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## THE CHINESE ROAD

### *Cities in the Transition to Capitalism*

**M**ODERN CHINA IS undergoing a relentless process of transformation, from the forests of construction cranes in its coastal cities to the gargantuan infrastructure projects in its interior. Its economic trajectory has been equally dramatic: China is now ranked 4th in the world by GDP, rising from 11th in 1990. A range of developments testify to its rapid progress along the path to a capitalist economy: the commodification of land and labour, emergence of private firms, formation of finance capital, among many others.<sup>1</sup> Yet China scholars have been curiously reluctant to apply the classic Marxist idea of a transition to capitalism—and its corollary, primitive accumulation—to the Chinese case. Instead, they quite loosely use terms such as globalization, marketization, post-socialism, reform era and market socialism, seemingly unaware of how closely the transformations under way in China compare with the development of capitalism in Europe and North America—not to mention many other ‘late developers’ in Asia and Latin America.

Comparison with historical experience of the rise of capitalism in the West can act as a useful counterbalance to three shortcomings of contemporary China studies. The first common error is to exaggerate China’s uniqueness vis-à-vis the general process of capitalist transition. This does not mean adopting the flat-earth neoliberalism of Thomas Friedman or a unilinear Marxism in which the rest of the world must recapitulate the economic history of Britain or the United States. While capitalism has universal elements, the road to capitalism follows many routes, depending on history, geographic circumstance and politics. Like a virus, capitalism cannot survive without living hosts, whose DNA

it alters in order to reproduce. Therefore, one can certainly refer to 'capitalism with Chinese characteristics'.

A second pitfall for China watchers is an obsession with the socialist past. Certainly, the Maoist era shaped the country's present course to an important degree, and China shares characteristics with other ex-socialist countries. But it differs profoundly from most post-Soviet and East European countries in that it did not undergo a sudden implosion of state, party and economy. Instead, an autocratic state has maintained a close hold on economic policy and the Communist Party continues to monopolize political life. Nonetheless, China in the twenty-first century can no longer sensibly be called 'late' or 'market' socialist.

A better comparison, in our view, is with the experience of capitalism in the West. But here lies a third danger, of drawing parallels only with contemporary developments around the world, from Internet search engines to mega-malls. Less well understood are the striking parallels with the past in Europe and North America, such as mass rural-to-urban migration and the gradual creation of a banking system. Such processes unfold over decades, and much of China is still pre-capitalist by any measure. Nevertheless, a generation after the PRC was set on the road to capitalism by Deng Xiaoping's market reforms in 1978, the Communist leadership can no longer return the genie to its bottle. 'Market imperatives quickly proved uncontrollable', as Martin Hart-Landsberg and Paul Burkett have put it; the 'Chinese economy now operates largely according to capitalist logic.' Or, as Robert Weil wryly notes, instead of the reformers 'using capitalism to build socialism', they 'used socialism to build capitalism'.<sup>2</sup>

Central to Marx's presentation of primitive accumulation are the expropriation of the producers to create a working class, the emergence of a capitalist class with a stock of original capital, and the development of the home market. To these must be added the commodification of land, the rise of cities and extension of the spatial division of labour, and

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<sup>1</sup> Thanks to You-tien Hsing for sharing her knowledge of China, to Carolyn Cartier for reading an earlier draft, and to Robert Brenner for his close reading and recommendations.

<sup>2</sup> Martin Hart-Landsberg and Paul Burkett, *China and Socialism: Market Reforms and Class Struggle*, New York 2005, pp. 31, 58; Robert Weil, *Red Cat, White Cat: China and the Contradictions of Market Socialism*, New York 1996, p. 230.

the transformation to a modern bourgeois state. We shall consider each of these in turn.

The discussion here focuses on cities, where the transition to capitalism is especially intense, but this is not to say that agrarian transformation has not been essential to the whole process. Indeed, the era of 'reform' was launched in the countryside with the break-up of the communes and introduction of the household responsibility system after 1978, followed by the explosion of town and village enterprises (TVEs). Over the last twenty years, however, industrialization, proletarianization, accumulation, property development and consumerism have accelerated in the cities—though these are still deeply linked with the commodification of land, labour and consumption in rural areas and the extraction of surplus from the peasantry and rural industry.<sup>3</sup>

### *Making of a working class*

The making of the English working class is well known, likewise the variations that this process took elsewhere in Europe and North America. Peasants, handicraft workers, artisans and small manufacturers all suffered displacement as their livelihoods were destroyed, whether through land enclosure or market competition from more productive capitalist farms and factories. Some took up wage-labour in agriculture, but most drifted to the cities in search of work—making London the largest city in the world by 1800.

In the cities the new proletarians formed pools of surplus labour, ready to be put to work by capitalist enterprise at low wages, for long hours, and under hideous conditions. So great was this reserve during the early years of the industrial revolution that the wages and welfare of the British proletariat changed little until the second half of the nineteenth century. Many of the displaced emigrated. As capitalism spread across Europe, the scale of displacement was gargantuan: some 50 million people left Europe altogether between 1830 and 1914. In the United States, farmers were first pushed off the poor soils of New England into industrial work after 1800. A key workforce was composed of young women off the farms, housed in dormitories in Lowell and other mill towns. Urban

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<sup>3</sup> Changping Li, 'The Crisis in the Countryside', in Chaohua Wang, ed., *One China, Many Paths*, London 2003, pp. 198–218; Guidi Chen and Chuntao Wu, *Will the Boat Sink the Water? The Life of China's Peasants*, New York 2006.

artisans and journeymen were squeezed by commercial competition, which would move them into the class of wage-earners by the 1830s. The putting-out system, on the other hand, flourished *after* the industrial revolution, fed by armies of immigrants into the cities.

In China, a working class has been assembled with startling rapidity, most visibly in the three great regions of industrialization: the Pearl River delta (Guangdong), the Yangtze River delta (Shanghai region), and the Yellow River valley (Beijing–Tianjin). Some 20 to 25 million work in the Pearl River delta alone, and the total in manufacturing is close to 200 million. Less visible are those employed in construction, retail, small trades and low-level service work, but they are everywhere in the big coastal cities. Estimates run to 350 million wage-workers in all. Female labour has played a leading role in the post-reform proletariat: estimates for Guangdong range from 58 to 70 per cent of factory workers, a large number of whom are housed in dormitories; for the country as a whole the figure is around 45 per cent.<sup>4</sup>

There are three major routes to proletarianization in China: from the farming countryside, out of collapsing state companies in the cities, and through the dissolution of former village enterprises. To take the first of these: rural displacement to the cities is vast, numbering roughly 120 million since 1980—the largest migration in world history. The abolition of the communes and instigation of the household responsibility system allowed some farmers to prosper in the richest zones, but it has left marginal producers increasingly exposed to low prices, poor soils, small plots, lack of inputs, and the corruption of predatory local cadres. In the cities, peasant migrants do not have residency rights and become long-term transients. This is due to the household registration or *hukou* system, created in the Maoist era to limit rural-to-urban migration. While China has done better than some poor countries in avoiding cities of slums, the flood of desperate peasants threatens to overspill the urban levees.<sup>5</sup>

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<sup>4</sup> David Harvey, *A Brief History of Neo-Liberalism*, New York 2005, p. 144; Ching Kwan Lee, *Gender and the South China Miracle: Two Worlds of Factory Women*, Berkeley 1998, p. 68; 'Women Make up 45 Per Cent of China's Work Force', Women of China website, 20 April 2007.

<sup>5</sup> Dorothy Solinger, *Contesting Citizenship in Urban China: Peasant Migrants, the State and the Logic of the Market*, Berkeley 1999; Ching Kwan Lee, *Livelihood Struggles and Market Reform: (Un)making Chinese Labour After State Socialism*, United Nations 2005.

A second route into the new wage-labour class is out of state-owned enterprises (SOEs). These were the centrepiece of Maoist industrialization, accounting for nearly four-fifths of non-agricultural production. Most are in cities, where they employed some 70 million people in the 1980s. This form of employment has since been steadily dismantled, starting with a law that allowed temporary hire without social protection and a 1988 bankruptcy law terminating workers' guarantee of lifelong employment. The reality of these changes began to bite in the downturn of 1989–91, when the clampdown after Tiananmen led to retrenchment of an overheated and inflationary economy. Further reforms were unleashed in the following decade: a 1994 labour law fixed the status of wage-labour and decoupled welfare from the state, and this was followed by a directive that encouraged efficiency through workforce reduction. Most decisive were the massive layoffs at the end of the 1990s, when Chinese capitalism experienced its first general overproduction crisis, marking a clear transition from the old economy of scarcity to the new economy of surplus production—meaning abundance for some and atrocious lack for others. By the early 2000s employment in state-owned enterprises had halved, from 70 to 33 per cent of the urban workforce, with some 30 to 40 million workers displaced.<sup>6</sup>

Finally, a transition to wage-labour followed from the collapse of rural township and village enterprises (TVEs). These flourished in the wake of the dissolution of the communes, with the first phase of liberalization in the early 1980s, especially in Guangdong, Fujian, and around Tianjin and Shanghai. By the early 1990s, they had mushroomed to 25 million firms employing well over 100 million people—with as much as 40 per cent of total manufacturing output. Owned and operated by local governments, they usually embodied socialist obligations to provide jobs, wages and social benefits to villagers, and to support agriculture and rural infrastructure. Many worked as subcontractors to urban state enterprises. Hence, when many lead-firm SOEs went bankrupt in the late 1990s or found more cost-effective suppliers, thousands of TVEs were left in the lurch—they were often burdened with enormous bank loans as well. As these small enterprises imploded, millions of rural workers were stranded. The result has been a two-stage incorporation of peasants into the proletariat, first as TVE workers nominally protected by the obligations of local government,

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<sup>6</sup> Hart-Landsberg and Burkett, *China and Socialism*, p. 33; 'A Survey of China', *Economist*, 25 March 2006; Shahid Yusuf, Kaoru Nabeshima and Dwight Perkins, *Under New Ownership: Privatizing China's State-Owned Enterprises*, Stanford 2006.

then as proletarians subject to the full force of the market—Marx's shift from 'formal' to 'real' subsumption of labour.<sup>7</sup>

The Marxian concept of the industrial reserve army surely applies to present-day China. With millions of workers laid off by industry and abandoning farming, a huge labour surplus is building up in the cities. Estimates are tricky, given the government's distaste for admitting the gravity of the situation, but the International Labour Organization puts the figure at over 20 per cent of the workforce. Although rural converts to industrial work are on average better off than before, a large percentage of the working class has become poorer under the pressures of surplus labour, wage competition and job loss. The rate of industrial injury and disease has shot up, and workers in both state and township enterprises have lost housing, pensions, health services and schools, leaving them naked before the market.<sup>8</sup>

The harshness of the *hukou* system recalls Britain's Speenhamland laws. Rural migrants must pay for the right to move and are prevented from becoming rightful members of urban society; they 'float' through the cities, poorly housed and lacking social services. The *hukou* is a pernicious method of discriminating among classes of people and keeping the floating population marginalized. It functions to maintain a low-wage labour force, reduce the demand for urban infrastructure such as schools, and facilitate rapid capital accumulation. In Beijing, reforms since 1997 have at least allowed purchase of temporary residence, and today Chongqing is experimenting with dismantling the *hukou* altogether, allowing people to acquire permanent residence in the city in exchange for relinquishing land rights in the countryside.<sup>9</sup>

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<sup>7</sup> Jean Oi, 'Fiscal Reform and the Economic Foundations of Local State Corporatism in China', *World Politics*, vol. 45, no. 1 (1992), pp. 99–126. There is only piecemeal data on the fate of TVEs, for example, Yusuf et al., *Under New Ownership*, p. 98. The number left unemployed is impossible to determine with any certainty. See also Daniel Buck, 'The subsumption of space and the spatiality of subsumption: city, country, and the transition to capitalism in Shanghai', *Antipode*, forthcoming.

<sup>8</sup> On the condition of workers, see Anita Chan, *China's Workers Under Assault: The Exploitation of Labour in a Globalizing Economy*, New York 2001; Hart-Landsberg and Burkett, *China and Socialism*.

<sup>9</sup> Peter Alexander and Anita Chan, 'Does China Have an Apartheid Pass System?' *Journal of Ethnic and Migration Studies*, vol. 30, no. 4 (2004), pp. 609–21; Fei-Ling Wang, 'Reformed Migration Control and New Targeted People: China's *Hukou* System in the 2000s', *China Quarterly*, 177 (2004), pp. 115–32; 'Chongqing to Urbanize Rural Migrants', *China Daily* online, 16 June 2007.

*Commodification of land*

The 'freeing' of land from non-market relations is essential to the transition to capitalism—whether this was achieved by enclosure of the commons as in Britain, or by dispossession of native lands as in the United States. It is a common mistake that privatization is held necessarily to mean fee simple ownership of land; in both London and New York, for example, capitalism proceeded largely on the basis of leaseholds. The first result of the urban land market is rather the sorting of land uses by ability to pay and the appearance of a bid-rent curve, the most favoured locations being those near the city centre—or around subcentres—where access is greatest.

Along with the land market comes the modern capitalist property developer and builder. Western cities were constructed by a host of developers, and real-estate promotion has been a major source of capital accumulation. A clear sign of the marketization of land is the arrival of land speculation as a normal part of capitalist development. By the early nineteenth century, a pattern of speculative building cycles and land bubbles was firmly established, regularly magnified by flows of easy credit. As the most commodified of countries, the United States has a thunderous history of property speculation.

Freeing up land and creating a property market have also been basic features of the Chinese transition to capitalism. In the socialist era, land was owned by the state, which granted use rights to agencies, governments and factories. Land was not a commodity, had no price and could not be transferred. The urban landscape was dominated by *danwei* or work units, such as state-owned enterprises, universities and the military. *Danwei* used their land for workplaces, worker housing and social infrastructure, normally organized in compounds.

State lands still cannot be sold, but they can be transferred between state agencies in what has come to be called the 'primary land market'. Furthermore, state lands can be leased under the 1986 Land Management Law, revised in 1988 to allow long-term leases of forty to seventy years. In 1991, the law was revised again to allow sale, rental and transfer of leaseholds, creating a 'secondary land market'. Although more land trades in the primary than the secondary market, the latter sets the terms for overall land rents. A host of public and private brokers has arisen to

facilitate land transactions and, where a rent gap exists between the two land systems, the difference is bridged on the black market.<sup>10</sup>

*Danwei* still occupy a great deal of prime real estate in cities, and are major players on the land market in three ways. One is as residential landlords, renting directly to employees or on the open market. Another is by setting up agencies to develop their property, which they then rent out. The third strategy is leasing to private developers and building managers. *Danwei* leaders are easily seduced by rising rents to seek higher revenues from their holdings, and their development subsidiaries are increasingly profit-oriented.<sup>11</sup>

City governments have been enthusiastic protagonists in the commodifying of land. Municipal property-management bureaus can either transfer land to other government agencies for development, or lease to private entrepreneurs for commercial use. In Beijing, municipal lands amounted to 60 per cent of the leaseholds in the city in 1995. Cities have increased their holdings through condemnations of buildings in the centre and on the urban periphery. Municipal influence has increased at the expense of the *danwei* thanks to a 1998 amendment to the land management law which stipulates that all leasing of state lands to commercial developers has to pass through the hands of the municipalities—though enforcement is hotly contested. Another device to promote commodification is land banking—begun in Shanghai in 1996 and made national in 2001—by which city governments purchase use rights from other owners, negotiate a rent-sharing plan and resell leaseholds.<sup>12</sup>

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<sup>10</sup> Peter Ho, 'Who Owns China's Land? Policies, Property Rights and Deliberate Institutional Ambiguity', *China Quarterly*, 166 (2001), pp. 394–421; Samuel Ho and George Lin, 'Emerging Land Markets in Rural and Urban China', *China Quarterly*, 175 (2003), pp. 681–707; George Lin and Samuel Ho, 'The State, Land System, and Land Development Processes in Contemporary China', *Annals of the Association of American Geographers*, vol. 95, no. 2 (2005), pp. 411–36.

<sup>11</sup> Fulong Wu, 'The New Structure of Building Provision and the Transformation of the Urban Landscape in Metropolitan Guangzhou, China', *Urban Studies*, vol. 35, no. 2 (1998), pp. 259–83, and 'The "Game" of Landed Property Production and Capital Circulation in China's Transitional Economy, with reference to Shanghai', *Environment and Planning A*, vol. 31, no. 10 (1999), pp. 1757–71.

<sup>12</sup> You-tien Hsing, 'Brokering Power and Property in China's Townships', *Pacific Review*, vol. 19, no. 1 (2006), pp. 103–24, and 'Land and Territorial Politics in Urban China', *China Quarterly*, 187 (2006), pp. 575–91.



Municipalities are motivated by rents and revenues from land taxes. The Provisional Land Use Taxation Act in 1989 introduced a system based on the quality of land. Such taxes are an effective means of inducing market behaviour and rent maximization. The Urban Planning Law of 1989 requires cities to draw up comprehensive plans, which have been used to push landholders towards intensification. City centres have seen massive clearance of old buildings, and handovers of land to developers under programmes such as Beijing's Old and Dilapidated Housing Redevelopment Act. Beijing has demolished 4.2 million square metres in the old city, and Shanghai 22.5 million square metres, displacing over a million people in the former and a million and a half in the latter.<sup>13</sup> Similarly, suburban expansion has been helped along by municipal grants of land and money to infrastructure builders and housing promoters.

Privatization of housing has contributed to the evolution of the urban land market. In 1995 urban residents were granted ownership rights to their homes, and from 1999 *danwei* housing could be privatized. As a result, home ownership rose rapidly, from 20 per cent at the onset of the reform era to nearly 75 per cent of urban households today. Housing built by large private developers mostly goes to upper-income households. At the bottom, new migrants must fend for themselves by renting from owners of older houses or subleasing from established tenants. Former suburban farmers and state employees have often become small landlords renting their houses to migrants, and districts of informal housing have sprung up across China's cities.<sup>14</sup>

Despite continuing tensions in the dual land system, a functioning land market has brought an urban rent curve into being. High-profit enterprises bid for favoured locations near city centres, while those with less need for centrality, such as warehousing and large-scale manufacture,

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<sup>13</sup> Yan Zhang and Ke Fang, 'Is History Repeating Itself? From Urban Renewal in the United States to Inner-City Redevelopment in China', *Journal of Planning Education and Research*, 23 (2004), pp. 286–98; Shenjing He and Fulong Wu, 'Property-Led Redevelopment in Post-Reform China: A Case Study of Xintiandi Redevelopment Project in Shanghai', *Journal of Urban Affairs*, vol. 27, no. 1 (2005), pp. 1–23.

<sup>14</sup> Min Zhou and John Logan, 'Market Transition and Commodification of Housing in Urban China', in John Logan, ed., *The New Chinese City*, Oxford 2002, pp. 137–52; Youqin Huang, 'The Road to Homeownership: a Longitudinal Analysis of Tenure Transition in Urban China (1949–1994)', *International Journal of Urban and Regional Research*, vol. 28, no. 4 (2004), p. 774.

drift to the periphery.<sup>15</sup> *Danwei* have often moved their employees and facilities into new quarters on the fringe, so they can more profitably develop or lease their inner-city holdings.

There are three kinds of property developers in today's China: state enterprises, private companies and foreign companies. The biggest players through the 1990s were state enterprises—the development arms of municipal agencies and *danwei*. More recently, private companies have multiplied rapidly and are increasingly subcontracting with state agents to undertake construction. In the south, housing seems to be built almost entirely by private companies. Infrastructure projects in most cities, on the other hand, are still dominated by state enterprises. Foreign developers, led by some of the giants of Hong Kong capital, engage chiefly in large commercial projects, such as Shanghai's immense Xintiandi redevelopment—principal investor, Philip Huang's Shui On Group—and Beijing's even larger Oriental Plaza—principal investor, Li Ka-Shing's Cheung Kong company. These are design-intensive upscale consumption spaces in the city centres that combine shops, hotels and museums, in the case of Xintiandi also incorporating historical elements in an attempt at urbane authenticity.<sup>16</sup>

The flow of capital into property development is breathtaking. In Shanghai, real-estate investment rose from around \$100 million per year in 1990 to an astounding \$7.5 billion in 1996, falling at the end of the decade only to reach \$7.6 billion in 2001 and over \$11 billion in 2002. Floor space in commercial buildings hit 12 million square metres by the latter year, and housing over 60 million square metres. In Beijing, annual housing construction increased from 1 million square metres in 1975 to 18 million square metres in 2001. By 2006, over 10 million square metres of office space had been constructed in Beijing, and more than 90 million square metres of residential space—the equivalent of

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<sup>15</sup> Fulong Wu and Anthony Gar-On Yeh, 'Urban Spatial Structure in a Transitional Economy: The Case of Guangzhou, China', *Journal of the American Planning Association*, vol. 65, no. 4 (1999), pp. 377–94.

<sup>16</sup> Ya Ping Wang and Alan Murie, 'Commercial Housing Development in Urban China', *Urban Studies*, vol. 36, no. 9 (1999), pp. 1475–94; Bo-Sin Tang and Sing Cheong Liu, 'Property Developers and Speculative Development', in Chengri Ding and Yan Song, eds, *Emerging Land and Housing Markets in China*, Cambridge, MA 2005, pp. 199–231; Hsing, 'Brokering Power'; He and Wu, 'Property-Led Redevelopment'.

three Manhattans. The annual value of construction throughout China in the 2000s has been estimated at \$67 billion, and now accounts for half of all new building space in the world.<sup>17</sup>

A key sign of the shift to a fully operative capitalist property system is the appearance of speculative booms and bubbles. A small one developed with the general overheating of the economy in 1986–88 and a stronger one in the boom of the early 1990s, peaking in 1992–94 but subsequently leaving millions of square metres vacant. Afterwards, the central authorities tried to cool the ardour of local governments by taking back more of their revenue and tightening up lending rules. Yet a new and vastly larger property bubble arose in the 2000s, with the central government warning in 2005 of the financial risks and trying to curb speculative investment—and corruption. Recently, an evaluation system was introduced in several cities to rate real-estate agents and land promoters, following revelations of widespread illegal occupations and black-market transactions in the housing market, often by SOEs. Officials in Shanghai were found to have diverted one-third of a \$1.2 billion social-security fund into real estate development and toll-road construction.<sup>18</sup>

### *Development of a home market*

In the transition to capitalism in the West, an essential element was the development of the home market—the demand for goods produced by budding capitalist industry and agriculture. This required a transformation in a country's way of life such that needs came to be met through the purchase of commodities. A shift took place from household production to manufactured goods, in which migration to the cities played an

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<sup>17</sup> For Shanghai, see He and Wu, 'Property-Led Redevelopment', p. 7; *People's Daily* online, 28 October 2002. For Beijing, *People's Daily* online, 7 February 2001; Colliers International report on Beijing office market, 2nd quarter 2006; William Mellor and Allen Cheng, 'Chinese Chasing the Wealth', *San Francisco Chronicle*, 24 May 2006. All China figures from Haiyan Chen, S. Ganesan and Beisi Jia, 'Environmental Challenges of Post-Reform Housing Development in Beijing', *Habitat International*, vol. 29, no. 4 (2005), p. 572, and John Fernández, 'Resource Consumption of New Urban Construction in China', *Journal of Industrial Ecology*, vol. 11, no. 2 (2007), pp. 99–115.

<sup>18</sup> Li Tu, 'Central Bank Warns Shanghai Real Estate Jeopardizes Banks', *Epoch Times* online, 15 February 2005; 'Looting the Aged', *Economist*, 9 September 2006.

essential part. This affected all social classes, but the most important site of consumption was the bourgeois home, as both the largest single purchase and the repository of consumer durables such as furniture and appliances. Purchases were further stimulated by rising incomes and falling commodity prices.

Exports to external markets also played a significant role. Britain's industrialization was vigorously stimulated by exports to Europe, the colonies and the United States. But in a country as large as the US—the world's largest integrated market for almost two centuries—most trade was inter- and intra-regional; American exports were never more than 5 per cent of GDP before the late twentieth century. France is another case where exports made a modest contribution to industry. In any event, successful export of manufactures requires a competitive level of cost and quality that is hard to acquire without experience, and has normally come only after domestic industry has been firmly established.

China's potential home market is vast. In the post-Maoist era, domestic consumption began to rise quickly, first with the jump in rural disposable income associated with decollectivization and the expansion of TVES, then with growing urban demand from cadres and workers released from ration-card limitations. They were now paid in money instead of direct services from their *danwei*, and enjoyed rising wages in successful enterprises. Leading segments in the new consumer market of the 1980s and early 90s included televisions, bicycles, motorcycles, clothing, refrigerators and air conditioners. This new demand was met mostly by firms still under state or collective ownership, responding to market signals. But many of the companies of that era subsequently disappeared under the pressure of competition and overproduction, signalling an emergent capitalist economy. Since the mid-1990s, new goods such as mobile phones and automobiles have taken the lead in the domestic market as disposable incomes have risen. They are supplied increasingly by private companies, such as Ningbo Bird and Nanjing Panda Electronics. Foreign firms provide many high-tech goods, but seldom directly dominate domestic markets.

Demand continues to grow smartly. The absolute number of upper- and middle-class consumers in China—around a million affluent urban households and at least 40 million well-off, by one estimate—means an ample demand for domestic goods. Chinese urbanites, like Parisians

and New Yorkers before them, are in the forefront of consumer culture, as their per capita real income, rising at an annual 5 per cent, increasingly outstrips that of the rural and small-town population. China is the second biggest car market worldwide, seventh in total retail sales and third in luxury goods.<sup>19</sup>

Urban China is rapidly moving into the worldwide mainstream of consumer culture. Global retail chains such as Ikea, Carrefour, B&Q and Sogo dot the big cities, as do domestic chains like Gome, Wumart and Lianhua. Brash new shopping centres are appearing, such as Beijing's Oriental Plaza. Shanghai's Xintiandi is so successful that developer Philip Huang has been asked to create similar projects in twenty-three other cities. Because the government understands how vital cities are to the development of consumption, the State Council has favoured an urbanization strategy as a significant way of absorbing surplus production.<sup>20</sup>

China's push into private housing is likely to undergird the shift to a mass consumer society. Dwellings—mostly apartments, some condominiums, and upscale suburban housing tracts—are major outlays of income for the newly emergent upper and middle classes. And they must be filled with consumer products: private housing promotes consumption with a vengeance, while it fragments the remaining collective consciousness of the Maoist era.<sup>21</sup>

Export markets have been vital to China's development since the establishment of foreign-trade zones in the south soon after 1980. Moreover, foreign firms have led the way to modern production and the opening up of global markets. Korean, Japanese, German and especially Taiwanese and Hong Kong companies have set up shop, introduced new technologies and taught Chinese workers and bosses the latest

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<sup>19</sup> 'Ready for Warfare in the Aisles', *Economist*, 5 August 2006, pp. 59–61; Andrew Glyn, 'Imbalances of the Global Economy', *NLR* 34, July–August 2005; Mellor and Cheng, 'Chinese Chasing the Wealth'.

<sup>20</sup> Ruei Suei Sun, 'Creative Deconstruction, or Deconstructive Creation? The Case of Xintiandi at Shanghai', paper presented at 4th East Asian Regional Conference in Alternative Geography, Taipei, June 2006, pp. 24–30; Jianfa Shen, 'Space, Scale and the State: Reorganizing Urban Space in China', in Laurence Ma and Fulong Wu, eds, *Restructuring the Chinese City*, London 2005, p. 47.

<sup>21</sup> Fulong Wu, 'Rediscovering the "Gate" Under Market Transition: From Work-Unit Compounds to Community Housing Enclaves', *Housing Studies*, vol. 20, no. 2 (2005), pp. 235–54.

in product engineering, factory management and global distribution. The linkage of global standards of production with China's millions of hard-working, disciplined and low-wage workers makes a formidable combination on the world market.

China has become a major force in international trade, closing in on Japan in total exports and undercutting domestic manufacture in North America, Europe and East Asia. The share of exports in GDP rose steadily during the first two decades of transition, from 5 per cent to 25 per cent—the same figure as Germany. After 2000, with China's entry into the WTO, the figure leapt to 35 per cent—a level comparable to that of Korea. But most of this is driven by foreign-owned firms and joint ventures. Chinese firms depend most on the domestic market, where household consumption constitutes over 50 per cent of GDP. To view exports as the sole engine of development in modern China is therefore to repeat the classic mistake of liberals who see trade, rather than production, as the heartbeat of economic growth.<sup>22</sup>

Nor is China's export success a matter of low labour costs alone. Even the supply of cheap goods to Wal-Mart and similar global corporations requires a level of competence that ensures quality and reliability. A good example is BYD Company, maker of over half of all mobile-phone batteries on the world market. It is a further leap to enter global markets as a fully fledged competitor in white goods or consumer electronics, as several Chinese companies are now doing. An instance of this is the evolution of Legend/Lenovo from a motherboard supplier in the 1980s, to a national computer champion in the 1990s, to a global computer-maker able to buy IBM's PC division in the mid 2000s; another is Haier, which now controls a quarter of the US market for small refrigerators.

In the face of international pressure on the exchange rate, growing American indebtedness and potential competition from even cheaper countries like Vietnam and Bangladesh, China's economic planners are anxious to reduce dependency on exports by expanding the home market. This has been inhibited by inadequate infrastructure, and distribution and logistics are still backward. But investment in infrastructure has now accelerated, China is quickly developing a sophisticated internet—including

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<sup>22</sup> Yun-Wing Sung, *The Emergence of Greater China: The Economic Integration of Mainland China, Taiwan and Hong Kong*, New York 2005, p. 36; 'Can Pigs Fly?', *Economist*, 24 February 2007.

business-to-business supply links such as alibaba.com—and already has a road network, telephone mainline and electric power grid that are better by far than those of India or Latin America.<sup>23</sup>

In 2000, state investment was reoriented to focus on the poor inland areas of central and western China, and the new government of Hu Jintao and Wen Jiabao has declared its intent to alleviate rural poverty. A common interpretation is that these measures are designed to head off growing social unrest due to glaring inequality. It is true that state spending creates jobs and income in the short term, but measures such as rural electrification and road building are ultimately designed to incorporate poor areas still ‘off the grid’ more fully into the circuits of capital, thus increasing the size of the home market and the effective demand for China’s domestic industries.

### *Origins of the capitalists*

A class of capitalists emerged in the West from a variety of social positions, and gained their primary capital from several sources. In Britain, the earliest capitalists were agrarian: tenant farmers and landowners who expanded their holdings by enclosure. City merchants grew wealthy from overseas trade, slavery and internal commerce, often moving into land and banking. State borrowing and the Bank of England leavened the growth of finance capital. The first industrialists got little help from city lenders, but reinvested the surplus value gained from poorly paid, overworked labourers.

In the United States, a continent was seized and settled by farmers and plantation owners. Merchants and manufacturers—often in partnership—made fortunes selling to the slave South, prosperous farms and expanding cities. US workers fared better than European ones, but immigrants kept wages for unskilled labour low. Urban property was a major source of accumulation. State-chartered banks issued huge amounts of credit to grease the wheels of regional expansion. The early capitalists of continental Europe were often nurtured by the state—as in Bismarck’s Germany—but in regions like the Rhineland, local banks, merchants and manufacturers supported one another. In France, too,

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<sup>23</sup> ‘The Problem with Made in China’, *Economist*, 13 January 2007; ‘Slow! Government Obstacles Ahead’, *Economist*, 17 June 2006; see also ‘Survey of China’.

industrialization took place through merchant-led networks of small producers, alongside government-sponsored factories in textiles or steel.

In seeking the origins of the capitalist class in today's China, foreign investment seems at first to be the key; after all, China is the world's largest recipient of direct investment. Outside capital has indeed blazed many trails—forging links to global trade, bringing in the latest technologies and importing modern design—as well as fuelling the roaring engines of development. Merchants, financiers and manufacturers from Hong Kong have played a pivotal role, particularly in the development of Guangdong, since 1989 the province with the highest GDP. Hong Kong provided just under half of all foreign direct investment between 1979 and 2003, but since 1996 it can no longer be considered genuinely foreign—though it continues to act as intermediary for capital transfers from elsewhere.<sup>24</sup> Taiwanese capitalists have been important as well, especially in Fujian province and the central coast.

Yet for all this, foreign investment has accounted for less than 10 per cent of capital formation in the reform era—including investment via Hong Kong. Rather, the internal processes of primary accumulation have been decisive. A vast production of surplus-value undergirds the Chinese economy. Appallingly low wages, long hours and hard work mean an exceptionally high rate of labour exploitation. This allows China to have one of the world's highest rates of savings—over 40 per cent of GDP—generate huge foreign-exchange reserves—over \$1 trillion by 2006—and expand its capital stock at a rapid pace: 20 per cent annually in 1978–94. Annual growth in capital stock is 3 to 4 per cent higher than was the case with France and Germany at their respective peaks, and close to that of Japan and Korea at theirs.<sup>25</sup>

Along with the high rate of capital formation comes the emergence of a new class of the super-rich. A recent report counts seven billionaires and 300,000 millionaires—400 of whom enjoy fortunes of more than \$60

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<sup>24</sup> Sung, *Emergence of Greater China*, pp. 12, 27; furthermore, a significant share of Hong Kong investment represents 'round tripping', whereby mainland SOEs, enterprises owned by the People's Liberation Army and other entities invest through subsidiaries in Hong Kong.

<sup>25</sup> Sung, *Emergence of Greater China*, p. 38; Glyn, 'Imbalances of the Global Economy', p. 15.



million.<sup>26</sup> Who are China's new capitalists? Many are former party and government officials who have been able to translate their positions into ownership of privatized state enterprises. Others have come from outside state and party to start private ventures, beginning as small tradesmen or professionals, like Liu Chuanzhi of Legend/Lenovo, or as peasants, like the country's richest man, Huang Guangyu, founder of the retail chain Gome Electrical Appliance Holdings—although close association with party members is still good business. Other functionaries behave like entrepreneurs in pursuit of profit as directors of state agencies and enterprises, but are not yet property owners in their own right.<sup>27</sup>

What are the social positions from which the new capitalist class has emerged? Merchant capital of the classic variety plays a minor role, since the historic period of mercantile trade was cut off by the Maoist revolution; but some of the greatest fortunes in Hong Kong—such as that of billionaire Li Kai-Shing of the Li and Fung Trading Company—are rooted in commerce.

In manufacturing, there are four common routes to becoming an industrial capitalist. The first is to gain an ownership stake in a state-owned enterprise. In the early 1990s, reforms converted many of these SOEs into equity corporations or share-based worker cooperatives, making them semi-private—if not wholly privatized—companies. Further privatization measures were imposed in the early 2000s, after the downturn of the late 1990s reduced their number from around 250,000 to 150,000 and they fell below one-third of national income. A second route is to gain control of a successful township and village enterprise. The TVEs were also subject to widespread privatization by the late 1990s, after a similar shake-out of failed businesses. While many still on the books are mere shells, thousands have been able to grow into substantial companies. In addition, many nominally cooperative or collective enterprises have

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<sup>26</sup> Mellor and Cheng, 'Chinese Chasing the Wealth'.

<sup>27</sup> Wang Hui, *China's New Order: Society, Politics and Economy in Transition*, Cambridge, MA 2003; Hart-Landsberg and Burkett, *China and Socialism*. Because corruption is rife, primitive accumulation in China is accompanied by theft pure and simple; some of the richest, such as Yang Bin and Zhou Zengyi, have been jailed for fraud. As one investment banker puts it, 'This is like the robber baron age in the US in the 19th century; everything is up for grabs': quoted in Mellor and Cheng, 'Chinese Chasing the Wealth'.

seen ownership shares consolidated in the hands of managers or party officials—a process helped along by illicit asset-stripping.<sup>28</sup>

A third route, which has grown in importance, is to start a private company—independently or with foreign investors. After size restrictions on private firms were lifted in 1987, the private sector mushroomed, and by the mid-1990s it accounted for 40 per cent of non-agricultural employment. At the beginning of the next decade, private companies already employed over 40 million people in the cities—as many as state enterprises—and joint ventures another 20 million. Wholly owned foreign subsidiaries, in contrast, had only 7 million workers.<sup>29</sup> A fourth route is that taken by the many small manufacturers who fly under the radar on the margins of legality, such as the thousands of businesses in the Zhejiangcun district of Beijing. City authorities regularly bulldoze their premises, only to see them rebuilt nearby—an impermanent status that provides a kind of liminal space for the emergence of a free-wheeling capitalism beyond the reach of the state.<sup>30</sup>

Many capitalists are emerging in retail and in business services, but a particularly fertile ground for amassing quick riches is the property sector. In the cities, land rent represents a large slice of the social surplus, and a vast spring from which to siphon capital. There has been an enormous jump in the value of urban land. Buildings originally constructed by *danwei* are used to yield rents that can be converted to primary capital for subsequent profit-making investment—a spiral of accumulation that continues under fully capitalist enterprise. To indicate the scope of primitive accumulation via rents, half of the richest people in China today owe their wealth to real estate.<sup>31</sup>

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<sup>28</sup> Good data is lacking on the degree of privatization, but see Samuel Ho, Paul Bowles and Xiaoyuan Dong, “‘Letting Go of the Small’: An Analysis of the Privatization of Rural Enterprises in Jiangsu and Shandong”, *Journal of Development Studies*, vol. 39, no. 4 (2003), pp. 1–26; Yusuf et al., *Under New Ownership*, p. 98; Russell Smyth, ‘Asset-Stripping the Chinese State-Owned Enterprises’, *Journal of Contemporary Asia*, vol. 30, no. 1 (2000), pp. 3–16.

<sup>29</sup> Hart-Landsberg and Burkett, *China and Socialism*, p. 45; Harvey, *A Brief History*, p. 128.

<sup>30</sup> Li Zhang, *Strangers in the City*, Stanford 2001. She confuses things, however, by failing to distinguish, among urban migrants, the new bourgeoisie and petty bourgeoisie from the workers.

<sup>31</sup> *Economist*, ‘Survey of China’.

Financial means of accelerating capital formation are very much in play. As the state has withdrawn from direct financing and control of production, its place has been taken by state banks and local government. The banking system is still four-fifths state-owned, but is being cautiously privatized. More importantly, state banks have been exceptionally generous in meting out credit to all manner of state agencies, state enterprises and private companies. By the 1990s, bank lending exceeded government expenditures by a factor of five. Today, commercial lending stands at 130 per cent of deposits, a much higher rate than in other Asian countries.<sup>32</sup>

Approximately half of bank lending is to state-owned enterprises. These were supposed to become self-supporting, but as growing competition and high taxes cut into profits, managers turned to borrowing to cover expenses—including social obligations to workers. By the late 1980s there was already a build-up of debt, and the early 1990s saw financial tightening and a shake-out. But borrowing increased dramatically later in the decade; as more and more SOEs found themselves in danger of going under, they relied on banks to bail them out—even borrowing to pay off previous loans. They still failed on a massive scale in the late 1990s, but many of those that survived were sustained by state-bank money, then privatized; hence, fictitious capital created by the state ultimately generated real capital operating in the private market.

At the same time, local governments—provinces, municipalities and townships—have financed all manner of infrastructure, building and industrial projects in the fast-growing cities. They have borrowed at a phenomenal rate to support their schemes. One trick they—and SOEs—have used is to offer land as collateral for bank loans, a practice that shot up in the property boom of the 1990s. Total debts of township and village governments alone are somewhere around \$1 trillion yuan (\$125 billion), roughly 5 per cent of GNP.<sup>33</sup> All this is to say nothing of the recent stock-market bubble, which has seen the Shanghai Exchange index treble in value since 2005. The world's largest international public offering recently took place for the Commercial Bank and Trust Company.

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<sup>32</sup> Harvey, *A Brief History*, p. 133; 'India: Safe and Sorry', *Economist*, 3 June 2006.

<sup>33</sup> Lin and Ho, 'The State and Land Development', p. 703; *Economist*, 'Survey of China'; 'The People's Republic in the Grip of Popular Capitalism', *Economist*, 28 April 2007.

There has thus been an immense growth of capital accumulation in China via credit. Such laxity makes financial crises an inevitable part of the birth-pains of capitalism. At the end of the 1990s, the banking system became burdened with one of the highest rates of non-performing loans in the world—peaking at perhaps half of all bank lending, though conservative estimates put it nearer 30 per cent. Worries abound, meanwhile, about the overheated state of the stock markets.<sup>34</sup>

### *Spatial division of labour*

Throughout the West, early capitalism fostered the expansion of cities and created extensive urban networks, to a far greater degree than all earlier epochs. One factor in the growth of cities under capitalism was the expansion of commerce, and the concentration of trade and transport in urban entrepôts. A second was the industrial revolution. Factory towns like Manchester and Lowell sprouted up all over nineteenth-century Britain and the United States. Even the big mercantile cities nurtured substantial manufacturing districts, often made up of diverse enterprises in luxury and specialist goods—for example, Birmingham's firearms district or New York's garment district. A third reason for this urbanization was the intensified flow of spending, the swirl of consumption, and the bright lights of city living. The boulevards, High Streets and department stores of the biggest cities became indelibly etched in national consciousness as sites of modern life.

With the growth of cities in the West came the internal sorting of functions into specialized districts—as a consequence of the expanding social division of labour operating in a commodified urban land market, where like-minded and complementary enterprises bought themselves proximity. Especially in the US there was a marked concentration of business activities in city centres, driving out older residential and commercial functions, and a further distillation into financial, shopping and entertainment districts, industrial and warehouse districts, and so on. As cities expanded outward, new subcentres sprang up, making the polycentric metropolises of the twentieth century.

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<sup>34</sup> The government has been able to prop up shaky banks by injecting foreign-exchange reserves and siphoning off bad loans into asset-management companies backed by the Central Bank; but non-performing loans are still 20 to 30 per cent of bank portfolios: *Economist*, 'Survey of China', p. 13; Harvey, *A Brief History*.

Residential housing sorted into distinct neighbourhoods, which have played an essential role as markers of class and geographic motors of class formation. Spatial separation need not be as absolute as in the US to qualify as segregation; European cities have long witnessed effective class divisions in a more compact urban form.

One of the basic goals of Maoism was to break down the social division of labour, especially that between city and country. How well it succeeded is moot, but after the 1949 revolution factories were more widely dispersed across the countryside than before, and the growth of cities was curtailed. Within the Maoist city, the economic and social landscape was carved into repetitive, cellular units made up of *danwei* compounds.<sup>35</sup> Since 1980, by contrast, Chinese cities have grown like mushrooms, urban industry has burgeoned, and the internal landscape has been dramatically reconfigured.

China's urban population and number of cities have trebled in a generation, and the country is now around 40 per cent urbanized: over one hundred cities have at least half a million people. The most spectacular urban growth in the early reform period, strongly linked to export industrialization, was in south China—reversing northern dominance under Maoism. Shenzhen, Guangzhou and Dongguan, each with a population of 7 to 9 million, became the new workshops of the world. By the late 1990s, however, the big northern and central coast cities had moved to the forefront. Beijing and Shanghai each count over 15 million souls and have exploded their old boundaries, now numbering among the largest conurbations on earth.<sup>36</sup>

Not all factories are in large cities. Many are in medium-sized towns, as in the Yangtze River delta, or in former villages as in the Pearl River delta; but these are closely linked to the major urban centres of Shanghai and Hong Kong respectively. Some city industries have drawn a large corona of companies in the surrounding regions into their supply networks—combining elements of the classic putting-out system

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<sup>35</sup> John Lewis, ed., *The City in Communist China*, Stanford 1971; Piper Gaubatz, 'Urban Transformation in Post-Mao China: Impacts of the Reform Era on China's Urban Form', in Deborah Davis, Richard Kraus, Barry Naughton and Elizabeth Perry, eds, *Urban Spaces in Contemporary China*, New York 1995, pp. 28–60.

<sup>36</sup> George Lin, 'The Growth and Structural Change of Chinese Cities', *Cities*, vol. 19, no. 5 (2002), pp. 299–316.

with the long-distance contracting of today's global economy. In other instances, whole new industrial districts have arisen, as in the metal-working, textiles and furniture clusters of Guangdong or the Chaoyang electronics district of Beijing.

On top of this, commercial functions are now propelling Chinese city centres to new heights. These classic elements of the capitalist division of labour have been slower to develop than manufacturing, in part because Hong Kong acted as the keystone city for southern China; Taipei and Singapore also play offshore roles as mercantile and financial centres for the mainland. Nonetheless, cities like Shanghai and Guangzhou are developing a whole array of mercantile, financial and control activities, along with business services needed to back them up; these are filling up office complexes across the urban landscape.<sup>37</sup> Equally striking is how fast Chinese cities have evolved an internal spatial division of labour. Central business districts are appearing, such as Beijing's new high-rise downtown, and retail and financial districts are starting to sort out. Cities have also become more sprawling. Manufacturing, which once occupied *danwei* lands in prime central locations, has been relocating to lower-cost industrial districts in the suburbs. New commercial, industrial and office clusters on the fringes of metropolitan areas have rendered Chinese cities polycentric.<sup>38</sup>

New housing has been moving upward into high-rises and outward into the suburbs, even as housing embodies emergent class divisions. Residences are sorting out by ability to pay, with former state employees in one area, gated enclaves of the wealthy in another, and slum-like 'urban villages' for transient workers. Well-off families are moving into suburban housing tracts copied from Napa Valley, Orange County and

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<sup>37</sup> George Lin, 'Towards a Post-Socialist City? Economic Tertiarization and Urban Reformation in the Guangzhou Metropolis, China', *Eurasian Geography and Economics*, vol. 45, no. 1 (2004), pp. 18–44.

<sup>38</sup> Piper Gaubatz, 'Globalization and the Development of New Central Business Districts in Beijing, Shanghai and Guangzhou', in Ma and Wu, *Restructuring the Chinese City*, pp. 98–116; Fulong Wu, 'Polycentric Urban Development and Land-Use Change in a Transitional Economy: the Case of Guangzhou', *Environment and Planning A*, vol. 30, no. 6 (1998), pp. 1077–1100; Lin, 'Towards a Post-Socialist City?'; Wu and Yeh, 'Transition of Urban Spatial Structure'. Although there has been a great deal of planning by city governments, Chinese cities have become more subject to uncontrolled, chaotic development, much like that in the US.

Long Island that recapitulate the geography of bourgeois class formation in the United States.<sup>39</sup>

### *A government for capital*

Last, but certainly not least, is the role of the state, which has never functioned in the way doctrinaire liberals imagine. Laissez-faire Britain had its vast navy, efficient taxation and bureaucracy, central bank and hard-knuckled legal system. In the rest of Europe, the state played an even more intrusive and vanguard role. The liberal regime of the United States also required a strong national constitution to promote economic development; but Americans hit on the distinctive state model of a federal union that has proved an effective way to integrate and manage a vast national territory. The federal umbrella guaranteed the free flows of goods, capital and labour, while geographical representation and the autonomy of local governments has meant close cooperation between state and business in pursuit of regional development. American states have enthusiastically promoted growth via their powers over banking, infrastructure and labour law. Land use and development, in particular, have been almost entirely left to city officials. The result has been a diverse array of competing pro-growth coalitions greasing the wheels of commerce; the political economy of boosterism is an essential part of the American scene.

The Chinese leadership has systematically liberalized the economy under the close guidance of the State Council and the Communist Party. The notable factor here, however, is how this transition has reconfigured the *form* of the state in a way that has unleashed the powers of capitalism. The transformation has brought a metamorphosis in which property, markets and capitalists break out of the cocoon of the socialist state, and a bourgeois social order, economy and state unfold from the old mode of production. The reorganization of the Chinese state has created a structure of remarkable complexity. Some observers refer to 'state sprawl' and are surprised that it has not shrunk under

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<sup>39</sup> Fulong Wu, 'Transplanting Cityscapes: The Use of Imagined Globalization in Housing Commodification in Beijing', *Area*, vol. 36, no. 3 (2004), pp. 227–34; Youqin Huang, 'From Work-Unit Compounds to Gated Communities: Housing Inequality and Residential Segregation in Transitional Beijing', in Ma and Wu, *Restructuring the Chinese City*, pp. 192–221; Zhang, *Strangers*.

a more liberal order. But the point is not whether the state is smaller, but how it has been restructured and what its components have been required to do.<sup>40</sup>

China's transition to a capitalist state has been carried out through a remarkable marriage of central power and decentralized authority. On the one hand, the tradition of administrative hierarchy is strong. The central government has managed the transition to capitalism every step of the way, issuing a series of directives in the shape of formal laws, policy declarations and general pronouncements. On the other hand, China has a long history of dispersed power over its enormous territory, with considerable provincial and county integrity, and local-government autonomy. It is not surprising, therefore, that an essential part of the transition to capitalism has been allowing a greater decentralization of the state. Economic liberalization and primitive accumulation have been facilitated, and even accelerated, by a rescaling and downward shift of state power.<sup>41</sup>

The central government has favoured cities, in particular, as vehicles of transition. One policy front has been the relative autonomy granted to large cities, especially the four metropolises—Beijing, Shanghai, Chongqing and Tianjin—and others of prefecture level. These have been given additional powers to annex territory, and to subordinate counties and small cities in their penumbra.<sup>42</sup> Of course, the actual degree of autonomy of any local government depends on the political struggles of party factions, power blocs and interest groups. While party secretaries and city mayors are centrally appointed, this is done as a function of local jockeying for position or the power of big-city party factions over the

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<sup>40</sup> Vivienne Shue, 'State Sprawl: The Regulatory State and Social Life in a Small Chinese City', in Deborah Davis et al., *Urban Spaces in Contemporary China*, pp. 90–113; Laurence Ma, 'Urban Administrative Restructuring, Changing Scale Relations and Local Economic Development in China', *Political Geography*, vol. 24, no. 4 (2005), pp. 477–97; Shen, 'Space, Scale and the State'.

<sup>41</sup> Ma, 'Urban Administrative Restructuring'; Carolyn Cartier, 'City-Space: Scale Relations and China's Spatial Administrative Hierarchy', in Ma and Wu, eds, *Restructuring the Chinese City*, pp. 21–38.

<sup>42</sup> Wild annexations mean that administrative boundaries do not strictly correspond to the economic territory or built-up area of cities. Many towns and counties won city designation on flimsy grounds before the central government tightened up the rules in the 2000s and put some provinces back above cities in the hierarchy: Jae Ho Chung and Tao-Chiu Lam, 'China's "City System" in Flux: Explaining Post-Mao Administrative Changes', *China Quarterly*, 180 (2004), pp. 945–64.



Chinese Communist Party as a whole—as with the national dominance of the Shanghai faction in the 1990s.

Local governments have been set loose throughout China in pursuit of economic growth. Municipal, provincial and county authorities act as overseers of development, working with whoever offers the best promise of rapid growth. Local officials have a range of implements in the growth-promotion tool kit. Annexation of territory, seizures of farmland and extension of infrastructure have all been useful in urban expansion. Property transfers, favourable leases and land banking have been effective in assisting builders and developers. City plans, redevelopment schemes and modernization discourses have promoted the reconfiguration of urban space. Manufacturing has been aided through such devices as tax concessions, land grants and industrial parks, as well as through assuring a supply of labour by the manipulation of *hukou* permits and entry fees, and the policing of labour organizing and protests.<sup>43</sup>

State and party officials at a local level have become highly entrepreneurial in promoting industrial expansion, construction and commercial development. Many act as managers of state-owned enterprises and property companies in the public sector, while some serve on boards or have stakes in private businesses. Others serve as brokers and deal-makers between public and private, or between state agencies; and still others grease the wheels through black-market deals, bribes and informal networking, known as *guanxi*. In addition, party cadres have come to be judged for promotion on their ability to deliver regional growth, employment and foreign investment. Personal prestige, faith in modernization and general zeal all play a part in motivating local officials to promote their towns and cities.

Local governments are motivated, above all, by a fiscal regime in which their revenues depend more on local taxes and rents than on redistribution of national revenues. Since the 1980s, revenue sharing has taken place upwards, with local governments retaining what is left. China is now one of the most decentralized states in the world in fiscal

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<sup>43</sup> Fulong Wu, 'Globalization, Place Promotion, and Urban Development in Shanghai', *Journal of Urban Affairs*, vol. 25, no. 1 (2003), pp. 55–78; Lan-Chih Po, *Strategies of Urban Development in China's Reforms: Nanjing 1984–2000*, doctoral dissertation, Berkeley 2001; Hsing, 'Territorial Politics'; Wang, *China's New Order*.

terms.<sup>44</sup> One major source of local income is business taxes on profits and sales. The largest part of local revenue still came from state and township enterprises in the 1980s, but the proportion derived from private business has risen sharply since then. The other major source of income is landed property, from rents, leases and transaction fees; this has ballooned with the property booms of the 1990s and 2000s. In addition, there are certain extra-budgetary revenues that local governments do not have to share with those higher up.<sup>45</sup>

Altogether, the Chinese situation reminds one of the American federal system and its urban growth politics, from which an array of public and private players profit handsomely. Backroom payoffs are far from unknown in the US, but the exchange of favours and rewards is done to the mutual advantage of many. What the Chinese call *guanxi* is very like what Americans call horse-trading. Regional government competition in China is also reminiscent of American federalism. It is pointless to complain, in this context, about the duplication and inefficiency of local boosterism.<sup>46</sup> The evidence in both the US and China is that this kind of wide-open alliance between state and capital for regional development works very well indeed.

The central state is another matter, of course, and the Communist Party leadership has long derived its power from non-capitalist sources of state revenue, party organization and socialist legitimacy. One would not expect the State Council to play midwife to the birth of capitalism in the same way as local governments. China's 'developmental dictatorship' is more in line with continental European experience in this regard. But there are signs of a new stage in the bourgeoisification of the state. National officials increasingly have their fingers in lucrative local industrial and land-development pies, through vertical administrative connections, or *xitong*. Moreover, in a highly controversial move in

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<sup>44</sup> Oi, 'Fiscal Reform'; Shen, 'Space, Scale and the State'. There is an ongoing struggle among levels of government over who controls territory, revenues and land. While the national government took a larger slice of local revenues in the 1990s, it has effectively given municipalities more control over land development since 2000.

<sup>45</sup> Ho and Lin, 'Emerging Land Markets'; Hsing, 'Brokering Power'.

<sup>46</sup> For example, Hart-Landsberg and Burkett, *China and Socialism*, p. 56. See also Gabriella Montinola, Yingyi Qian and Barry Weingast, 'Federalism, Chinese Style: The Political Basis for Economic Success in China', *World Politics*, vol. 48, no. 1 (1995), pp. 50–81.

2002, members from the ranks of private business were welcomed into the Communist Party; some experts claim that capitalist cadres have become a majority among the national party leadership.<sup>47</sup>

Our purpose here has been to dissect the changes in Chinese cities in order to show that the PRC has passed the point of transition to a predominantly capitalist order, and that it has followed a path not so distant from those of Europe and North America. Such a comparison is an essential baseline for China scholars and outside observers trying to understand the country's economic development or assess current social conditions there.

The use of the classic Marxist terms 'transition' and 'primitive accumulation' in itself implies a critique of the ills unleashed by capitalist dynamics. While liberals will emphasize the positive outcomes of China's economic miracle—on average, incomes are rising, housing has improved, more basic consumer goods are available and cities are flourishing—the heavy costs are evident: widening inequalities and extreme exploitation of labour; higher unemployment and increased job insecurity; and widespread loss of services such as childcare and health care. There is now a yawning gap between prosperous city-dwellers and poor peasants, and between the roaring east coast and backward interior. The environmental costs have also been severe: appalling air pollution, massive toxic spills and deadly industrial hazards. It harks back to the horrors of the industrial revolution in Britain, as revealed by the Factory Reports or Mayhew's studies of the London poor.

What might be done to alter the trajectory of capitalism in China? Popular protest is on the rise, spurred by such indignities as contaminated water, wholesale housing clearances and the venality of local officials. The leadership of the Chinese Communist Party is acutely aware of the danger of unrest, and has introduced some reforms and launched campaigns against 'corruption'. But it has not allowed the people to organize and speak for themselves; a tight lid has been kept on democratic awakenings, from Tiananmen Square to Internet 2.0.

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<sup>47</sup> Bruce Dickson, *Red Capitalists in China: The Party, Private Entrepreneurs and Prospects for Political Change*, Cambridge, MA 2003; Wang, *China's New Order*; also Hsing, 'Territorial Politics'.

This raises a final question. If China is increasingly a liberal state and market economy, why has there been no liberalization of politics? In the conventional liberal view, democratic freedoms flow directly from private property and the market. Yet despite the potential relation between the parcellization of economic sovereignty in the hands of the bourgeoisie and the weakening of state absolutism, these processes have never been sufficient to assure a democratic order. Western polities only gained a degree of real freedom through popular rebellion, dispersion of property, union organizing, expansions of suffrage and political struggle over two long, difficult centuries in which Britain clung to its monarchs and peerage, the United States to slavery and Jim Crow, while France reverted to emperors and kings and Germany and Italy succumbed to fascist dictators.

Why should we expect better in China today? The abolition of the right to strike in the 1982 Constitution and the shooting of dissidents in 1986 and 1989 are classic examples of the brutal birth of a capitalist order—comparable to the Peterloo Massacre in England, or the Great Railway Strike in the US. Moreover, the Chinese state's exercise of extreme repression is unsurprising, given the CCP's ongoing monopoly on political power—a crucial component of the PRC's distinctive road to capitalism. An imminent leap to democracy under such circumstances is a liberal fantasy. The people of China face a long and arduous period of popular struggle if they are to tame the beast that has been unleashed.