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China

Capitalist restoration in China

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There is no doubt that the Chinese Communist Party will keep its promise of 'one country two systems' now that Hong Kong is again part of China. Beijing has the utmost respect for the British administration's free market policies.

Beijing has appointed a local tycoon, Tung Chee Wah, as the chief executive of the Hong Kong Special Administrative Region (SAR). It has also appointed a Provisional legislature, in which the majority are business men and women. The reason for this, according to the former head of the New China News Agency who fled China after the Tienanmin Square massacre in 1989 is that "preserving capitalism in Hong Kong means capitalists ruling Hong Kong". The Chinese Communist Party has long forged a holy alliance with the Hong Kong bourgeoisie. Their common aim is to crack down on the civil liberties of the Hong Kong people, and to wipe out any potential threat of grass root movement.

The ruling party's Hong Kong policy is extremely right-wing. It equates any increase in social welfare expenditure to "the addiction to opium." According to China's Communist leaders, the rights of Hong Kong people to gamble on horse racing and speculate in the stock market will be guaranteed, while freedom to criticise the Party will not be tolerated. New laws on public order and the right of associations, which became effective on 1st July, crack down on the right of assembly and associations. Any political organisation which merely has a 'link' with foreign political organisations will be breaking the law.

Only the naive could still believe the CCP claim that China remains a socialist state, and its market economy is "socialist with Chinese characteristics".

"Deng the short" and his fake socialism

When Chinese leader Deng died, the bourgeoisie media all over the world praised him as a great man who opened up China and reformed her economy, so that for the past 15 years, China experienced an impressive annual growth rate of 9%.

Inside China, people had for several years been singing a bastardised version of the famous pro-Mao Song, 'the Eastern Sky is red'. The new version went "The western sky is red, the sun is going down. In China rises a man, Deng the short. He seeks fortune for himself, he teaches people to be everyone for himself."

The Gini coefficient, a measure of inequality rose from 0.31 in 1979 to 0.434 in 1994. The latter figure is higher than the USA. Yet some Chinese scholar even suggested that the figure is well past 0.5 today. In this sense one may regard Deng as the chief architect of capitalist restoration, with terrible bureaucratic distortion. In the words of another popular rhyme, "a deep rooted feudalism, a fake socialism, a hidden capitalism."

The development of private capital

The CCP 'proved' its adherence to socialism through upholding public ownership. According to officials, although the state sector today only accounts for 40% of Gross Domestic Product, the collective sector (which accounts for a

slightly higher proportion) must also be regarded as a form of public ownership, which would make "socialist public ownership" the dominant element of the economy.

According to official statistics, most of the private sector falls into the category of self-employed or family ownership, and there are only about 430,000 capitalist enterprises in the whole of China (except Hong Kong), accounting for only 10% of gross industrial output.

These are very deflated figures. From the beginning of the market reforms, the 'Communist' regime deliberately gave a very loose definition to "self-employment", defining those employing up to seven workers as self-employed. "Small capitalists" would be a much more accurate description.

Furthermore, much of what is formally described as collective ownership is also fake. Some sources estimate that as much as 83% of rural industrial collectives are in fact capitalist enterprises.

Given that the CCP deliberately hides the facts, no one knows the exact figures. But it is clear that the weight of private capital far exceeds the modest levels.

Even official statistics reveal the limited size of the state sector in industrial output and commerce.

The total assets of the capitalist sector, privately owned stocks, and foreign investment, are an estimated 1,000 billion Yuan, which means that private capital amounts to 1/4 of state assets.

China also has an estimated 1,600 billion Yuan worth of private financial assets. Around 600 billion Yuan, 40%, belong to capitalists and those officials who engage in business, directly or indirectly. This social group numbers 30 million, or only 2.8% of the population. The strength of the capitalist class is clear.

Pro-bourgeois "Communism"

The rapid development of private capitalism is a direct result of the Chinese Communist Party's pro-bourgeois policy. This is more than a 'live and let live' policy. It has been a green light for the bureaucracy to pump resources from the state and collective sectors into the private sector.

The earliest privatisation could be traced back to rural reform in the early eighties, when the People's Communes were being dismantled. Much of the collective property, such as agricultural machinery, was privatised by the officials.

But it is in industry and commerce where the capitalist economy has developed the fastest. Capitalists continue to hire labour, and buy land and various means of production from the state and collective sectors, generally at rock-bottom prices. Every year the state loses an estimated 20-30 billion Yuan because of the under-pricing of land in sales to private interests.

The existence of a Chinese capitalist economy is the only explanation for a situation where the country consistently experiences high growth rates, yet only 1/3 of state firms are profitable!

One of the reasons for China's success, relative to the former Soviet bloc, is that China is much more backward. The weakness of China's state sector has been transformed into an advantage — not for the state sector itself, but for the capitalist sector.

Rapid industrialisation in 1949-78 failed to modernise the rural sector. The state could hardly provide the rural with sufficient industrial goods. Peasants still mainly used manual labour. In 1949, 89.5% of the population were peasants. By 1978, the proportion had declined only slightly, to 87.5%. While the rural world was formally organised in collectives, in productive terms the rural economy was still dominated by the small peasant sector.

When the communes were dismantled in the early 1980s, the rural world immediately returned to its "true" situation: a sea of individual economic activity. It was through the economic polarisation of this individual economy that capitalism began to flourish. A rise of productivity and a rise in purchasing prices of agricultural products contributed to a growth in the peasantry's purchasing power. The country's new capitalists thus benefited immediately from a largely expanded market.

The resurrection of bureaucratic capital

Private capital is only one (major) component of the capitalist sector. Another important component is "bureaucratic capital," (the private assets of profit-oriented officials and those assets which belong to the state in name but in fact are freely controlled by the profit-oriented official in charge. and of which officials are able to 'pocket' considerable portion.)

Indeed, what is so different from the pre-reform period is that today's bureaucrats are not content with appropriating consumer goods. Nowadays they want to appropriate profit, and to achieve this they have to appropriate capital. This is the origin of bureaucratic capital.

They achieve this accumulation either through setting up their own business, or through utilising state funds in a profit-oriented way. In the context of the "socialist market economy", more and more state firms and all levels of government bodies are madly investing in high return sectors anyway, so the bureaucracy can easily manipulate state funds and reap huge profits.

Planned investment now represents a negligible proportion. of total investment. The biggest sources of investment are now the self-raised funds of local governments and state firms. It is this source of capital which is responsible for China's repeated crisis of over-production in various branches of industry, from televisions, refrigerators, washing machines, plastic industry to real estates.

Privatisation

Privatisation in the narrowest sense: the direct sale of state assets into private hands, is still relatively small, although recently it has been accelerating. Li Peng has just announced that up to 240 thousand medium or small state firms will be transformed into joint stock companies, contracted out or sold. Needless to say, most of these privatisations will take place at rock-bottom prices. In Xian state, one state firm which worth 60 million Yuan was sold at 3.85 million. Land in particular is often "forgotten" or undervalued when the assets of a state firm are assessed prior to privatisation.

In any case, the main form of privatisation in China is not the outright sale of state firms, but rather the establishment of joint venture companies using state resources and private capital. Outright corruption and theft would come close behind.

When state firms enter into joint ventures with private capital, especially with foreign investors, it is common for the officials in charge to transfer a large part of the assets to the private firms in questionable or illegal ways, including deliberately deflating the amount of state assets, refusing to take into account intangible assets like patent, brand name, and sales network, or agreeing to distribute a lower dividend to state shares than to private ones.

An estimated 90% of state assets are not taken into account when joint ventures are founded. In 60% of China's 10,000 joint venture formations to date, there was no prior assets assessment at all! The estimated loss to the state is about 60 billion Yuan. Only 60 joint venture agreements have taken into account the intangible assets (brand name, patent and so on) of the state partner.

Through these channels, bureaucrats have pumped enormous state assets into the hands of private capital and the bureaucracy itself. Indeed, a substantial number of joint ventures are fronts, fake companies set up by officials for the sole purpose of cheating the state.

Nobody knows just how many state assets have been privatised by the bureaucracy. Several years ago one source estimated that between 1982-1992, as much as 5 billion Yuan went 'astray.' More recent estimates have been in the region of 800 billion Yuan. But some specialists believe that the real figure is much higher than this.

Some left commentators have argued that capitalism has not been restored by a long way in the former Soviet bloc, because the private capital needed to privatise the state sector is lacking. This is certainly not the case in China. Private capital on the mainland is already strong enough to buy a substantial portion of state assets. With the addition of Hong Kong capital, this is truer than ever.

But this is not the main point. The bottom line is that, that in a country where there is no tradition of rule by law, let alone democracy, the bureaucracy and the capitalists need not wait until they have saved enough money before asking for privatisation. They can just go ahead, and privatise state property through outright corruption and theft.

The Invasion of foreign capital

China now has 170,000 foreign enterprises, accounting for 12.8% of gross industrial output. As much as 30-50 billion US dollars flow into China every year. Before 1984, foreign investment generated less than 4% of annual fiscal revenue. But in 1995 and 1996 it generated more than 60% of taxes and other fiscal revenue.

The inflow of foreign capital means bankruptcy for more and more local enterprises. This often takes the form of the "collapse" of a state enterprise into a joint venture with a foreign partner which takes more than 50% of shares in the new company. As a result, many traditional or famous Chinese products have already disappeared from the domestic market.

The detergent industry is now mostly controlled by the multinationals. The output of 15 joint venture now accounts for half of gross output. Popular Chinese brands like Panda and Twin Cat have vanished, to be replaced by the products of P&G, Unilever (British) and Kao (Japanese).

In the beer industry, 70% of plants with an output exceeding 50 thousands ton a year have become joint ventures. In most cases, the joint venture agreement specifies that the Chinese brand becomes the property of the multinational partner. It is then withdrawn from production. Foreign beers like Carlsberg are rapidly driving Chinese brand like Shanghai and Swan from the market.

There are at least 1,000 joint venture and foreign-owned companies in the medical industry. These companies now control the production of 40 of China's best selling medicines.

The 200 joint venture companies in the bicycle industry are driving Chinese brands like the Flying Pigeon and Everlast off the road. The same phenomenon is occurring in sectors ranging from television manufacture to paper, tyre, integrated circuit, and household electric appliance production.

And yet, China has no "objective" economic need to surrender its economic sovereignty. As well as the largest domestic market in the world (in human, if not dollar terms), the country has a savings rate of 45%, and private capital assets of 1,600 billion Yuan.

Market, socialism, and Hong Kong

Until the 1980s, China's economy was excessively restricted. But now there is a market for means of production, a labour market, a partial capital market, and the monopoly of foreign trade has been largely dismantled, to the point where multinationals are beginning to dominate whole sectors of the economy. Capital flight from China is accelerating.

The Chinese Communist Party still claims that the country has a "socialist market economy." This is clearly false. In an economy where labour, land, capital and others means of production can enter the market, major production and accumulation decisions will inevitably be guided by the rate of profit. A market, but not a socialist economy. There has already been repeated over-production in many branches of the economy. The Party still maintains 'macro-regulation', but this is not evidence of a planned economy. Each and every capitalist government also uses economic levers like interest rate, fiscal policy or taxation for 'macro-regulation.' In China today, the state no longer directly allocates investment funds according to a conscious plan.

When the Sino-British agreement was signed in 1984, one leading tycoon remarked that, 'politically Hong Kong will be annexed by China. But experience will prove that economically it is China which will be annexed by Hong Kong'.

To a certain extent this prophecy has come true. Because of it's strength, the Hong Kong bourgeoisie has contributed greatly in promoting the change of nature of the CCP. Hong Kong's population is only equal to 0.005% of Chinese population, but it's GDP is 1/5 of China's.

Since the 80s, the economic fusion between Hong Kong and China has been going on rapidly. In just 10 years, more than half of Hong Kong industry moved into southern China to exploit the cheap labour there. In 1980, there were 1 million industrial workers in the colony. By 1992 there were only 400,000. Hong Kong capitalists now employ more than 3.5 million workers in southern China.

Capital from China is flooding into Hong Kong. The city has returned to its old status of an entry port for China, as it was before the 1949 revolution. What is new is that Hong Kong has also become a financial centre for mainland China's new capitalists and bourgeoisified bureaucracy.

A process of convergence has been taking place, ever since the policy of "one country two systems" was announced, to the point that China is no longer one country and two systems. It is one country one system. One capitalist system, to be precise.

The perspective of mass movement

China amended its constitution in 1988 to legalise the capitalist economy, the state character of China had already started to change. In the economic arena, the capitalist restoration is now largely completed, in the sense that the rate of profit has become the chief regulator of the Chinese economy.

Does this restoration of capitalism mean that the Chinese working class has suffered a historical defeat? That for a long time to come we should not expect the upsurge of the working class? We do not agree with such a position. The further degeneration of the CCP is of course ablow to the working class. But this does not mean that the working class has been defeated in the struggle for power. In reality, the Chinese working class never took hold of state power. They cannot be said to have lost something that they never had.

The bureaucratic socialism developed by the Chinese Communist Party brought certain advantages to the workers. But it never reinforced the political strength of the working class.

When the CCP abandoned bureaucratic socialism and adopted capitalism, the treatment that the workers receive worsened. But although workers now face rising unemployment and cuts in welfare, this does not, in itself, constitute a direct destruction of the political strength of the working class. In this sense, therefore, the restoration of capitalism has not brought about the demoralisation of the working class.

In fact, the political and economic struggles of the mainland Chinese working class have been very weak for decades. Workers have never been able to rise up on a large scale. They have experienced neither great victories, nor big defeats. The Communist Party is still afraid of workers' resistance. It dare not push too far and too fast.

Since the economy has been growing rapidly for more than ten years, most workers have experienced a rise in their living standards. This is quite different to what has happened in the former Soviet bloc. What is more, the Chinese working class is still growing rapidly. An estimated 100 million peasants have become proletarian workers in recent years.

In other words, the potential capacity of the working class has not been decreasing, but increasing. The class has not suffered any historic defeat. The struggle is still ahead. It is quite possible that in the medium term there will be an upturn of the Chinese workers movement. Countless economic struggles against closing of plants and lowering of wages have been going on for some time. Some of these conflicts have been won. This is surely encouraging the growth of confidence of the workers.

Given that Chinese workers have already experienced many years of market reforms which have been against their interests, and are well aware of the failure of the market reforms in the former Soviet bloc, they will probably have less illusions about capitalism than workers in the former Soviet bloc. What is still lacking is an alternative. This is the challenge for socialists in Hong Kong and on the mainland.