

# **Chinese Capitalism and the Modernist Vision**

Satyananda J. Gabriel

Routledge Studies in the Growth Economies of Asia

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# Chinese Capitalism and the Modernist Vision

In the past fifty years, the experience of the Chinese economy has continually challenged the assumptions of laissez-faire economics. It has sustained a strong growth rate, changed the structure of international economic relationships and has become critical to many multinational corporations. Now, it appears to be on the verge of becoming a new economic superpower. This book addresses the structure and dynamics of the Chinese economy, examining in depth the connection between growth and the particular version of Marxism that has been adopted by the Communist Party of China.

Satyananda J.Gabriel offers one of the most comprehensive analyses of the contemporary Chinese economy, covering industry and agriculture, rural and urban enterprises, labor power and financial markets, and the process of integrating the Chinese domestic economy into global capitalism. *Chinese Capitalism and the Modernist Vision* identifies the current transition in China as a historic passage from state feudalism to state capitalism that will significantly alter both the internal political and economic dynamics of China and the global political economy.

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# Acronyms

ACFTU	All-China Federation of Trade Unions
AESA	Association of Economic and Social Analysis
AMC	Asset management company
BHP	Broken Hill Proprietary
CMEA	Council for Mutual Economic Assistance
CPC	Communist Party of China
FDI	Foreign direct investment
GDP	Gross Domestic Product
GLF	Great Leap Forward
GPCR	Great Proletarian Cultural Revolution
HRS	Household Responsibility System
IPO	Initial public offering
JSC	Joint stock cooperative
NPL	Non-performing loan
OECD	Organization for Economic Cooperation and Development
PBC	People's Bank of China
PLA	People's Liberation Army
PRC	People's Republic of China
RMB	Renminbi
RSCE	Rural state capitalist enterprise
S&L	Saving and loan
SME	Small and Medium Enterprise
SOE	State-owned Enterprise
SRE	State-run Enterprise
SV	Surplus Value
TVE	Township-Village Enterprise
WTO	World Trade Organization



# 1

## Theory matters

As an important part of the intellectual heritage of China's postrevolutionary leadership, Marxian theory is one of the factors shaping (via public policies and practices) Gross Domestic Product (GDP) growth, averaging nearly 10 percent per annum for almost a quarter century, including the years of the Asian economic crisis of 1997–98. Neoclassical orthodoxy cannot explain this growth, indeed would have (and did) predict something considerably less spectacular (Todaro 1977). For the entire span of this extraordinary growth, many orthodox economists predicted disaster just around the corner (Zheng 1997; Wolf *et al.* 2003). Many continue to argue that policy makers in China are making serious mistakes, not moving fast enough to “liberalize” the Chinese economy and failing to recognize the limitations of state intervention. Neoclassical orthodoxy has proven inadequate to the task of either making sense of the dynamics of the Chinese economy or the complex decision-making processes within the Chinese leadership (and bureaucracy). This failure is, in part, the consequence of an underlying logic and methodology in orthodox economic theory that presumes simplicity, homogeneity, and stasis where complexity, heterogeneity, and dynamic change in social processes, institutions, economic agents, and theories (including the type of Marxian theory that informs Chinese public policy) must be recognized to grasp the conditions driving the type of dynamic economic growth occurring in China. Just as critically, this failure in orthodox theory extends to its inability (due to the specific nature of the neoclassical form of essentialism, with its foundation in a simplistic notion of decision-making and minimalist view of social and environmental context) to recognize the dramatic nature of the internal transformation in Chinese society or the global implications of that transformation. This is a transformation that touches every aspect of social life and the natural environment. It is not just the Chinese economy that is in transition. The transformations in economic relationships shape and are shaped by simultaneous transformations in cultural processes, including preferences, notions of the self, and understandings of the nature and role of the market; political processes, including internal rules governing the Communist Party of China (CPC), the differential authority of local versus national government, laws relating to property and contract law (and related rules governing transactions); and environmental processes, including transformations in the physical terrain of China, extraordinary growth in air transportation (in total numbers of aircraft and the speed at which they move people and objects), diversion and control of flood waters, and construction of the world's largest dam.

In order to open up the theoretical exploration to a wide range of factors shaping the nature of transition in China, to avoid prejudging the nature of the interaction of these factors (there are no deterministic relationships), and to engage directly the concepts that have shaped the CPC (past and present), this text is grounded in post-structuralist



Marxian theory. Grounding the text within Marxian theory makes it possible to simultaneously produce an internal (within the broader Marxian tradition) critique of the logic of the current leadership of the CPC and to make this logic more transparent, generating a better understanding of the current transformation of the Chinese social formation. It is understood that such an analysis is a necessary step in making sense of public policy formation, which contributes to understanding the dynamics of economic and social interaction in the Chinese social formation. Economic growth has taken place in the context of internal struggles within the CPC over Marxian theory and practices and the ultimate rise of a version of modernist Marxism, strongly associated with Deng Xiaoping, to prominence within the party and state bureaucracy.

Thus, one of the premises of this text is that theory really does matter. Theory matters both in terms of producing knowledge of the society (theory acting as epistemological lens shaping what is or is not perceived, as well as the relationships between perceived objects or processes) and as one of the many determinants of the society (theory as the source of effects that, along with other factors, constitutes reality). In other words, explaining the dynamics of Chinese social transformation requires an understanding not only of economic and political processes, but also cultural processes (of which theory is a sub element).

### **Post-structuralist Marxian theory**

The Chinese social formation is shaped by the complex and ever changing effects of the social and environmental processes comprising it and the social and environmental processes occurring outside of the political boundaries of China. Indeed, the notion that social and environmental processes can be clearly distinguished as constituted inside China or outside China is problematic, given the interaction of processes across politically defined boundaries. This is a point that has relevance to the ultimate conclusion of the text. Nevertheless, the text provides an elaboration of a wide range of these internal and external influences, providing social analysts and students with a starting point for making sense of the dynamics of transition/development of the People's Republic of China (PRC).

The approach of this text is to use a post-structuralist version of Marxian theory,<sup>1</sup> grounded in the ontology and epistemology of overdetermination<sup>2</sup> and utilizing class concepts shaped within and by a long history of debates over Marxism and modernism, to construct this complex understanding of China. This approach does not presume that any aspect of the political, economic, cultural, and environmental configuration of processes within China is more important than any other or that any of these processes is insignificant to understanding the whole. And this includes class processes. In an overdetermined universe, the issue is not whether this or that array of factors is significant, but instead to make clear the particular manner in which the significance of factors or processes is manifest at any given moment in the social formation. This approach is contrasted to that of determinist theories, both Marxian and non-Marxian, used to explain transition in China.

### Modernist Marxism

By contrast, determinist theories separate reality into significant and insignificant factors and exert hegemony over other theories in providing a singular explanation (Truth) of social dynamics.<sup>3</sup> Classical Marxism is grounded in a deterministic logic by which history is understood as following a predetermined, linear, and irreversible path toward a telos (communism as end point of historical evolution). This underlying teleology is the basis for understanding transitions, in general, and the transition currently underway in China, in particular. A version of classical Marxism, associated most closely with Zhou Enlai, Deng Xiaoping, Jiang Zemin, and, most recently, Hu Jintao, has become prevalent among the CPC leadership, cadre, and state bureaucrats. As previously indicated, this version of classical Marxism, which is simply described herein as modernist Marxism, was shaped in the cauldron of internecine struggles within the CPC. In particular, the conflict between modernist Marxists and Maoists resulted in a gradual shift of the modernists away from the Stalinist model, where socialism translated into directly coercive tactics by state functionaries to secure conditions for communist party rule, the centralization of control over surplus labor and related value flows, and the inviolability of state ownership, toward a more liberal version of modernist Marxism where incentives replace coercion, control over surplus value (SV) is largely decentralized from the central government to localities, and state ownership loses the status of necessary condition for defining China as socialist.

### Socialism

The modernist position on socialism is not as far removed from its origins within orthodox Marxism as some might think. The most orthodox Marxian definition of socialism posits it as a society *in transition* from capitalism to communism. In this particular conception, the term “socialism” refers not so much to a distinct social formation as it does to a nebulous *transitional state* with mixed features from both capitalism and communism. Paul Sweezy, one of the leading figures in American Marxism, once described socialism as “a way station on the journey from capitalism to communism” (Sweezy and Bettelheim 1971:123). Socialism, as transitory stage on the teleological road to communism, is of an undetermined duration. There is no clear-cut delineation of the path this transition should take such that one can determine at any given point in time where along that path a society might fall. Sweezy indicated that the transition would take “not years or even decades but...a whole historical epoch, or perhaps even more than one historical epoch.” This understanding of the duration of the socialist phase is important in making sense of the modernist Marxist reforms. The modernists perceived the Maoists as impatient and unrealistic in their view that the transition to communism could be brought about in a relatively short period of time. Indeed, the so-called “Great Leap Forward” was, from a Maoist perspective, designed to thrust China directly into communism, without the necessity of passing through a capitalist phase, although its implementation may not have been consistent with that point of view. The modernists were and are more orthodox in their Marxism. Their teleology is both rigid and follows a time frame similar to that articulated by Sweezy. In their

worldview, China must *first* develop capitalism *before* communism is possible. Socialism is, for the modernists, defined by the leadership role of the vanguard party-state in managing the transition, particularly orchestrating the adoption of “advanced” technologies and related social relationships. The modernist Marxist leadership believes that the Maoists were romanticists who failed to recognize “historical necessity.” “Modern” technology and the social relations of capitalism are such a historical necessity:

There is no fundamental contradiction between socialism and a market economy...the overriding task in China today is to throw ourselves heart and soul into the modernization drive. While giving play to the advantages inherent in socialism, we are also employing some capitalist methods—but only as methods of accelerating the growth of the productive forces. It is true that some negative things have appeared in the process, but what is more important is the gratifying progress we have been able to achieve by initiating these reforms and following this road. China has no alternative but to follow this road.

(Deng 1985)

The modernist point of view has a long lineage in orthodox Marxism, as Lenin demonstrated in his statement that “Socialism is inconceivable without large-scale capitalist engineering based on the latest discoveries of modern science” (Lenin 1960). The technological determinism at the root of modernist Marxism tends to displace class analysis. Exploitation, whether capitalist or feudal, cannot only exist within the context of socialism, so defined, but can be encouraged by a “vanguard party,” as part of the overall push to adopt “modern” technologies. This is particularly the case where it is understood that effective deployment of hard technology, in the form of material artifacts, requires a coherent structure of social relationships.

### Class matters

Theoretical concepts, such as socialism, are used to bring certain aspects of reality into focus, to produce these aspects as objects of analysis. All concepts are necessarily composites of other concepts. The definition of the concept in question is overdetermined by the definitions/understandings of these other concepts. The modernist understanding of socialism exposes their understanding of class. Class becomes an epiphenomenon of the exercise of state power. Communist party control of the state defines the social formation as socialist and is sufficient to answer all questions related to class. Class transition is determined by development of the productive forces (technology), which under socialism is the responsibility of the vanguard party.

Charles Bettelheim criticizes the sharp modernist turn within the post-Mao CPC, the displacement of “class struggle” at the site of production and appropriation (the Maoist road) with intellectual debates (“class struggle” of a different type?) over theoretical issues and public policy. Bettelheim questions the party’s continuing commitment to Marxism, as he understands it:

Lin Chin-jan speaks of the “fundamental” completion of the socialist transformation of ownership and declares that, as a result of this “fundamental” completion, the class struggle has to develop mainly on the ideological and political fronts. Lin Chin-jan thus deletes *that which is decisive, namely, the struggle “waged by the workers themselves with a view to transforming the labor process and production and, thereby, production relations.* He advocates substituting class struggle as this developed during the Cultural Revolution (a struggle concerned with different forms of the social division of labor) a “struggle of ideas,” a struggle between “modern ideology” and the vestiges of “old” ideas. This abandonment of the class struggle implies the transformation of Marxism into its opposite.

(1978:71–72, italics in original)

The modernist notion that struggles over the actual processes reproducing class relations is no longer necessary has a kind of familiar ring to it. It resonates on a similar frequency to arguments that the rise of the liberal democratic state and capitalism represent the “end of history.” In the modernist vision, history may not yet have reached its denouement, but the dominance of the communist party has all but guaranteed that such will be the case eventually. Not the end of history but the end of struggle over one of the prominent aspects of history, class relationships and the forms of exploitation they engender.

Bettelheim rejects modernist Marxism and bemoans the failure to produce a class analysis of China:

While the absence of a class analysis of present-day China constitutes an obstacle to a full understanding of the changes which have come about in class relations during recent years, it is also—and this is a much more serious matter—one of the reasons for the failure of the revolutionary line. One cannot transform class relations in a revolutionary way if one does not know what these relations are. Lacking this knowledge, a ruling party can only, in the end, maintain the status quo while endeavoring to “modernize the economy.”

(1978:94)

This text represents an attempt to answer Bettelheim’s challenge. The starting point for carrying out this class analysis of the Chinese social formation and the transitional path from which it reached this present moment is to revisit the underlying concept of class. The concept of *class* delineates a particular subset of social relationships. In this text, class defines the relationship by which distinct human beings engage in the performance, appropriation, and distribution of surplus labor. This concept of class process is most closely associated with the version of Marxist social critique and analysis that has been elaborated, as a tool for the analysis of social transformation, by Stephen A. Resnick and Richard D. Wolff in the journal *Rethinking Marxism*. While all forms of Marxian analysis, including modernist versions, use the concept of class, there are significant differences among Marxian theorists over the proper way to conduct class analysis. Some Marxian theorists have focused on property ownership relationships as the key determinant of

transitions from one form of class society to another—property ownership is viewed as determining transitions in the mode of production, appropriation, and distribution of surplus labor (or the fruits thereof). Others have focused on political (power) relationships as the determinant of class transitions. And the modernist Marxists have focused on the forces of production (technology) as the determinant of transitions in class relationships.

The concept of class process is the entry point into social analysis for post-structuralist Marxian theory, and the understanding of transition as complexly determined (rather than the outcome of essential determinants) comes out of the post-structuralist ontology within which this concept of class process is deployed. This ontology is grounded in the concept of overdetermination. The term “process” implies a constellation of events, which can occur in sequential order and/or simultaneously, that produce a specific state of being: the state of being exists only in so far as this constellation of events continues to be reproduced. Process, therefore, implies movement, a continuous reproduction of conditions (events) for the existence of a specific state of being. Process dies when the movement/reproduction dies. In general terms, a transition occurs when one set of processes is displaced by another set. The notion of transition in an entire social formation implies that a focused-upon set of processes (entry point into analysis) has undergone a fundamental transformation. The terms feudal, capitalist, and communist are applied as adjectives describing a particular set of social relationships by which surplus labor is performed and appropriated. A shift from the prevalence of one class process to that of another is described as a class transition. It is precisely this class transition that is at the roots of the much debated concept of socialism (whether with or without Chinese characteristics).

All processes (and therefore all transitions) are overdetermined, in that each is the result of the effects of other social and environmental processes, not one of which is *the* determinant. Thus, post-structuralist Marxian theory embraces property ownership, political (power) relationships, and technology as determinants of class processes and transitions from the prevalence of one class process to another, but no factor or subset of factors is considered as sole determinants). Therefore, there can be no one-to-one correspondence between any particular type of property ownership, power relationship, or gestalt of technologies and a particular class process or transitional path; given that class process and transition are shaped by a complex interaction of all social and environmental processes. Sometimes a particular type of property ownership will, in the context of other social and environmental processes, shape the existence of a particular class process and transitional path, and at other times this type of property ownership will not produce this result, in the context of a different gestalt of other processes.

Class process is, then, a unique social process—the production, appropriation, and distribution of surplus product—which exists as the overdetermined effect of other processes. In the course of human history, a number of different social arrangements have linked direct producers who perform surplus labor to the appropriators of such surplus labor. Marxian theorists have identified five different class processes (five different ways in which surplus labor may be produced and appropriated): slave, ancient, feudal, capitalist, and communist. Each type of class process is overdetermined by a matrix of different and changing social and environmental processes. Each type of class process can exist if and only if a suitable matrix of processes exists and therefore generates the