

TEN China: Multiple Models Amid Growth and Change

Chapter objectives

- To provide an historical overview of the economic and technological achievements of Chinese civilization before its puzzling stagnation and slowdown
- To show how China endured terrible hardship following partial colonization in the 19th century, which seriously retarded its prospects for economic growth
- To explore the emergence of the Maoist state-driven heavy industrialization strategy, and to note its successes, its failures, and its divergence from the Soviet model upon which it was based
- To describe the social organization of Chinese industry, especially the role that state-owned enterprises played in the construction of Chinese socialist society based on guaranteed lifetime employment for urban workers
- The deviation of the model, however, from the USSR was most important in that China was never able to fully replicate USSR-style modernization. Ultimately this set the course for China's abandonment of a planned economy and the move to market-led economic growth in the 1980s until today
- The chapter moves on to explore China's dramatic recent economic growth, pointing to both its strengths and prospects but also the often profound social costs and risks of marketization. In so doing, the chapter suggests that the Chinese 'variety of capitalism' is complex, distinct and significantly dissimilar to both Anglo-Saxon and CME models

Introduction

China's recent economic growth has been so remarkable that its labeling as a 'phenomenon' or 'miracle' is now a well-worn cliché (Knight and Ding 2012; Lin et al. 2003). In sheer scale (that is, measured by GDP) China overtook Japan as the world's number two economy in 2011 and it is widely predicted to overtake the USA as number one, perhaps as early as 2025.¹ Other measures are equally notable. In 2012, China moved above Japan in the number of companies listed in the *Fortune* Global 500, having 73 firms featured in the top 500 compared to Japan's 68 (and USA's 132).² China's rapid growth has long been one of the world's largest business news stories.

It is much less well known that China had already gained and lost world economic leadership in a prior age. In the 8th to the 12th centuries China was far ahead of Western nations in many aspects of technological and scientific development. Yet for complex reasons Chinese civilization lost developmental impetus in the 1400s–1700s, right about the time of the European Renaissance. The technology and sophistication gap between China and Europe was eventually closed over the 18th and 19th centuries, and China found itself rapidly overtaken by European powers and by Japan. China suffered many decades of political and military turmoil that severely hampered its chances of restoring some sort of economic and technical parity with the industrialized nations. It endured partial colonization by European powers and by Japan, and was engulfed in a prolonged civil war between the years 1927–50. What eventually emerged from these decades of struggle was a communist political and economic model, based around a Soviet-style 'big push industrialization' (see Chapter 8), as a desperate gambit to finally catch up and overtake the advanced powers. This 'New China' – the Peoples' Republic of China (PRC) – achieved some major economic and social successes, but was blighted by political and cultural authoritarianism and some disastrous policies that resulted in economic catastrophe and widespread misery.

Interestingly for this book's discussions of world variety in models and systems the Chinese model of communism diverged significantly from that of the USSR and a major political rift eventually opened up between Moscow and Beijing. China seemed to recognize the limitations

¹ 'China Overtakes Japan as World's Second-Biggest Economy', *BBC News*, 14 February 2011.

² 'China Overtakes Japan in Fortune Global 500 Companies for First Time', *CNBC*, 9 July 2012.

of state socialist economics and engaged in deep-seated and protracted reforms starting in 1978 and continuing to this day. While China remains a one-party state dominated by the Chinese Communist Party, its economic reforms have triggered rapid growth. The general movement of reform has been away from regulation and planning and towards markets and 'disorganized capitalism' (Lash and Urry 1987). This transition has broadly been a tremendous success, although huge problems continue to beset China, such as severe poverty, regional isolation and economic disparity, lack of democracy and adequate political representation, widespread economic informality, worker exploitation, political corruption and unfair forms of trading and governance (such as endemic violation of intellectual property rights).

The degree of change and disruption experienced is severe and in some ways similar to that endured by Russia, especially in China's chaotic first half of the 20th century. However, since the late 1970s the leadership of the PRC has somehow managed to oversee growth and change amid reasonable stability. China did not experience a horrendous political and social collapse as in Russia and most of the other former Soviet states. Instead, China has undertaken reform within the broad institutional contours of Chinese state socialism, managing to reform and partially preserve the system rather than overseeing a collapse that necessitated the painful and extremely difficult building of a totally new socio-economic model.

Some describe the contemporary Chinese model as one of 'state capitalism'³ or 'local state corporatism' (Oi 1995), or even 'market socialism' (Garrick 2012) – a mixed economy in which the state plays a dominant, but far from exclusive role. Although in many ways similar to other East Asian growth trajectories (Chang 2006; Johnson 2002; Wade 2003), China's growth strategy has featured multiple tactics and 'models'. Its growth has been sustained since the late 1970s, involving privatization of state-owned enterprises and the general 'transition' away from state socialist planning, alongside a massive influx of foreign investment and very significant levels of overseas trade and exports to Western nations. But alongside all of these moves towards greater marketization and global openness, China has maintained important forms of state governance and planning over the economy (including capital controls which, in the eyes of America at least, constitute unfair forms of currency manipulation). The broader communist political and cultural system has not collapsed, inviting critique from Western democracies about human rights violations

³ *The Economist* magazine (very much a neoliberal, business-friendly publication), produced a lengthy special report on 'State Capitalism'. 'The Visible Hand', *The Economist*, 21 January 2012.

(when the political timing suits them). Many believe there is a lot more economic development still to come with this mixture of models, even as the Chinese state continues to dominate 'the commanding heights' of the economy. China falls outside of the scope of the early classics on industrial structure or comparative management systems. Its development came far too late for it to appear in, for example, Shonfield's (1965) *Modern Capitalism*, Chandler's (1990) *Scale and Scope* or even McCraw's (1997a) *Creating Modern Capitalism*. This exclusion is coming to an end, it seems, as academic and popular writings on China have mushroomed in recent years.

The literature is often contradictory. Some claim that China has made massive progress towards an open and globalized capitalist system (such as Brandt and Rawski 2008: 14) while others (notably Huang 2008, 2010) maintain that China remains a totalitarian state that resents and suppresses free markets and entrepreneurialism. This chapter will chart a path through these complex debates, by outlining the various historical stages that Chinese economy, government and firms went through, including its rapid growth in ancient times before its period of stagnation and subjugation by richer powers, to its dramatic attempt to break out of 'backwardness' through a Soviet-style crash industrialization programme, to the reforms and eventual emergence of today's multiple models. Ultimately it suggests that China's restructuring and growth strategy is very much an unfinished project that continues to evolve. The reader may note that the tone of this chapter is not as optimistic as many current 'miracle'-style writings on China. It notes in detail the currently severe problems that China confronts, especially those of poverty-level wages and exploitation, and of endemic political corruption.

In general the recent story of China is one of very impressive growth, especially when considered in the light of some of the horrors it endured in prior periods. Its model is hard to pinpoint accurately. There are obvious parallels with the USSR command economy, but more general, perhaps less precise, comparisons can be made with a range of other economic models and development strategies, especially the Asian 'tigers'. Protectionist 'infant industry protection programmes' (as seen in prior American history) were also used, and recent tactics designed to protect strategic Chinese firms have echoes of French-style 'national champion' policies. Since the late 1970s into this complex mix is added massive overseas foreign direct investment, economic liberalization and the growth of domestic private corporations. Some of the major overseas entrants have brought in US-style corporate governance and market-oriented approaches, which some leading-edge domestic Chinese corporations are also claiming to adopt and emulate. There are some clear problems facing China and some commentators point to

ominous signs of property asset price bubbles,⁴ widespread non-performing loans (Allen et al. 2008: 507), excess industrial capacity and deflation (Lin et al. 2003: 257–275). It seems likely, however, that China will continue to grow in importance and influence. With a population of around 1.4 billion, a GDP of US\$7.318 trillion⁵ and the world's third largest landmass after Russia and Canada (Naughton 2007: 1) it shows all the signs of being a very major – and growing – force in the global politico-economic area.

From early leadership to stagnation and decline

Chinese civilization is one of the oldest and most influential in the world, boasting rich traditions in literature, philosophy, political theory and law, medicine, and the arts and sciences (Needham 1965; Witzel 2012). Throughout long spells of history China was economically far ahead of Europe. The first Chinese empire, the Qin dynasty, was formed in 221 BCE and there were arguably signs of a 'market economy' of sorts as early as 300 BCE (Lin 1995: 269). Chinese population was considerably larger than that of Europe during this time (Lin 1995: 273) and has consistently remained larger ever since. China in ancient and early modern times developed a huge array of sophisticated technological innovations. Huge advances were made in agricultural techniques to maximize crop yields, using methods perhaps 500 years in advance of Europe (Lin 1995: 270). China also led the Europeans in iron-making capacity 'by a millennium and a half' (Mokyr 1990: 210), becoming the world's earliest adopter of blast furnaces to create cast iron and wrought iron. Water power was harnessed to drive bellows to assist the ironworking process. The spinning wheel appears to have been developed at about the same time as in the West, but China surpassed Europe in many other technologies vital for economic development, such as paper, printing, gunpowder and the compass (Lin 1995: 270). Chinese inventors also famously developed extraordinarily complex items such as astronomical clocks (Needham 1965: 446). China's shipbuilding capacity was also highly advanced (Needham 1965: 418). China was a world leader in the manufacturing of porcelain, explosives, kites and various chemical compounds (Mokyr 1990: 218).

⁴ 'China Bubble in "Danger Zone" Warns Bank of Japan', *Daily Telegraph*, 28 September 2012.

⁵ 2011 World Bank estimates of GDP and population, <http://data.worldbank.org/country/china>.

Joseph Needham's (1965) monumental multi-volume study *Science and Civilization in China* overflows with mind-boggling detail on China's scientific and industrial achievements. He writes that China seems to have been the earliest inventor of trip hammers (third and fourth centuries CE) the use of which became central to British and European industrialization until the 18th century (Needham 1965: 390–392). China seems also to have developed a kind of proto-Bessemer process in the 11th century, about 800 years before the process was developed (and named) in the UK (and simultaneously in the USA) (Mokyr 1990: 220). The economic historian Joel Mokyr suggests, therefore, that China was 'about to undergo a process eerily similar to the great British Industrial Revolution' (1990: 213).

All of the above begs the question as to why China did not continue to grow at such a pace, and why the explosive growth of mass industrialization instead occurred in the UK and Europe. A full explanation is well beyond the scope of this book. One reason is probably that China did not pursue the kind of aggressive expansion of overseas trade (often backed by military force or its threat) carried out by many European powers. It lacked Europe's large demand for foreign goods, developing nothing like an East India Company sent overseas to forcibly establish trade relations. This kind of freezing-out of international economic activity probably could not have occurred in Europe as no one nation or power structure controlled the whole continent. To a degree, it was a demand problem – the need to develop further labour-saving technology declined due to China's huge population. Cheap labour costs obviated the need for China to 'move up the value chain' – an issue with future echoes to today's China, perhaps.

Lin (1995), however, believes that the answer was really one of supply; for a complex set of reasons Chinese society in the 14th–18th centuries lost the ability or will to continue developing and applying new technologies. One reason may be that the dominant Chinese bureaucratic authorities stifled competition and the development of new ideas that may threaten political stability and the status quo (Mokyr 1990: 231). Chinese society seemed to 'forget' how to make use of some of the inventions it had developed centuries before. Chinese elites in 1583 were reportedly astounded by the modernity of Western mechanical clocks brought to the mainland from Macao by Jesuit missionaries (Needham 1965: 436). Once again the importance of institutions in shaping and constraining the range of available options for economic action comes to the fore. A similar situation seems to pertain in modern Chinese history, specifically when the Communist Party elite engages in radical shifts of policy which change the *motivations and incentives* surrounding the purpose and nature of economic action (Oi 1995: 1136). Mao's 'Great Leap

Forward' in the 1960s and the various reform processes initiated by Deng in the 1980s are particularly important examples.

While this is, of course, true of all political economies, Chinese history seems to indicate a particular importance of state authority in structuring what is possible, economically and politically. Mokyr (1990: 238) argues that there were 'no substitutes for the state' in that state authority sponsored and legitimized economic and scientific developments. This meant that economic growth was dangerously dependent on the whims of political elites. Support could be withdrawn by the political mandarins, which could stymie growth and inventiveness.⁶ By contrast, states seemed to play a more arms-length role in Europe, as buyers, sellers and as the setters of economic rules. In China the state was a much more dominant force in culture, society and economy, meaning that markets, entrepreneurialism and competition were less developed than in other contexts (Mokyr 1990: 235). This criticism of China is very much applied to China today, especially by economists who are critical of the communist state (such as Huang 2008, 2010). Mokyr even states that 'China has always been a one party state', a phrase he attributes to Needham (Mokyr 1990: 236). Thus, according to Knight and Ding, 'Europe had developed arrangements in which capitalism and innovation could flourish but China had not' (2012: 5).

Even with the economic and scientific advances noted above, the Chinese economy and society remained overwhelmingly rural, with over 90% of the population living in the countryside throughout this period (Naughton 2007: 34). Historians such as Needham and Mokyr emphasize the role of sophisticated technologies, but their operation also necessitated the application of 'massive human labor to small plots of farmland' (Naughton 2007: 35), meaning very low standards of living. China experienced huge population growth – from around 72 million in 1400 to 381 million by 1820 (Naughton 2007: 36). Living standards seemed stable but the kind of explosive, self-sustaining industrial growth seen in Europe as (explored by authors such as Landes [2003], Mathias [1969] and Mokyr [2009]) failed to emerge in China. Naughton characterizes the economy as 'small-scale, bottom-heavy' (2007: 37–38), largely a household-based economy with little capital and no large-scale operations either in agriculture or industry. Tea export was lucrative, but small-scale and diffuse and unable to compete with Japanese and Indian standardized and high-quality 'bulk'

⁶ Interestingly, the term 'mandarins' is also used in contemporary Britain, often in a pejorative way, to describe senior civil service bureaucrats. Critics describe 'mandarins' as unaccountable and accuse them of trying to 'pick winners', or for generally interfering in and micromanaging economic activity to the detriment of free market competition.

exports (Naughton 2007: 38). Cotton was spun across much of China, but large-scale, industrialized and factory-organized cotton mills did not emerge until the 20th century, considerably later than the emergence of the factory system in the UK (Naughton 2007: 38).

As in other developing nations (see Chapter 8 on Russia, for example) economic modernization was dependent to a great extent on state authority to approve and diffuse new technologies. See the passage in Exhibit 10.1 from Mokyr.

Exhibit 10.1 Long-term path-dependency in Chinese development

Joel Mokyr is one of the world's authorities on economic history, especially the roles played by science, technology and education in economic growth. Here he describes early Chinese modernization and points to signs of path-dependency that may be of relevance to contemporary China. While some might regard this passage as somewhat patronising towards China, it is likely to contain at least a kernel of truth:

'The difference between China and Europe was that in Europe the power of any social group to sabotage an innovation it deemed detrimental to its interests was far smaller. First, in Europe technological change was essentially a matter of private initiative; the role of rulers was usually secondary and passive. Few significant contributions to nonmilitary technology were initiated by the state in Europe before (or during) the Industrial Revolution. There was a market for ideas, and the government entered these markets as just another customer or, more rarely, another supplier. Second, whenever a European government chose to take an actively hostile attitude toward innovation and the nonconformism that bred it, it had to face the consequences in terms of its relative status in the economic (and thus, eventually, political) hierarchy. Moreover, the possibilities of migration within Europe allowed creative and original thinkers to find a haven if their place of birth was insufficiently tolerant, so that in the long run, reactionary societies lost out in the competition for wealth and power.'

(Mokyr 1990: 233)

Having made some progress however, China seemed to withdraw from the kind of state-sponsored process of infrastructure-building (roads, railroads) and systems (standardized systems of weights and measures, commercial law, tax-collection, law enforcement, education strategies), that all seemed central to European (and latterly Russian) development (see Chapters 4, 5, 6 and 8). Mokyr's (1990) rather gloomy prognosis of Chinese stagnation is disputed by some economists who were more optimistic about the institutional foundations of pre-revolutionary China's economy (Naughton 2007: 36), pointing to the existence of paper money, written contracts, legal and customary institutions, and even banks. China's comparative economic stasis lasted throughout the Qing Dynasty (1644–1911), the latter half of this period exactly when

Europe, USA, then belatedly Japan, industrialized and in many cases established and ran international empires or at least international trading routes and overseas financial relationships. The Chinese state's attempts to modernize were weakened from near constant political strife such as the Taiping Rebellion (civil war) of 1850–64. The Chinese state did try to bring in and learn from advanced Western science and technology, but seemed to lack the capacity to fully carry out an effective technology transfer policy (Hu and Henderson 2008: 290–291). It is not wrong for the state to be involved in economic growth *per se*, but involvement needs to come in a form that supports the economy and does not dominate or distort it to such a degree that self-sustaining economic development becomes impossible (Ohno 2012; Oi 1995; Wade 2003). State-led economic growth is 'a tricky strategy to execute and has many hidden consequences' (Johnson 2002: 150).

China was eventually forced out of isolation and stagnation by exogenous shocks. It found itself economically, militarily and strategically behind the rising powers. China appeared to experience its own version of Japan's famous 'black ships' episode as British 'gunboat diplomacy' forcibly open the so-called Treaty Ports in China following the end of the first Opium War in 1842 (Mokyr 1990: 219; Naughton 2007: 41–42). Very harsh terms of trade were imposed on China backed up by military force or its threat – Britain's steam-powered vessels had the ability to sail upstream and use powerful weaponry. Unlike Japan, however, China seemed unable to respond effectively to this form of hostile globalization. Japan responded to its forced opening up to European and American trade by bringing in Western European technology 'lock, stock and barrel' (Mokyr 1990: 231), rapidly borrowing from and improving on Western standards of science, technology and education (see Chapter 11). Japan's growth and its own imperialist expansion eventually lead it to replace China as the dominant power in Asia (Naughton 2007: 42).

Formerly the world's premier economic and scientific power, China had been humiliated by European powers. China was repeatedly defeated in trade disputes and wars, such as the Opium War of 1839–42 in which it was forced to cede the island of Hong Kong to the UK (Johnson 2002: 44, 164). (It later lost territory to Russia after the Second Opium War of 1856–60.) Moreover, economic and social change was, as in other late industrializing nations, leading to revolutionary pressures. Revolutionary leader Sun Yat-Sen declared a republic in 1911, and the last Chinese emperor abdicated in 1912. Education was becoming more widely available and more radical political and economic literature was being published as part of the New Culture Movement (Benton and Chun 2010: 7). A teenaged Mao Zedong came across the writings of Zheng Guanying, for example,

who wrote of the urgent need for China to emulate Western industrial and political modernization or face national catastrophe (Spence 1999: 6). In 1913, he began to read the giants of European philosophical, economic and political theory, such as Adam Smith and Karl Marx (Spence 1999: 22).

Major political turbulence continued throughout this region. In 1931, Japanese forces invaded Manchuria, establishing the puppet regime of Manchukuo. The Japanese oversaw rapid industrialization of the region. The Yangtze River Delta (a large region around Shanghai) was another major growth pole (Brandt and Rawski 2008: 4). China was modernizing and liberalizing between the 1910s and the 1930s. Growth was afoot (Rawski 1989), but China's share of world GDP fell relative to other nations (Naughton 2007: 42–43) partially because China was held back during this period by near-continual political strife, violence and the threat of colonization right through the years 1839–1945. A Nationalist government based at Nanjing existed between the years 1927–37. Throughout this period there were on-off hostilities with the Communists (Naughton 2007: 43). Both nationalists and communists fought against the Japanese in the Second Sino-Japanese war (1937), a conflict that merged into the broader Pacific Theatre of the Second World War. Throughout this period of conflict, China suffered around 20 million deaths (Bullock 1991: 1087). After Japan's defeat in the Second World War the two political factions could not coexist. The US tried to broker an alliance and encourage a unified government, but it was not to be. Eventually it was the Communist Party of China (CPC) led by Mao Zedong (1893–1976) that emerged victorious from the civil war, ushering in a dramatic new era for Chinese history. In American foreign policy circles China was regarded as having been 'lost' to communism.

Vigour and chaos: the planned economy of the People's Republic of China

The new communist leadership established a political system similar to the USSR – a one-party state featuring bureaucratic ministries and commissions to control all manner of social and economic affairs, with the Politburo and Central Committee of the Party 'at the heart of power in China' (Mastel 1997: 44). The Party was determined to rapidly close the gap with the foreign powers. The overall size of the economy was slightly smaller than that of India (Naughton 2007: 50). Agriculture made up around 70% of the PRC's economy, and of the 30% made up by industry, just 7.9% was classified as the kind of 'heavy' industry

needed for major industrial expansion and military build-up. Much like Stalin's industrialization drive in the USSR (Chapter 8), Mao and the CPC leadership focused on this specific area of the economy (heavy industry) in a desperate attempt to rapidly emulate Western powers. Like the USSR, China felt encircled and threatened by capitalist powers, and it was intent on arming itself. It entered the Korean war, leading it to a stalemate, and remained at war with the vestiges of the Nationalist regime that had fled to Taiwan.

'Big push industrialization' involved the forcible investment of a huge percentage of national wealth, similar to the strategies used in the USSR.⁷ A planning apparatus was set up to oversee the development of Five Year Plans. A ministerial system was adopted for the oversight of industrial and agricultural sectors of the economy and for the enterprises and collectives charged with 'realizing' the plans. The officially stated goal of the Party was for China to overtake the UK and catch up with the USA (Lin et al. 2003: 39). It had to radically distort the economic system to do so. It could not extract much wealth from the peasantry in the form of taxation, so the PRC leadership decided to lower the cost of developing industry by setting the lowest possible interest rates, paying the lowest possible wages for labour and the lowest possible prices for inputs, such as electric power and raw materials (Lin et al. 2003: 40–42). Under the plan targets, domestic consumption was kept extremely low, perpetuating low living standards (Naughton 2007: 56). All industrial workers were placed on a national income scale of 8 bands, with average wages estimated as equivalent to around US\$200 per year (Lin et al. 2003: 43). Prices were fixed for all goods at very low levels, which resulted in high demand for these products but little incentive to produce them. Demand outpaced supply and shortage was constant for many goods, a problem common to state socialist models (Lin et al. 2003: 46). Under a market economy shortage would be expected to push prices back up, but this cannot be allowed to happen under state socialism where the 'immiserating' capitalist system had been supposedly abolished. In other words, markets cannot be allowed to set prices and distribute goods because this would constitute profiteering and exploitation. Instead, the command-administrative system or planned economy is introduced to act *in place of* markets.

Despite some dreadful inefficiencies the system did achieve impressive growth, averaging annual growth rates of around 4.2% GNP per capita between 1950–75 (Brandt and Rawski 2008: 5).

⁷ Soviet technical advisors were invited to China and played a significant role in building China's emulation of the Stalinist growth model and the transfer of technology (Brandt and Rawski 2008: 4; Naughton 2007: 354).

Macro-level improvements in life expectancy and living standards were significant (Brandt and Rawski 2008: 5) even when taking into account the disasters of the 'Great Leap Forward' (see below).⁸ Banks were nationalized between 1949–52 and the People's Bank of China was formed as a 'monobanking' system that controlled all major financial flows in the economy but acted in a 'passive' fashion, with finance part of a system of control embedded within the goals of realizing the plan, 'rather than to independently influence resource allocation flows' (Knight and Ding 2012: 41; Naughton 2007: 61).

The system, however, was not as strongly centralized as the USSR version it was modelled on. This meant a more significant role for local planning administrators and comparatively less power for central planning and the economic ministries (a feature that became important as the system started to reform, see below). Small industrial enterprises were also more important than in the USSR. The PRC lacked the major transport and communication infrastructure of the USSR and the nation was economically less developed than the Soviet Union. The PRC launched many Stalinist-type 'showpiece' industrial projects, but these were implanted on top of a largely agrarian and fragmented economy. Industrial enterprises were given very little managerial autonomy (Naughton 2007: 61). Maoism was also associated with rigid political and cultural controls, including heavily ideologically-driven policies such as the 'sending down' of party cadres from cities 'to the countryside' for little economic purpose (Brandt and Rawski 2008: 7). There were no real labour markets in Mao's China – instead citizens were appointed to jobs through the *nomenklatura* system.

In spite of its obvious weaknesses the system did lead to major improvements for several social strata. Urban dwellers had access to a form of Soviet-style industrial modernity, including guaranteed employment security (often given the epithet 'the iron rice bowl') in a rather extreme form of paternalistic employment found in SOEs. Industrial enterprises were known as *danwei* or 'work unit', and employment was less a selling of labour in a business organization, and more a membership of a society. The industrial enterprise (as *danwei*) was envisaged as the microcosm of socialist society, where all workers had jobs for life and received important fringe benefits for themselves and their dependents, such as cheap or free healthcare, childcare, housing, schooling and vacations (again clearly modelled on the *sotskultbyt* of the Soviet enterprise, see Chapter 8). There were no independent trade unions to

⁸ A famous policy that highlights the populist, pragmatic, cheap but sometimes effective approach of Maoism was the introduction of rural paramedics known as 'barefoot doctors' (Naughton 2007: 244–245).

represent workers. Although in theory able to protest and even go on strike, unions were administered by the Party and had little power to resist enterprise management. In theory they should never have the need to. Instead the unions' role was to act as the 'transmission belt' of cultural and political values from the Party to the workers, and to administer and distribute fringe benefits to workers. Walder (1986) famously described employment relations in China as 'communist neo-traditionalism' suggesting that the Chinese version of state socialism was quite well matched with the traditional cultural values of patrimonialism, 'harmony', communitarian relations and paternalism that are emphasized by many writers on China (Hwang 1987; Redding and Witt 2007: 86–87). While most studies of China portray the mass of industrial workers in a completely passive or even invisible role, others point to widespread opposition and conflict between the interests of workers and the state that was supposed to represent them (Sheehan 1998).

In any case contradictions were built into the system that limited its prospects for sustained growth without reform. According to critics such as Lin et al. (2003: 29) the policy of capital-intensive, heavy industrial growth clashed with the reality of the low levels of capital available for investment. Everything was subordinated to a bold vision of state socialism; with 'crash' industrialization and militarization placed top of the agenda. Management of enterprises was often conducted in military fashion and in some cases actually run by military commanders (Naughton 2007: 76). 'Realizing the plan' was the number one target and managerial discretion was minimal.

The replication of much of the Stalinist strategies meant that output grew hugely but at tremendous personal cost to workers and citizens. Living standards rose slowly as wages were kept low and consumer products were largely unavailable as the building of heavy industry was set as the regime's prime objective. Meanwhile the economies of Hong Kong, Singapore and Taiwan pressed ahead, causing much consternation. (In some way these much smaller Asian regions became the model for China's reforms at the end of the 1970s.) There were many complex power struggles at central and local levels of China's political leadership. Mao is often described as unpredictable and 'eccentric' (Spence 1999). Policy changes were common, leading to a 'surge and slump' pattern of industrial output as norms and inputs fluctuated according to political manoeuvrings (see Figure 10.1). Lin et al. (2003: xxxi) name this the 'vigour/chaos cycle' – a volatile and irrational situation that made effective planning for sustainable economic development very difficult. Policymaking procedures were shrouded in secrecy, corruption and a lack of clarity (problems that persist to a large extent to this day).

The opening years of the first Five Year Plan (up to 1953) were broadly successful and – not unlike Lenin's New Economic Policy in

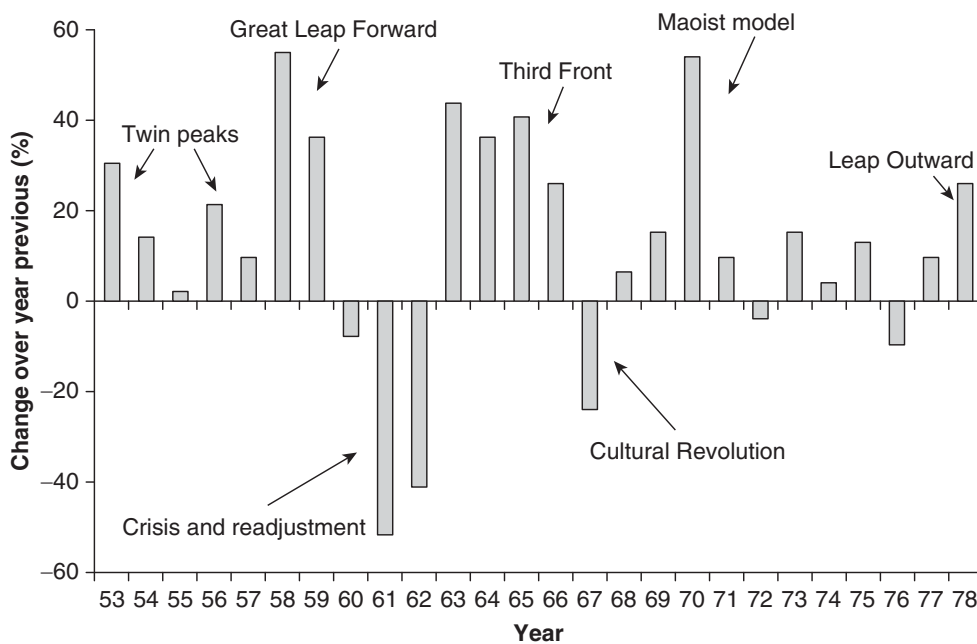


Figure 10.1 'Leaps' and crises in Chinese Growth

Source: Naughton 2007: 63. By permission of the MIT Press.

the early days of the Soviet economy – involved private business and a mixed economy. In its later period, however, the first Five Year Plan took a more totalitarian turn, with the period officially labelled as 'the high tide of socialism' (Naughton 2007: 67). During this time Mao pressed on with agricultural collectivization and private ownership of business became 'extinguished'.

The level of state control over the economy waned again in 1956–7 with some elements of markets again tolerated under the so-called 'Hundred Flowers' movement, a development that perhaps prefigured some of the reforms initiated in 1978 (Naughton 2007: 68). Then disaster struck. Apparently frustrated by what he perceived to be slow progress, Mao initiated a sudden change of policy, known as the 'Great Leap Forward' designed to further accelerate the crash industrialization programme and result in a quantum leap towards 'full' communism. This involved curtailing agricultural land use in order to produce cotton crops for export to fund further industrialization. The tragic result was a mass famine in the years 1959–61. Estimates often put the sum total of people killed by famine at 30 million (Johnson 2002: 151; Lin et al. 2003: 58).

Political repression became more severe. Around 800,000 citizens were condemned for their support for the 'Hundred Flowers' era and were imprisoned, accused of being 'Rightists', that is, too sympathetic to capitalism. This ugly episode is similar to the worst kinds of Stalinist paranoia and self-destructiveness. The leadership of the USSR appeared

to be concerned. Soviet industrial experts were withdrawn during the period and relations between China and the USSR started to worsen, culminating in the 'Sino-Soviet split'. Mao, upset by Khrushchev's criticism of Stalinism, labelled him a 'deviationist' and came to believe that the USSR would not support China if the Cold War degenerated into an actual war. It did not help that the USSR sided with India in the (luckily very brief) Sino-Indian war of 1962. Further turbulence was to follow as Mao opened the so-called 'Third Front' to try to enhance the industrial capacity of China's more inland regions, partly out of fear of worsening international relations given the USA's deepening involvement in the Vietnam conflict. Another grave episode of political disruption occurred known as the 'Cultural Revolution' of 1967–9, an era of political purges, again involving mass denunciations and arrests. Historical analyses differ on the extent and importance of this episode, with most of the mainstream Western literature regarding it as a violent attempt by Mao to re-assert his power after the failures of the 'Great Leap', marginalizing criticism by surrounding himself with obsequious supporters – a typical 'totalitarian' power move. Others see the period more as a brief era where control was loosened to such a degree that dissent and discussion in the authoritarian system was finally allowed to appear, with much of the conflict surrounding the critical issue of who has the power to organize and run industrial enterprises (an issue that again survives in some form today [Sheehan 1998]).

In common with state socialist systems, Maoism generated considerable industrial growth at macro-level at the expense of instituting severe distortion and lack of efficiency at the micro-level (Lin et al 2003: 69). As in Five Year Plan USSR there are numerous fables of inappropriate incentives and perverse outcomes, such as factory directors deliberately turning out extremely heavy road vehicles because they were being monitored to hit output targets based on tonnage rather than quality (Kotkin 1997: 63, 64–65). There was widespread falsification and 'gaming' of the target system. As quality was sacrificed in the race to hit output targets, the 'output' was often defective meaning the target-driven planning system was actually counterproductive for the goal of rapid industrialization. The 'customer' (in reality other parts of the command economy) could not return the items, withhold payment or look elsewhere if it was unhappy with the product as supplied, so producers had insufficient incentive to focus on quality. It was quite common for defects to arise, such as cracks in steel production, but the order would be shipped regardless. Chinese and Soviet systems of industrial target-setting are often cited as prominent examples of 'goals gone wild' (Ordóñez et al. 2009); in that the targets themselves (rather than the production outcomes that the targets are supposed to encourage) become the goal for action. Managers resolve to hit the targets at any cost, even if doing so perverts, distorts and defeats the broader principles.

Many extend this argument to the nature of the state socialist employment relation. Lin et al. (2003: 70) argue that the planning apparatus not only gave enterprises no incentive to work efficiently but in addition the rigid national wage structure gave workers no incentive to work hard. They note 'widespread free-riding' (Lin et al. 2003: 88). Brandt and Rawski use the term 'shirking' (2008: 6). While there are clear elements of truth to this picture, it ignores the real and symbolic importance of the *danwei* for its members. The provision of meaningful and secure employment gave people something to believe in and created (at least in urban areas) secure and improving socio-economic status for urban workers and very low levels of income inequality. Today one can obviously criticise the deep unpleasantness of Maoist political intrigue, the totalitarian cultural control, violence, and sidelining of dissent, but Mao also oversaw a major socio-economic development of his nation, which clearly engendered solidarity and a strong national mission for some. Annual investment in industrial development hit a rate of around 25% of GDP with 11% widely understood as the minimum required for self-sustaining growth (Lin 1995: 275). As Table 10.1 indicates, even with the dysfunctionality of the system and the horrors of the Great Leap Forward, Chinese economy grew substantially during the first series of Five Year Plans.

Table 10.1 Economic results of the Five Year Plans

| | Output value of industry and agriculture | GDP | National income |
|------------|---|------|-----------------|
| First FYP | 10.9 | 9.1 | 8.9 |
| Second FYP | 0.6 | -2.2 | -3.1 |
| 1963-5 | 15.7 | 14.9 | 14.7 |
| Third FYP | 9.6 | 6.9 | 8.3 |
| Fourth FYP | 7.8 | 5.5 | 5.5 |
| 1976-8 | 8.0 | 5.8 | 5.6 |
| 1953-78 | 8.2 | 6.0 | 6.0 |

Source: National Bureau of Statistics of China, as quoted in Lin et al (2003: 71)

The Maoist system eventually matured. Recovering from the turbulence of the Great Leap and the Cultural Revolution, from 1953-78 the economy continued to grow swiftly, posting average GDP growth rates of 6%, higher than world average and slightly lower than South Korean and Taiwanese rates (Lin et al. 2003: 70). Brandt and Rawski (2008: 5) put the average figure for GDP per capita growth around this period at 4.2% per annum, outpacing nations such as Brazil, Egypt,

India, Indonesia, and Mexico. After some horrific errors, China, like the USSR, had eventually laid the basis for an industrialized society. Life expectancy at birth had risen from perhaps as low as 30 in the early 20th century to approximately 50 in 1957 and then 60 in the mid-1960s and 1970s (Naughton 2007: 82). School enrolments increased dramatically. By 1978, the proportion of the population that had not completed primary school fell to 40%, down from 74% in 1952 (Brandt and Rawski 2008: 5). By 1978, industry accounted for 46.8% of total national income, up from just 12.6% in 1949 (Lin et al. 2003: 70–71). One major weakness – as with the USSR – was extremely low levels of GDP per capita – in other words the working class were largely impoverished in the so-called workers' state. While basic provisions were increasingly provided for under the modernization drive (free education and health, guaranteed employment and fixed wages for urban citizens) (Knight and Ding 2012: 43) general living standards were low, and wages were very low meaning few domestic savings and no broader base for further growth. Estimates of Chinese GDP per capita in 1977 were US\$220 *per year* (Lin et al. 2003: 72). Household consumption grew only 2.3% annually between 1952–78 (Naughton 2007: 80).

Another problem common to state socialist systems was the chronic underutilization of labour. Even as the structure of the whole economy moved rapidly towards industry, as much as 73.3% of the labour force continued to work in agriculture by 1978 (Lin et al. 2003: 76). Even given the very inefficient overstaffing of SOEs, the Chinese planned economy could not provide enough industrial capacity for full employment. In retrospect the Maoist system's enthusiasm for heavy industry made for a lopsided and unsustainable macroeconomy. There were insufficient places to allocate the industrial labour force, which remained small. Complex, and advanced, industrial plants were underused meaning a very limited return on the large amounts of capital outlaid to build them. Moreover, Mao's autarkic approach and the Cold War hostility between communist and capitalist systems left few opportunities for international trade. At this stage the PRC was an inward-looking economy of broadly Soviet-type, but was considerably weaker than that of the USSR.

Interestingly, however, by being a weaker version of the USSR the country was perhaps less committed to Soviet industrial ideology and ultimately it proved to be more pragmatic and adaptable. It moved towards major reforms in 1978 – much earlier than in the USSR when the system there had by that time stagnated and seemed incapable of reform. (While Chinese reforms have proven to be hugely successful, Gorbachev's attempts to reform the USSR came too late to save it from collapse, see Chapter 8.) Ironically, the wider and deeper success of the

USSR led to the entrenchment of a system that went on to fail. China's inability to pursue this model as successfully as it aimed to perhaps ultimately turned out to be a blessing in disguise.

Mao died in September 1976. He is often vilified in Western nations, with some writers portraying him as a totalitarian dictator fond of political terror and forced labour camps, a 'monster' to be compared to Stalin and Hitler (Chang and Halliday 2005: 338). This view is very much disputed, with Chang and Halliday's portrayal of Mao particularly hysterical and often inaccurate (Benton and Chun 2010). He remains 'a revered figure for many' in China for the central role he played in the restoration of China's international status (Redding and Witt 2007: 47). Today 'Mao is inseparable from China's national and social progress, with which most Chinese identify, and with China's delivery from semicolonialism and backwardness' (Benton and Chun 2010: 2). But upon Mao's death in 1976 there was also widespread understanding that the system he was instrumental in building contained severe weaknesses and was in need of reform.

Experimenting with markets and globalization: Deng Xiaoping's 'reform and opening-up'

With the benefit of hindsight the Third Plenum of the Eleventh Communist Party of China Central Committee, held in December 1978, appears as significant for China's future as the revolutions of 1911 and 1949 (Goodman 1994: 90). It marks the beginning of the substantial (and largely very successful) economic reforms that continue to shape China to this day. At first gradual, then increasingly radical, reform affected almost all areas of Chinese society: the domestic political system, foreign affairs and critically the economy.

The changes were spearheaded by the new General Secretary of the Communist Party Central Committee, Deng Xiaoping (1904–97). A former Cultural Revolution victim, he eventually provided a 'final rejection' of such policies, rehabilitating other political figures who had also been cast out (Goodman 1994: 91, 97). He advocated more open and less wilful governance of the Party. Famously pragmatic, many idioms have been attributed to Deng, such as 'crossing the river by groping for stones'. Deng and other members of the senior CPC leadership were instrumental in beginning what became known as the 'Open Door' or 'reform and opening-up' policies.

This entailed much better international relations, including negotiating the eventual return of Hong Kong from UK to China in 1997, improving relations with the rapidly growing east Asian powers, and

repairing some of the damage to the relationship with the (soon to collapse) USSR. The CPC nevertheless persisted with authoritarian political and cultural controls, insisting that a state-driven technocratic approach was appropriate and more effective than markets. The official line was pro-reform (including opening to international trade and inward investment) but also broadly against political and cultural 'pollution' that may come from overseas interactions (Goodman 1994: 101). Face-saving slogans emerged such as 'socialism with Chinese characteristics' to refer to the new socio-economic order, or, in relation to the reincorporation of a free-market, globalized Hong Kong into socialist China 'one country, two systems' (Goodman 1994: 100–101).

The first major economic changes took place in the countryside (Brandt and Rawski 2008: 9; Naughton 2007). Farmers had long borne the brunt of the Big Push industrialization policy in that the state purchased from collective farms at extremely low prices in order to divert funds into urban industrialization. New policies were experimented with that gradually introduced market elements into the countryside. Initial results were encouraging and fairly soon the radical policy of contracting agricultural land to farm households – effectively a form of partial privatization – took hold. To save face ideologically, the new contracts also stipulated that collectives had to continue to provide a certain amount of grain very cheaply or free to the state. While politically controversial, it was difficult to question their economic success. Rural efficiency grew, leading to massively increased grain output and even improved rural nutrition levels. Rural industry also recovered, as the increasingly efficient use of work time allowed parts of the agrarian population to turn their attentions to industrial development (Naughton 2007: 90). Township and village enterprises (TVEs) emerged rapidly in the years 1978–96 (Naughton 2007: 271–275). TVEs, originally rural communes with little scope for engaging in non-plan activity in earlier years of the command economy, after 1979 evolved into competitive small enterprises although technically still classed as 'collectives'. Up until 1988 it was still illegal for private firms to employ more than eight persons (Bardhan 2010: 80).

A system of 'dual pricing' was introduced which allowed markets and plan to awkwardly coexist; market prices and incentives existed for production over and above the plan quota, while the command economy still dictated prices, output and behaviour for the majority of the enterprise's activity (Brandt and Rawski 2008: 10; Knight and Ding 2012: 47). The process of post-Mao consolidation and readjustment was 'spectacularly successful' up until 1984 (Goodman 1994: 90), suggesting that it is possible for reforms that 'muddle along' to be successful, and that radical or wrenching change is not always appropriate or likely to

succeed. This view is consistent with concepts of institutional theory and path-dependence, in that reforms have to work with the pre-existing institutional and cultural formations that structure what is possible for economic action. Over time China was 'growing out of the plan' (Naughton 2007: 92–93) without recourse to 'shock therapy' or other forms of radical change associated (rather tragically) with the former Soviet territories and Eastern Europe.

The CPC leadership believed that strategies similar to those used in the countryside could be applied to industry and services (Naughton 2007: 90). In policy switches that to some extent prefigured Gorbachev's *glasnost* and *perestroika* reforms in the USSR (see Chapter 8), directors of state-owned enterprises were given more autonomy, and incentives were gradually changed in the direction of allowing enterprises to make and retain profits (Lin et al. 2003: 215). The planning system became less prominent. Deng's government realized that the 'over-bureaucratized state machinery was simply not up to running the production process in a modernizing economy in a flexible way' (Goodman 1994: 93). Other forms of macroeconomic reform dramatically opened up China to world trade, in a controlled fashion at first, then in increasingly liberal ways. 'Special economic zones' (SEZs) were established in Guangdong and Fujian provinces (close to the dynamic international markets of Hong Kong and Taiwan), where low tax regimes were established to encourage domestic and international manufacturers.⁹

Deng's reforms led to economic growth at large and set the tone for further liberalization and market-driven change. But they also created conflict and pressures for retrenchment, particularly from urban workers hitherto protected by the institutions of the *danwei*. The Party was concerned about urban labour unrest, especially in light of the emergence of Solidarity, the genuinely independent workers' movement in state socialist Poland. Deng even removed workers' right to strike from the constitution in 1982 (Sheehan 1998: 155). The opening stages of reform were cautious, but from the mid-1990s onwards the reforms picked up pace, became more dynamic and more likely to produce obvious winners and losers (Naughton 2007: 90–91). In 1992, at the 14th Congress of the Party, the phrase 'socialist market economy' was officially adopted as formal policy (Naughton 2007: 100). Deng retired from the scene at this point, and more recent reforms have tended to be bolder and more obviously market-driven, including dramatic downsizing of state-owned industry (Knight and Ding 2012: 38).

Although many authors claim that China had no real 'model' in mind and was instead 'groping' along pragmatically, as time goes on it appears

⁹ Further SEZs were later established on Hainan island and in Xianjiang.

that certain elements of Chinese reforms do appear 'modelled' on the East Asian nations that grew rapidly in the 1970s and 1980s, such as Singapore under Lee Kuan Yew, or even on 'Japanese-style state-guided capitalism' (Johnson 2002: 149). As the various policies evolved, parts of the Chinese economy began to look not dissimilar from those resulting from South Korean 'late industrialization' or 'developmental state' practices, as large group company structures were formed in China with very close ties to the (non-democratic) government (Amsden 1989). As China grows and marketizes there seems to be a tacit stress on development as nationalism – as a renewed Chinese developmental mission – in place of the prior Maoist rhetoric of development as part of the project of world communism (Johnson 2002: 151).

China's reforms also feature massive expansion of international economic activity. Inward investment into the PRC has been very considerable since the late 1970s. Annual flows of FDI into China have grown from around US\$72 billion in 2005 to over US\$100 billion in 2010, and the total stock of FDI to date reached US\$578.8 billion in 2011, massively exceeding the flows into former Soviet regions (UNCTAD 2011: 193). FDI has come in the form of joint ventures of Chinese enterprises with international capital, the setting up of wholly owned subsidiaries of overseas corporations, or (largest of all) investment into mainland China from the population of approximately 55 million overseas Chinese (from Taiwan, Singapore, Macao and elsewhere). As in Russia, foreign investment in the form of joint ventures with foreign partners has often failed due to insufficient trust and lack of clarity, and the absence of adequate protection for overseas investors who often lose out in complex political games (Huang 2005). Wholly owned subsidiaries have tended to perform much better. Many of the factories set up in SEZs are wholly owned by overseas Chinese entrepreneurs who are not concerned with entering any 'partnership' or joint operation with Chinese businesses or authorities. Instead they are attracted to Guangdong and Fujian provinces by low tax rates and a cheap and docile labour force which they control tightly under strict labour-management principles.

China has internationalized, but it has done it to a large extent on its own terms (McCann and Schwartz 2006: 1348). It has been very careful about removing currency controls, and has maintained many forms of import barriers (although these have been progressively reduced from around 38% in 1993 to 9% in 2001 [Knight and Ding 2012: 288]). China has emerged as the low-cost export 'factory of the world', with items 'made in China' dominating consumer products from electronics, automotive parts, furniture, clothing and thousands of everyday household items. China now accounts for about 20% of total world manufacturing

output,¹⁰ although its focus on ruthless cost-cutting to secure contracts has tended to keep Chinese manufacturing locked in to only the simplest and cheapest forms of production with near-zero innovation or research-led input (Steinfeld 2004).

Johnson suggests (2002: 154) that the Chinese leadership views authoritarian rule as 'indispensable' to the project of national growth. Most Chinese citizens seem to accept this, or at least accommodate

Exhibit 10.2 Chalmers Johnson on 'soft authoritarianism' and 'soft totalitarianism'

Political scientist and former CIA analyst Chalmers Johnson wrote prolifically and often provocatively on East Asian economic models and on US military and diplomatic power. His writings tend to emphasize the importance of state power in economic matters, and here he provides his own interpretation of the Chinese economic model, explaining why China has managed to generate economic growth while at the same time refusing to give up on the one-party state political model.

In some ways this approach has some connection to Putin's Russia after the extreme turbulence of the Yeltsin era (see Chapter 8). Such an authoritarian model has many obvious limitations, but has a proven track record in purely economic and infrastructural terms (see South Korea, Japan, Singapore). How long such a model will persist perhaps depends on the speed at which wealth is distributed among the population; there is a strong expectation (especially held by Western writers) that a wealthier population will want a more open society, with a genuinely democratic political system, much less narrow forms of education, less censorship and control, and in general more scope for individuals to exercise their own choices.

'All of the Asian capitalist developmental states have been characterized by what I call "soft authoritarian" governments. Democracy – understood as a political system in which the force of public opinion makes a difference, a balance of powers exists within the government [...], and free elections can actually remove unsatisfactory officials – exists only partially in Japan, South Korea, and Taiwan, thanks to the pervasive, potent influence of unelected bureaucrats. [...] If the government of Japan and its emulator states – South Korea, Taiwan, and even Singapore – can be characterized as soft authoritarian, at least during their decades of high-speed economic growth, then China may be an example of 'soft totalitarianism', on a par with governments like Suharto's in Indonesia or Chiang Kai-Shek's in Taiwan, and considerably softer than the truly totalitarian worlds of Hitler, Stalin, and Mao.'

'A soft totalitarian regime directly restricts freedoms of speech and press, thereby curbing the effect of public opinion on the government. Under soft authoritarianism

(Continued)

¹⁰ 'The End of Cheap China', *The Economist*, 10 March 2012.

Exhibit 10.2 (Continued)

(as in Japan, for example), such freedoms exist on paper but are attenuated in part by cartelization of the news media [...]. The public is better informed in soft authoritarian countries [...] but public opinion remains only a mild constraint on the government. Whereas a soft totalitarian state will employ direct suppression of offending books, imprisonment of authors, state control of Internet servers, and dismissal or imprisonment of dissidents, soft authoritarianism achieves its ends through peer pressure, bullying, fear of ostracism, giving priority to group norms, and eliciting conformity through social sanctions of various kinds. Under both kinds of regimes, elections are usually to one degree or another only formalities, behind which permanent state officialdoms actually govern.'

Source: Johnson 2002: 155–6. By permission of Little, Brown Book Group

themselves to this in a 'grand but unspoken bargain' between the CPC and the vast majority of its citizens (Brandt and Rawski 2008: 17). Once again it appears that simplistic claims of the 'superiority' or 'necessity' of Western-style globalization are not plausible. It appears that democracy, free markets, globalization and growth do not all have to exist together in order for development to take place.

Given the above, the Deng era appears as an 'unbalanced combination of vigorous economic reforms and relative political stagnation' (Naughton 2007: 100). A cautious, pragmatic, and gradual approach to reform is therefore understandable. Although this typical characterization of China's reforms as 'gradual' (Knight and Ding 2012: 45; Naughton 2007: 86–88) is broadly correct at a macro-level, the word 'gradual' does not sensibly capture the magnitude and velocity of change as felt by ordinary people. More subjective, more sociological accounts of China capture this reality more appropriately. Hsing (2010) writes very persuasively about China's cities as the new battlegrounds where the current contests about citizenship and representation, wealth and prosperity will be played out. Hsu (2007) discusses the enormous social changes associated with the rise of market socialism, especially the steady collapse of old state socialist status hierarchies such as solidarity and party discipline and their replacement with new forms of social legitimacy for markets and commerce. A significant stratum of 'new rich' has emerged (although probably amounting to less than 4% of the population [Goodman and Zang 2008: 12]). While at the meso/macro-level the authoritarian (or even 'soft totalitarian') Communist Party administers a rigid set of institutions designed to manage and control the movement of China towards 'state capitalism', all kinds of reactions and changes are taking place at more micro-levels. This remains very much true today, as the development of China's capitalism continues to gather pace.

China today: winners and losers in 'market socialism'

From the mid-1990s 'gradualism' and experimentation gave way to faster and more explicit moves towards markets and capitalism (but still not multi-party democracy). The most dramatic forms of economic growth appeared in China's coastal regions due to their rapid incorporation into overseas trade and investment. These cities have attracted migrant workers from across the Chinese landmass to work in export-oriented factories. Although the hours are long and the work exhausting, the pay is considerably better than that available in the less-developed interior. A proportion of these wages are sent back to workers' families in the countryside. Internal migrants are often employed according to seasonal demand and have to be housed in company-owned dormitories.

TVEs were effectively privatized in 1995–6 and most are now private SMEs in all but name (Huang 2008, 2010). The terms of state credit extended to them were toughened and many TVEs went bankrupt or changed ownership. Their exposure to market forces encouraged them to behave more aggressively, in turn pushing SOEs into competition that they were ill-prepared for. TVEs became highly cost-competitive, paying very low wages, often undercutting and outperforming SOEs (Naughton 2007: 275). In 1994, the Party announced the policy of 'seizing the large and letting go the small' (Cai et al. 2008: 17) meaning that the state would no longer promise to support the vast majority of SOEs which from then on would also be left to sink or swim in marketized waters.

Much of the SOE sector had been wading into financial trouble for years, using favourable state loans and informal political connections to help them tread water. But the planning mechanism was becoming less central to the economy, and many industrial enterprises found their debts to state banks increasingly unpayable (constituting the major part of China's very large non-performing loans problem). The biggest dilemma concerned what to do with the 'surplus labour problem' (Hassard et al. 2006). The Maoist approach to labour management was to overstaff SOEs in order to contribute to full employment, but as the command system was being overwhelmed by markets, this situation was no longer tenable. With a narrow product mix of low-grade, inefficiently produced goods, yet relatively higher wages and better terms and conditions of employment, the worst performing SOEs were in a false and precarious position – a kind of 'labour aristocracy' lacking the sales income or profits to support their traditionally high status. Dealing with this delicate political issue had been put off for decades as SOE closure or downsizing was expected to cause major unemployment and to totally undermine the Party's collectivist ideology (Cai

et al. 2008: 208). Nevertheless, SOE restructuring has continued at a brisk pace since the mid 1990s, with annual *danwei* job losses amounting to an estimated ten million *per year* and an estimated total surplus of 54 million jobs (Johnson 2002: 159; Sheehan et al. 2000: 487–488).

Fortunately for China and the Party, growth of the private sector has been so far sufficient to provide jobs for millions of laid-off former SOE workers. The command economy was becoming irrelevant or non-existent by the mid 1990s and much of the SOE sector became exhausted 'zombie enterprises' propped up by soft government loans and acting as a drain on public funds. The rate at which jobs were shed in the once-proud SOE sector accelerated rapidly in the mid 1990s onwards.

While many SOEs fell into bankruptcy, others were reformed to become 'Modern Enterprises' and eventually sold off to new investors (Hassard et al. 2006). The state has kept ownership and control over the more fortunate firms (those of strategic importance such as steel, energy, arms and banks). Through the 'Group Company System' reforms, the Party aimed to merge the most viable state owned enterprises into major group companies, possibly with the model of Korean chaebols or Japanese-style corporate groups in mind. 'China hopes to forge its own versions of Mitsubishi, Sumitomo, Daewoo and Samsung' (Johnson 2002: 160–161). This is effectively a 'national champions' policy. The next logical step for these companies is to operate them along the lines of major multinationals operating 'world best practice' corporate forms. Firms of this nature are starting to become visible in international ranking lists such as the *Fortune* Global 500. So far all of these are government-owned 'crown jewels' such as Sinopec (5th largest corporation in the world), China National Petroleum (6th) and State Grid (7th).¹¹

Although these developments are eye-catching, perhaps more important is the growth of private domestic start-ups, which constitute an ever-greater proportion of Chinese GDP (Yergin and Stanislaw 2002: 209). There are now a number of famous examples, such as the soft drinks company Wahaha, whose founder Zong Qinghou is reportedly China's richest man.¹² In the 19th-century West it was industrialists such as Arkwright and Carnegie who became household names. In post-Mao China major private business empires are starting to be built around consumer goods because steel, railways and investment banking are still largely state-only concerns. Many private start-ups are located in or around the SEZs, to take advantage of cheap labour costs and the

¹¹ *Forbes* Global 500, 2012, available at: http://money.cnn.com/magazines/fortune/global500/2012/full_list/.

¹² 'From Popsicle Maker to Beverage Billionaire, China's Richest Man', *International Herald Tribune*, 1 October 2012.

sheer scale of the distribution chains established in this region (Midler 2009). Chinese mainland entrepreneur-owned firms compete for business with the overseas Chinese-owned export production companies.

The rise in entrepreneurial activity and the opening of markets represent obvious and fundamental changes to the political economy of China. To what extent do ordinary people accept the changes? There is some research claiming that a new social discourse is emerging in which the traditions of the state-driven approach is being subtly delegitimized, being replaced by notions of private enterprise and the generation of family wealth. Hsu (2007) and Hanser (2008) have both conducted similar anthropological research in the city of Harbin, once a heartland of Maoist industrialism, but now occupying an uncertain role as the reforms advance. With state-run industry being replaced by private services and consumption, citizens were 'negotiating a world in flux, with few stable institutions' (Hsu 2007: 80). Social solidarity seems to be disappearing and the social safety net of the *danwei* seems a thing of the past. People were worried about instability, but also described the reforms as a largely popular and inevitable process. Things have broadly improved and there is no turning back. The Maoist model of state socialism thus becomes delegitimized by its association with poverty and exhaustion (Hanser 2008: 4), even replicating post-industrial trends in the USA, in which blue-collar, unionized, heavy industry are 'characterized as possessing an "obsolete" set of cultural values' (Hanser 2008: 15; see also Chapter 3).

A government official interviewed by Hsu describes it this way:

After going through this short time of pain, things can get better. But if everyone just eats out of that big pot of rice, nothing ever gets better, everyone stays poor, that's long-term pain. ... In the past, in our work-units, it would be like this.

And a college professor suggests:

Now whatever you're thinking of, you're thinking of how to make yourself wealthier, not caring about what the policies are. And this includes those who are supposed to be policy makers. Like if you ask people now, what is the policy about this or that, even if you ask professors, they'll say, I don't care. It's none of my business. My deal is to figure out how to make a little more money. (Hsu 2007: 120)

Such views may be common among middle-class professionals in China. For rural to urban migrants, or for former SOE workers in 'third front' industrial heartlands who have lost jobs and benefits that were promised to them for life (Hassard et al. 2006) the picture is likely to be bleaker.

A New Labour Law came into effect on 1 January 1995, giving further impetus to these radical changes. On one level the law was designed to speed up SOE restructuring, as it contains 'no fault dismissal' provisions making it legal for employers to fire workers for purely economic reasons (Cai et al. 2008: 173–174). Employee rights were also enshrined in the new law (such as a 40-hour work week, and an 8-hour work day) but such regulations are systematically ignored in practice (see below). As the *danwei* is downsized or 'corporatized' according to the policy aims of the Modern Enterprise System or the Group Company System (Hassard et al. 2006), the very promise of social welfare is threatened. There is little identifiable 'socialism' remaining (Naughton 2007: 202–206) as the SOE-based welfare system unravels. The government officially scrapped its guarantee of employment for urban state workers in 2003 – at the time it applied to around 30 million employees, who would have to adjust to the risks and uncertainties of market-driven employment relations.¹³ Citizens have few forms of welfare to fall back on, as government spending on public services is low by OECD standards, for example just 1.8% of GDP on healthcare in 2004 (Lo 2009: 111). Efforts are afoot to encourage the liberalization of private insurance plans. The risks and burdens of social security are therefore progressively forced from the enterprise to local government, then eventually onto the shoulders of citizens themselves (Hassard et al. 2006). Most of the available welfare in China (especially in rural areas) is now user-charge financed (Bardhan 2010: 16).

Meanwhile the cost of urban labour is undercut by the millions of internal migrants 'floating' in China, many of whom work in a 'shadow' economy, which is semi-registered, semi-legal and very vulnerable to exploitation (Cai et al. 2008: 208; Knight and Ding 2012: 38). Parts of every Chinese city now feature capitalism operating in 'raw' and unregulated form. This poorly paid, poorly trained and under-protected labour force includes factory workers in special economic zones manufacturing items for export, or 'shadow economy' low-paid, low-skill service work such as domestic housekeepers (*baomu*) for richer urban inhabitants (Cooke 2006). Under such conditions the Gini coefficient for urban workers 'rose from 0.24 in 1988, to 0.33 in 1995 and to 0.37 in 2002' (Knight and Ding 2012: 38). Nationally, in 1978 on the eve of reforms Gini in the PRC was estimated at 0.22. By 2007, it had increased to 0.496 (Goodman and Zang 2008: 2).

The reforms have unleashed market forces but the Party continues to try to control them where possible. An important manifestation of this is the maintenance of the *hukou* system of permanent residential registrations, a clear restraint on the free movement of labour. Initially an

¹³ 'China Scraps Jobs Guarantee', *BBC News*, 7 January 2003.

instrument of the command economy to administer the centralized allocation of employment, it officially inscribes citizens as either 'urban' or 'rural' workers (Cai et al. 2008: 173). Its use has adjusted to the slow demise of the command economy – today it limits the prospects of mass, uncontrolled migration to the cities and the predicted rise of overpopulated, 'slum' accommodation.

Contemporary China is a combination of many 'models' and 'systems', a mixed economy of state, private and semi-state (such as collectives and TVEs) actors. Competition for policy models plays out at senior levels of the Party apparatus, as local Party bosses hope to promote their status in the hierarchy by demonstrating the success of political-economic systems operating in each of their regions (Brandt and Rawski 2008: 17). Among the most high profile is 'the Shanghai model' (based around the growth of powerful 'group company' SOEs). This is set against the equally important example of 'the Guangdong model' (of SEZs and expansive market globalism) (Redding and Witt 2007: 222).

Meanwhile another famous example is the so-called 'Chongqing model', which is often portrayed as something of a Maoist throwback. Chongqing is a large inland city of around 30 million inhabitants, some distance from the high-growth coastal regions and from the CPC centre of gravity. Its high-profile former party boss, Bo Xilai, developed a conservative model of cheap housing and an 'anti-corruption' programme harnessing the slogan 'sing red, smash black' (where red refers to the traditions of communism and 'black' the criminal economy [Ho 2012]). In a development perhaps redolent of Putinism in Russia, it was hard to disentangle the official 'security forces' from the 'gangsters' they were supposed to be targeting. Bo was touted for a time as a possible Central Committee member, but in 2012 he dramatically fell from grace in a shocking scandal involving allegations of corruption and conspiracy to murder.

Such high-profile 'local heroes' (and their children in particular) are now often referred to as 'the princelings' by Western media.¹⁴ Some estimates, for example, suggest that nine of the ten largest property companies in Shanghai are owned by the children of CPC members (Goodman and Zang 2008: 12). Such analysis implies favouritism, cronyism and clientalism at senior levels of Chinese economy and society, and thereby re-asserts the informal yet critical importance of favourable Party connections (and the Party at large) amid the seemingly inexorable growth of globalization and marketization in China. As Goodman and Zang persuasively argue, 'China's new rich are not readily separable from the Party-state as a social, political, or

¹⁴ 'Children of the Revolution', *Wall Street Journal*, 26 November 2011.

even economic force' (2008: 6). Large segments of the new rich in China are both Party members and businesspeople. Goodman and Zang (2008: 5) mention the role of 'cadre families'; families which have leveraged Party political influence to gain wealth partly through *guanxi* (China's complex, informal code of social relations and exchange networks, see Hwang 1987). A significant segment of China's new rich have benefited from 'insider privatization' that took place as SOEs were corporatized. The Party has also broadened its membership to include those who in many other contexts could be regarded as capitalists, namely China's rapidly growing class segment of professionals, financial investors and firm executives. Given the widespread turbulence of markets in the West since 2008, some Western authors have begun to defend China's so-called 'state capitalism'¹⁵ and have even used the term 'Beijing Consensus' when praising its stability and power (for a discussion and critique of this phrase, see Huang [2010]).

Whatever one makes of phrases such as 'Beijing Consensus' or 'state capitalism' it is important to note that they accurately describe only the 'commanding heights' of the economy (Yergin and Stanislaw 2002), such as strategic industries dominated by the national champion 'Group Company System' enterprises and the political jostling in the upper echelons of the Party. The base of the economy is now broadly driven by private companies operating according to market norms, and this seems to be widely accepted, legitimized and reproduced by ordinary people in their economic behaviour (Hanser 2008; Hsu 2007). China now operates multiple models. There is the China of the profitable remnants of the Maoist command economy that are strategically safe in government hands. There is the China of Party intrigue and the competition between regional and ideological policy models. But - overwhelmingly - there is now the China of rapidly liberalizing commerce: the TVEs and SMEs, the explosion in inward foreign investment and overseas trade, even the growth of a service economy and of international finance, including the Shanghai and Shenzhen stock markets, Hong Kong's historic role as a major financial market in East Asia, the 'special economic zones' and their sweatshop workforce of migrant youth.

Similar diversity exists at workplace level. There are remnants of the protected 'labour aristocracy' in the powerful state-controlled 'group companies'. But elsewhere there are strong signs of ruthless and exploitative labour management, involving poor safety levels, exhausting work and aggressive forms of management, with few avenues for employee involvement or representation. Accidents in heavy industry such as shipping and in extraction industries (especially

¹⁵ 'Special Report: State Capitalism', *The Economist*, 21 January 2012.

coalmining) are tragically common. Officially there were nearly 2,000 deaths in Chinese coalmines in 2011, a figure that is probably a substantial underestimate.¹⁶ Routine mistreatment of workers and the avoidance of and non-compliance of labour laws are well-known problems (Cooney 2007).

There is little role for employee voice and a distinct lack of workplace democracy and representation. Echoing the post-Soviet Russian experience, official unions are vestigial and newer forms of worker representation are underdeveloped, semi-legal and vulnerable. There have been some major worker protests in China, which is mostly unlike Russia where there was much less organized opposition because of the total collapse of the entire socio-economic system. Protests about illegal or undemocratic seizure of land for developers have been widespread. Hsing's research on urban China argues that cities are the new battlegrounds upon which the conflicts and power games of the next phases of China's restructuring will be played out. Given China's extremely rapid urbanization since the reforms Hsing (2010: 2–3) argues that China's reforms do not look 'gradual' to people on the ground, especially when social security has been cut back. Bitter protests in rural regions are also common.¹⁷ Many of these conflicts are near-intractable because the institutions regulating exchanges of land, property and assets are fuzzy, untrusted and poorly enforced. Much day-to-day 'business' in China is informal and non-transparent. The stock markets of Shanghai and Shenzhen are mired by insider trading. Intellectual property rights are widely disrespected meaning rampant piracy (of products such as software and film, but also industrial patents and designs or branding, logos and clothing designs, see Midler 2009).

Perhaps no element of China's recent transformation better captures this sense of flux and turmoil than China's so-called 'floating population' or internal migrants. 'An estimated one hundred million – more than the entire population of Mexico – are now adrift in China, largely migrants from the interior looking for work in rich coastal areas' (Johnson 2002: 158). Chang (2008: 24) suggests a figure of 130 million. The population is described as 'floating' as its members are not allowed to reside in cities permanently without a *hukou*, and they tend to periodically return to their families when time and money allows. Their 'floating' nature makes them very vulnerable to intimidation and exploitation.

¹⁶ 'China Coal Mine Gas Explosion Kills 19 Miners and Traps Dozens', *Guardian*, 30 August 2012.

¹⁷ 'Chinese Villagers Clash with Police in Land-Grab Protests', *Guardian* 3 April 2012.

There have been major protests over factory closures all over China (especially in the 'core' Maoist industrial regions of the Northeast), with Morris et al. (2001) suggesting that the traditional pattern on workers' 'dependence' on the traditional paternalism of the 'Shanghai model' has turned to 'defiance' as promises of secure employment and benefits are torn up. In 'Guangdong model' China, there have also been significant and widespread labour protests. A new labour law was developed in Shenzhen in 2010 in order to respond to a wave of strikes and stoppages in 2009 and 2010. The new code aims to improve industrial relations in the SEZ, stipulating an increased minimum wage of ¥1100 per month. This move was almost certainly influenced by the international outcry over the Foxconn suicides.¹⁸

Foxconn is a trading name of Hon Hai Precision Industry, a company that employs 1.3 million workers making it possibly the tenth largest employer in the world.¹⁹ Taiwanese-owned and Shenzhen-based Foxconn is one of the world's most important electronics assemblers and suppliers, acting as a subcontractor to major global brands such as Apple and Sony. The company became notorious for allegations of worker mistreatment after 14 worker suicides took place in 2010.²⁰ In a development that seems scarcely believable, Foxconn management decided to erect 'suicide nets' around its buildings to deter any further jump attempts.

This has created intense media interest, with the company eventually allowing inspections by international labour pressure groups and visits by US media corporations.²¹ The work is demanding, exhausting and extremely monotonous, and the living conditions in the company dormitories are cramped and unpleasant. But the pay is attractive to migrant workers (even after the cost of company accommodation and meals in the company canteens), with thousands of young workers appearing at recruitment days.

Smith and Pun's (2006: 1463) research into an overseas Chinese-owned electronics factory reveals a picture very similar to that at Foxconn. Dormitory-housed migrants working 84-hour weeks (12-hour shifts, 7 days per week) earning around ¥900–1000 per month (approximately US\$160, an average hourly wage of around 1.9 dollars). This was considered decent pay for the work and the region, and

¹⁸ 'Shenzhen Drafts New Drafts New Labor Law', *China Daily*, 1 September 2010.

¹⁹ 'Which Is the World's Biggest Employer', *Guardian*, 20 March 2012.

²⁰ 'Foxconn Worker Plunges to Death at China Plant: Report', Reuters, 5 November 2010.

²¹ 'A Trip to The iFactory: "Nightline" Gets an Unprecedented Glimpse Inside Apple's Chinese Core', *ABC News*, 20 February, 2012.

Exhibit 10.3 'China Wonder Electronics': working life in the Special Economic Zones

The following text is a brief extract from some important primary research into the daily reality of life and work in one of China's export-oriented Special Economic Zones. Smith and Pun gained access to 'China Wonder Electronics', a major organization that carries out subcontracted assembly work for global electronics multinationals. Many of the workers are internal migrants that are housed in nearby company dormitories, and Smith and Pun provide one of the very few available studies on this 'dormitory labour system'. A particularly notable part of their paper is the inclusion of text from posters that are prominently displayed around the living areas:

'The Management of the Dormitory

1. Dormitory conditions shall be kept clean and sanitary. A dorm room found dirty would mean a fine of RMB 10.
2. Spitting will incur a fine of RMB 10 if found in the dormitory compound.
3. No noise is allowed after midnight. Everybody has to keep quiet once they enter the dormitory rooms. Those caught being noisy after midnight will be penalized.
4. No argument or fighting is allowed. Those found fighting in the compound would be dismissed at once.
5. Dormitory facilities shall be protected. Anyone found to have made malicious damage will be penalized and dismissed.
6. Stealing dormitory property or residents' property will incur dismissal.
7. No visitors are allowed to stay overnight. If overnight visitors are caught, a fine of RMB 100 will be imposed.
8. Unless on night shift, or in times of emergency, nobody is allowed to enter or leave the compound after 12am.
9. Living identity cards have to be carried all the time in the compound. If lost, the person will be charged RMB 20.
10. No cooking or eating is allowed in the rooms. Secretly using cooking machines in the dorm will mean a penalty of RMB 20.
11. Nobody is allowed to independently change his or her bunk. If they do so a penalty of RMB 50 will be incurred.'

(Smith and Pun 2006: 1464)

'China Wonder' recruited only skilled, reliable, and experienced workers.

Protests about working conditions are rarely effective in China and are often met with employer and police hostility. According to Johnson: 'Part of the unholy alliance between China's domestic autocrats and its foreign investors is that both hate unions and any movement toward workers' rights, even if for different reasons' (Johnson 2002: 159). Although technically a workers' state, with – on paper – progressive labour laws, post-socialist China appears to be adopting a 'low-road' employment model (McCann and Schwartz 2006). Chinese workers

lack proper institutional forms of support, as official unions are company-controlled and must be affiliated to the government-run All-China Federation of Trade Unions, which is not an independent workers' organization. Genuinely independent, worker-run unions that try to protest about poor working conditions or go on strike are illegal, meaning that many of the protests against management are informal, and therefore much riskier for workers to engage in or support. Chan (2009) even describes workers being beaten and intimidated if any dared to raise concerns about grievances or unfair treatment in a Taiwanese-owned factory on the Chinese mainland.

The country seems unready – as of yet – to develop a German-style high voice, high-quality export model, and it will probably retain the low trust, no unions, no voice model with little employee involvement. Strongly authoritarian management styles are the norm, even in services. Gamble (2010), for example, describes working conditions in Chinese branches of a major Japanese department store in which managers use football referee-style 'yellow cards' and 'red cards' to discipline workers. Nevertheless, there has been upward pressure on wages, particularly in the SEZs. To keep up with very demanding delivery targets, firms involved in export processing need reliable and effective workforces with high productivity and few quality errors.²² Labour laws were toughened in 2008 in an attempt by the Party to tighten up on private sector companies that have not signed contracts with their workforces. There are some signs of improvement in job security and pay, with mainstream Western business media suggesting that China needs to 'take a leaf out of Germany's book ... to make products with higher margins and offer services to complement them'.²³

Overall, however, China seems 'likely to remain for the foreseeable future the assembly workshop of the world' (Redding and Witt 2007: 227). OEM assembly remains its focus, where the informality, low wages, low skill and fast pace of production, and the possibilities for quick ramp up of scale are China's strengths, especially in the SEZs, but also elsewhere (Midler 2009). The prospect for genuinely global Chinese multinationals to emerge, competing head to head with the brand name products supplied on international markets by major European, American, Japanese or Korean global corporations are 'remote' (Redding and Witt 2007). One of the reasons is that the state-defended group company SOEs still tend to feature opaque and 'low trust' management regimes, and lack the experience and capacity for handling the complexity required in the design and conception of world class products. In any

²² 'The End of Cheap China', *The Economist*, 10 March 2012.

²³ 'The End of Cheap China', *The Economist*, 10 March 2012.

case, the global shift towards dismembering large corporations to take advantage of cheap production networks suits the lower-level insertion of China into global production networks or 'value chains' (Gereffi et al. 2005). For now, Chinese manufacturers overwhelmingly operate as assemblers of other companies' products rather than as innovators in their own right (Redding and Witt 2007: 229; Steinfeld 2004). Time will tell if China's group companies are able to keep up with cutting-edge European and US employment and organizational practices and to move up the value chain in ways that Japan and (to a lesser extent) Korea managed in the 1970s and 1980s (Redding and Witt 2007: 229). An even bigger problem is the need to expand growth to China's huge hinterland, much of which has been left behind by the explosive growth and change in China's more dynamic regions.

Conclusion

Few can deny the massive achievements of China's economy in the last 30 years. Perhaps as many as 600 million people have been lifted out of poverty by the reforms in China (Bardhan 2010: 91). However, China is also beset with difficulties and contradictions. Post-Mao China seems to encapsulate many of the controversies, ironies and feedback loops of globalization itself. A key reason why working conditions in the SEZ have such a high profile in the West, is that USA and European consumers may be shocked to learn about the labour exploitation that goes into assembling pieces of Apple's iPhones or Sony's PlayStations. Even as Chinese workers are increasingly drawn into a globalized division of labour, there is no chance that their meagre earnings from this labour could stretch to buying any of these supposedly 'global' products. Not unrelated is the (much less well-known) controversy about China's political authoritarianism and use of prison labour. This subject is a massive taboo in China, and the whole history of the labour camps of the Mao era and beyond is far less widely appreciated than their Soviet equivalents upon which they were at least partially based (Applebaum 2003: 412). Some émigré critics of China describe a network of 'correctional' labour camps known as *laogai* that are comparable in scale and cruelty to the Soviet ones (see Wu 1992; and for a useful overview, Chan 1993). Even today several activists claim that certain items for overseas export are assembled under duress using prison labour. But like the Tiananmen crackdown in 1989 this issue is so controversial as to be not openly discussed. Chinese authorities block access to sensitive internet content and divert users to 'official' versions of events (Khanna 2009: 40). Print, broadcast and internet media remains extensively controlled and censored.

Western democracies sometimes deplore China's limited human rights and democratic freedoms, but at the same time voraciously consume cheap Chinese exports, which have helped to keep inflation low in OECD nations. Families with squeezed household budgets benefit from this in one way, and it is hard to imagine the Wal-Mart, Aldi or Carrefour retail models without Chinese exports to fill their shelves. On the other hand, China as 'the workshop of the world' also accelerates manufacturing job loss in OECD nations, destroying working class jobs. Western politicians and businesspersons champion China's move towards freer markets, and Western citizens happily consume cheap Chinese-made goods. But they also fret about jobs lost to China and complain (at times) about Chinese labour and human rights abuses. Such are the double-edged connections of today's globalized product markets. At the same time, China's orientation towards export growth has meant a neglect of the skills and income development of its own workforce, suppressing domestic consumption and clustering its industrial firms towards the lower end of the value stream (Lo 2009).

To some extent China's low-cost export model may be endangered if quality levels fall too far. Many argue that China needs to move up value chain in future, and progress into the higher value export markets. One way of doing this is to buy distressed assets which gives the purchaser quick access to technology and brands. This has happened regularly in the car industry, with, for example, London Taxis International (20% owned by Shanghai's Geely International) and MG Rover (purchased by Nanjing Automotive). In 2010 Geely purchased Volvo from Ford for US\$1.8 billion following the latter's desperate financial struggle after the subprime collapse. Another Chinese automotive company made a move for GM's Hummer brand, but this was eventually blocked by the Chinese government. It is not easy to jump straight into global product markets; it takes a lot of time and learning, but some Chinese firms are already making the move.

One weakness of the Chinese political economy is its financial system, especially the issue of widespread non-performing loans, which may amount to US\$500 billion and constitute between 23% and 43% of total loan value in the system (Redding and Witt 2007: 83, 88). Embattled SOEs are the worst culprits here, as they are unable to pay back the soft loans provided by the state to postpone factory closure. China has been relatively unaffected by the subprime collapse as its financial system was not really exposed to toxic loans. However, the economy's skewing towards export trade resulted in a slowdown in China as orders from the OECD economies contracted. In 2008-9, China deployed a major government stimulus package, which critics regard as a step away from globalization, free markets and liberalization and a

populist return to the CPC's traditional comfort zone of state-driven industrial policy (Huang 2010; Lo 2009).

Much has been made of China's 2001 admission into the World Trade Organization, but the official strategy espoused by World Trade Organization members is basically at odds with the strategy that China is really following (Johnson 2002: 180). Protection of intellectual property rights seem minimal, with piracy remaining rampant (Midler 2009). The USA frequently criticizes the People's Bank of China for refusing to fully float its currency, claiming that the Party indulges in currency manipulation to artificially keep Chinese exports competitive. It is worth bearing in mind, however, that the US government faced similar trade conflicts with Korea and Japan during their rapid growth phases (Mastel 1997: 75, 125–137).

On a more positive side, China's trade boom has meant the amassing of colossal foreign exchange reserves and a trade surplus of around US\$38 billion (Lo 2009: 117). The widespread growth of economic risk, coupled with the very limited provision of social security such as health services, encourages China's very high domestic savings rate which suppresses domestic consumption (Bardhan 2010: 65). The CPC's traditional preference for large-scale investment projects may look impressive as new science parks, apartment blocks and retail parks continue to fly up, with new highways and railways to serve them (Bardhan 2010; Lo 2009). Cautious voices, however, warn of industrial overcapacity, an economy unbalanced towards export rather than domestic consumption, and the potential for a real estate bubble. Given the subprime fallout, China's authorities are understandably reluctant to continue liberalizing financial services and this means a continued impetus to invest in high-profile construction projects rather than stimulating broader economic consumption around the wider population (Lo 2009).

Income inequalities are huge across China. Although the overall record of poverty alleviation in China since the reforms is impressive, many interior regions feature little more than a subsistence-level economy (Yergin and Stanislaw 2002: 209). There is no way of knowing where the political winds will blow – liberalization might eventually be political, as well as economic (Redding and Witt 2007: 233). At this current historical point, it seems as if policymakers in China fail to see how democracy would make the growth model run more effectively. Redding and Witt similarly suggest that '[t]he assumption that only a single central government was appropriate was implanted from the beginning and has survived to the present day' (2007: 43), implying that ordinary Chinese also see little of value in Western notions of democracy.

Brandt and Rawski (2008: 13) suggest that Chinese growth proves the value of globalization, markets and free trade for ordinary people. Neoliberal arguments point to the effectiveness of 'price signals' (Brandt and Rawski 2008: 15) in education markets and how an effective 'labour market' now exists in China. But what happens to those citizens without capital to spend on education, or ageing former SOE workers lacking up-to-date skills with no prospect of decent employment? Although the Communist Party leadership talks of developing policies to promote a 'Harmonious Society', this seems to ring hollow as the Gini coefficient edges ever upwards and as millions are left behind to face poverty and exclusion.

Further reading

Brandt, L., and Rawski, T.G., eds, (2008) *China's Great Economic Transformation*, Cambridge: Cambridge University Press.

This gigantic volume is a mine of information on the contemporary Chinese economy, containing chapters on practically all imaginable angles, from political economy overviews to detailed discussions of employment and legal reforms. Mostly the chapters take a rather mainstream and neoliberal economic viewpoint, but there is a very wide variety of authors and perspectives. Any reader looking to learn more detail about China – particularly at an 'overview' level – will find plenty of value in this text.

Naughton, B., (2007) *The Chinese Economy: Transitions and Growth*, Cambridge, MA: MIT Press.

This is another excellent overview textbook that provides a very accessible and even-handed account of China's economy and society. Written by a solo author, it offers a useful alternative to Brandt and Rawski in that it is somewhat more readable and integrated. This is one of the best places to look to provide a detailed historical overview of China and its changing structures. It is highly lucid and hugely authoritative.

Pun, N., (2005) *Made in China: Women Factory Workers in a Global Marketplace*, Durham, NC: Duke University Press.

This fascinating book provides a wealth of details of the realities of working life in a segment of the Chinese population that now