

## CHANGING COLOURS IN CHINA

OVER THE LAST DECADE, China has suddenly become a major player in the global economy, and it has become increasingly common to read that it is on the way to becoming the world's dominant power. In the literature of such forecasts, Giovanni Arrighi's *Adam Smith in Beijing* stands out for two reasons. The first of these is that Arrighi embeds his analysis within a grand and sophisticated historical model of the rise and fall of a sequence of hegemonic powers. The second is that while many Western scholars view China's ascent with trepidation, Arrighi welcomes it with enthusiasm.

In Arrighi's model, which was most fully developed in *The Long Twentieth Century* (1994), the capitalist world system has evolved through a succession of hegemonic cycles. These have each been dominated by a single power, and although they have had distinct characteristics, so far they have all followed similar trajectories. When *The Long Twentieth Century* was published, Arrighi was already convinced that the global centre of capital accumulation was shifting from the North Atlantic to East Asia, yet at that time China had only just begun to transform its economy in a fashion that would allow it to fully integrate into the global economy and become the 'workshop of the world'. Today, the emergence of China as a global economic power, and the military and economic setbacks of the United States, have given Arrighi the confidence to predict that the epoch of US hegemony is likely to be followed by an era of East Asian dominance, with China at its centre.

For Arrighi, Chinese world hegemony could have three positive results. Firstly, by restructuring the current hierarchy of powers, dominated by the West, a period of East Asian pre-eminence might bring about greater equality among the world's nations. Secondly, Chinese hegemony might prove to be less militarist and more peaceful than its European-American

predecessors. Thirdly, the rise of China might foster a more egalitarian and humane East Asian development path—one based on market exchange, but that is not capitalist.

Arrighi's optimistic scenario has attracted surly responses from reviewers convinced of the superiority of Western civilization, and more thoughtful and positive reviews from others, less sanguine about the world order produced by Western domination.<sup>1</sup> Each of his three predictions deserves serious individual consideration. In this essay, I will limit myself to responding to the last—that China might be pioneering the development of a market system that is not capitalist.

What you see, of course, depends greatly on the conceptual framework you employ. Arrighi starts with a model of capitalism derived from Braudel's historical narrative of the development of capitalism in Europe. Braudel divided the economy into three layers. At the bottom, economic activity consisted of subsistence production with little market exchange. A middle layer was composed of market-oriented activity organized by competitive entrepreneurs. The top echelon was reserved for capitalists proper, benefiting from monopoly positions and closely associated with state power. This is a framework that has informed much world-systems analysis, and Arrighi employs it to suggest distinct models of Western and East Asian development. In the West, capitalists dominated the state, generating a potent combination of economic and military expansion that allowed Western powers to conquer the world. In East Asia, by contrast, a strong state fostered market exchange, but kept large-scale capital in check. This model flourished under the hegemonic supervision of the Chinese empire, presiding over a relatively peaceful system of interstate relations in the region which made it the wealthiest in the world until the nineteenth century. Then, as the Chinese state declined and East Asia was incorporated into a world economy dominated by European powers during the nineteenth and early twentieth centuries, Japan grafted elements of the Western capitalist model into its own economy, creating a hybrid system.

In *The Long Twentieth Century*, Arrighi was hopeful that the rising economic power of Japan, stripped of its military dimension after the Second World War, might foster a new model in which economic and military

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<sup>1</sup> Notably Mark Elvin: see 'The Historian as Haruspex', NLR 52, July–Aug 2008, pp. 83–109.

power were dissociated, and could eventually usher in a 'post-capitalist world market society'.<sup>2</sup> In *Adam Smith in Beijing*, Arrighi has shifted his attention to China, where, he writes, a strong welfare-oriented state created by the Communist revolution has rediscovered the economic dynamism of the market, fostering the initiative of masses of small entrepreneurs, rural and urban.<sup>3</sup> As China leads East Asia to recover its position as the most economically developed region of the globe, he suggests, it may choose to conform to the Western capitalist paradigm or it may blaze a different path more in accord with its own past.

Arrighi's develops his models on a grand scale, encompassing global networks of power and trade, interstate competition, and the evolution of economic and political systems over hundreds of years. Like others who work in the world-systems paradigm, he is more concerned about structures that reproduce international inequality than those that reproduce inequality within nations. As a consequence, he devotes little attention to analysing the details of production relations. What might we see if we revisit recent Chinese economic history, turning our attention to production relations? Such will be my focus, and for this purpose I will use Marx's conceptual framework. I will then consider Arrighi's suggestion that China might be pioneering a development path distinct from that of the West, using Braudel's definition of capitalism, which focuses on the relationship between capital and the state.

### *Marx and Mao*

Marx's framework is widely familiar, so I will only briefly review it in order to construct a three-part typology of economic organizations with which to analyse changes in China's economic system. The first type is based on family labour, the second on the socialist work unit, and the third on capitalist wage labour.

Before the advent of capitalism, Marx wrote, in both rural villages and urban guilds, labour was securely linked to the means of production, and neither could be freely bought and sold. Capitalism separated the

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<sup>2</sup> Giovanni Arrighi, *The Long Twentieth Century: Money, Power and the Origins of Our Times*, London and New York 1994, p. 356.

<sup>3</sup> While China received relatively little attention in *The Long Twentieth Century*, by 1999 Arrighi was already predicting the re-emergence of a 'China-centred world system'. See Arrighi and Beverly Silver, *Chaos and Governance in the Modern World System*, Minneapolis 1999, pp. 286–9.

two and placed them both on the market, creating a system based on freely traded wage labour and productive property. In previous systems, responsibilities for both production and consumption had been combined within the same economic organizations, which were typically family-based, and consumption was the ultimate purpose of production. Because capitalist enterprises were free to hire and fire labour and had no responsibility for their employees' consumption, they could, in contrast, make profit their overriding goal. This made capitalism a dynamic system that was very efficient at allocating labour in order to maximize profits and accumulate capital. Although capitalist enterprises had long existed, the first time wage labour became the dominant form of production relations was in England during the Industrial Revolution. The spread of capitalist production relations led to extreme concentrations of economic operations and severe class polarization, reaching levels that had been impossible under systems based on family labour. Because of its dynamism and efficiency, Marx predicted that this system would sweep the world, but he also anticipated that socialism would then reverse what capitalism had done, by reuniting labour and the means of production.

Before 1949, much of the Chinese economy was organized around market exchange, but capitalist production relations played only a limited role. China had long been a highly commercialized society, in which land was bought and sold and mass consumption goods including grain and common textiles were widely traded as commodities. Many, if not most, peasant households were involved in the market, selling not only agricultural goods, but also products of household manufacturing, including woven cloth. During the century that preceded the 1949 Revolution, the capitalist sector (that is, the sector that relied on wage labour) was growing but still tiny, and peasant household production, based on family labour, made up the great bulk of the economy.

During the Mao Zedong era, from 1949 to 1976, both the family labour and capitalist sectors were virtually eliminated; market exchange was sharply restricted and the economy was reorganized along socialist lines. The entire rural population became members of collective production brigades, and virtually the entire urban population became members of work units (which included government offices, institutions such as hospitals and schools, and both state-owned and collective enterprises). Work-unit members were paid wages, but they were permanent employ-

ees, so labour power was not a freely traded commodity. Like families, rural production brigades and urban work units could not fire their members, and were responsible not only for organizing production but also for providing for their members' consumption; this structurally curtailed their ability to make profit an overarching goal.<sup>4</sup> Marx had wanted to reunite labour and the means of production, and this is precisely what the Chinese Communist Party did.

### *A non-capitalist market economy*

During the early post-Mao era, from 1976 to 1992, the initial rounds of market reforms created what could be called a non-capitalist market economy. Urban China continued to be dominated by the public sector; although small-scale private enterprise was permitted after 1978, it played only a marginal role in cities. In both state-owned and collective enterprises, fundamental features of the work-unit system survived. Both continued to be based on public property and permanent employment. Although structural reforms in the latter half of the 1980s began to require workers to sign multi-year contracts (formally replacing lifetime tenure) and some small enterprises were allowed to collapse, there were very few layoffs. Work units continued to be responsible for the livelihood of their members, both on the job and retired.

After 1984, market exchange gradually replaced planning, and economic incentives were used to push enterprise managers to improve rates of profit (including arrangements that allowed them to keep profits above a contracted amount), but their ability to give priority to profits continued to be limited by the responsibilities of work units to their members. In fact, in the 1980s, as enterprises were allowed to keep more of their revenues, many used a large portion of these funds to build employee housing and create subsidiary units that were often designed more to provide jobs for employees' children than to maximize profits. In the early 1990s, even after more than a decade of market reforms, public-sector enterprises were hardly the kind of lean-and-mean profit-generating machines commended at Western business schools. Rather, they remained 'social enterprises' harbouring

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<sup>4</sup> For overviews of how rural production brigades and urban work units were organized and functioned during the Mao era, see William Parish and Martin Whyte, *Village and Family in Contemporary China*, Chicago 1978, and *Urban Life in Contemporary China*, Chicago 1984.

a growing number of employees and retirees and an unwieldy collection of production and service units, including apartment complexes, health clinics, vocational schools for employees, day-care centres and primary and secondary schools for members' children, stores, cafeterias, and cultural and recreation facilities.<sup>5</sup>

At the margins of the urban public sector, a modest urban private sector developed, composed largely of street vendors, barbers and the operators of small stores, restaurants, repair shops and so on. At first, private enterprise was restricted to *getihu* (individual households), which legally could not hire more than seven employees, but even after this restriction was lifted in 1987, *getihu* continued to dominate the private sector in China's cities. Urban society was split into two very distinct worlds, one 'inside the system' and the other 'outside the system'. The two worlds met at the work-unit gate, where small shops and vendors congregated to sell goods and services to those who lived inside.<sup>6</sup>

In rural China, by contrast, the great bulk of the population was engaged in family-organized economic activities. After de-collectivization of agriculture was completed in 1984, land continued to be owned by the village, but use rights were divided among peasant families, and agricultural production was organized around family labour, as was a burgeoning private economy based on household industry, commerce and transport. At the same time, larger industrial enterprises grew rapidly in those villages and towns with easy access to urban and overseas markets. By law, township and village enterprises had to be owned collectively and most were, although there was great variation in how they were actually organized. In the most collectivist model, which predominated in the rapidly developing Yangtze delta region and could also be found in many other areas, rural factories were set up by village and township governments, with local officials in charge and villagers claiming all the jobs; even

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<sup>5</sup> Michael Korzec, *Labour and the Failure of Reform in China*, London 1992; Hanlin Li and Qi Wang, *Research on the Chinese Work-Unit Society*, Frankfurt 1996; Barry Naughton, 'Danwei: The Economic Foundations of a Unique Institution', in Xiaobo Lü and Elizabeth Perry, eds, *Danwei: The Changing Chinese Workplace in Historical and Comparative Perspective*, New York 1997, pp. 169–94; Jonathan Unger and Anita Chan, 'The Internal Politics of an Urban Chinese Work Community: A Case Study of Employee Influence on Decision-Making at a State-owned Factory', *China Journal*, no. 52 (2004), pp. 1–24.

<sup>6</sup> Susan Young, 'Wealth but not Security: Attitudes Towards Private Business in China in the 1980s', *Australian Journal of Chinese Affairs*, no. 25 (1991), pp. 115–37.

when production requirements outstripped the local labour force and outsiders were hired, members of the local community continued to occupy the best positions.

At the other extreme, in a model that spread out from the 'special economic zones' in south-eastern Guangdong and Fujian provinces, rural factories were typically funded by investors from Hong Kong and Taiwan, and preferred to hire less expensive migrant labour from the interior. Although outside of the special economic zones such enterprises had to register officially as collectives (don a 'red hat'), actual production relations were much closer to the free market ideal. Because all of rural industry was outside the planned economy, whether factories were managed by township and village officials or by private entrepreneurs, success required entrepreneurial drive and skill, employment was more unstable and flexible, and machinery and production facilities changed hands more easily.<sup>7</sup>

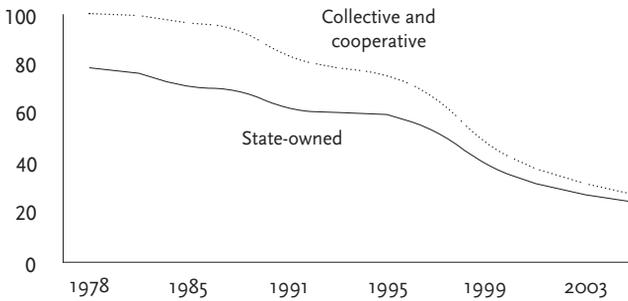
If we look at the entire country from a distance, during the period between 1978 and 1992 there were two great sectors: a public sector that was still largely based on socialist production relations and a private sector in which family production relations prevailed. Looking a little closer, in urban areas, the public sector was dominant, with a thriving family economy at the margins, while in rural areas, the family economy was dominant, with a growing township and village enterprise sector, which harboured both socialist and small-scale capitalist production relations. This was, indeed, a non-capitalist market economy, although it was changing quickly.

### *Privatizations and profits*

Since 1992, much more radical market reforms have changed everything. Deng Xiaoping's highly publicized tour of foreign-funded enterprises in southeast China's special economic zones in early 1992 is conventionally cited as the key moment that marked the shift to more radical economic restructuring. After that, the CCP strongly encouraged the

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<sup>7</sup> Barry Naughton, *The Chinese Economy: Transitions and Growth*, Cambridge 2007, pp. 240–48, 271–93; Jean Oi, *Rural China Takes Off: Incentives for Industrialization*, Berkeley 1996; Jonathan Unger, *The Transformation of Rural China*, Armonk 2002; Andrew Walder, 'Local Government as Industrial Firms: An Organizational Analysis of China's Transitional Economy', *American Journal of Sociology*, vol. 101, no. 2 (September 1995), pp. 263–301.

FIGURE I. *Public sector share of urban employment, 1978–2005 (%)*

Source: National Bureau of Statistics of China, *China Statistical Yearbook*, Beijing 2006, pp. 128–9.

growth of the private capitalist sector and by the end of the decade it had presided over the privatization of the great majority of publicly owned enterprises. Between 1991 and 2005, the proportion of the urban workforce employed in the public sector fell from about 82 per cent to about 27 per cent (see Figure 1, above).

During the early 1990s, policies that limited the size of private enterprises and restricted foreign investment were lifted and state officials at all levels were encouraged to promote both. Unlike Japan, South Korea and Taiwan, China welcomed foreign direct investment with open arms, and capital began flowing into the country on a huge scale. Small-time Chinese entrepreneurs from Hong Kong, Taiwan, Singapore and elsewhere found collaborators in Chinese villages and townships, while multinational corporations with headquarters in these centres of the Chinese diaspora as well as in Japan, South Korea, the United States and Europe, found partners at higher levels. By the year 2000 nearly one third of Chinese manufacturing was carried out by factories affiliated with foreign companies.<sup>8</sup>

The newly legitimate domestic capitalist sector also grew rapidly, augmented both by successful entrepreneurs who had originated from the

<sup>8</sup> James Heartfield, 'China's Comprador Capitalism is Coming Home', *Review of Radical Political Economics*, vol. 37, no. 2 (Spring 2005), pp. 196–214; Naughton, *The Chinese Economy*, pp. 401–23; Martin Hart-Landsberg and Paul Burkett, 'China and the Dynamics of Transnational Accumulation: Causes and Consequences of Global Restructuring', *Historical Materialism*, vol. 14, no. 3 (2006), pp. 3–43.

ranks of villagers and *getihu* outside the system and by cadres and professionals from inside the system who had decided the time was now ripe to 'jump into the sea' (*xiahai*) of private enterprise. A particularly successful segment of *xiahai* entrepreneurs were relatives and associates of state enterprise and government cadres, who were able to use their connections inside the system to win access to contracts, licenses, credit, resources and markets.<sup>9</sup>

In the public-enterprise sector, the CCP decided to 'hold onto the large and let go of the small'. Almost all township and village enterprises and the great majority of urban state and collective enterprises were totally or partially privatized. Some factories were sold to outside investors but most went to insiders. In some early cases, shares were sold to all employees, but this model was soon discarded in favour of management buy-outs. Because managers typically had little capital themselves, this usually required creative financial arrangements. Investigations of privatization in both rural and urban areas indicate that most publicly owned enterprises ultimately became the property of their own managers.<sup>10</sup> Many state and collective enterprises were liquidated, and others drastically reduced their workforces; as a result of public-sector restructuring over fifty million workers—about 40 per cent of the public-enterprise workforce—lost their jobs.<sup>11</sup>

This massive conversion of public into private property transformed managers into property owners and other work-unit members into disenfranchised proletarians. Work units in which previously both managers and workers had enforceable claims suddenly became the exclusive possession of the managers. In Marx's language, labour

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<sup>9</sup> David Goodman, 'New entrepreneurs in reform China: Economic growth and social change in Taiyuan, Shanxi', in Heidi Dahles and Otto van den Muijzenberg, eds, *Capital and Knowledge in Asia: Changing Power Relations*, London 2003, pp. 187–97.

<sup>10</sup> X. L. Ding, 'The Illegal Asset Stripping of Chinese State Firms,' *China Journal*, no. 43 (2000), pp. 1–28; X. L. Ding, 'Systemic Irregularity and Spontaneous Property Transformation in the Chinese Financial System', *China Quarterly*, vol. 163 (September 2000), pp. 655–76; Hongbin Li and Scott Rozelle, 'Privatizing Rural China: Insider Privatization, Innovative Contracts and the Performance of Township Enterprises', *China Quarterly*, vol. 176 (December 2003), pp. 981–1005; Ross Garnaut, Ligang Song and Yang Yao, 'Impact and Significance of State-Owned Enterprise Restructuring in China', *China Journal*, no. 55 (2006), pp. 35–63.

<sup>11</sup> Dorothy Solinger, 'Chinese Urban Jobs and the WTO', *China Journal*, no. 49 (2003), p. 69; Naughton, *The Chinese Economy*, pp. 179–91.

power was separated from the means of production, as both were converted into commodities, and the responsibilities for production and consumption were severed.

### *Controlling interests*

The large enterprises over which the state chose to retain control were restructured to conform to a 'corporate' model and their assets were converted into shares listed on public stock exchanges. The state retained a controlling interest in the largest and most strategic enterprises, particularly those in the banking, oil, steel, power, telecommunications and armaments industries. In a second tier of somewhat smaller enterprises, including many that were owned by provincial and local government entities, the state became a minority shareholder. The managers of the restructured enterprises were now formally accountable to a board of directors, and holding companies were established to manage government assets and represent the state interest on these corporate boards. Board members were assigned the task of ensuring that managers maximized shareholder value, and even the government holding companies were instructed to make return on state assets their primary concern.<sup>12</sup>

In order to retain some capacity to steer state-owned enterprises in line with political concerns, the CCP has held onto the power to appoint key state-sector executives, and government officials continue to use public holding companies to pursue state objectives that are broader than quarterly profits. Nevertheless, the structure of these enterprises has been fundamentally changed so that they are required—and able—to make profitability their primary goal. To accomplish this, they shed their previous obligations to their employees. Lifetime employment guarantees were eliminated, and enterprises not only reduced the size of their workforces but also discharged veteran workers and replaced them with younger workers who were less costly and more pliant.<sup>13</sup> State-owned coal mines,

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<sup>12</sup> Naughton, *The Chinese Economy*, pp. 297–326; Shahid Yusuf, Kaoru Nabeshima and Dwight Perkins, *Under New Ownership: Privatizing China's State-Owned Enterprises*, Stanford 2006.

<sup>13</sup> Ching Kwan Lee, *Against the Law: Labour Protests in China's Rustbelt and Sunbelt*, Berkeley 2007, pp. 34–153; Dorothy Solinger, 'The Impact of the Floating Population on the *Danwei*: Shifts in the Pattern of Labour Mobility Control and Entitlement Provision', in Lü and Perry, *Danwei*, pp. 195–224.

for instance, now engage contractors who compete to mine coal—using migrant labour—for the lowest cost per ton, a system that helps make Chinese coal mines the most dangerous in the world.<sup>14</sup> Enterprises have also closed unprofitable subsidiaries and removed themselves from the business of providing housing, health care, pensions, childcare, recreation, education and other services for employees and their families. Although these enterprises remain partly state-owned, the features that made them socialist have been eliminated.

China's entrance into the WTO in 2001, which was followed by more systematic abolition of legal impediments to international trade and investment, added force to market reforms by more thoroughly subjecting Chinese enterprises to international competition. With few exceptions, all firms were compelled to reduce the cost of labour and of social encumbrances that did not directly contribute to profitability.

As a result of the radical reforms carried out in recent years, the non-capitalist market economy that existed in the 1980s has been transformed into a capitalist economy. There is no longer a socialist sector and virtually all enterprises that employ more than a handful of people, whether they are publicly or privately owned, now operate according to capitalist principles. The family labour sector is in decline, as are small capitalist businesses. Capital is rapidly being centralized: small factories are being replaced by larger factories; small shops and restaurants by corporate chains; public markets by supermarkets and shopping centres.

Until now, the great exception to this trend has been agriculture, where the family labour system has been protected by laws that prevent individual land sales and hinder large-scale production.<sup>15</sup> Even this, however, is changing. In areas of highly developed commercial agriculture, large-scale agribusinesses are working around the collective land-tenure system by developing putting-out-style contracts or by leasing land and hiring labour. Moreover, in October of this year the CCP Central Committee decided to allow the sale of land use rights by individual households, with the explicit purpose of concentrating land ownership. Although it

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<sup>14</sup> Shaoguang Wang, 'Regulating Death at Coalmines: Changing Mode of Governance in China', *Journal of Contemporary China*, vol. 15, no. 46 (2006), pp. 1–30.

<sup>15</sup> Loren Brandt, Jikun Huang, Guo Li and Scott Rozelle, 'Land Rights in Rural China: Facts, Fictions, and Issues', *China Journal*, no. 47 (2002), pp. 67–97.

is still unclear how the decision will be implemented, it is likely to open the way for massive dispossession of village households.<sup>16</sup>

Even now, most rural families are directly tied to capitalist production through migrant labour. In many villages, only old people and children remain because the generations of working age are out in search of employment, providing much of the inexpensive labour that has made China the most formidable competitor in the world of export-oriented manufacturing.<sup>17</sup> This relationship between subsistence agriculture and capital allows migrants to send cash remittances back to the village, but it also subsidizes the employers of migrant labour, who are able to pay wages that do not cover the full cost of reproducing future generations and sustaining retired labour.<sup>18</sup>

Capitalism is new to China. Although capitalist enterprises existed before 1949, they only made up a small part of the economy; today the entire economy is oriented by capitalist imperatives. Although the economic system that has emerged as a result of recent reforms certainly has Chinese characteristics, it is based on production relations that were pioneered in England two hundred years ago and, in accord with Marx's prediction, have since then swept the world.

### *Class polarization*

The restructuring of China's economy along capitalist lines has produced economic polarization, reflected in a sudden dramatic increase in income disparity. During the years after the first round of market reforms were implemented in 1978 and before radical reforms began in 1992, income inequality increased, but relatively modestly. The size of private enterprise was restricted and within the public sector cadres lived better than workers, but not much better; their salaries were higher, but still relatively modest; they were awarded larger apartments, but these were typically located in the same work unit housing complexes where

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<sup>16</sup> Qian Forrest Zhang and John Donaldson, 'The Rise of Agrarian Capitalism with Chinese Characteristics: Agricultural Modernization, Agribusiness and Collective Land Rights', *China Journal*, no. 60 (2008), pp. 25–47. On the recent changes in land transfer policies, see Jim Yardley, 'China Enacts Major Land-Use Reform for Farmers', *New York Times*, 20 October 2008.

<sup>17</sup> Dorothy Solinger, 'The Floating Population in the Cities', in Deborah Davis et al, eds, *Urban Spaces in Contemporary China*, Cambridge 1995, pp. 113–39.

<sup>18</sup> See Lee, *Against the Law*, pp. 204–41.

their subordinates lived. Corruption became pervasive, but was still petty compared with what was to come.

It was privatization that opened the way for the emergence of a class that was truly wealthy. This class includes large-scale private entrepreneurs as well as state-sector entrepreneurs who own stakes in the corporatized enterprises they manage. The wealth amassed by those at the helm of private and corporatized public enterprises has also created new opportunities for cadres inside the government and non-profit public institutions. Large-scale corruption became more tempting and feasible, as many families had members inside and outside the system, and ostentatious wealth no longer drew unwelcome attention.<sup>19</sup> At the same time, public-sector professionals and managers could now demand higher salaries, bonuses and perks, justifying their claims by pointing to escalating standards in the private sector. Soon they began abandoning their relatively modest apartments in work-unit complexes to join successful entrepreneurs in the suburban gated communities and luxury high-rises that mushroomed in China's major cities.

Today, China's most affluent individuals are extremely wealthy by any standard. Numerous 'rich lists' are followed avidly in China, the oldest and best-known of them compiled by a British accountant named Rupert Hoogewerf. In the fall of 2007, Hoogewerf's list included 800 individuals in the PRC who collectively were worth \$457 billion. Among these he identified 106 billionaires, measured in US dollars, a higher number than in any country other than the United States.<sup>20</sup> At the other end of the urban social spectrum, tens of millions of workers who had been employed in state-owned factories since they graduated from middle school have now been laid off, with little prospect of finding formal employment. The lucky ones got pensions, others a small living allowance or lump-sum severance payment, but many were left with nothing, and health insurance disappeared with their jobs. They have been joined at the bottom of the urban heap by tens of millions of rural migrants. While laid-off factory workers have arrived at their present condition by means of sudden loss, the migrant workers came looking for opportunities in newly opened urban labour markets.

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<sup>19</sup> Xiaobo Lü, *Cadres and Corruption: The Organizational Involvement of the Chinese Communist Party*, Stanford 2000.

<sup>20</sup> *Hurun Report*, available at [www.hurun.net](http://www.hurun.net).

In 1978, China's Gini coefficient (the measure used to compare international income inequality in which 0 indicates absolute equality and 1 absolute inequality) was calculated to be 0.22. This was among the lowest rates in the world. Observers were particularly impressed by it given China's size and geographic diversity. The PRC had accomplished this, despite large income differences between urban and rural areas and between more and less developed regions, because within each locality differences were minimal. Less than three decades later, in 2006, the figure was 0.496, surpassing the United States and approaching the rates of the world's most unequal countries, such as Brazil and South Africa.<sup>21</sup> Inequality between regions and between rural and urban areas have both increased substantially, but the most dramatic change has been the polarization of income within localities.

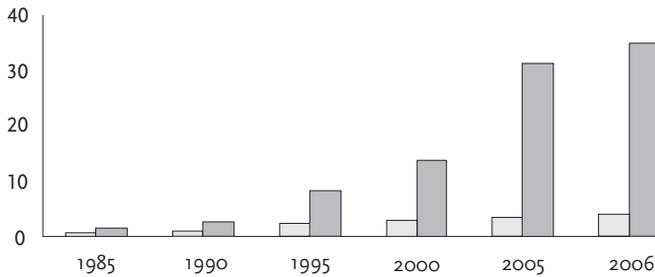
In villages the income gap has grown significantly, but the top of the scale remains low compared to cities, which have seen a spectacular increase in income disparity. In 1985, the average per capita income of the top fifth of urban households was about three times greater than that of the bottom fifth; by 2006, the top group had almost ten times more income than the bottom group (see Figure 2, opposite). Moreover, these figures fail to capture the extent of income polarization because the top group is so broad, encompassing 20 per cent of urban households and folding the wealthy in with the middle classes.

The data in Figure 2 indicate that all urban residents, including those at the bottom, now enjoy substantially higher incomes. These figures, however, only record cash income and, therefore, mask the loss of goods and services that had been distributed by the state and work units rather than the market, including subsidized housing, utilities, foodstuffs, household necessities, health care and education. The inadequacy of using cash income to gauge well-being across the structural transformation from a socialist to a capitalist economy becomes clear if one compares the income of the best-off urban households in the mid-1980s with that of the poorest households today. The former group, made up of managerial and professional cadres, lived in well-appointed apartments

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<sup>21</sup> David Goodman and Xiaowei Zang, 'The New Rich in China: The Dimensions of Social Change', in Goodman, ed., *The New Rich in China: Future Rulers, Present Lives*, London 2008. See also Naughton, *The Chinese Economy*, pp. 217–21; Shaoguang Wang, 'Openness and Inequality: The Case of China', in Lowell Dittmer and Guoli Liu, eds, *China's Deep Reform: Domestic Politics in Transition*, Lanham 2006, pp. 251–82.

FIGURE 2. *Per capita annual income of richest and poorest 20 per cent of urban households 1985–2006*



Income in thousands of yuan. Source: Department of Urban Society and Economic Statistics, National Bureau of Statistics of China, *China Urban Life and Price Yearbook 2007*, Beijing 2007, pp. 14–29.

and enjoyed substantial economic comfort and security, even though they only had an average annual cash income of less than 1400 yuan; the latter group, made up mainly of unemployed or informally employed workers, despite having an average cash income of over 3800 yuan, live in deteriorating apartments, have trouble making ends meet, and avoid visiting the doctor.

The sudden expansion of capitalist production relations since 1992 is what has made income inequality skyrocket in China. Before then, because the great bulk of economic activity was organized around the family labour and work-unit systems, which had responsibility for the consumption of their members, the growth of inequality was structurally constrained. The recent reforms have removed those constraints.

Class polarization has spurred tremendous popular indignation and over the last decade workers and peasants have staged massive numbers of protests around the country.<sup>22</sup> Since taking over the reins of the state in 2003, Hu Jintao and Wen Jiabao have distinguished themselves from the previous regime of Jiang Zemin and Zhu Rongji by expressing concern about the growing polarization of income in China. Moreover, the government has implemented a number of practical measures to try to ease

<sup>22</sup> For accounts of recent protests in rural and urban China, see Kevin O'Brien and Lianjiang Li, *Rightful Resistance in Rural China*, Cambridge 2006, and Lee, *Against the Law*.

the difficulties faced by China's poorest citizens and mitigate the most harmful effects wrought by market reforms.<sup>23</sup> Although these measures are associated with Hu and Wen, many predate the leadership transition of 2003 and probably reflect a shared concern among Chinese leaders at the severe social dislocations and discontent caused by economic restructuring. The CCP, however, now presides over an economic system dominated by enterprises that are oriented by the goal of maximizing profits, the driving force behind this polarization. Moreover, the party is committed to the further development of this system, using international norms of corporate governance as a model, and to the enhancement of China's already formidable stature as the world's most competitive manufacturing power, achieved largely through the highly efficient exploitation of inexpensive labour. As a result, despite the government's efforts to mitigate it, class polarization has continued unabated.

### *A distinct East Asian path?*

Arrighi's East Asian model is not without empirical support in Chinese history. Whether we use Braudel's or Marx's conceptual framework, it is evident that much of the Chinese economy was organized around market exchange, but not in a capitalist fashion, both in the distant and recent past. The Qing dynasty fostered a market-oriented economy largely based on the family labour system; the development of capitalist production relations was inhibited by a strong state and there was certainly no capitalist class dictating to the throne. It is also reasonable to see the system that emerged in the 1980s, with a strong state, a dynamic family labour sector and only a small capitalist sector mostly made up of tiny enterprises, as reviving basic elements of this pattern.

It becomes more difficult, however, to sustain this model in the present, after capitalist production relations have transformed the Chinese economy and its class structure. Arrighi's definition of capitalism, of course, depends on a fusion of capital and state power. 'The capitalist character of market-based development is not determined by the presence of

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<sup>23</sup> These measures include tax relief for peasants and welfare benefits for retired and unemployed city residents. A new trade union law includes provisions to protect workers from layoffs, but long-standing labour codes, including a law that gives employees' representatives the right to oversee (and veto) the restructuring of their enterprises, have seldom been enforced, and it is unlikely that the new law will be allowed to infringe in any significant way the increasingly entrenched rights of capital.

capitalist institutions and dispositions but by the relation of state power to capital', he writes. 'Add as many capitalists as you like to a market economy, but unless the state has been subordinated to their class interests, the market economy remains non-capitalist'. *Adam Smith in Beijing* remains prudently agnostic as to whether the Chinese state is in the process of becoming 'a committee for managing the national affairs of the bourgeoisie', but as evidence that this has not yet happened Arrighi cites government efforts to spur competition, which have resulted in what 'looks more like a Smithian world of capitalists driven by relentless competition to work in the national interest'.<sup>24</sup> He leaves us with the image of an autonomous Chinese state compelling capitalists to compete with each other and with smaller township and village enterprises for the sake of national development.

This image suggests a larger gap between the state and capital than actually exists. During the Mao era, the CCP and its state apparatus completely dominated the economy, and the subsequent process of privatization and corporatization has taken place under close party supervision. As a result, most of the capitalist sector consists of restructured state and collective enterprises and most of the people in charge originated within the party-state establishment. Powerful party officials, from Hu Jintao and Wen Jiabao at the top down to township party secretaries, have children who have become wealthy business executives.<sup>25</sup> Even capitalists who began their careers as small entrepreneurs outside of the party-state system had to develop close ties inside the political establishment to succeed. Provincial, municipal and county party organizations provide power networks that include both local officials and capitalists.

In the intricate webs that link capital and the state in China, influence flows in both directions, and any attempt to gauge the extent to which capital is in charge would invite debate—but this would also be true for each of the states that Arrighi includes in his model of Western capitalism. Whatever the results of such a debate, one thing is certain: a distinctive characteristic of the present-day Chinese system is the extent to which capital is organized around the state apparatus. This is certainly the case at the pinnacles of power, among the huge state-owned enterprises that occupy the strategic and monopoly sectors of the economy. Now that

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<sup>24</sup> Arrighi, *Adam Smith in Beijing*, pp. 331–2, 359.

<sup>25</sup> See Joel Andreas, *Rise of the Red Engineers: The Cultural Revolution and the Origins of China's New Class*, Stanford, forthcoming, chapter 11.

these firms have been converted into publicly-traded corporations that must focus on the bottom line, they look very much like the capitalist level in Braudel's hierarchy. In China, however, the close association between state power and capital extends down to provincial, municipal, county, township and village governments, all of which were involved in managing state and collective enterprises, and maintain close ties with their private reincarnations.

That the current configuration of power in China may appropriately be called a capitalist state is confirmed by the government's strong support for the expansion of the capitalist sector. Capitalist encroachment on the family labour sector and the relentless displacement of small enterprises by larger ones is fundamentally market-driven, but it is also state policy. China's political leaders do not want backward produce markets, they want modern supermarkets, and state officials are expected to identify and support 'winners' in the economic competition. This expectation extends from the Political Bureau, which grooms national champions, down to county and township cadres, who are inveterate boosters of successful local enterprises. Under these conditions, it is difficult to distinguish, whether conceptually or empirically, state development strategies from the pecuniary interests of government officials and large-scale entrepreneurs, who are linked by myriad family and other ties.

### *Two kinds of inequality*

Arrighi correctly stresses the importance of China's peculiar system of rural land tenure, which has barred individuals from selling land, preventing wholesale expropriation of the peasants' means of subsistence. These laws have protected the family labour system in agriculture from capitalist encroachment, but they have not been at all incompatible with the operation of capitalist production relations in the rest of the economy, and they have permitted significant capitalist inroads in the most profitable areas of the agrarian sector. Although many entrepreneurs have certainly felt stymied by these laws, and employers of migrant labour will welcome the further influx of itinerant workers that the sale of land-use rights will produce, the land-tenure system established in the 1980s has served the broader interests of capital. For it has not only averted the social instability associated with huge landless populations, but has also allowed rural subsistence production to subsidize the employers of migrant workers, and a reserve army of rural labour to fluctuate in

accord with the changing requirements of capitalist production. In fact, while the CCP's recent decision to promote the sale of land-use rights might now permit capitalism to flourish in the countryside, it may also help to destabilize the larger system.

The fact that China has become the workshop of the world is an impressive accomplishment, which can certainly be attributed in part to the distinctive path of development the country has followed. Arrighi is right to highlight characteristics that are part of the country's socialist legacy: a population that enjoys relatively good education and health, and a peasantry that retains possession of the land. These, however, do not change the fact that the sector of the economy that is growing most rapidly and successfully competing in international markets operates according to capitalist principles. Indeed, the enterprises in this sector are able to compete successfully *because* they are capitalist. Chinese entrepreneurs and their foreign partners, with strong and effective state support, have created what is—for the moment at least—the world's most efficient system of extracting surplus labour. The features that make this system competitive in the global marketplace are the same that are producing ever greater class polarization in China.

Arrighi's three predictions are expertly linked together in his East Asian model, but they are not necessarily mutually dependent. China may, indeed, lead East Asia to reclaim its position as the most economically dynamic and wealthy region of the world, but as things stand, this development would refashion rather than transcend the existing capitalist order. Moreover, it seems unlikely that the PRC would be able to recreate on a world scale the system of relatively peaceful interstate relations between China, Korea and Japan, over which China presided for several centuries.

It is still not clear whether China will be able to use its industrial weight to climb to a higher position in the global economic hierarchy. While Arrighi sees the Chinese government making capitalists, both foreign and domestic, compete in order to build up the nation's wealth, others see Wal-Mart making capitalists in China and other countries compete to wring from workers the most product for the least compensation.<sup>26</sup> But if China, with its vast population, is actually able to move from the

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<sup>26</sup> Martin Hart-Landsberg and Paul Burkett, *China and Socialism: Market Reforms and Class Struggle*, New York 2005.

periphery to the core of the world economic order, this would significantly restructure the global hierarchy. I share Arrighi's expectation that such a change might contribute to diminishing the extreme global inequality between countries and regions that have characterized the era of North Atlantic domination. This would be a momentous and very positive change, and for that reason I am happy to see China's weight in the world economy increase. But whether or not the current restructuring of the global economic order actually ends up diminishing inequality *between* countries, it is certainly exacerbating inequality *within* countries, and this is most evident in China. Moreover, China's current prowess in the world marketplace and the growing class polarization within the country are connected. Both are products of the recent transformation of China's economy, which has created a system of capitalist production relations that is more efficient and more brutal than most.