

CHINA: SIX YEARS AFTER TIANANMEN

by LI MINQI

Six years ago, immediately after the democratic movement was repressed in China, almost all Chinese liberal intellectuals and Western observers predicted that, without "political reform," "economic reform" would fail in China. Despite their warnings, tens of billions of dollars have continued to pour into China. Now it is obvious that the capitalists themselves had a better estimate of Chinese reality than their theoreticians. In fact, judging from subsequent events, it could be said that the army's success in breaking up the Tiananmen demonstration and attacking its working-class supporters helped pave the way for further capitalist development.

Reform, 1989 Events, and Capitalism

While the Chinese socialist revolution ultimately failed to create a genuine socialist society, China after 1949 could no longer be the country it had been. The Chinese People's Republic was the product of a socialist revolution and bore its mark.

The Chinese working class enjoyed wide-ranging social rights, such as the right to work (the "iron rice bowl"), the right

Li Minqi studied economics at Beijing University from 1987 to 1990 and participated in the 1989 democratic movement. After the Tiananmen massacre, he became disillusioned with the liberal intelligentsia who led the democratic movement and gradually turned to a Marxist revolutionary perspective. He was arrested for making an antigovernment speech in 1990 and was sentenced to a two-year prison term. He currently studies economics at the University of Delaware. The author wishes to thank Thomas Lutze for his advice.

to almost free housing, and the right to free health care—rights that are unimaginable for workers in a capitalist society.

In a capitalist society, workers participate in production because they are forced to. Capitalist production relies upon a range of mechanisms of coercion. For example, the unemployment mechanism plays an indispensable role in maintaining the “efficiency” of a capitalist economy; and social welfare must be restrained to a “rational” limit, otherwise the workers will be “lazy.”

The iron rice bowl and other social rights that the working class enjoyed in revolutionary China were not mere material benefits, but had an important impact on relations of production. These social rights implied a degree of workers’ control of the process of production, a right of much greater importance than legally formal “civil rights” in the real content of the lives of most people. For Marxists, the iron rice bowl cannot itself result in “inefficiency.” In fact, the productive potential of working people will be fully released only when they have genuine control of the process of production. Indeed, in the Maoist era, the Chinese economic record was quite respectable:

*Average Annual Growth Rate of GNP and Labor Force
in Maoist China, Compared to Other Countries*

	GNP	labor force	
	1960-1978	1960-1970	1970-1980
	(percent change)		
China	6.0	1.7	1.9
Low income countries	3.6	1.7	1.9
Middle income countries	5.7	2.0	2.4
Industrialized countries	3.2	1.2	1.1
High income oil exporters	6.0	2.4	2.8

Source: World Bank, *World Development Report*, 1980

It can be seen that China’s economic growth rate was not only higher than that of the developed countries, but was also relatively high compared to the developing countries. It is not

difficult to establish that China also had a higher dynamic efficiency (contradicting the widely accepted idea that China's high economic growth rate was achieved at the cost of low efficiency), in terms of higher growth rate of labor productivity.

This achievement was possible as long as China remained a revolutionary country. But with the failure of the Cultural Revolution (which lost much of its vigor after 1969), the furthest development of the Chinese revolution was reached. The ruling class began to strengthen its position. But as the working class continued to enjoy the iron rice bowl, the ruling class's ability to extract surplus value was restricted. This dilemma, from the ruling class's point of view, could be solved only by introducing the capitalist economic mechanism, that is ultimately by breaking the iron rice bowl. The struggle over the iron rice bowl is at the center of the so-called "economic reform." The controversy between market and planning was the academic expression of this real controversy. The latter, of course, took place not on paper but in the real battle field of material forces. These battles reached one climax in the 1989 events.

In 1989, the Chinese working class, like its Eastern European counterparts, failed to make itself into an independent self-conscious political force. To a large extent, they were mobilized by liberal intellectuals around a program of political liberalization which denied rather than revealed their independent class interest. The failure of the Chinese working class to emerge as an independent self-conscious political force, however, did not mean (as it did in Eastern Europe) that it would not constitute an immediate and real threat to capitalist development. This real threat was reflected in the political controversy among the liberal intelligentsia immediately before the 1989 events.

In that controversy, a significant number of Chinese liberal intellectuals favored "new authoritarianism." Proponents of this position argued that the process of modernization might well bring about substantial social chaos and

turbulence, which would threaten to destroy the modernization project itself. For this reason, the political system most conducive to modernization was not democracy, but some kind of authoritarianism with flexible political leadership, able to proceed by coercive measures. To translate, capitalist development would inevitably meet with the opposition and resistance of working people, an opposition that in turn had to be met with political repression, otherwise capitalist development could only fail.

In fact, the self-proclaimed "democrats" agreed that their struggle for democratic rights should not disrupt the social order, which was set on the path to capitalism. At the last minute, faced with severe government repression, proposals for an open call for a popular uprising were dismissed.

Democracy was repressed, but capitalism was saved. After an initial tension between the ruling class and the intellectuals, the two sides quickly reached a new social contract. The ruling class conceded to the intellectuals some social-economic privileges, promising a technocracy in which intellectuals could participate more fully in political decision-making.¹

The intelligentsia, in return, promised to support the "reform," and the struggle against the iron rice bowl. As a result, the political influence of the liberal opposition (whose social base was limited to the intelligentsia) quickly declined.

Without political leadership, it is unlikely that the resentments of the working class can erupt into a national rebellion. China enjoys political stability, providing a favorable environment for investment. Capitalist accumulation has proceeded apace. The Chinese economic growth rates for the last three years were 12.7 percent (1992), 13.4 percent (1993), and 11.8 percent (1994). In fact, China's economic boom has outstripped the rest of the world.

Iron Rice Bowl and Chinese Capitalism

The statistics of economic growth, however, do not tell us the qualitative characteristics of Chinese capitalism, nor

determine the long-term pattern of Chinese capitalist development.

The Chinese working class has suffered a political defeat, but the "problem" of the iron rice bowl has as yet not been completely solved. In 1992, the ruling class launched a new wave of "reform," trying to break the iron rice bowl once and for all. It met with strong resistance from the working class. In some cases workers resorted to violence, killing managers and directors. The ruling class, afraid of further unexpected developments, retreated.

Chinese capitalism has so far been able to afford the "luxury" of maintaining the state-owned enterprises.² After the agricultural reform, peasants were released to be free labor. In the early 1980s, China had a "surplus" labor force of over 100 million in the countryside. Such a large reserve army of labor allowed China to develop capitalism, by developing "rural enterprises" and private enterprises, and by introducing foreign capital. Without this "surplus" labor, the Chinese ruling class would have had to wage an immediate struggle against the working class—by no means an easy task—before proceeding down the road of capitalist development. It is this distinct set of class relations (in part reflecting the relatively backward development of productive forces in China) that allows Chinese capitalism to prosper rather than be paralyzed as in Eastern Europe and the former Soviet Union.

After sixteen years of capitalist development, however, the state-owned sector still plays a central and indispensable role in the Chinese economy. According to Zhang Youcai, a vice-minister of the Ministry of Finance:

State-owned enterprises, especially large and middle-sized enterprises, are the major suppliers of energy, transport, important raw materials, and technological equipment. In 1993, the total asset value of over 80,000 state-owned industrial enterprises accounted for 66 percent of the asset value of all enterprises keeping a separate account. The contribution of state-owned enterprises to state finance accounted for 60 percent of state income. Compared to other types of enterprises, state-owned enterprises take the lead in main-stay industries and strategic sectors, and are better technologically

equipped. They are also comparatively strong in R&D. In respect to labor productivity, state-owned enterprises continue to enjoy an incomparable ascendancy over other types of enterprises.³

As long as the ruling class cannot solve the problem of the iron rice bowl in the state-owned sector where it is still established, it cannot "efficiently" exploit a large sector of the most productive workers. As a result, the state-owned enterprises cannot carry out normal capitalist accumulation. In the early 1990s, it was estimated that one-third of the state-owned enterprises made explicit losses, while another third did not make explicit losses but their depreciation funds were not enough for reinvestment. This means that a large sector of the state-owned enterprises may not be able to reproduce themselves in the long run, let alone carry out normal capitalist accumulation. Given the importance of state-owned enterprises, this could create a serious obstacle to Chinese capitalist accumulation in the future. Whether Chinese capitalism will be able to overcome this obstacle is open to question.

State, Regionalism, and Dependent Development

A strong, efficient state is normally indispensable for successful capitalist development in modern times, as in South Korea, Taiwan, and Singapore. Each of these countries built their economic development upon a highly centralized base, with substantial state intervention. This is important not only because state coordination plays an important role in improving macroeconomic efficiency, but also because only with the active intervention of the state is it possible for a developing country to establish independent technological development, and to free itself to any degree from the dependence on foreign technology and capital goods.

For this reason, it is necessary to examine the characteristics of the Chinese state and to see how they have influenced the pattern of Chinese capitalist development. Before "reform," the state substantially controlled the whole economy. In 1978, the state-owned enterprises accounted for 77.6 percent of the gross industrial product, but in 1992 they ac-

counted for only 48.1 percent. On the other hand, the share of the "collective enterprises" (most of which are "rural enterprises") rose to 38 percent, and that of private enterprises to 13.9 percent.⁴

The development of capitalist and semicapitalist enterprises is based on the "surplus" labor in the countryside, labor whom we may refer to as China's new proletariat. This new proletariat is much less self-conscious, much less militant, than the old proletariat of the state-owned enterprises. For them, the most elementary civil rights so beloved of the "reforming" intellectuals are not secured, not to even mention socialist rights—the iron rice bowl. From the capitalist point of view, the economic system based on this kind of labor is "efficient."

Due to the dynamics of the market mechanism, these capitalist and semicapitalist enterprises quickly concentrated in a few of China's richest provinces. Their economic interests are not necessarily consistent with that of national capitalist development. As a result, they need some political authority to protect their special interests. The provincial governments have more common interests with them than the central government and can better satisfy their need for political protection. One consequence is that the concentration of capitalist and semicapitalist enterprises in a few provinces substantially strengthens the position of these provinces vis-a-vis the central government.

At the same time, many bureaucratic-comprador companies have thrived in coastal provinces in the period of "reform." These companies have made many members of the ruling class millionaires, or even billionaires. As a result, an alliance of the provincial governments, capitalist and semicapitalist enterprises, and the bureaucratic-comprador companies has emerged, quickly changing the balance of power between the central government and the provincial governments.⁵ The weakening of the central government can be seen from the fact that, excluding state-owned enterprises, the share of the expenditure of the central government in GNP

dropped from 14.5 percent in 1978 to 7.1 percent in 1992, while the share of state investment in total investment dropped from 16 percent in 1985 to 4.3 percent in 1992.⁶

As a result, the state's ability to coordinate economic development has been substantially weakened, impacting upon Chinese capitalist development in several ways:

- Without effective economic planning, capitalist and semicapitalist enterprises, and local governments, blindly make investments resulting in severe over-capacity in some industrial sectors (e.g., idle capacity accounts for 49 percent of the total capacity in refrigerators, 26.9 percent in washing-machines, and 52.2 percent in air-conditioners.⁷)

- The state now lacks money to make investment in infrastructure that is indispensable for any further economic development, and has to rely upon foreign capital.

- Capitalist and semicapitalist enterprises and local governments tend to concentrate their investments in labor-intensive, consumer-goods industries, built upon imported technologies and capital goods, rather than developing China's indigenous technological ability. And without financial resources, the central government can do nothing to better the situation. It is reported that R&D expenditure accounts for only 0.5 percent of Chinese GNP, while for developing countries as a whole it usually accounts for 1 to 2 percent and for developed countries the average is 2.6 percent.⁸ As a result, China fails to develop indigenous technological ability. Chinese economic development becomes more and more dependent on foreign technologies and imported capital.

The pattern of dependent development can be illustrated in the case of the computer industry:

China's goal . . . is to become a major supplier to the domestic and world markets of low-end PCs and peripherals, including printers, monitors, and circuit boards. Through mass exports of such products, China will be able to earn foreign exchange to import the higher end systems and technology needed to sustain the growth of the computer industry.

This low-end production is itself dependent on imported chips:

China's integrated circuit ("IC") production ability is extremely low and limited to ICs used in consumer goods, such as televisions and refrigerators. As a result, China must import almost all the ICs needed for computer production. Although China is trying to build up its domestic IC production base, international restrictions imposed by the Coordination Committee for Multinational Export Controls (COCOM) prohibit China from gaining the technology needed to produce more complex ICs.⁹

Chinese government officials acknowledge that in technological terms, the Chinese integrated circuits industry has fallen fifteen years behind the international level. While it is expected that Chinese integrated circuit production will reach 1 billion pieces in the year 2000, the domestic demand will then rise to 2 or 3 billion pieces, leaving 1 or 2 billion pieces to be imported.

In fact, China has already suffered much from dependent development. When there is trade between China and the developed countries, China sells what the developed countries can produce only at greater cost, while developed countries sell what China cannot produce at all (advanced technologies and capital goods), for which China has to pay almost any price the developed countries charge. For several reasons, dependent development puts the long run sustainability of Chinese capitalist development into question. Here we will mention only the most basic points arising from the terms on which Chinese capitalism participates in the world market.

First, China can produce some products more cheaply than the developed countries only because it can exploit much cheaper labor. But in the long run, with technological progress, the labor cost will account for a smaller and smaller share in the total production cost. This is true even for today's labor-intensive industry. As a result, it will be increasingly difficult for China to produce more cheaply than the developed countries.

Second, if international economic conditions turn unfavorable for China (in the long run this will inevitably

happen), with less export income, China will not be able to pay for the import of technology and capital goods, which China is not able to produce itself; as a result, China will have to borrow heavily from the international capital market (China's foreign debt already reached \$100 billion in 1994), and probably enter into a vicious cycle of debt dependency along with the likelihood of economic decline.

New Trends in the Class Struggle

In fact, Chinese "reform" consists of two interrelated but separate parts, the urban "reform" and the rural "reform." The rural "reform" initially appeared to be rather popular. It gave the ruling class an important political-social base in the early 1980s. It also explained why the peasants—the majority of the Chinese people—took a neutral position at a critical time in 1989. The rural "reform," however, is nothing more than the restoration of petty peasant economy, which is both economically and socially subject to the modern urban sector. Therefore, the final significance of the rural "reform" does not depend on itself but on the nature of the urban "reform."

After 1984, the initial agricultural "miracle" disappeared. While the Chinese new urban capitalist economy grew at the highest rate in the world, the peasants' living standard virtually stagnated. Official propaganda celebrates that thanks to reform, peasants are now liberated from their traditional dependence on land. Millions of peasants find, however, that they are liberated simply to be unemployed. While it is reported that in the past fifteen years, rural enterprises had absorbed 120 million "surplus" workers, the total surplus now stands at 170 million. This large reserve army of labor plays a crucial role in keeping the labor force cheap and docile, which is the cornerstone of Chinese capitalist prosperity.

This urban/rural contradiction is further intensified by the spatial pattern of Chinese capitalist accumulation. With the central government weakened, local governments now play an important role in capitalist accumulation. Just as capitalists compete with one another, Chinese local govern-

ments compete. What makes it different from capitalist competition is that the local governments can raise investment funds by imposing taxes on the peasants. Consequently competition takes the form of an increasing pressure on the peasants which has, in some cases, driven peasants into outright rebellion.

On the other hand, the state-owned industries and the iron rice bowl are still a major barrier to Chinese capitalist accumulation. The ruling class is planning a new offensive against the working class. It is forecast that from 1995 to 2000 urban unemployment will increase from 4.8 million to 21 million.¹¹ This will open a new round of class struggle in China.

Liberal intellectuals, although to a large extent now in disrepute, are trying to take advantage of this situation. Yuan Hongbing, who taught at Beijing University and holds a philosophical theory of "hero worship," joined with some other intellectuals and graduate students and tried to establish a so-called "Union for the Protection of Workers' Rights." Their basic idea was to develop some kind of "independent" trade union movement that would limit itself to demands for bourgeois civil rights and reformist measures, considered indispensable for a "healthy" market economy. But they went about their work in a completely unrealistic fashion. They went to the government, informing the officials that they had an organization for workers' rights, and asked the government to grant it legal status. Of course, they were arrested at once.

These liberal intellectuals, like those of 1989, insisted on the principle of "legality," and this is not only because they are unable to grasp the real social situation. For these intellectuals, "legality" is more than a means of struggle. Behind the principle of "legality" is the ideology of the "rule of law," which assumes civil rights divorced from social and economic rights, and which not only implies a formal "freedom" but at the same time "social stability." A struggle restricted by the principle of "legality" is controllable. By reducing working people's struggle to nothing but bourgeois legal process, it rules out working

people's spontaneity and initiative, and subjects them to the elite who know and manipulate the law and the legal process.

But most liberal intellectuals do not want in any fashion to address the question of class struggle. Recently a dozen "dissidents" sent an anticorruption suggestion to the People's Congress. This was an effort by liberal intellectuals to appeal to ordinary people. These same types used to appeal to people by asking for deeper and faster reform in the 1980s. Now the old appeal does not work. In the suggestion it was said that the solution to corruption lay in the separation of government powers, independence of the judiciary, and a multiparty system.

It is not my purpose here to deal with the clichés of bourgeois ideology, but in this instance its function is nakedly exposed. When Chinese working people are faced with a desperate fight for the preservation of what is left of their revolutionary heritage, suddenly liberal intellectuals declare that corruption is the biggest problem in China. By doing this, the liberal intellectuals, who regard themselves as the only political alternative to the "communist regime" are in effect ruling out class struggle from the political agenda.

The failure of the democratic movement in 1989 has proved that the Chinese liberal intellectuals are unqualified for the leadership of the Chinese democratic movement. By following them, Chinese working people can achieve only their own expropriation. The Chinese working people must free themselves from the ideological domination of both the ruling class and the liberal intelligentsia, and make of themselves a really independent political force, i.e., a socialist revolutionary force. In this sense, the fate of Chinese democracy is the same as the fate of Chinese socialism.

NOTES

1. Although the nominal wages of the intellectuals are usually not higher than those of manual workers, they usually have larger housing, they can get extra income by writing or selling patents, or working for foreign or private

companies for high salaries, and they have more chances to go abroad and earn foreign exchange.

2. Chinese state-owned enterprises are semibureaucratic, semicapitalist enterprises where the working class enjoys socialist rights. They are a field of struggle in which the contending forces are more or less evenly balanced.
3. *People's Daily*, 20 April 1995.
4. *Year Book on Chinese Communism*, 1994, pp. 10-144.
5. On the alliance of provincial governments, capitalist and semicapitalist enterprises and bureaucratic-comprador companies, see Gerald Segal, *China Changes Shape: Regionalism and Foreign Policy* (London: Brassey's for International Institute for Strategic Studies, 1994.)
6. *Year Book on Chinese Communism*, 1994, pp. 10-113, 132.
7. *People's Daily*, 23 March 1995.
8. *Ibid.*, 10 March 1995.
9. Saiman Hui and Hilary B. Mckown, "China Computes," *The China Business Review* 5, no. 20, p. 17.
10. *People's Daily*, 10 March 1995.
11. *Shen Zhou Shi Bao*, 17 March 1995.