initial organizing drive is not confined to labor. In the recent tainted milk case, the victims have practically founded their own organization in making their voices heard, and the local governments have until now only dared to harass them but not disperse them — any such move may lead to an explosion of social discontent. For the moment these are individual cases, but the present economic crisis will definitely create more space for activists to develop into a close network if not official organizations. But another obstacle will be more difficult to overcome, namely the fact that socialism is deeply discredited. If one talks to a worker activist about socialism, very often his or her response will be: how can we build something new by using old crap from the communist party? Surely the degree of cynicism about socialism differs across industries and regions, but the general apathy to left politics is too obvious to deny. Perhaps a left victory in some countries can revive the credibility of socialism in China. The Chinese party state is far stronger than the Suharto regime of Indonesia on the eve of 1997, but even if the scenario of instant collapse like Indonesia is not very likely, there is still hope for a gradual expansion of autonomous civil associations and labor organizing. Activists must learn to be patient in this long drawn-out contest between the haves and have nots. It must be added that, with the absence of freedom of speech, it is very difficult for both Chinese and foreign commentators to learn the real situation of China. Hence, any assessment of China's future development is bound to be speculative rather than scientific. We must prepare for shocks and surprises in the coming months and years. April 14, 2009

Footnotes

Note: This article has drawn from the author's two recent essays, "Disposable Labor" and also "Preliminary Report on China's Going Globe Strategy," where the author is the leading member of the research team.

1. *Economist*, November 15, 2008.
2. The current official rate of 4 percent is generally considered unreliable. According to the Chinese Academy of Social Science the actual rate is as high as 9.4 percent. Again, this is an underestimation, because it does not count those migrant workers who have returned to their home villages.
3. This is already exacerbating the problem of insufficient land for everybody in rural areas, hence a section of migrant workers have no retreat at all.
4. Margaret Pearson, *China's New Business Elite*, (Berkeley: University of California Press, 1997), p. 4.
5. *A Brief History of Neoliberalism*, (London: Oxford, 2005), Ch. five.
6. It includes the army. The practice was halted, at least in appearance, in late 1990s, because it posed too great a risk to the very existence of the state. Various reports show that these army runs companies, although being sold off and disconnected from the army, its high level officers still retain indirect control through their cronies.
7. (Brooklyn, NY: Verso, 2007), pp. 332 and 369.
8. "China and Socialism, Market Reforms and Class Struggle," *Monthly Review*, July – August, 2004.

9. It is a repressed speech but was reported in Hong Kong last year by the former chief of General Administration of Press and Publication, Dao Daozheng. See *Ming Pao*, October 14, 2008.
10. Before the Cultural Revolution, the salary difference between the top and the lowest level of cadres was 30 times; after that it was 14 to 19 times. See the author's *Tantan Pingjunzhuyi he Daguofan* (On Egalitarianism and Daguofan), 1994.
11. The new leftists try to defend Mao's China by painting a rosy picture of equality in Mao era. Apart from a distortion of facts, the Achilles' heel of their argument lies in the fact that they confine their investigation to the economic side of equality, forgetting that political equality is more fundamental as a criterion in assessing any movement towards the emancipation of labor.
12. It was the same with Soviet Union. "The Soviet bureaucracy has gone far toward preparing a bourgeoisie restoration …Privileges have only half their worth, if they cannot be transmitted to one's children….The victory of the bureaucracy in this decisive sphere would mean its conversion into a new possessing class." Leon Trotsky *Revolution Betrayed* (Pathfinder Press, 1974), Chapter 9, pp. 253-4.
13. See here.
14. *China Economy Quarterly Update*, Feb. 2007, World Bank Beijing Office, p. 6.
15. *Tigao laodong baochou, zheli yu chuci fenpei* (Raise the compensation of labour, focus on initial distribution), by Wang Lianli, Xianggang Chuanzhen (Hong Kong Fax), published by research department of Citic Pacific, No. 2007-90, p. 8.
16. *Rebalancing China's Economy*, He and Kuijs, World Bank China Research paper, no. 7.
17. The Economists, "A Workers' Manifesto for China", 11 October 2007.
18. China International Economic Consultants Co. Ltd.
19. See *Preliminary Report on China's Going Global Strategy*, Globalization Monitor, 2009.
20. Beijing Review, February, 2007. (This is the official journal of CCP).
21. Despite the financial tsunami which put neo-liberalism into question, the State Council has just released its plan to make Shanghai into an international financial centre in 2020, and the prerequisite will be relaxing capital control and making RMB convertible. This is not a sign of building a people's alternative to US- led globalization, nor is Chinese government's call for a new international reserve currency system to replace the dollars. *China eyes eastern metropolis for economic boost*, March 25, 2009.
22. See the author's, *The Post MFA era and the rise of China* (Solidarity, 2005). Interestingly, Arrighi has quoted approvingly in his book this part of the article to prove China's remains socialist, when the theme of the article is arguing the opposite, that despite of the fact that the achievement of land reform as fruit of the revolution largely remains intact, many other revolutionary achievements have been undone and China is unquestionably capitalist. See Arrighi, p. 370.
23. Except that Korea has been hostile to foreign capital investment all through her industrialization period, which is in glaring contrast to China's experience.
24. Naomi Klein, *The Shock Doctrine*, (NY: Metropolitan Books, 2007), 185.
25. This March, Wu Bangguo, Chairman of the Standing Committee of the National People's Congress, told the Congress that China would never simply copy the system of Western countries or introduce a system of multiple parties holding office in rotation. Nationalist scholars are even more explicit in their disdain of human rights and democracy. Dr. Huang Xiaojing wrote in his essay on the financial crisis that "both China and Russia are more and more convinced that so called democracy and human rights contribute nothing to the stability of the state and its continuous prosperity." Quoted from *CITIC Pacific Research Advance*, February 19, 2009. Huang was researcher of the well known Economic Institutional Reform Committee in 1980's and is now personnel manager of Mitsui Co. Ltd.
26. If one enters *guanxi* in google one will find over a million entries. Books especially on *guanxi*

are also many, and often considered as necessary reading in doing business in China.

27. The authority was shocked in 2008 when a lone killer, who was harassed by policemen, took revenge by killing 6 policemen, and was applauded by citizens.
28. Their Charter 2008 explicitly calls for privatization of farm land. For more please see the author's article, *A Human Right Charter which Excludes Working People*.
29. For instance, the very well known new leftist, Gan Yang, wrote in *Dushu* to praise simultaneously the legacy of Confucius, Mao Zedong and Deng Xiaoping, seeing the three as succession of great Chinese culture, that most party cadres are taking care of the lower classes, that it is not true to say that an alliance of elites has consolidated themselves and consciously exclude the poor. See *Dushu*, June 2007.
30. The characterization of ACFTU as part of the repressive state apparatus is one thing; what strategy and tactics are adopted by activists towards the ACFTU is another. Although the two issues are related, they are nevertheless separate questions that need different approaches.
31. The workplace union runs a blog which reports on the event, including the responses of National ACFTU to the workplace union and the Danish union. For English report, please visit Globalization Monitor website.
32. 16 December, 2007, Xinhua Net.
33. There is no law that ban strikes. The ban was a *defacto* ban.