

<https://www.internationalviewpoint.org/spip.php?article117>



China

# The transition to capitalism

- IV Online magazine - 2003 - IV355 - December 2003 -

Publication date: Thursday 18 December 2003

---

**Copyright © International Viewpoint - online socialist magazine - All rights reserved**

---

**The 20th People's National Assembly met in Beijing in March 2003 to approve changes in the leadership of the Chinese Communist Party (CCP) and the executive bodies of the People's Republic of China (PRC) which had been decided on four months earlier by the nomenclature of the party at its 16th Congress. The promotion of the "fifth generation" of leaders, with Hu Jintao at their head, has been accompanied by the dissolution of the State Commission for Planning and Development, responsible for the five year plans. The last symbol of a planned economy has thus disappeared with the definitive installation of the market as regulatory mechanism.**

**But when and how did China become capitalist?**

*"In the final analysis, the question of training successors for the revolutionary cause of the proletariat is one of whether or not there will be people who can carry on the Marxist-Leninist revolutionary cause started by the older generation of proletarian revolutionaries, whether or not the leadership of our Party and state will remain in the hands of proletarian revolutionaries, whether or not our descendants will continue to march along the correct road laid down by Marxism-Leninism, or, in other words, whether or not we can successfully prevent the emergence of Khrushchev's revisionism in China. In short, it is an extremely important question, a matter of life and death for our Party and our country. It is a question of fundamental importance to the proletarian revolutionary cause for a hundred, a thousand, nay ten thousand years. Basing themselves on the changes in the Soviet Union, the imperialist prophets are pinning their hopes of "peaceful evolution" on the third or fourth generation of the Chinese Party. We must shatter these imperialist prophecies. From our highest organizations down to the grass-roots, we must everywhere give constant attention to the training and upbringing of successors to the revolutionary cause."* Mao Zedong, July 14, 1964 [\[1\]](#)

## **1976-1989,: the rise and defeat of "market socialism" reforms**

Rehabilitated in 1976, Deng Xiaoping announced in 1978 the policy of the "four modernizations": the establishment of a state controlled agricultural market and the dissolution of the people's Communes, the creation of special economic zones orientated towards exports with foreign investment in mixed enterprises, and a partial liberalization of foreign trade. After the resignation of Hua Guofeng - Mao's designated heir - in 1980, this policy was generalized, and allowed a significant consolidation of the bureaucracy (which grew from 1.5% to 4.4% of the population in less than ten years) and the appearance of a reformist wing inside it. In 1985 the 3rd Plenum of the 12th central committee extended the reforms to the urban industrial sector, generalizing the autonomy of management of the enterprises, recourse to market mechanisms, horizontal relations between enterprises, the strengthening of the financial and banking system as coordinating axes of the Plan as well as the combination of all forms of ownership in a "market socialism" combining elements of the reforms which had been experimented with in eastern Europe.

In 1987 nonetheless the reforms entered a significant triple supply crisis - a growth of aggregate consumption higher than economic growth and high inflation; a "scissors crisis" stemming from the insufficiency of the industrial products produced by the public sector to satisfy the demands of the peasants in the new agricultural market; a crisis of food security brought about by the insufficiency of basic food products (rice, corn) despite an excellent harvest in that year.

This economic crisis was transformed into a political crisis after a year and a half of deep factional struggles inside

the CCP and the reforming general secretary, Hu Yaobang, was dismissed. The 13th Congress, meeting in October of that year, adopted the theoretical framework of “market socialism” reforms, together with a tough plan of adjustment under the leadership of the new secretary general, Zhao Ziyang, also originating from the reform-minded sector. The political and economic crisis remained uncontrollable.

It culminated in June 1989 in the revolt of Tienanmen Square, a split in the CCP and the detention of Zhao Ziyang. The massacre at Tienanmen square marked the final crisis of the “market socialist” reforms and the defeat of the reform-minded sector of the CCP bureaucracy.

However, the conservative fraction had no economic alternative, even if it put an immediate end, with the reaffirmation of the “Four Principles”, to any possibility of political reform that would put in question the dictatorship of the CCP. At the same time there was the fall of the Berlin wall, the defeat of the Soviet coup in September 1990 and the final break-up of the USSR in 1991, the introduction of “shock therapy” policies and the restoration of capitalism in the former “socialist bloc”. In January 1992 an old and half-paralysed Deng Xiaoping visited the special economic zone of Shenzhen, presenting it as the example of the economic reforms that should be undertaken and launching the slogan of “Enrich yourselves!”

## 1992-1997: the restoration of capitalism

In October 1992 the 14th Congress of the CCP met. While a very tough adjustment programme dreamed up with the help of the IMF and the World Bank was applied, the market economy and the law of value were generalized, as were the special economic zones. The central authorities and the Plan lost influence to the provincial authorities that developed their markets in competition with those of the other provinces. Equilibrium between the CCP's factions was preserved, but the final decision rested with Jiang Zemin and favoured the predominance of the reform-minded faction. The reference was no longer to “market socialism” but a “socialist market economy” and this change marked the beginning of the transformation in the class nature of the state, while the public sector began to plunge in the waters of the commodity economy. The phase of negotiations on China's membership of the World Trade Organisation - initially applied for in 1988 - began. The state sector of the economy accounted for 73% of industrial production in 1988 - by 1992 it was 35%.

Between 1992 and 1997 - when the 15th Congress of the CCP met, shortly after the death of Deng Xiaoping - the public sector was besieged by the dizzying growth of the rural industrial sector, special economic zones and new urban private enterprises. It was also consciously pillaged by the provincial bureaucracies who, in a climate of rampant corruption, helped themselves to social funds and the assets of the public enterprises dependent on the central budget to maintain investments in the private sector in their provinces. The provincial bureaucracies could only tax their private sectors to support their budgets, whereas the needs of the provincial governments grew as central transfers fell. The central bureaucracy saw its capacity for extraction of the social surplus product of the public sector fall, and had to negotiate with the local bureaucracies over their contributions to the central budget. The regional disequilibrium was enormous, social inequality exploded, the privatization of agriculture led to unemployment for 250 million peasants and emigration to the cities for 100 million others - the so-called “floating population”. If poverty fell in the countryside, in the towns 117 million new poor appeared, 80% of them in the central and western regions. The health and education system, which had become private, progressively disintegrated.

Following the international recession of 1990-1991, China became the second-largest recipient of foreign capital investment (behind the United States), its share of foreign investment in Asia rapidly passing from 20% to some 80% - hoovering up thus 52% of all foreign investment in developing countries. During this period the average growth of the Chinese economy reached 9.7% per year (against 7.5% for the “Asian tigers”) and exports grew by 19% per year. Foreign investment accounted for more than 22% of all investment. 60% of workers in the export-oriented free trade

zones in the world are Chinese, or 18 million people. According to an IMF study, if the accumulation of capital was the most significant factor in growth up until 1994, from this date onwards it was growth in productivity (with an average per year of 4% as against 2% for the “Asian tigers”).

It is not surprising that the 15th congress of the CCP attempted to adapt the ideology to the facts and to the new social interests. A bourgeoisie developed - some 5%, that is 60 million people, declaring incomes higher than 12,000 dollars per head - and new urban middle layers appeared. This bourgeoisie is intimately linked by family ties to the bureaucracy, to the Chinese capitalists in the émigré circles and to foreign investors. Wu Jinglian, adviser to Prime Minister Zhu Rongji, proposed a new definition of socialism in the statutes of the CCP: “social justice and the market economy”. Meanwhile, the vice-president of the Academy of Social Sciences Liu Ji summed up Marxism in two principles: “The interest of the people are what is most important and the party must serve the people with all its heart”. In the initial drafts the reference to the proletariat as “the vanguard of the revolution” gave way to the “waged employees” although finally the option adopted was more scientific, mentioning “labour as commodity”. The CCP said its farewell to the working class in October 1997 when it announced the privatisation of public sector enterprises, with the dismissal of 200 million workers in five years. Capitalist restoration was already an irreversible fact.

## **1997-2001: Integration in the world economy, crisis of overproduction and neo-Keynesianism**

Despite this, the heritage of the management apparatuses of the old bureaucratically-deformed workers' state of the People's Republic rendered a substantial service to the Chinese nomenclature. It allowed them to emerge almost unscathed from the Asian crisis of 1997-1998, with the exception of the bankruptcy of the International Trade Company and some investments in Guangdong. The big national banks were supported by the state, which guaranteed company debts; state controls prevented the penetration of speculative short term capital, limiting foreign credits - although the foreign debt rose from 5.2% of GDP in 1985 to 13.8% in 1998 - and speculative operations on the national currency, the renminbi, which was not convertible. The impact of the crisis led to an appreciation in the value of the renminbi of 60% in relation to the currencies of South-east Asia and a 20% fall in relation to the Japanese yen, leading to a fall in relative competitiveness which reduced the growth of exports - it was only 0.5% in 1998 and 6.1% in 1999. Foreign investment fell by 11% in the course of the same year.

The Chinese government applied a typically neo-Keynesian policy to support demand, concentrated especially in the central and western regions, whose bureaucracies had demanded a change in policy during the 15th Congress because of their inability to reap the benefits of the market. Public expenditure rose from 12% of GDP in 1997 to 16% in 1999, while the budget deficit increased from 1.8% to 3.1% over the same period. The wages of civil servants rose by 20% and treasury bonds were issued for a total of 160,000 million renminbi. Nonetheless these measures proved insufficient and the crisis of overproduction continued, leading to deflation. Interprovincial customs barriers were lifted and the internal market became unified.

In 1999 the index of consumer prices fell by 1.4%. Unused productive capacity rose to 40% of GDP. China experienced fully, for the first time, the consequences of a capitalist economic cycle. In this crisis scenario the Chinese government decided to launch the final phase of the restructuring of the public sector and the privatizations decided on at the 15th Congress of the CCP.

## **2001-2003: entering the WTO, the limits of Keynesian policies, and the 16th Congress of**

## the CCP

The Chinese authorities continued their policy of Keynesian stimulants in the course of the years 2000, 2001 and 2002, without ending deflation. The international recession reduced exports to the US and Japan to the level of 7.5% of GDP, which made macro-economic management more complex. Although the public debt never was higher than 15% of GDP, it had multiplied by 80 since 1981, going from 870 million to 40,000 million renminbi. The basic reason for this growth was a fiscal crisis of the central authorities - while in 1978 they levied 29.5% of GDP in taxes, it was only 13.3% in 1999, which reduced their capacity for pseudo-Keynesian regulation, maintained thanks to the continual issuing of treasury bonds in growing quantity, in a vicious circle which it will be difficult to emerge from.

In December 2001 the People's Republic of China officially became a member of the World Trade Organization. Five final years of negotiations ended with significant concessions from China, which threaten 60% of the country's car industry and 50% of its food industry.

The reason for these concessions relates to the change in the social nature of the state. The submerged bureaucracy, the chaos of private interests and generalized corruption can count on no other force than the world capitalist market to contain the explosion of regional inequalities and provincial protectionism. Only the discipline of an imposed restructuring from outside by international capitalism appears able to contain the autonomization of the provincial authorities. The gigantic Three Gorges dam on the Yangtze has become the symbol of this process; conceived as a "socialist" solution to China's eternal evils, its construction ending in a climate of dizzying corruption.

In October 2002 the Chinese economy began to slightly recover its tendency to growth. Profits in the private sector grew by 10%, although those in the state sector continued to fall (- 4.1%). More slowly, private consumption and investment have according to the IMF, begun to overtake public expenditure as motor of growth, which at the end of 2002 reached 9%, or one point better than the 8% necessary to absorb demographic growth and contain the growth of unemployment.

With a certain irony, when the 16th Congress of the CCP was held in Beijing on November 8, 2002, it seemed to realise Mao's prophecy as to the danger of a restoration of capitalism in China. In the course of this Congress the third generation, represented by Jiang Zemin, has given direct executive power to the fourth generation of Hu Jintao, while conserving its influence in the shadows. The main ideological contribution of the third generation of the CCP was the "theory" of the "three representations", according to which the CCP represented not the workers and peasants of China, nor even the "cadres" of its nomenclature, but the "advanced productive forces, innovatory culture and the interests of the broad masses". The Congress launched an appeal for the recruitment of capitalists to the CCP, envisaging for the latter a special membership rate of 1% of their annual salary. Xiang Shaoling, owner of the Baopu Garments Company, complained publicly: "To be in the party is a glory, but the membership rate is very high".

## Conclusion

From the human, social, economic and ecological point of view, the cost of capitalist restoration in China has been gigantic. Yet it is today the most shining example of a "transitional economy" that the World Bank proposes to developing countries, This quarter century of reforms, in particular since 1992, has been crowned with success only thanks to the conjuncture of several factors: the terrible repression of the democratic movement in 1979 and 1989, the modification of the international relationship of forces created by the collapse of post-Stalinism in eastern Europe and the USSR, neoliberal globalization through the WTO, IMF and World Bank and the cruel crushing of any attempt to demand more humane living conditions for the working class, who are subjected to Dantesque primitive capitalist accumulation, possible only under the protection of the CCP's bureaucratic dictatorship.

## The transition to capitalism

---

The CCP has managed to survive all its internal crises, in particular the serious splits and purges of 1976, 1980 and 1988-1989, thanks to an internal pact nourished by the "Cultural Revolution syndrome". It has sold its political soul first to Deng Xiaoping, then to Jiang Zemin, guarantors of the social and economic stability of the bureaucracy.

Fearing above all the autonomous activity of the masses; the CCP hopes to guarantee stability through the dictatorship of the single party and the discipline of the capitalist market. References to Marxism have given way to a chauvinist and conservative nationalism, if not to the superstitions of the Falun Gong and other sects.

The worst effects of this capitalist restoration are still to come.

Following the most classic models of the crises of the "mandate of heaven", they will take the form of a crisis in food - given the weakness of agricultural productivity and the necessity of massive food imports - and an ecological crisis brought about by deforestation and floodings. The crisis of overproduction cannot be contained by the growth of exports founded on a constant reduction of production costs. Despite the total absence of workers' rights and the pitiless competition for the sale of labour power between the "floating population" expelled from the countryside and the new unemployed produced by the restructuring of the public sector, industrial conflicts and local social explosions have multiplied by 14 in the course of the 1990s according to the official figures, leading to an accumulation of experiences - slow, unequal, but continuous - for the working class. China is a weak link of capitalism and as Mao put it, "it is right to revolt".

### BIBLIOGRAPHY

- Liu Yufan, "A Preliminary Report on China's Capitalist Restoration", Links number 21, August 2002.
- Liu Yufan, "[Will China Shake the World?](#)", International Viewpoint, March & April 2002.
- Willy Wo-Lap Lam, The Era of Jiang Zemin, Prentice Hall 1999.
- Andrew J Nathan and Bruce Gilley, China's New Rulers: The Secret Files, Granta Books, 2002.
- Ruan Ming, Deng Xiaoping, Chronicle of an Empire, Westview Press, 1992
- David S. G. Goodman, Deng Xiaoping and the Chinese Revolution, Routledge, 1994.
- Minxin Pei, "China's Governance Crises", Foreign Affairs, October 2002.
- Roland Lew, "[Rebellion in the Rustbelt](#)", International Viewpoint, 343, September 2002.
- Roland Lew, "[Taking the Capitalist Road](#)", International Viewpoint, 348, March 2003.
- Jeffrey Sachs and Wing Thye Woo, "China's Transition Experience, Reexamined", Transition Newsletter, World Bank.
- Livio Maitan, "[Odyssey 2001](#)", International Viewpoint, February 2001.

## The transition to capitalism

---

- World Bank, China Update, March 2001, Washington DC
- Chen, S. Y Yang, Y, “China's Growth and Poverty Reduction: Trends Between 1990 and 1999”, Policy Research Working Paper, number 2651, World Bank, 2001.
- Ianchovichina, E y Martin, W “Trade Liberalization in China's Accession to the WTO”, Policy Research Working Paper number 2623, World Bank, 2001.
- DSP (Australia), The Class Nature of the Chinese State, Report Adopted by the Congress of the DSP, January 1999.

---

[1] “On Khrushchev's Phoney Communism and its Historical Lessons for the World”, in Quotations from Chairman Mao Tse-Tung, Foreign Language Editions, Peking, pp 276-277 (also known as The Little Red Book).